Tembec Inc.

Annual Information Form

December 16, 2016
For the fiscal year ended September 24, 2016

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DOCUMENTS INCORPORATED BY REFERENCE

CERTAIN SPECIFICALLY IDENTIFIED PAGES OF THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED SEPTEMBER 24, 2016 (THE "2016 FINANCIAL STATEMENTS") AND THE MANAGEMENT'S DISCUSSION AND ANALYSIS DATED NOVEMBER 25, 2016 (THE "2016 MD&A"), FILED WITH THE SECURITIES COMMISSION OR SIMILAR AUTHORITY IN EACH OF THE PROVINCES OF CANADA, ARE INCORPORATED BY REFERENCE INTO AND FORM AN INTEGRAL PART OF THIS ANNUAL INFORMATION FORM (THE "AIF").

GLOSSARY

Unless otherwise noted or the context otherwise indicates, references to the "**Corporation**" in this AIF are to Tembec Inc. References to "**Tembec**" are to, as the context may require, either the Corporation, or the Corporation together with one or more of its subsidiaries (each, a "**Subsidiary**" and collectively, the "**Subsidiaries**"), affiliates and its interests in joint ventures and other entities. Reference to "**Tembec Industries**" is to Tembec Industries Inc., a wholly-owned Subsidiary of the Corporation. In addition, unless otherwise defined herein, certain terms are defined in the "Definitions" section of this AIF. All dollar figures are in Canadian dollars unless stated otherwise.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements contained in this AIF include "forward-looking statements" within the meaning of securities laws. Such statements relate, without limitation, to the Corporation's or management's objectives, projections, estimates, expectations or predictions of the future and can be identified by words such as "may", "will", "could", "anticipate", "estimate", "expect", "project", and the negative or variation thereof, and expressions of a similar nature. Forward-looking statements are based on certain assumptions and analyses made by the Corporation in light of its experience, information available to it and its perception of future developments. The forward-looking statements contained in this AIF reflect the Corporation's expectations as of the date hereof and are subject to change after such date. Unless required by applicable securities legislation, the Corporation disclaims any intention to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, even if experience or future events make it clear that any expected results expressed or implied by these forward-looking statements will not be realized.

Such statements are subject to a number of risks and uncertainties, including, but not limited to:

- the demand and prices for the products that Tembec sells;
- fluctuations in the exchange rate of the Canadian dollar to the U.S. dollar and to the euro;
- wood fibre and other raw materials availability and costs;
- energy availability and costs;
- facility disruptions;
- labour availability and labour disruptions;
- the effect and enforcement of environmental and other governmental laws and regulations;
- levels of capital expenditures required to maintain and upgrade processes;
- fluctuations in export taxes or volume restrictions imposed on exported products;
- debt service requirements;
- performance of pension fund assets and fluctuations in the present value of obligations relating thereto;
- operational hazards that Tembec's employees face;
- global economic conditions;
- scope of insurance coverage;
- aboriginal land claims;
- interruption or failure of Tembec's information technology systems; and
- unsuccessful strategic transactions.

Many of these risks are beyond the control of the Corporation and, therefore, may cause actual actions or results to materially differ from those expressed or implied herein. In addition, other risks could adversely affect

Tembec and it is not possible to predict or assess all risks. Tembec's actual results, performance or achievement could differ materially from those expressed in, or implied by, these forward-looking statements and, accordingly, no assurance can be given that any of the events anticipated by the forward-looking statements will occur, or if any of them do so, what benefits, including the amount of proceeds, Tembec will derive from them. Except as otherwise indicated, forward-looking statements do not take into account the effect that transactions or non-recurring or other special items announced or occurring after the statements are made may have on Tembec's business. Such statements do not, unless otherwise specified by Tembec, reflect the impact of dispositions, sales of assets, monetizations, mergers, acquisitions, combinations or transactions, asset impairments or other charges announced or occurring after forward-looking statements are made. The financial impact of these transactions and non-recurring and other special items can be complex and depends on the facts particular to each of them, and cannot be expressed in a meaningful way or in the same way Tembec presents known risks affecting its business.

IFRS REPORTING

Effective September 26, 2010, the Corporation fully adopted International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) as the basis for preparation of financial information and accounting.

NON-IFRS FINANCIAL MEASURES

The Corporation refers to the term "**Adjusted EBITDA**" in various places in this AIF. As there is no generally accepted method of calculating this financial measure, it may not be comparable to similar measures reported by other companies. Adjusted EBITDA refers to earnings before interest, income taxes, depreciation, amortization and other items. Since the Corporation excludes "other items" such as gains and losses on significant asset disposals, restructuring charges and custodial costs for permanently idled facilities, it differs from EBITDA. Adjusted EBITDA does not have any standardized meaning according to IFRS. The Corporation defines Adjusted EBITDA as sales less cost of sales and selling, general and administrative expenses, meaning it represents operating earnings before depreciation, amortization and other items. The Corporation considers Adjusted EBITDA to be a useful indicator of the financial performance of the Corporation, the business segments and the individual business units. The most comparable financial measure is operating earnings or loss. A reconciliation of operating earnings to the Corporation's definition of Adjusted EBITDA is provided in the 2016 MD&A. The Corporation's presentation of Adjusted EBITDA should not be construed as an inference that the Corporation's future results will be unaffected by unusual and nonrecurring items. Adjusted EBITDA has several limitations as an analytical tool, and should not be considered in isolation, or as a substitute for analysis of the Corporation's operating results or cash flows as reported under IFRS.

Some of these limitations are:

- it does not reflect Tembec's cash expenditures or future requirements for capital expenditures or contractual commitments;
- it does not reflect changes in, or cash requirements for, Tembec's working capital needs;
- it does not reflect the interest expense or the cash requirements necessary to service interest or principal payments on Tembec's debt;
- it does not adjust for all non-cash income or expense items that are reflected in Tembec's statement of cash flows; and
- other companies in Tembec's industry may calculate this measure differently from the way Tembec calculates it, limiting its usefulness as a comparative measure.

Because of these limitations, Adjusted EBITDA should not be considered as a measure of discretionary cash available to Tembec to invest in the growth of its business.

TEMBEC INC.
ANNUAL INFORMATION FORM

ITEM 1 - DATE OF ANNUAL INFORMATION FORM

This AIF is dated as of December 16, 2016. Except as otherwise indicated, the information contained in this AIF is stated as at September 24, 2016.

ITEM 2 - CORPORATE STRUCTURE

On February 29, 2008, the former Tembec Inc. ("**Former Tembec**"), completed a recapitalization transaction (the "**Recapitalization**").

On January 16, 2008, a new entity, Tembec Arrangement Inc., was incorporated under the *Canada Business Corporations Act* to carry on business as of February 29, 2008 under the name of Tembec Inc. As part of the Recapitalization, Former Tembec became Tembec Holdings Inc. and Tembec Arrangement Inc. changed its name to Tembec Inc. Former Tembec was dissolved effective December 8, 2010. Additional information relating to the Recapitalization may be found on SEDAR at www.sedar.com. In this AIF, all references made to Tembec Inc. or to the Corporation refer to this new Tembec Inc. incorporated on January 16, 2008, unless specified otherwise. References to "Tembec" refer to the Corporation together with one or more of its Subsidiaries.

The Corporation's head and registered office is located[1] at Suite 1050, 800 René-Lévesque Blvd. West, Montreal, Québec, H3B 1X9, telephone: 514-871-0137. Its website address is www.tembec.com.

The chart below depicts Tembec's principal facilities by industry segment as at the date of this AIF and, where appropriate, the Subsidiaries or affiliates that own substantially all of the assets of such operating facilities.

[1] Effective December 17, 2016, the address of the head and registered office will be 100-4 Place Ville-Marie, Montréal, Québec, H3B 2E7.

CORPORATE ORGANIZATION CHART

TEMBEC INC.

100%

FOREST PRODUCTS SEGMENT	SPECIALTY CELLULOSE PULP SEGMENT	PAPER PULP SEGMENT	PAPER SEGMENT
Spruce, Pine, Fir Lumber Random Lumber – Bearn, QC (1) Random Lumber – Hearst, ON (1) Random Lumber – Chapleau, ON (1) Stud Lumber –LaSarre, QC (1) Stud Lumber – Cochrane, ON (1) Stud Lumber – Kapuskasing, ON (1) **Specialty Wood** Hardwood Lumber – Huntsville, ON (1)	**Specialty Pulps** Specialty Cellulose - Temiscaming, QC (1) Specialty Cellulose – Tartas, France (2) **Chemicals** Resins – Longueuil, QC (1) Resins – Temiscaming, QC (1)(5) Resins – Toledo, Ohio (US) (3) Lignin – Temiscaming, QC (1) Lignin – Tartas, France (4)	**Hardwood High Yield Pulp** Hardwood High Yield - Temiscaming, QC (1) Hardwood High Yield – Matane, QC (1)	**Newsprint** Newsprint – Kapuskasing, ON (1) **Coated Bleached Board** Coated Bleached Board- Temiscaming, QC (1)

(1) Held and operated by Tembec (General Partnership) ("**Tembec GP**"), a general partnership created under the laws of Québec. Tembec Industries Inc., an indirect wholly-owned Subsidiary of Tembec Inc., is the Managing Partner of Tembec GP and owns 68.9% of its partnership units. Tembec Enterprises Inc., another indirect wholly-owned Subsidiary of Tembec Inc., owns 31.1% of Tembec GP's partnership units.

(2) Held through Tembec Tartas S.A.S., an indirect wholly-owned Subsidiary of Tembec Inc. incorporated under the laws of France.

(3) Held through Tembec BTLSR Inc., an indirect wholly-owned Subsidiary of Tembec Inc. incorporated under the laws of the US.

(4) Held through Tembec Avébène S.A.S., an indirect wholly-owned Subsidiary of Tembec Inc., incorporated under the laws of France.

(5) The plant was indefinitely idled in June 2016, except for spray drying activities.

ITEM 3 - GENERAL DEVELOPMENT OF THE BUSINESS

3.1 BUSINESS OVERVIEW

Tembec is an integrated forest products company with operations principally located in Canada and France. Its business segments are specialty cellulose pulp, forest products, paper pulp and paper. Tembec operates 13 manufacturing locations in North America and France and directly manages approximately 10 million hectares (approximately 25 million acres) of Canadian forestlands in keeping with responsible forest management practices, thereby ensuring its long-term fiber supply.

Tembec can currently produce approximately 755 million board feet of lumber, 310,000 tonnes of specialty cellulose, 570,000 tonnes of paper pulp and 400,000 tonnes of paper. A breakdown of production capacities by operating facility is included in the Segment Review section of the 2016 MD&A. The Corporation currently employs approximately 3,000 people. For the fiscal year ended September 24, 2016 ("**Fiscal 2016**"), Tembec had sales of $1.5 billion, Adjusted EBITDA of $148 million, operating earnings of $99 million and net earnings of $20 million. Tembec's total assets as at September 24, 2016 were $1.2 billion. The segmented results and the breakdown of sales of the Corporation's products by geographic areas are included in the Corporation's 2016 Audited Financial Statements.

3.2 THREE-YEAR HISTORY

The following summarizes major events that have occurred over the past three years:

Forest Products Segment

During the last three fiscal years, Tembec has experienced relatively low US dollar selling prices for lumber which has resulted in relatively low profitability. The weak market conditions have been due to, among other things, low housing starts in the United States. The stronger Canadian dollar versus the U.S. dollar was also a negative factor, although the situation improved in the fiscal year ended September 26, 2015 ("**Fiscal 2015**") and Fiscal 2016. In the fiscal year ended September 27, 2014 ("**Fiscal 2014**"), Tembec sold its sawmill located in Taschereau, Québec, for nominal net proceeds. In October 2016, Tembec sold its Sawmill located in Senneterre, Quebec for nominal proceeds.

Specialty Cellulose Pulp Segment

In Fiscal 2014, 2015 and 2016, both specialty pulp mills operated as planned and no production curtailments were taken because of market conditions. However, US dollar and euro prices for specialty grades and viscose grades of dissolving pulp trended downwards, negatively impacting profitability and margins. In Fiscal 2015, the construction of a new liquor boiler and turbine at the Temiscaming specialty cellulose mill (the "**Temiscaming Project**") was completed, which significantly reduced its manufacturing costs and improved its productivity and efficiency. As a result, the specialty cellulose segment's financial results in Fiscal 2016 were similar to those of Fiscal 2014, offsetting the negative impact of the lower selling prices mentioned above.

A portion of the Temiscaming Project was financed with $133 million of new debt, which consisted of loans for an aggregate amount of $93 million from Investissement Québec ("**IQ**"), a governmental agency, and a $40 million loan from Integrated Private Debt Fund III LP ("**IPD**") (as is more fully described below in Item 11).

In Fiscal 2015, Tembec's Temiscaming industrial complex was affected by an 18-day production stoppage due to a labour dispute with the unionized workforce. The stoppage began in late-November and continued until mid-December 2014. The Temiscaming industrial complex comprises four main facilities manufacturing specialty pulp, high-yield pulp, multi-ply coated bleached board and powder and liquid phenolic resins. The work stoppage involved approximately 650 unionized employees out of the 850 employees working at the

Temiscaming industrial complex. In December 2014, Tembec and the union agreed on a four year collective agreement that will expire in September 2018.

Paper Pulp Segment

The paper pulp segment (the "**Paper Pulp Segment**") has experienced some downsizing over the last three years. It was a 3-mill segment in Fiscal 2014 and is now a 2-mill segment. Paper pulp markets have been challenging over the last several years due to, among other things, new South American and Indonesian capacity expansions combined with a relatively strong Canadian dollar which led to low profitability for Canadian paper pulp producers. In Fiscal 2014, Tembec sold the Chetwynd high-yield pulp mill for a nominal amount.

Paper Segment

The coated bleached board market has been relatively stable over the last three years allowing the coated bleached board mill to generate reasonable margins. The recent weakness in the Canadian dollar has led to increased profitability for the coated bleached board mill. Newsprint markets continued to weaken with lower North American demand leading to lower U.S. dollar selling prices, although there were a few U.S. dollar price increases in the latter part of Fiscal 2016. The newsprint operation has had relatively low margins. The Kapuskasing, Ontario newsprint mill and the Temiscaming, Québec coated bleached board mill had no market related downtime in Fiscal 2014, 2015 and 2016.

Corporate

In October 2014, Tembec Industries completed a private debt offering of U.S. $375 million aggregate principal amount of 9% senior secured notes due in December 2019 (sometimes referred to as the "**New Notes**" or "**9% Senior Secured Notes**") to refinance the 11.25% senior secured notes due in December 2018. The New Notes were sold in the United States only to qualified institutional buyers in reliance on Rule 144A under the Securities Act and outside the United States in reliance on Regulation S under the U.S. Securities Act of 1933 (the "**Securities Act**"), including in certain provinces of Canada on a private placement basis to accredited investors. The New Notes have not been and will not be qualified for sale to the public under applicable Canadian securities laws and, accordingly, any offer and sale of the New Notes in Canada will be made on a basis that is exempt from the prospectus requirement of such securities laws. The New Notes have not been and will not be registered under the Securities Act or the securities laws of any other jurisdiction and may not be offered or sold in the United States absent registration or an applicable exemption from the registration requirements of the Securities Act and state securities laws. The proceeds from the offering were used to (i) purchase and redeem all of the 11.25% senior secured notes due in December 2018, as well as paying a prepayment penalty of US $24 million and accrued interest of US $10 million, (ii) repay $32 million of the borrowings outstanding under the Corporation's Prior ABL Facility (as defined below), and (iii) pay fees and expenses of approximately $8 million incurred in connection with these refinancing transactions.

The 9% Senior Secured Notes are senior obligations secured by a first priority lien on the property and assets and certain inventory of Tembec Industries and the guarantors of the New Notes, with the exception of:

- receivables, certain inventory and intangibles upon which the holders of the New Notes have a second priority lien; and
- the property and assets of Tembec Energy L.P. upon which the holders of the New Notes have a third priority lien.

The New Notes are guaranteed by the Corporation and most of its Canadian Subsidiaries.

In October 2014, Tembec Industries voluntarily filed a Form 15F with the U.S. Securities and Exchange Commission (the "**SEC**") to terminate its duty to file reports under the Securities Exchange Act of 1934, as amended. While its reporting obligation to file certain reports with the SEC was immediately suspended, the termination of Tembec Industries' reporting obligation became effective 90 days after its filing with the SEC.

On November 18, 2015, the Corporation entered into a new asset-based loan (the "**New ABL Facility**"), which consists of a $150 million revolving credit facility (the "**Revolving Facility**") and a US $62 million "first-in, last out" term loan (the "**FILO Facility**"). The New ABL Facility replaced the Corporation's prior $175 million ABL revolving credit facility it had (the "**Prior ABL Facility**") with GE Canada Finance Holding Company and a syndicate of lenders.

The Revolving Facility will expire on November 18, 2020, provided several conditions are met, including repayment of the FILO Facility on or prior to the FILO Maturity Date, failing which the maturity of the Revolving Facility would be accelerated to an earlier date, but no earlier than the FILO Facility Maturity Date. Subsequent to the end of the quarter, on October 18, 2016, the Corporation and the ABL lenders agreed to extend the maturity date of the FILO loan to September 30, 2018 ("**the FILO Maturity Date**"). The New ABL Facility has a first priority charge over the receivables and inventories of the Corporation's Canadian and U.S. operations and a first priority charge on the fixed assets of the Corporation's U.S. Subsidiaries. Currently, only one of the Corporation's U.S. Subsidiaries has fixed assets. Further information about the New ABL Facility is provided under Item 11 of this AIF. The Corporation utilized borrowings under the New ABL Facility to repay the amounts outstanding under the Prior ABL Facility and pay certain transaction fees and expenses.

The credit agreement governing the New ABL Facility contains an annual mandatory prepayment clause related to the FILO Facility. The amount of the annual mandatory prepayment is based on the Corporation's profitability in the prior fiscal year. The prepayment can only be made if the Revolving Facility availability is at or above $100 million after the prepayment is made. Based on the Corporation's Fiscal 2016 results, the amount of the prepayment has been calculated to be approximately $16 million. The Corporation anticipates making this payment in late December 2016. There is no prepayment premium or penalty applicable to the mandatory prepayment and the entire amount is included in the current portion of long-term debt in the Fiscal 2016 Financial Statements. The impact on liquidity will be minimal as the fixed availability reserve on the Revolving Facility will decline from $31 million to $15 million when the prepayment is made.

Tembec also has a dedicated unsecured credit facility that can only be utilized to issue letters of credit. As at September 2016, there were $12 million of outstanding letters of credit issued under this facility.

The Corporation's French operations are supported by "receivable factoring" agreements. As such, the borrowing base fluctuates periodically, depending on shipments and cash receipts. As at September 24, 2016, the amount available under such agreements was $23 million, of which $2 million was drawn.

Other Developments

In September 2013, Tembec launched the British Columbia land sales initiative pursuant to which it sought the sale of several parcels of land and has set an objective of realizing up to $70 million in land sales by December 2014 ("**B.C. Land Sale Initiative**"). In Fiscal 2014 and 2015 the Corporation realized $61 million of land sales pursuant to the B.C. Land Sale Initiative. Tembec continues to actively pursue sales of the remaining parcels.

3.3 TRENDS

Reference is made to the Segment Review section of the 2016 MD&A.

ITEM 4 - NARRATIVE DESCRIPTION OF THE BUSINESS

4.1 PRINCIPAL OPERATIONS

Tembec's business is centered on the production and sale of forest, pulp and paper products. The manufacturing assets of Tembec are located primarily in Eastern Canada, with a fairly large presence in Northeastern Ontario and Northwestern Québec. The lumber and paper businesses are North American in nature and Tembec's sales in these segments are done in this market. The pulp businesses are more global in nature, with Europe and China being the largest consumers. One specialty cellulose pulp mill is located in France. The other three pulp mills are located in Canada.

As at the date of this AIF, Tembec has approximately 3,000 employees, approximately 2,000 of which are covered by collective bargaining agreements. As at November 2016, four (4) collective agreements covering 260 employees had expired, and in fiscal year 2017, five (5) collective agreements covering 705 employees will expire. The remaining collective agreements expire at various dates up to July 2022. Tembec anticipates that it will reach satisfactory agreements with respect to collective agreements currently under active negotiations and those expiring in the future.

The following sections provide specifics in relation to each of Tembec's principal business segments.

4.1.1 Forest Products Segment

The forest products segment (the "**Forest Products Segment**") is divided into two main areas of activity: forest resource management (the "**Forest Resource Management Group**") and manufacturing operations.

The Forest Products Segment's principal activity is focused on the production of softwood ("**SPF**") lumber. The Forest Products Segment also produces small amounts of Specialty Wood products.

In Fiscal 2016, the Forest Products Segment generated consolidated sales of $368 million as compared to $375 million in Fiscal 2015, Adjusted EBITDA of $16 million as compared to Adjusted EBITDA of $12 million in Fiscal 2015 and operating earnings of $9 million as compared to operating earnings of $7 million in Fiscal 2015. The Forest Products Segment's annual sales accounted for approximately 25% of Tembec's total consolidated sales in Fiscal 2016 as compared to 26% in Fiscal 2015.

The Forest Products Segment includes operations located in Québec and Ontario. The SPF lumber operations can produce approximately 755 million board feet of stud lumber. The specialty wood operations can annually produce 30 million board feet of hardwood lumber.

The table below does not include the capacity of the Senneterre, Quebec sawmill that was sold in October 2016. The sawmill sold 61 million board feet of lumber in Fiscal 2016, compared to 91 million in Fiscal 2015. The sawmill had been periodically idled during periods of low stud lumber prices during Fiscal 2016.

The following table summarizes the current annual capacity of each facility by product group as at the date of this AIF:

SPRUCE, PINE, FIR LUMBER

Location and Product	**MBF**
Stud Lumber	
La Sarre, QC	135,000
Cochrane, ON	160,000
Kapuskasing, ON	105,000
Random Lumber	
Béarn, QC	110,000
Chapleau, ON	135,000
Hearst, ON	110,000
	755,000

SPECIALTY WOOD

Location and Product	**MBF**
Hardwood Lumber – Huntsville, ON	30,000

Products and Markets

The SPF lumber sawmills produce various types, species and grades of lumber which are used primarily for residential and commercial construction. Higher value SPF lumber products include J-Grade, TemPlusTM and TemSelectTM and machine stress rated (MSR) grades. Hardwood lumber is used in a wide variety of applications, including furniture, flooring and specialty residential and commercial applications. In addition, the Forest Products Segment produced and shipped approximately 655,300 tonnes of wood chips in Fiscal 2016, approximately 72% of which were directed to Tembec's pulp and paper facilities.

The SPF lumber industry is subject to both cyclical and seasonal fluctuations in demand, which can lead to volatility in prices. North American solid wood products demand is influenced by, among other things, the general level of economic activity, consumer confidence and interest rates. All of the above impact on housing construction starts, which is generally regarded as the best indicator of lumber demand. Total North American lumber demand in 2016 was estimated at 54 billion board feet, with U.S. demand of approximately 46 billion board feet and the balance being consumed in Canada. U.S. producers currently supply 30 billion board feet, leaving a U.S. domestic shortfall of approximately 16 billion board feet. Canadian producers sold a total of 28 billion board feet, shipping 16 billion board feet to the U.S. and exporting 5 billion board feet outside North America. Therefore the remaining 7 billion board feet was consumed domestically in Canada. The shipment to capacity ratio for North American lumber producers was 81% in Fiscal 2016, up from 78% in Fiscal 2015. Tembec's production capacity represents approximately 1% of North American SPF lumber capacity of 74 billion board feet.

The Forest Products Segment fosters a highly diversified customer base. Products are sold by Tembec's own internal sales force directly to large retailers, industrial end-users and distributors. Tembec markets most of its solid wood products in North America. In Fiscal 2016, 50% of Tembec's Forest Products consolidated sales occurred in Canada and 49% in the United States.

As a result of the significant dependence on the U.S. market, Tembec's forest products' competitiveness is heavily influenced by the relative strength of the Canadian dollar versus the U.S. dollar. Tembec competes directly with other Canadian and U.S. producers of SPF lumber. While selling prices, product quality and customer service are important factors affecting competition, other factors such as fibre costs, foreign exchange rates also have an impact on Tembec's competitive position.

Effective October 12, 2006, the governments of Canada and the United States implemented an agreement for the settlement of softwood lumber dispute. The Softwood Lumber Agreement ("**SLA**") required that an export tax be collected by the Government of Canada, which was based on the price and volume of lumber shipped. The SLA provided that during periods of relatively high prices, the export ax would decline or be completely eliminated. In Fiscal 2015, the average tax rate on lumber shipped to the U.S. was 1.4% and the total cost was $2 million. The SLA expired on October 12, 2015, and the Corporation incurred a negligible charge related to lumber export taxes in Fiscal 2016. The Corporation anticipates that the United States government will likely impose or negotiate future measures to limit the flow of Canadian lumber into the U.S. market. See 4.6 Risk Factors - "*Restrictions on trade through tariffs, quotas or other trade barriers could adversely affect the ability of Tembec to access markets outside Canada*."

Timber Supply

The Forest Resource Management Group is responsible for managing all of Tembec's Canadian forestry operations. This includes the harvesting of timber, either directly or by contractual agreements, and all silviculture and regeneration work required to ensure a sustainable supply for the manufacturing units. The Forest Resource Management Group is also responsible for third party timber purchases which are needed to supplement total requirements. The group's main objective is the optimization of the flow of timber into various manufacturing units. In Fiscal 2016, Tembec's Forest Resource Management Group harvested and delivered 3.1 million cubic metres of timber. Additional timber supply of 0.9 million cubic metres was secured primarily through purchases and exchanges with third parties.

Tembec seeks to maximize the utilization of timberlands for which it is responsible through efficient management and by following sustainable forest management practices so that the timberlands provide a continuous supply of wood for future needs. Site preparation, planting and harvesting techniques are continually improved through a variety of methods, such as research to improve the timber yield of the forests.

As Tembec's forest activity in Canada is conducted primarily on Crown lands, the Forest Resource Management Group works closely with provincial governments to ensure harvesting plans and operations comply with established regulations and that stumpage charged by the provinces is reasonable and reflects the fair value of the timber being harvested.

Québec

The Province of Québec announced reforms to its forest tenure regime effective April 2013. As a result of such reforms, contractual harvest volumes have been reduced by approximately 25%, and were reallocated to a timber marketing board for sale on the open market, leaving the remaining 75% committed to current license holders. In furtherance to these reforms, Tembec has worked with the Ministry of Natural Resources (Québec) to ensure the best transition. During the summer 2013, the Chief Forester of the Province of Québec rendered public for consultation an update of the forestry allowable harvest volumes for the various forest management units in the Province of Québec. This data update, following the consultation process and approval by the Minister, has determined the 2015-18 annual allowable cut. The Minister of Forests, Wildlife and Parks allocated the allowable harvest volumes in the spring of 2015.

Ontario

Tembec's cutting rights in Ontario are provided principally through several Sustainable Forest Licenses on Crown land issued by the provincial Ministry of Natural Resources and Forestry (MNRF). These licenses expire at different dates and have 20-year terms and are renewable every five years. Their renewal is based on satisfactory performance determined by required independent forest audits (IFAs) and approval of the MNRF. The Province of Ontario has approved legislation for reforms of its forest tenure regime and the locations where the MNRF will facilitate the trial of new tenure systems over the next several years. Tembec will continue to monitor developments and work with the MNRF in connection therewith.

British Columbia

Tembec currently owns approximately 2,100 hectares of lands in British Columbia. These lands are located in the East Kootenay region. Tembec is currently pursuing the sale of several parcels of land pursuant to the B.C. Land Sale Initiative. Since the launch of this B.C. Land Sale Initiative, Tembec sold 1,875 hectares of lands to Jemi Fibre Corp. ("**Jemi**") for a price of $4 million, approximately 7,150 hectares of land to Teck Resources Limited for a price of $19 million, 1,290 hectares of land to two private investors for a price of $1 million, 17,700 hectares of land to Jemi for a price of $15 million and approximately 31,800 hectares of land to Jemi for a total consideration of $21 million, including a deferred amount of $2 million payable no later than June 24, 2021. In Fiscal 2015, Tembec sold an additional 4,000 hectares to Jemi for a price of $2 million. To date, Tembec has realized a total of approximately $61 million pursuant to its B.C. Land Sales Initiative. Tembec continues to actively pursue sales of the remaining parcels

Timber Resources Availability

Tembec harvests timber under forest tenures held by it in Ontario and Québec and has a total allowable annual cut of approximately 4.2 million cubic meters. Tembec's Canadian wood fibre requirements are also met with deliveries from our freeholds, open market purchases and exchanges on either a spot or contract basis (business to business).

The following table sets out Tembec's timber resources available as at September 24, 2016:

Ontario	
Sawmills	
Sustainable Forest Licenses	2,786,250
Temiscaming (HYP)	
Sustainable Forest Licenses	153,600
Sub-total – Crown	2,939,850
Free Hold	30,000
Total Ontario	2,969,850
Québec	
Sawmills	
Wood supply guaranty[2]	941,050
Sub-total – Crown (sawmills)	941,050
Matane & Temiscaming (HYP)	
Wood supply guarantee	255,400
Sub-total – Crown (HYP)	255,400
Total Québec	1,196,450

Stumpage and Other Charges

Provincial authorities impose fees on volumes of wood cut on Crown lands. These fees are determined under specific mechanisms in each province. Part of the mandate of the Corporation's Forest Resources Management Group is to ensure that fees charged by the provincial governments reflect the fair value of the timber being harvested.

4.1.2 Specialty Cellulose Pulp Segment

The specialty cellulose pulp segment (the "**Specialty Cellulose Pulp Segment**") consists of two manufacturing facilities, which produce specialty cellulose pulps. The segment also includes a stand-alone resin business, which produces powder and liquid phenolic resins at two operating sites in Québec: Temiscaming[3] and Longueuil. The Corporation also operates a third facility located in Toledo, Ohio, United States which manufactures powder and liquid amino-resins. The chemical business also periodically purchases and re-sells third party pulp mill by-product chemicals.

In Fiscal 2016, the Specialty Cellulose Pulp Segment generated consolidated sales of $457 million as compared to $434 million in Fiscal 2015, Adjusted EBITDA of $69 million as compared to $21 million in Fiscal 2015 and operating earnings of $41 million as compared to an operating loss of $1 million in Fiscal 2015.

[2] This amount includes the wood supply guaranty in the amount of 260,500 m^3 for the Senneterre sawmill which was sold to the purchaser on October 31, 2016.

[3] Tembec's resin plant in Temiscaming was shut down indefinitely in Fiscal 2016, except for the spray drying activities.

The following table summarizes the products and current capacity levels of the two pulp mills:

Location and Product	Tonnes
Specialty Cellulose Pulp	
Temiscaming, QC – Specialty Cellulose Pulp	160,000
Tartas, France – Specialty Cellulose Pulp	150,000
	310,000

Products and Markets

The specialty cellulose pulp produced at the two pulp mills is high purity cellulose utilized in a wide variety of specialized products such as pharmaceuticals, food additives, and industrial chemicals. The mills generate lignin as a by-product of the sulphite process, which is sold to third parties. The Temiscaming mill also produces "viscose" grade pulp, which is utilized in the production of viscose staple fibre, which in turn is used to produce rayon for the textile industry.

Tembec's specialty cellulose pulp is part of the broader global dissolving pulp business. Total shipments in 2016 are estimated to be approximately 7.3 million tonnes. Main producing areas are North America (2.3 million tonnes), Europe (1.6 million tonnes) and China (1.9 million tonnes). The main consuming jurisdiction is China (4.1 million tonnes), followed by Europe (1 million tonnes).

Since November 7, 2013, in accordance with the provisions of Regulations of the People's Republic of China on Antidumping, Tembec's Temiscaming specialty pulp mill is subject to a 13% Chinese antidumping duty on shipments of certain grades of viscose pulp from Canada to China. As a result, the Corporation has reduced shipments of these grades into China and redirected certain volumes to other markets. Total pulp shipments to China were 38,100 tonnes in Fiscal 2014; 8,500 tonnes in Fiscal 2015 and 26,300 tonnes in Fiscal 2016.

Tembec markets its specialty pulp on a world-wide basis, primarily through its own sales force, with permanent sales offices in Toronto, Canada, and Dax, France. This is consistent with Tembec's strategy of selling directly to customers and establishing long-term strategic relationships. Contractual arrangements with third party representatives are also utilized. Sales from the Specialty Cellulose Pulp Segment represented approximately 30% of Tembec's total consolidated sales in Fiscal 2016 as compared to 31% in the prior year.

Fibre Supply

The Temiscaming mill purchased approximately 357,800 bone dry tonnes of wood chips in Fiscal 2016, up from 278,800 in the prior year. Of this amount, approximately 64% was supplied by Tembec's Forest Products Segment, compared to 71% in the prior year. The remaining requirements were purchased from third parties under contracts and agreements of various durations. The pulp mill located in Southern France purchased approximately 335,800 bone dry tonnes of wood in Fiscal 2016 as compared to 322,100 bone dry tonnes in the prior year. The fibre is sourced from many private landowners.

4.1.3 Paper Pulp Segment

The Paper Pulp Segment consists of two high-yield pulp manufacturing facilities. The two high-yield pulp mills produce pulp with a combination of mechanical and chemical processes. Tembec produces hardwood grades made from maple, aspen and birch. High-yield pulps have a lower tensile and tear strength than kraft pulps, but they offer advantages on bulk and opacity. They compete against other hardwood or "short fibre" grades, with Bleached Eucalyptus Kraft (BEK) being the most prominent.

In Fiscal 2016, the Paper Pulp Segment generated consolidated sales of $282 million as compared to $272 million in Fiscal 2015, Adjusted EBITDA of $9 million as compared to Adjusted EBITDA of $13 million in Fiscal 2015 and an operating loss of $2 million as compared to operating earnings of $2 million in Fiscal 2015.

The following table summarizes the products and current capacity levels of each facility:

Location and Product	**Tonnes**
Hardwood High Yield	
Temiscaming, QC	300,000
Matane, QC	270,000
Total	570,000

Products and Markets

High-yield market pulps have been produced in North America since the mid-1980's. Initially, most high-yield pulps were manufactured with softwood and utilized in tissue and towel applications, where their superior bulk and absorbency are desired characteristics. However, Tembec has always maintained a strategy of targeting the use of high-yield pulps in paper and board production. The strategy led to the development of hardwood high-yield grades made from birch, aspen and maple. Although high-yield pulps are lower than kraft pulps in tensile and tear strength, they offer advantages in bulk and opacity. The global high-yield pulp market totals approximately 4.8 million tonnes. Canada is the principal producer at 2.1 million tonnes per year of capacity, followed by Western Europe at 1.1 million tonnes. The principal market is China which consumes 2.0 million tonnes, followed by other Asian countries at 0.9 million tonnes and Western Europe which consumes 0.8 million tonnes. High yield pulp producers operated at approximately 88% of capacity in Fiscal 2016 as compared to 85% in the previous year. Tembec's high-yield pulp capacity represents approximately 12% global high-yield pulp capacity.

Tembec markets its high-yield pulp mainly to Asian and European destinations, primarily through its own sales force, with offices in Toronto, Canada, and Dax, France. This is consistent with Tembec's strategy of selling directly to customers and establishing long-term strategic relationships. Contractual arrangements with third party representatives are also utilized. Sales from the Paper Pulp Segment represented approximately 19% of Tembec's total consolidated sales in Fiscal 2016.

Fibre Supply

Tembec's pulp mills purchased 546,000 bone dry tonnes of wood chips in Fiscal 2016, up from 527,200 tonnes in Fiscal 2015. Of this amount, approximately 39% was supplied by the Forest Products Segment, unchanged from the prior year. The remaining requirements were purchased from third parties under contracts and agreements of various durations.

4.1.4 Paper Segment

The paper segment (the "**Paper Segment**") currently consists of two manufacturing facilities with a total of three paper machines. The mill located in Kapuskasing, Ontario, produces newsprint on two machines. The facility located in Temiscaming, Québec, produces multi-ply coated bleached board on one machine. The board mill is partially integrated with a high-yield pulp mill. The total capacity of the Paper segment is 400,000 tonnes. For Fiscal 2016, the Paper Segment generated consolidated sales of $392 million as compared to $337 million in Fiscal 2015, Adjusted EBITDA of $72 million in Fiscal 2016 as compared to Adjusted EBITDA of $38 million in Fiscal 2015 and operating earnings of $66 million as compared to operating earnings of $34 million in Fiscal 2015.

The following table summarizes the products and current capacity levels of each facility:

Location and Product	**Tonnes**
Coated Bleached Board	
Temiscaming, QC	180,000
Newsprint	
Kapuskasing, ON	220,000

Products and Markets

Coated bleached board represented 70% of the sales of the Paper Segment in Fiscal 2016. Tembec's coated bleached board sales' focus is on lightweight, fully bleached coated board used in commercial printing. Target markets include book cover, directory cover, and lightweight premium. The board is sold primarily in North America through its own sales force located in the U.S. and Canada. Board is also sold to merchants and large commercial printers. Tembec's coated bleached board is part of the broader North American bleached boxboard market. Total annual shipments in 2016 are estimated to be approximately 5.4 million tonnes. North American bleached boxboard producers operated at 94% of capacity in Fiscal 2016, up from 92% in the prior year. Tembec's coated bleached board capacity represents approximately 3% of total North American bleached boxboard capacity.

Newsprint represented 30% of the sales of the Paper Segment in Fiscal 2016. Newsprint is used primarily for the publication of daily newspapers. It is generally considered to be a commodity product, having a uniform definition and few distinct differences. Newsprint demand is driven primarily by the requirements of daily newspapers. Canadian manufacturers of newsprint are very dependent on export markets, particularly the U.S. market. In calendar year 2016, total North American newsprint demand was estimated to be approximately 3.4 million tonnes with the U.S. market consuming approximately 2.8 million tonnes. Another 1.4 million tonnes will be shipped to export markets outside North America. U.S. capacity is 1.6 million tonnes while Canadian newsprint capacity is 3.6 million tonnes of the approximate total 5.2 million tonnes of capacity in North America. North American newsprint producers operated at 93% of capacity in Fiscal 2016, unchanged from the prior year. Tembec's newsprint capacity represents approximately 4% of total North American production capacity.

The focus of the Paper Segment is the North American market which accounted for 93% of the Paper Segment total sales in Fiscal 2016, with the U.S. representing 73% of the paper Segment sales. In Fiscal 2016, the Paper Segment represented 26% of the Corporation's consolidated sales.

Fibre Supply

The coated bleached board mill utilizes a combination of chemical kraft and high yield pulp to produce a three-ply sheet. During Fiscal 2016, the mill utilized 64,700 tonnes of high-yield pulp supplied by the Temiscaming mill versus 59,600 tonnes in Fiscal 2015. The balance of pulp requirements was purchased from third parties.

The Paper Segment's newsprint mill consumed 221,800 bone dry tonnes of virgin fibre during Fiscal 2016, of which 100% was internally sourced. In the prior year, 199,400 bone dry tonnes of virgin fibre were consumed, with 100% being sourced internally.

4.2 ENVIRONMENTAL AND SOCIAL POLICIES

Tembec is committed to demonstrating responsible stewardship of resources and continuous improvement of its environmental performance. Tembec's objectives are to:

- Maintain compliance with its corporate principles and environmental policy;
- Comply with all applicable environmental legislation and continually improve its environmental performance;
- Integrate sustainable development into its business and operating plans;
- Respond effectively to environmental issues; and
- Maintain recognized environmental certifications as required.

Tembec's environmental policy is available on the Corporation's website at www.tembec.com.

<u>Environmental Management System:</u>

These objectives have been incorporated into the Tembec Environmental Management System ("**EMS**"), which minimizes the impact of manufacturing activities and forest operations on the environment. The EMS is administered in accordance with the ISO 14001 standard and Tembec's specific environmental requirements.

A certifiable EMS is in place in our manufacturing and forest operations. Each year, Tembec fully reviews all progress accomplished through its EMS to ensure continuous improvement in its environmental performance. Every business unit must implement the EMS. Internal audits are conducted on all EMS procedures to ensure compliance with ISO 14001 and Tembec's environmental requirements. Also, audits are regularly conducted at each site to ensure compliance with all applicable laws and regulations.

All Tembec manufacturing and forestry operations are required to maintain an ISO-14001 certifiable EMS. Presently, the following operations are certified to the ISO-14001 standard:

- The Temiscaming and Matane manufacturing facilities and
- The Abitibi-Est, Abitibi-West, and the Temiscaming forest operations

Integration of the OHSAS-18001 Health and Safety through the EMS (ISO 14001) Environmental System

The OHSAS 18001 Health and Safety Management System is integrated at the majority of our mills. Tembec continues to maintain the system in place and perform internal audits regularly. Tembec will continue to monitor the implementation for those who are not at 100%.

<u>Environmental Performance</u>

Tembec has developed environmental performance indicators to continually monitor the progress of each of its business units towards the achievement of EMS as well as regulatory standards.

On the whole, Tembec's environmental performance is in compliance with statutory and regulatory requirements governing atmospheric emissions, effluent and solid waste. In fact, through its EMS, Tembec exceeds in many cases statutory and regulatory requirements.

Over the years, Tembec has implemented voluntary measures to protect the environment. Since 1990, Tembec has been taking action to significantly reduce its greenhouse gas emissions, and has actively supported and promoted the Kyoto Protocol. Tembec has established specific objectives and targets to reduce energy consumption and greenhouse gas emissions at its mills, and has set goals to improve biomass recovery as a source of energy.

Tembec's initiatives, including those described above, have already led to significant improvements in its overall environmental performance. Moreover, the implementation of Tembec's EMS at all sites will ensure continuous improvement of Tembec's environmental performance in accordance with its strong commitment to environmental protection and sustainable development.

As part of Tembec's commitment to continuously improve its environmental performance and comply with applicable environmental requirements, significant environmental investments have been made over the past few years, the most substantial part of which was committed to the Temiscaming Project.

Forest Certification

The portfolio of Forest Stewardship Council ("**FSC**") forest management certificates held by Tembec in Canada consists of seven certified forests across more than 8.9 million hectares forming a substantial base of certified wood supply for company facilities. Further, Tembec is a partner with other forest industry companies on lands managed by third parties. FSC certification on these lands contributes an additional 2.4 million hectares of FSC certified forest to Tembec's wood supply portfolio. As a leader in the achievement of FSC forest certification in Canada, Tembec is active in renewing forest certificates consistent with the five-year anniversary date. In 2016, Tembec and the Québec Ministry of Forestry, Wildlife and Parks worked collaboratively to maintain FSC certification consistent with the implementation of the provincial forest regime.

Assessment of external fibre supply sources is guided by Tembec's Fibre Procurement Policy (2006). Tembec provides evidence of Chain of Custody (**"COC"**) certification to customers to enable them to produce and label their own products as certified if they have appropriate systems in place. All Tembec facilities are linked to a corporate multi-site FSC chain of custody and FSC Controlled Wood system. Two facilities additionally have Program for Endorsement of Forest Certification (**"PEFC"**) COC certification. These independent third party audited systems ensure Tembec fibre procurement personnel source fibre from known sources with certainty and assurance.

Forest conservation, as an integral component of well managed forests, is a key theme for the Forest Resource Management Group. The identification and conservation of habitat of rare, threatened and endangered species is a strong priority across Tembec's Canadian Boreal operations. Detailed engagement with governments (municipal and provincial), First Nations and environmental organizations regarding the conservation of woodland caribou continued in Ontario and Québec in 2016.

Tembec is a signatory to the Boreal Forest Conservation Framework and member of the Boreal Leadership Council. This collaborative initiative bring non-government interests together to identify strategies to advance forest conservation priorities and support world leading forest management practices in the Canadian Boreal forest region. In 2016, Tembec signed a Memorandum of Understanding with Ducks Unlimited Canada to ensure effective conservation of wetlands and waterfowl resources. Tembec's boreal forest tenures are included in the scope of these agreements and Forest Resource Management Group personnel lead Tembec's participation.

<u>First Nations Policy and Métis Relations</u>

As part of sustainable forest management and corporate social responsibility, Tembec recognizes its operations in Canada take place on territories on which First Nations and Métis People assert rights and interests. Tembec has adopted an aboriginal policy, the purpose of which is to build and maintain relationships with First Nations and Métis communities located in the vicinity of Tembec's operations. Tembec's policy addresses such priorities as capacity building, employment, information-sharing, business relations and measures to harmonize traditional land use and forestry operations.

To accommodate the traditional activities of the communities during forestry planning and operations, Tembec has concluded agreements with many First Nations including, in Ontario, the Taykwa Tagamou Nation, the Northeast Superior Regional Chiefs' Forum (comprised of three First Nations which are the Chapleau Cree First Nation, Brunswick House First Nation and the Missanabie Cree First Nation), and in Québec, the Timiskaming First Nation, the Wolf Lake First Nation, the Kebaowek (Eagle Village) First Nation, the Lac Simon First Nation, the Pikogan First Nation and the Long Point First Nation. Tembec and Grand Council of the Cree (Québec) have signed a communication protocol pertaining to the undertaking of Forest Stewardship Council (FSC) certification on the Paix des Braves territory and Tembec and Moose Cree First Nation (Ontario) have a Memorandum of Understanding (MOU) in place. Agreements with other First Nations are in development. While each agreement is unique, the agreements generally provide for identification and protection of aboriginal values, development of measures to harmonize Tembec's interests with those of aboriginal groups, advance employment and business development goals, outline communications protocols and provide dispute resolution processes. Tembec also may provide financial support to assist the community in engaging resource management expertise.

4.3 ENERGY

Tembec is committed to operating energy efficient plants and to making full use of its forest resources. To this end, Tembec converts waste pulping liquors, mill effluent and biomass wastes into renewable energy through various processes. Tembec also plans to further improve its capacity to convert these wastes. In Fiscal 2016, Tembec's Pulp and Paper division generated approximately 13,400,088 Gigajoules of renewable energy, which represents approximately 54.1% of Tembec's Pulp and Paper division energy consumption. This includes generating 581,119 MWhrs of electricity, or 24.6% of Tembec's total electricity consumption.

Temiscaming and Kapuskasing

Both the Temiscaming and Kapuskasing mills utilize biomass boilers fired on bark, sawdust and shavings to generate approximately 26.1% of their total electricity consumption. The Temiscaming cogeneration project, consisting of a new high pressure boiler and a 50 megawatt electrical turbine, is now complete and it is operating as per specifications. The Temiscaming cogeneration facility sells its green electricity to Hydro-Québec under a long term power purchase agreement.

Chapleau

The Chapleau cogeneration facility sells the bulk of its power to Hydro One. Steam is then fed to the sawmill kilns to dry lumber. The Chapleau cogeneration facility consumes residual biomass from the sawmill and the surrounding region.

Tartas

The Tartas mill burns both waste sulphite liquor and biomass at its cogeneration. In the last fiscal year, the Tartas mill has generated approximately 82.9% of its electricity needs. The Tartas cogeneration facility sells its green electricity to Electricité de France under a long term power purchase agreement.

Other Green Energy

The Temiscaming and Matane facilities also convert effluent to energy through two operating anaerobic effluent treatment plants. Current methane consumption is approximately 319,230 GJ/year (Temcell I & II, Matane). Methane is used to offset fossil fuel purchases in pulp dryers. Recovered biomass is also sold to third parties for cogeneration purposes.

4.4 RESEARCH AND DEVELOPMENT

Tembec considers research and development ("**R&D**") essential to its growth and to its long-term ability to compete successfully on world markets. Tembec's mission of minimizing costs and encouraging innovation while protecting the environment is backed by its history of continued research investment. R&D activities are carried out with specialized research centers, Canadian and foreign universities, strategic equipment and technology developers, in conjunction with in-house development and trials. The R&D thrust is a crucial aspect of Tembec's activities, enabling Tembec to continue meeting its customers and other key stakeholders' ever-growing expectations. Recent research efforts have been focused on further enhancing Tembec's already sound environmental practices, improving delivered fiber costs, developing value-added products and exploiting waste to energy opportunities.

4.5 COMPETITION

The lumber, paper pulp and paper industries are essentially commodity markets in which producers compete primarily on the basis of price. In addition, since the majority of Tembec's lumber, paper pulp and paper production is directed to export markets, it competes on a worldwide basis against many producers with approximately the same or larger capacity. In export markets, Tembec generally competes with U.S., Latin American, Asian and Scandinavian producers. Some of Tembec's competitors have lower energy and labor costs and fewer environmental and governmental regulations to comply with than Tembec does. Others have larger facilities, allowing them to achieve greater economies of scale. Also, some of Tembec's foreign competitors may benefit from incentives given by foreign governments, which may ultimately adversely affect Tembec's competitive position.

4.6 RISK FACTORS

The following information is a summary of certain risk factors relating to the business of Tembec and is qualified in its entirety by reference to, and must be read in conjunction with, information appearing elsewhere in this AIF and in the 2016 MD&A. The risks and uncertainties described below are not the only risks and uncertainties that Tembec faces. Additional risks and uncertainties not presently known to Tembec or that Tembec currently deems immaterial may also impair its business operations. If any of the risks described below, or any of the risks or uncertainties not presently known or which Tembec currently deems to be immaterial, actually occur, Tembec's business, financial condition and results of operations could be materially adversely affected.

Demand and prices for Tembec's products are cyclical, which could have a material adverse effect on its business, financial condition and results of operations.

Demand and prices for lumber, pulp and paper products are cyclical and are influenced by a variety of factors. These factors include periods of excess product supply due to industry capacity increases, periods of decreased demand due to generally reduced economic activity or product-specific activity, inventory de-stocking by customers and fluctuations in currency exchange rates. During periods of low prices, Tembec is subject to reduced revenues and margins, resulting in substantial declines in profitability and possibly net losses. Tembec has in the past, and may in the future, decide to schedule production curtailments and shutdowns as a result of weak economic conditions, reduced demand for its products, lack of economically viable fibre, reduced market prices and other factors. If global economic conditions were to deteriorate in the future, prolonged curtailments of production or extended shutdowns could have a material adverse effect on its business, financial condition and results of operations. In addition, the relatively high fixed cost component of certain manufacturing processes, specifically in pulp and paper, requires producers to operate facilities with target efficiency in the 80-85% range even when demand is not sufficient to absorb all of the output. As a result, any failure to operate at such levels may jeopardize the continued existence of a facility, while, on the other hand, creating excess production that may saturate the market and have a negative impact on product prices, further increasing the inherent cyclicality of the industry.

Tembec's strategy is to develop niche products where possible, maintain low cost, high-quality flexible production facilities and establish and develop long-term relationships with its customers. In addition, Tembec may periodically purchase lumber, pulp and newsprint derivative commodity contracts to mitigate the impact of price volatility. As at September 24, 2016, Tembec did not hold any product derivative commodity contracts. However, even if Tembec were to enter into derivative commodity contracts, there can be no assurance that such contracts would eliminate the risks of demand and price cyclicality and their impact on Tembec's business, financial condition and results of operations.

Tembec's business is subject to global economic conditions that could cause a number of the risks Tembec faces to increase in likelihood, magnitude and duration.

Tembec's operations and performance depend significantly on worldwide economic conditions, primarily those in the United States, Canada, Europe and China. During the recent global financial crisis and the prolonged recovery period that has followed, customers delayed and reduced expenditures in response to deteriorating macroeconomic and industry conditions and uncertainty, which has had a significant negative impact on the demand for Tembec's products. As an example, the economic downturn had a profoundly negative impact on housing construction starts, which is a significant driver for demand of Tembec's lumber products, and a similar effect could be expected if global conditions were to soften again. Further deterioration of global economic conditions could adversely affect demand for Tembec's products and have a material adverse impact on its business, financial condition and results of operations.

Tembec is exposed to the risk of exchange rate fluctuations.

Revenues for most of Tembec's products are affected by fluctuations in the relative exchange rates of the U.S. dollar as compared to the Canadian dollar. The prices for many of Tembec's products are generally driven by prices referenced in U.S. dollars. In 2016, Tembec generated approximately 715 million of U.S. dollar denominated sales from its Canadian operations. As a result, any increase in the value of the U.S. dollar relative to the Canadian dollar increases the amount of revenues Tembec realizes on its sales in local currency. In addition, because Tembec's business units purchase the majority of their production materials in local currency, fluctuations in foreign exchange rates can significantly affect a unit's relative cost position when compared to competing manufacturing sites in other currency jurisdictions.

Direct U.S. dollar purchases of raw materials, supplies and services provide a partial offset to the impact of exchange rate fluctuations on sales. U.S. dollar purchases totaled approximately US$213 million in Fiscal 2016. To potentially further reduce the risks associated with exchange rate fluctuations, Tembec has a policy which permits hedging of a portion of its U.S. dollar exposure. As at September 24, 2016, Tembec did not engage in hedging transactions and did not hold any foreign exchange contract. In the future, if Tembec were to engage in such transactions, there can be no assurance that it would be able to do so on commercially reasonable terms or at all, or that such transactions would reduce the risks associated with such fluctuations.

The availability of, and prices for, wood fibre significantly impact Tembec's business.

Fibre is the most important raw material for the production of wood products, pulp and paper. Regulatory developments and environmental litigation have caused, and may cause in the future, significant reductions in the amount of timber available for commercial harvest in Canada, thereby increasing prices for alternative sources of wood fibre. The availability of harvested timber may further be limited by natural and man-made events. In addition, future domestic or foreign legislation, litigation advanced by Aboriginal groups and litigation concerning the use of timberlands, the protection of endangered species, the promotion of forest diversity and the response to and prevention of wildfires could also affect timber supplies.

In Canada, virgin fibre or timber is sourced primarily from Crown lands. In Fiscal 2016, approximately 90% of Tembec's virgin fibre and timber requirements were sourced from Crown lands. Tembec's current agreements with provincial authorities grant timber tenure for terms varying from five to 20 years and may be subject to renewals every five years. These agreements contain commitments with respect to sustainable forest management, silvicultural work, forest and soil renewal, as well as cooperation with other forest users. The price and availability of Tembec's fibre depends, in large part, on Tembec's ability to replace or renew these agreements on acceptable terms or enter into acceptable alternative fibre supply arrangements with provincial authorities. The terms of any replacement, renewal or alternative arrangement are based on legislative and regulatory provisions as well as governmental policy. Therefore, changes in legislation, regulatory regimes or policy in the provinces in which Tembec operates may reduce the availability of fibre and increase costs through the imposition of additional and more stringent harvesting, rehabilitation and silvicultural standards or the alteration of fee structures. Although Tembec expects the agreements to be extended as they come up for renewal, there can be no assurance that Tembec's agreements with provincial authorities for the supply of fibre will be renewed, extended or replaced in the future on acceptable terms, or at all, or that the amount of timber that Tembec is allowed to harvest will not decrease.

In Québec, under the current tenure regime, contracted harvest volumes have been reduced by approximately 25%, with such volume being reallocated to a timber marketing board for sale on the open market. Also, Québec's current regime removes from commercial parties, such as Tembec, authority over forest planning. Accordingly, Tembec may not be able to ensure that the fibre processed at its Québec mills benefits from its current certifications, such as those provided by the Forest Stewardship Council (FSC).

The Province of Ontario also reformed its tenure system with amendments that came into force in June 2011**,** but that will only be implemented over the next several years. The Province of Ontario has launched one pilot projects under the new local Crown corporations (Local Forest Management Corporations) model proposed in connection with its tenure system reform (the "**Ontario New Tenure System**") and will be monitoring and assessing same before deciding to transition from the various Sustainable Forest License management models to the Ontario New Tenure System. In addition, enhanced sustainability forest licenses to manage and promote sustainable use of Crown forests may be issued to corporations formed by groups of mills, First Nations and stakeholders to undertake the responsibilities associated with holding a sustainable forest license.

To the extent the availability of fibre from Crown lands is insufficient, Tembec will be required to increase its purchases of fibre on the open market. Further, even if sufficient fibre is available from these Crown lands, there can be no assurance that fibre will be available at prices that will allow Tembec to operate its mills at desired levels of production.

In addition to sourcing its fibre requirements from Crown lands, Tembec also sources a significant amount of fibre by purchasing from third parties pursuant to contracts and agreements of various durations and on the open market. Tembec's dependence on external sources of fibre could increase materially in the future as a result of, among other things, the factors discussed above regarding the availability of timber harvested by Tembec from Crown lands. Fibre is a commodity and prices historically have been cyclical. Fibre pricing is also subject to regional market influences, and Tembec's cost of fibre may increase in particular regions in which it operates due to market shifts in those regions. Tembec's more geographically diversified competitors may not be affected to the same degree by such regional price volatility. Any sustained increase in fibre prices, whether sourced from Crown lands or from third parties, could materially increase Tembec's operating costs and thereby materially reduce Tembec's operating margins to the extent that Tembec cannot pass through equivalent increases in the prices for its products to its customers. Additionally, if one or more of Tembec's major suppliers of fibre stops selling to Tembec, Tembec's business, financial condition and operating results may suffer.

Tembec is dependent on the supply of certain raw materials.

As noted above, Tembec depends on the supply of fibre. Tembec also depends on the supply of other raw materials used in its production facilities, including certain chemicals. Any disruption in the supply of any of these raw materials could affect Tembec's ability to manufacture its products and meet customer demand in a timely manner, which could thereby harm Tembec's reputation and its results of operations. In addition, any material increase in the cost of raw materials could have a negative impact on Tembec's profitability. Natural and man-made events, including forest fires, adverse weather conditions, insect infestation, tree disease, ice storms, and prolonged drought and flooding, periodically affect the industry in which Tembec operates. The occurrence of any of these events, including changing weather patterns and climate conditions associated with climate change, could have a material adverse effect on the availability of, and could significantly increase prices for, raw materials.

Tembec relies heavily on third parties, typically railroads or trucks, to transport its manufactured products and to deliver the necessary raw materials for its production processes. If any of Tembec's transportation providers were to fail to deliver these raw materials or manufactured products in a timely manner and Tembec were unable to find a comparable transportation provider in a timely manner, its reputation and customer relationships could be adversely affected, and it may be unable to sell such products at full value, or at all. In addition, if any of Tembec's transportation providers were to cease operations or cease doing business with Tembec, it may be unable to replace them at a reasonable cost.

Reductions in the availability of energy supplies or an increase in energy costs may increase Tembec's operating costs.

Tembec is affected by the cost of natural gas and electricity. Natural gas and electricity are important components of mill costs, especially for high-yield pulp mills, newsprint and paper mills. For Fiscal 2016, net purchased energy costs totaled approximately $72 million, 33.4% of which was electricity, which accounted for 6.6% of the total costs of sales. The price and availability of natural gas and electricity are influenced by a number of factors that are often beyond Tembec's control, including mechanical failures, weather, political factors and unanticipated or sudden increases in demand. While Tembec purchases electricity primarily from large public utilities at rates set by regulatory bodies, in certain other jurisdictions, electricity is deregulated, which can lead to greater price volatility.

Tembec purchases its natural gas, other fossil fuel and certain of its electricity at market rates. To mitigate the effect of price fluctuations on its financial performance, Tembec employs several tactics, including the securing of longer term supply agreements, the purchase of derivative commodity contracts and operational curtailments in periods of high prices. Tembec does not currently hold any electricity or natural gas derivative commodity contracts. If Tembec is unable to continue to purchase its natural gas and electricity requirements for its operations on commercially reasonable terms, Tembec's operations could be disrupted and its business, financial condition and results of operations could be materially adversely affected.

Facility disruptions could have a material adverse effect on business operations, financial condition and operating results.

Tembec's manufacturing processes are vulnerable to operational problems that can impair its ability to manufacture its products. Any of Tembec's manufacturing facilities or machines could cease operations unexpectedly due to a number of events, including machine breakdowns, unscheduled maintenance outages, power failures, equipment failures, chemical spill or release and other operational failures. Such disruptions could cause a significant loss of production that would prevent Tembec from meeting customer demand for its products and/or require it to make unplanned capital expenditures, all of which could have a material adverse effect on Tembec's business, financial condition and operating results.

Tembec may not be able to successfully renegotiate its collective agreements with its unionized employees, which could affect its labor costs and operations.

As of the date of this AIF, Tembec has approximately 2,000 hourly paid employees covered by collective agreements. Four collective agreements governing approximately 260 unionized employees have expired and, in fiscal year 2017, five collective agreements covering 705 employees will expire. Over the past 40 years, Tembec has successfully negotiated new collective agreements in nearly all instances, with relatively few work stoppages. There is a risk, however, that Tembec may not be able to negotiate collective agreements on acceptable terms in the future. If Tembec is not able to renegotiate its collective agreements, it could face a strike or work stoppage or be obligated to pay higher wages and more benefits to union members. Furthermore, at many of Tembec's facilities, as well as those of the North American industry as a whole, reductions in employment levels due to technological and process improvements have resulted in a workforce with longer average years of service, thereby increasing the cost of pensions and benefits. Any disruption in the operations of Tembec or higher ongoing labor costs could have a material adverse effect on its business, financial condition and results of operations.

Tembec is subject to the risk of substantial environmental liability and limitations on its operations brought about by the requirements of environmental laws and regulations.

Tembec is subject to various federal, state, provincial and local environmental, health and safety laws and regulations concerning such issues as air emissions, wastewater discharges, solid and hazardous materials and waste handling and disposal, forestry operations, endangered species, landfill operation and closure, and the investigation and remediation of contamination. These laws and regulations are increasingly stringent. Tembec has made significant progress in reducing the environmental impact of its operations. This has occurred as a result of changes in manufacturing processes, the installation of specialized equipment to treat/eliminate the materials being discharged and the implementation of standardized practices such as ISO 14001. While Tembec believes that its facilities are and will continue to be in material compliance with all applicable environmental laws and regulations, the risks of substantial additional costs and liabilities related to compliance with environmental laws and regulations are an inherent part of its business.

In addition to costs and liabilities relating to compliance with environmental laws and regulations, Tembec could become liable for environmental conditions at sites where it is currently operating, sites it formerly owned or operated and sites at which its wastes have been disposed. Tembec's operations produce wastes, including hazardous waste, which must be properly disposed of under applicable environmental laws. These laws can impose clean up liability on generators of hazardous waste and other substances that are shipped off-site for disposal, regardless of fault or the legality of the disposal activities. Other laws may require Tembec to investigate and remediate contamination at its properties, including contamination that was caused in whole or in part by third parties. Tembec may also be subject to claims or liability for damages to or pollution of natural resources. While Tembec believes that it can materially comply with environmental legislation and regulatory requirements and that the costs of doing so have been included within its budgeted cost estimates, it is possible that such compliance will prove to be more limiting and costly than anticipated as new laws, more stringent enforcement of existing requirements, or discovery of currently unknown conditions could result in additional costs and limitations on Tembec's operations.

In addition to potential clean up liability, Tembec may become subject to enforcement actions and sanctions and substantial monetary fines and penalties for violations of applicable laws, regulations or administrative conditions. Tembec may also be subject from time to time to legal proceedings brought by private parties or governmental agencies with respect to environmental matters, including matters involving alleged property damage or personal injury.

Future greenhouse gas/carbon legislation or regulations could increase Tembec's costs of compliance with environmental laws and regulations.

The federal government of Canada has indicated its intent to regulate priority air pollutants and greenhouse gases ("**GHGs**") under the *Clean Air Act* and the *Canadian Environmental Protection Act*. Under the proposed targets, Tembec's mills may be required to reduce air pollutants, such as particulate matter ("**PM**"), sulphur oxide ("**SOx**") emissions, nitrogen oxides ("**NOx**") and GHGs. While industry consultations are ongoing with the federal government, the cost of making any such reductions is currently unknown; however, the requirements associated with PM, SOx and NOx are not anticipated to be of high risk to Tembec. Ontario has recently implemented a Cap and Trade program which will come into effect in January 2017. Tembec's Kapuskasing Newsprint Mill Operation is the only facility in Ontario that will be participating in the program. The point of regulation for fuels (diesel, natural gas, etc.) will be with the distributors. At this time, the impact of the Cap and Trade program in relation to electricity costs is not clear, however it is anticipated there will be "net zero" impact. Québec has already passed legislation establishing frameworks to reduce GHGs through Cap and Trade systems. Only Tembec's Temiscaming site in Québec is subject to these new regulatory standards. The cost of GHG credits for the Temiscaming facility for Fiscal 2016 was $2.1 million. Additionally, Canadian federal laws and the laws of the provinces of Québec and Ontario already impose mandatory GHG reporting requirements on facilities that emit carbon dioxide equivalent ("**CO2e**") beyond certain thresholds.

The enactment of Canadian federal and other provincial climate change regulation may depend on regulatory initiatives undertaken in the United States. In the United States, Congress has considered legislation to reduce emissions of GHGs. Although the legislation has not passed, it appears that the U.S. government will continue to consider methods to reduce GHG emissions from public utilities and certain other emitters. The U.S. Environmental Protection Agency (the "**EPA**") has adopted and is implementing GHG permitting requirements for certain sources and has proposed GHG performance standards for newly constructed, reconstructed and modified electric utilities under the existing *Clean Air Act*. The EPA has also relied on the existing *Clean Air Act* to propose a "Clean Power Plan" that would establish emission guidelines for existing electric utilities and require states to develop plans for reducing GHG emissions by making significant changes to the energy resources utilized within the state. Furthermore, several states are already regulating GHG emissions from public utilities and certain other significant emitters, primarily through regional GHG cap-and-trade programs or renewable energy requirements. It is too early to determine the overall impact that U.S. and Canadian federal or provincial regulations and initiatives will have on Tembec when they come into effect.

Additional regulatory initiatives may be implemented in other jurisdictions to address GHG emissions and other climate-change-related concerns. If such initiatives are implemented and to the extent Tembec operates or offers its products for sale in affected jurisdictions, it may be required to incur additional capital expenditures, operating costs or mitigating expenses, such as carbon taxes or other charges, to comply with any such initiatives. Tembec cannot assure that the increased costs associated with compliance of future environmental laws and regulations will not have a material adverse effect on its business, financial condition and results of operations.

The nature of Tembec's business involves numerous safety risks to Tembec's workers. Significant unexpected costs and liabilities as a result of an unforeseen event or site conditions could have a material adverse effect on Tembec's profitability and overall financial position.

Due to the nature of Tembec's operations, its workers may be exposed to potential operational hazards such as fires, malfunction of equipment, accidents, dust explosions, dust inhalation, and natural disasters. Some of these operational hazards may cause personal injury or loss of life, severe damage to or destruction of property and equipment or environmental damage, and may result in suspension of operations, harm to Tembec's reputation and the imposition of civil or criminal fines or penalties, all of which could have a material adverse effect on its business, financial condition and results of operations.

Significant capital expenditures requirements could have an adverse impact on Tembec's business, financial condition and results of operations.

The production of lumber, pulp and paper is capital intensive. Tembec estimates that it must invest approximately $35 million to $40 million per year on capital expenditures to avoid degradation of its current operations and to comply with new rules and regulations or stricter enforcement of existing rules and regulations. As the majority of the funding is provided by cash flow from operations, there can be no assurance that the funds will be available to meet all of Tembec's capital expenditure needs. Failure to reinvest can lead to older equipment that is less productive, less reliable and more costly to maintain and operate. The risk of technological obsolescence also increases. Capital expenditure projects can be large in scale, requiring Tembec to maintain or acquire expertise in the design, planning and execution of major capital projects. There are inherent risks in the capital expenditure process, including the potential for project cost overruns, new equipment that does not perform to anticipated or projected levels, a lengthy start-up period and disruptions to normal operations. Due to relatively low operating cash flow generation over the last several years, Tembec has limited capital expenditures. This has led to a "backlog" of capital expenditure projects in many operating facilities. Failure by Tembec to proceed with the capital expenditures necessary to avoid a degradation of its current operations could have a material adverse impact on its business, financial condition and results of operations.

Tembec may become subject to civil or criminal enforcement if it fails to comply with environmental, health or safety standards as a result of its "backlog" of capital expenditure projects.

Restrictions on trade through tariffs, quotas or other trade barriers could adversely affect the ability of Tembec to access markets outside Canada.

Tembec's financial results are highly dependent on its ability to sell its products outside of Canada. Although Tembec's manufacturing operations are located primarily in Canada, sales to the Canadian market represented only 19% of its consolidated sales in Fiscal 2016. Tariffs, quotas and other trade barriers that reduce or prohibit the movement of Tembec's products across international borders constitute an ongoing significant risk.

Effective October 12, 2006, as a result of the SLA, Tembec's Québec and Ontario sawmills became subject to a combination of export taxes on shipments to the U.S. and volume restraints or quotas that vary depending on the option selected by individual Canadian provinces. Tembec's sawmills, located in Québec and Ontario, were subject to export quota limitations. Additionally, Tembec's sawmills were subject to a variable export tax. The SLA expired in October 2015. The agreement provided for a one-year moratorium on any trade action after its expiry. The Corporation believes that the United States government will likely impose or negotiate future measures to limit the flow of Canadian lumber into the U.S. market. Moreover, China has imposed antidumping duties on viscose grade pulp imports from Canada, the United States and Brazil. Tembec's Temiscaming specialty pulp mill is subject to a 13% Chinese antidumping duty on shipments of certain grades of viscose pulp from Canada to China. As a result, Tembec has redirected shipments of these grades to other markets.

If new tariffs or quotas are created, or if existing tariffs increase or quotas decrease, there can be no assurance that Tembec will be able to effectively access foreign markets, which could have a material adverse effect on Tembec's volume of sales and financial results.

Tembec's substantial debt could adversely affect its financial condition and prevent it from fulfilling its obligations under its outstanding indebtedness.

Tembec has a substantial amount of debt, which requires significant interest and principal payments. There is no assurance that Tembec's business will generate sufficient cash flow from operations in the future to service Tembec's debt and meet its other ongoing obligations. In October 2014, Tembec Industries issued US $375 million 9% Senior Secured Notes. In November 2015, Tembec entered into the New ABL Facility which consists of a $150 million revolving credit facility with Wells Fargo Capital Finance Corporation Canada, as administrative agent, and PNC Financial Bank, National Association as syndication agent, and a US $62 million "first-in, last-out" term loan. The New ABL Facility replaced the Corporation's $175 million revolving credit facility it had with GE Canada Finance Holding Company.

The Indenture and the New ABL Facility contains terms and conditions that may limit management's ability to act in certain circumstances. This may place restrictions on Tembec's ability to incur additional indebtedness, to create liens or other encumbrances, to make certain payments and investments and to sell or otherwise dispose of assets and merge or consolidate with other entities. A failure to comply with the obligations contained in the Indenture and the credit agreements governing Tembec's debt could result in acceleration of the related debt and acceleration of debt under other instruments that contain cross acceleration or cross default provisions. The 9% Senior Secured Notes do not require periodic payments for principal amortization. Since the entire principal amount will become due on the maturity date, it is possible that Tembec will not have the required funds/liquidity to repay the principal due. Tembec may require access to the public or private debt markets to issue new debt instruments to replace or partially replace the 9% Senior Secured Notes. There is no assurance that Tembec will be able to refinance the 9% Senior Secured Notes on commercially acceptable terms.

Significant changes in pension fund investment performance or assumptions relating to pension costs, as well as increased funding contributions, may have a material effect on Tembec's pension obligations, the funded status of its pension plans and its pension costs.

The funded status of Tembec's pension plans is dependent upon many factors, including changes to the level of benefits provided by the plans, the future performance of assets set aside in trusts for these plans, the level of interest rates used to determine obligations and minimum funding levels, actuarial assumptions and any changes in governmental laws and regulations. Declines in the market value of the securities and other investments held by the plans and changes in interest rates could materially reduce the funded status of the plans and affect the level of pension expense and required contributions.

Tembec may not have adequate insurance for potential liabilities.

Tembec maintains insurance to cover many of its potential losses, and it is subject to various self-retentions and deductibles under its insurance. Actual or claimed defects in the products Tembec distributes may give rise to claims against it for losses and expose it to claims for damages. Tembec's insurance may be inadequate or unavailable to protect it in the event of a claim or its insurance coverage may be cancelled or otherwise terminated. Tembec faces the following additional risks under its insurance coverage: (i) it may not be able to continue to obtain insurance on commercially reasonable terms or at all; (ii) it may be faced with types of liabilities that will not be covered by its insurance, such as damages from environmental contamination or terrorist attacks; (iii) the dollar amount of any liabilities may exceed its policy limits; and (iv) it may incur losses from interruption of its business that exceed its insurance coverage.

In addition, in the ordinary course of business, Tembec becomes the subject of various claims, lawsuits and administrative proceedings seeking damages or other remedies concerning its commercial operations, products, employees and other matters, including occasional claims by individuals alleging exposure to hazardous materials as a result of its products or operations. Some of these claims relate to the activities of businesses that Tembec has sold, and some relate to the activities of businesses that Tembec has acquired, even though these activities may have occurred prior to the acquisition of such businesses. Even a partially uninsured claim, if successful and of significant size, could have a material adverse effect on Tembec's business, financial condition and results of operations. To mitigate risk associated with insurance coverage, Tembec reviews its strategy annually and assesses the various insurance products available to achieve better coverage at the lowest cost possible.

Aboriginal land claims may affect Tembec's operations.

Aboriginal groups have claimed substantial portions of land in various provinces over which they claim aboriginal title or in which they have a traditional interest. Canadian courts have recognized that Aboriginal people may possess rights in respect of land used or occupied by their ancestors and have encouraged the federal and provincial governments and Aboriginal people to resolve rights claims through the negotiation of treaties.

Tembec operates in territories in which Aboriginal people assert rights and interests. To accommodate the traditional activities of the communities during forestry planning and operations, Tembec has concluded agreements with many First Nations communities and other agreements are in development. These agreements support an approach of active engagement with Aboriginal communities that serves to ensure the identification of issues and facilitates constructive problem-solving. Further, Tembec has taken a proactive approach to enhance the economic participation of Aboriginal groups in its operations wherever feasible. The agreements and the measures taken by Tembec strengthen business to business relationships between the parties while respecting the ever evolving regulatory and judicial relationship between Canada's governments and Aboriginal people.

Tembec cannot predict whether future aboriginal land claims will affect its ability to harvest timber from its current sources, or its ability to renew or secure other sources in the future. Furthermore, any failure to reach an agreement, conflict or disagreement with an Aboriginal group could have a material adverse effect on its business, financial condition and results of operations.

Interruption or failure of Tembec's information technology systems could have a material adverse effect on business operations, financial condition and operating results.

Tembec's information technology systems serve an important role in the efficient operation of its business. Tembec relies on various technologies to process, store and report on its business and to interact with customers, vendors and employees. The secure processing, maintenance and transmission of this information is critical to Tembec's operations and business strategy. The failure of information technology systems to perform as anticipated could disrupt Tembec's business and negatively impact its financial results. In addition, these information technology systems could be damaged or cease to function properly due to any number of causes, such as catastrophic events, power outages, security breaches, computer viruses, or cyber-based attacks. Any such breach could result in operational disruptions or the misappropriation of sensitive data that could subject Tembec to civil and criminal penalties, litigation or have a negative impact on Tembec's reputation. There can be no assurance that such disruptions or misappropriations and the resulting repercussions will not negatively impact Tembec's cash flows and materially affect its business operations, financial condition and operating results.

Tembec could pursue strategic transactions, the success of which could impact its results of operations, cash flows and financial condition.

Over the past several years, Tembec has pursued certain strategic divestitures. In the future, Tembec's general strategic objectives may favour the completion of additional divestitures or other strategic transactions, including acquisitions. The negotiation of any transaction, its completion and, in the case of acquisitions, the subsequent integration of any business acquired, may be complex and time consuming, involve significant costs and may result in a distraction of management's attention from on-going business operations. Tembec may incur such costs for transactions that are never consummated. In addition, for acquisitions Tembec does consummate, expected benefits may not materialize. Moreover, the implementation of future transactions could result in the incurrence of additional debt, dilutive issuances of equity securities as well as costs, contingent liabilities, amortization expenses and the loss of key personnel. Tembec's failure to effectively address any of these issues could have a material adverse effect on its business, financial condition and results of operations.

ITEM 5 - DIVIDENDS

The Corporation has not paid dividends on any of its shares since its incorporation. There is currently no restriction preventing the Corporation from paying dividends, other than as described below, nor any specific dividend policy. The Corporation is essentially dependent on its operating Subsidiaries to generate the funds required for any dividend payment. The Indenture contains certain restrictions on the payment of dividends. Reference is made to the section on *Limitation on Restricted Payments* of the Indenture, which was filed on SEDAR and may be found at www.sedar.com. The New ABL Facility also contains certain restrictions on the payment of dividends. Reference is made to the *Restricted Payments* section of the New ABL Facility, which was filed on SEDAR and may be found at www.sedar.com.

ITEM 6 - GENERAL DESCRIPTION OF CAPITAL STRUCTURE

6.1 GENERAL DESCRIPTION OF CAPITAL STRUCTURE

The Corporation is authorized to issue an unlimited number of common shares and an unlimited number of Class A preferred shares.

The holders of common shares are entitled to one vote for each common share held, at any meeting of shareholders of the Corporation, other than meetings of the holders of another class of shares, and to receive dividends and to share in the remaining properties and assets in the event of liquidation, dissolution or winding up of the Corporation.

As at December 16, 2016, there were 100,000,000 common shares issued and outstanding. The Class A preferred shares may be issued in one or more series, each series to consist of such number of shares as may be fixed by the board of directors of the Corporation (the "**Board of Directors**"). The Board of Directors may further fix the designation, rights, privileges, instructions and conditions attaching to each series of preferred shares including, without limitation, any voting rights, dividends, terms and conditions of redemption, purchase and conversion or other provisions. As at December 16, 2016, there were no preferred shares issued or outstanding.

6.2 RATINGS

On September 16, 2014, Moody's Investors Service, Inc. ("**Moody's**") assigned a B3 rating to the 9% Senior Secured Notes with a "negative" outlook and the same level for the Corporation's corporate credit rating. On July 1, 2016, Moody's re-affirmed the B3 rating for the 9% Senior Secured Notes and for the Corporation's corporate credit. The "negative" outlook was also maintained. On August 26, 2016, Standard & Poor's Ratings Services ("**S&P**") confirmed the rating of B- for the 9% Senior Secured Notes, but revised its outlook from "negative" to "stable", while maintaining the recovery rating at "4". S&P also affirmed the Corporation's corporate credit rating at B-.

Moody's credit ratings are on a long-term debt rating scale that ranges from Aaa to C, which represents the range from highest to lowest quality of such securities rated. According to the Moody's rating system, an obligation rated B3 is considered to be speculative and is subject to high credit risk. Moody's applies numerical modifiers 1, 2 and 3 in each generic rating classification from Aa through Caa in its corporate bond rating system. The modifier 1 indicates that the issue ranks in the higher end of its generic rating category, the modifier 2 indicates a mid-range ranking and the modifier 3 indicates that the issue ranks in the lower end of its generic rating category.

Moody's also assigns Speculative Grade Liquidity Ratings ("**SGL ratings**") to corporations having a long term speculative rating. These SGL ratings are opinions of an issuer's ability to generate cash from internal sources and the availability from external sources of committed financing, in relation to its cash obligations over the coming 12 months. SGL Ratings consider the likelihood that committed sources of financing will remain available. Other forms of liquidity support are evaluated and consideration is given to the likelihood that these sources will be available during the coming 12 months. The SGL Ratings are on a scale between SGL-1 (the best) and SGL-4 (the worst). On July 21, 2016, Moody's re-affirmed the Corporation's SGL-3 rating. According to Moody's rating system, "Tembec has adequate liquidity (SGL-3) through mid-2017. Moody's expects the Corporation to gradually reduce the outstanding balance on its New ABL Facility through 2017 as cash flow improves."

S&P's credit ratings are on a long-term debt rating scale that ranges from AAA to D, which represents the range from highest to lowest qualities of such securities rated. According to the S&P's rating system, an obligation rated 'B' is "more vulnerable to nonpayment than obligations rated 'BB', but the obligor currently has the capacity to meet its financial commitment on the obligation. Adverse business, financial, or economic conditions will likely impair the obligor's capacity or willingness to meet its financial commitment on the obligation". The ratings from AA to CCC may be modified by the addition of a + or – sign to show relative standing within the major rating categories.

On August 26, 2016, S&P revised Tembec's liquidity to adequate from less than adequate, reflecting their expectation that sources of cash will exceed uses by more than 1.2x over the following 12-month period.

The credit ratings assigned to the Corporation by the rating agencies are not a recommendation to buy, sell or hold securities of the Corporation and may be subject to revision or withdrawal at any time by the credit rating agencies.

ITEM 7 - MARKET FOR SECURITIES OF THE CORPORATION

The Corporation's common shares are listed on the Toronto Stock Exchange under the symbol "TMB". The following table sets forth the market price range, in Canadian dollars, and trading volumes of the Corporation's common shares on the Toronto Stock Exchange each month since September 26, 2015:

COMMON SHARES

Fiscal Year from September 27, 2015 to September 24, 2016	High	Low	Close Price	Trading Volumes
September 28-30, 2015	1.58	1.06	1.07	201,678
October 2015	1.38	1.07	1.16	495,701
November 2015	1.15	0.86	0.87	629,210
December 2015	1.03	0.8	0.87	1,047,383
January 2016	1.02	0.84	0.93	428,486
February 2016	1.1	0.86	0.88	433,214
March 2016	0.92	0.78	0.9	568,443
April 2016	0.92	0.81	0.89	370,654
May 2016	1.39	0.87	1.35	699,935
June 2016	1.45	1.04	1.08	622,913
July 2016	1.15	0.9	1.03	780,952
August 2016	1.08	0.95	0.99	603,167
September 1 to 23, 2016	1.01	0.92	0.92	350,035

7.1 PRIOR SALES

On October 1, 2014, the Corporation completed a private debt offering and issued at par US $375 million of 9% Senior Secured Notes.

ITEM 8 - DIRECTORS AND OFFICERS

The directors of the Corporation (the "**Directors**") are elected annually to hold office until the next annual meeting or until a successor is elected or appointed.

8.1 INFORMATION CONCERNING DIRECTORS

The Board of Directors is composed of 8 members. The executive chairman of the Board of Directors and the majority of Directors and members of committees of the Board of Directors are independent, except for the Environment, Health & Safety Committee, which is composed of three members, one of which is independent and two of which are not considered independent, namely, Mr. James M. Lopez (the President and Chief Executive Officer of the Corporation) and Mr. Michel J. Dumas (Executive Vice President, Finance and Chief Financial Officer of the Corporation).

Set forth below is information pertaining to the Directors based on data furnished by the Directors. The information with respect to ownership of common shares includes those shares for which such persons have voting power or investment power. Voting power and investment power are not shared with others unless specifically stated. All holdings information presented below is given as of November 16, 2016.

JAMES N. CHAPMAN, Connecticut (United States of America). Mr. Chapman is non-executive Advisory director of SkyWorks Capital, LLC, an aircraft management services company, which he joined in December 2004. Prior to SkyWorks, he was associated with Regiment Capital Advisors, LP, an investment advisor based in Boston specializing in high yield investments, which he joined in January 2003. Mr. Chapman serves as a member of the board of directors of the public companies Arch Coal, Inc., AerCap Holdings NV and Tower International, Inc. In addition, Mr. Chapman is a member of the board of directors of several private companies. Mr. Chapman was a director of Chrysler LLC from September 2007 to April 2009 and American Media Inc. from March 2009 to January 2011.

Mr. Chapman has been a director of the Corporation since February 29, 2008 and serves as a member of the Corporate Governance and Human Resources Committee, as well as the Special Committee for Strategic Purposes.

Mr. Chapman owns 0 common shares, and 312,423 deferred share units[4] of the Corporation.

JAMES V. CONTINENZA, Minnesota (United States of America). Mr. Continenza is a Senior Executive with the proven ability to transform businesses and create substantial shareholder value. His leadership and board experience spans a variety of industries. He currently serves as either chair or director of Eastman Kodak Company, Neff Rental, Nextel International Inc. and Merrill Corp. In addition, he is serving and served on the board of directors of several private companies.

Mr. Continenza has been a Director of the Corporation since February 29, 2008 and serves as a member of the Corporate Governance and Human Resources Committee and the Special Committee for Strategic Purposes.

Mr. Continenza owns 0 common shares, and 703,283 deferred share units[4] of the Corporation.

MICHEL J. DUMAS, Ontario (Canada). Mr. Dumas was named Executive Vice President, Finance and Chief Financial Officer of the Corporation in 1997. Mr. Dumas joined the Corporation in 1985 as Controller for the high-yield pulp mill in Temiscaming, Québec. In 1991, he became Vice President, Finance and Chief Financial Officer of Spruce Falls Inc., an affiliate of the Corporation. Mr. Dumas has also acted as a director of various Subsidiaries of the Corporation.

Mr. Dumas has been a Director of the Corporation since January 27, 2011 and is a member of the Environment, Health & Safety Committee.

Mr. Dumas owns 75,071 common shares, and 395,969 deferred share units[5] of the Corporation.

JACQUES LEDUC, Québec (Canada). Mr. Leduc is a co-founder and managing partner of Trio Capital Inc., a private equity and venture capital firm that he started in January 2006, which invests primarily in telecommunications and new media. He is also Chief Financial Officer and Treasurer of Terrestar Solutions Inc. since November 2009. He served as Chief Financial Officer of Microcell Telecommunications Inc., a nationwide wireless operator in Canada from February 2001 through November 2004, and as Vice President Finance and Director Corporate Planning from January 1995 to February 2001. Mr. Leduc is a Chartered Accountant.

Mr. Leduc has been a Director of the Corporation since January 27, 2011 and serves as chairman of the Audit Committee.

Mr. Leduc owns 0 common shares, and 128,491 deferred share units[4] of the Corporation.

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[4] Deferred Share Units issued under the Tembec Share Unit Plan for Non-Executive Directors ("DSU Plan"). Holdings include all vested and non vested Deferred Share Units.

[5] Deferred Share Units issued under the Tembec Long Term Equity Plan for Executives and Key Employees (the "PCSU Plan"). Holdings include all vested and non vested Deferred Share Units.

JAMES M. LOPEZ, Ontario (Canada). Mr. Lopez was appointed President and Chief Executive Officer in January 2006 and has been a Director since January 2006. Prior to being named President and Chief Executive Officer, Mr. Lopez served as Executive Vice President and President of the Corporation's Forest Products Group from August 2003 to January 2006. From 1999 to August 2003, Mr. Lopez was Executive Vice President, Forest Resource Management Group of Tembec. Mr. Lopez is the past Chairman and formerly held a seat on the board of directors of the Forest Products Association of Canada (FPAC). Mr. Lopez is a co-chairman of the Bi-National Softwood Lumber Council between Canada and the United States. In November 2011, Mr. Lopez was appointed by the United States Secretary of Agriculture to the Softwood Lumber Board. He is a former member of the board of directors of FP Innovations.

Mr. Lopez was a director of Former Tembec from January 2006 until February 29, 2008 and has been a Director of the Corporation since February 29, 2008. He is a member of the Environment, Health & Safety Committee.

Mr. Lopez owns 142,755 common shares, and 914,146 deferred share units[5] of the Corporation.

FRANCIS M. SCRICCO, Massachusetts (United States of America). Mr. Scricco retired in November 2008 from Avaya Inc., a global provider of communications systems and software for enterprises where, since February 2007, he was the Senior Vice President, Manufacturing Logistics and Procurement. Prior to that, he was President of Avaya Global Services. Additionally, Mr. Scricco was formerly President and Chief Executive Officer of Arrow Electronics Inc. one of the world's largest distributors of electronic components and computer products, as well as Inglis Ltd., Whirlpool Corporation's Canadian subsidiary. Mr. Scricco is Chairman of the board of directors of Visteon Corporation, a director of Masonite Inc. and a director of one private company. Mr. Scricco began his career at The Boston Consulting Group and was also previously a General Manager at General Electric.

Mr. Scricco has been a Director of the Corporation since February 29, 2008 and serves as chairman of the Corporate Governance and Human Resources Committee.

Mr. Scricco owns 100,000 common shares, and 196,843 deferred share units[4] of the Corporation.

DAVID J. STEUART, Ontario (Canada). Mr. Steuart worked 37 years in the pulp and paper industry in senior executive positions, most recently from August 1998 to December 2006 with Bowater Incorporated as President, Pulp Division and as Senior Vice President. Mr. Steuart is a past Chairman of the Ontario Forest Industries Association. From September 1993 to July 1998, Mr. Steuart was President of the Pulp Division at Avenor Inc.

Mr. Steuart has been a Director of the Corporation since February 29, 2008, serves as chairman of the Environment, Health and Safety Committee and is a member of the Audit Committee.

Mr. Steuart owns 0 common shares, and 196,843 deferred share units[4] of the Corporation.

LORIE WAISBERG, Ontario (Canada). Mr. Waisberg is a corporate director. Between August 2000 and October 2002, Mr. Waisberg served as Executive Vice President, Finance and Administration for Co-Steel Inc., a steel manufacturing company. From 1974 to August 2000, he was a partner at the Toronto office Goodmans LLP, a Canadian law firm. Mr. Waisberg is chairman and a trustee of Chemtrade Logistics Income Fund, and a director of Metalex Ventures Ltd., and Americas Silver Corporation, all publicly traded companies in Canada. Mr. Waisberg is certified as ICD.D by the Institute of Corporate Directors.

Mr.Waisberg has been a Director of the Corporation since February 29, 2008 and is a member of the Audit Committee.

Mr. Waisberg owns 4,000 common shares, and 196,843 deferred share units[4] of the Corporation.

8.1.1 Independence

The Corporation considers that all Directors, except Messrs. Lopez and Dumas, qualify as independent Directors within the meaning of National Instrument 58-101– *Disclosure of Corporate Governance Practices* and all Audit Committee members qualify as independent within the meaning of National Instrument 52-110 – *Audit Committees*. Mr. James M. Lopez is President and Chief Executive Officer of the Corporation and Mr. Michel J. Dumas is Executive Vice President, Finance and Chief Financial Officer of the Corporation, and are, therefore, not considered independent.

8.2 AUDIT COMMITTEE

8.2.1 General

The Corporation has an audit committee which currently consists of Messrs. Jacques Leduc (chairman), David Steuart and Lorie Waisberg (the "**Audit Committee**"). All the members of the Audit Committee are considered "independent" and "financially literate" within the meaning of National Instrument 52-110 – *Audit Committees* with Mr. Leduc possessing the professional designation of Chartered Accountant.

8.2.2 Charter of the Audit Committee

The mandate of the Audit Committee is to assist the Board of Directors in fulfilling its oversight responsibilities and as such reviews the financial reporting process, the system of internal control and management of financial risks, the audit process, the attestation process regarding internal controls and the Corporation's process for monitoring compliance with laws and regulations and its own corporate policies. In performing its duties, the committee maintains effective working relationships with the Board of Directors, management and internal and external auditors. The Audit Committee charter is attached hereto as Schedule "A" and is also posted on Tembec's website at www.tembec.com.

8.2.3 Relevant Education and Experience of the Audit Committee Members

The following is a brief summary of the education and experience of each member of the Audit Committee that is relevant to the performance of his responsibilities as a member of the Audit Committee, including any education or experience that has provided the member with:

(a) an understanding of the accounting principles used by the Corporation to prepare its annual and interim financial statements;

(b) the ability to assess the general application of such accounting principles in connection with the accounting for estimates, accruals and provisions;

(c) experience preparing, auditing, analyzing or evaluating financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of issues that can reasonably be expected to be raised by the issuer's financial statements, or experience

actively supervising one or more individuals engaged in such activities; and

(d) an understanding of internal controls and procedures for financial reporting.

Name of Audit Committee Member	Relevant Education and Experience
Jacques Leduc	Mr. Leduc is a Chartered Accountant and holds a Master of Business Administration degree from HEC Montreal and a bachelor's degree in Business Administration from the Université du Québec à Montreal and was admitted by the Canadian Institute of Chartered Accountants in 1986. Mr. Leduc is Chief Financial Officer and Treasurer of Terrestar Solutions Inc. since November 2009. He served as Chief Financial Officer of Microcell Telecommunications Inc., a nationwide wireless operator in Canada from February 2001 through November 2004, and as Vice President Finance and Director Corporate Planning from January 1995 to February 2001.
David Steuart	Mr. Steuart holds a Bachelor of Commerce degree. He was controller at a pulp mill and, while in various senior positions, he was accountable for financial reporting and, as a result, acquired knowledge and understanding of accounting principles.
Lorie Waisberg	Mr. Waisberg has participated in numerous continuing education programs regarding accounting issues. While practicing law for 30 years with Goodmans LLP, he provided legal advice on a wide range of accounting issues. In addition, Mr. Waisberg was retained as an expert witness on the role and responsibilities of boards and audit committees in relation to financial statements. Furthermore, Mr. Waisberg served as Executive Vice President of Co-Steel Inc. where the Chief Financial Officer reported to him and he was the principal liaison for internal and external audit. For over 30 years, Mr. Waisberg has served on the audit committee of several publicly traded entities. He currently serves as the chair of the audit committee of the public company Metalex Ventures Ltd.

8.2.4 External Auditor Service Fees

The following table shows fees paid to KPMG LLP in Canadian dollars in the past two fiscal years for various services provided to the Corporation:

	Fiscal 2016	Fiscal 2015
Audit Fees	$898,400	$924,800
Audit-Related Fees	$46,700	$46,100
Tax Fees	$45,800	$52,900
Other Fees	-	$95,900
Total	$990,900	$1,119,700

Audit Fees

These fees include professional services rendered by the external auditors for statutory audits of the annual financial statements and for other audits.

Audit-Related Fees

These fees include professional services that reasonably relate to the performance of the audit or review of Tembec's financial statements and are not reported under Audit Fees. These services include accounting consultations related to accounting, financial reporting or disclosure matters not classified as "Audit Services"; assistance with understanding and implementing new accounting and financial reporting guidance from rulemaking authorities; financial audits of employee benefit plans; agreed upon or expanded procedures related to accounting records required to respond to or comply with financial, accounting or regulatory reporting matters.

Tax Fees

These fees include professional services for tax compliance, tax advice and tax planning. These services include review of tax returns, assistance with tax audits, capital structure, corporate transactions and other special purpose mandates approved by the Audit Committee.

All Other Fees

These fees include professional services other than those reported under Audit Fees, Audit-Related Fees and Tax Fees.

8.2.5 Policies and Procedures for the Engagement of Non-Audit Services

The Corporation's Audit Committee has adopted the Pre-Approval Policy and Procedures for Non-Audit Services Provided by External Auditors (as defined in the External Auditor Services and Fees Policy) which sets forth the procedures and the conditions pursuant to which these services proposed to be performed by external auditors are pre-approved. Under the terms of the policy, the Audit Committee has delegated to the chairman of the Audit Committee pre-approval authority for Non-Audit Services not previously approved by the Audit Committee which involve the payment of fees not in excess of $50,000. Any service approved by the Chairman is reported to the Audit Committee at its next meeting subsequent to such pre-approval.

8.3 INFORMATION CONCERNING NON-DIRECTOR PRINCIPAL OFFICERS

Non-Director Principal Officers	Office with the Corporation	Province/State and Country of Residence
Réginald Bastien	Corporate Controller	Québec, Canada
Chris Black	Executive Vice President, Forest Products, Pulp and Paper	Ontario, Canada
Linda Coates	Vice President, Human Resources and Corporate Affairs	Ontario, Canada
Paolo Dottori	Vice President, Energy, Environment and Technology	Ontario, Canada
Patrick LeBel	Vice President, General Counsel and Corporate Secretary	Québec, Canada
Marcus Moeltner	Vice President, Business Development	Ontario, Canada
Lynn Poirier	Treasurer	Québec, Canada
Christian Ribeyrolle	Executive Vice President, Specialty Cellulose and President, Tembec France SAS	Longues, France

During the past five years, each of the non-Director principal officers of the Corporation (the "**Principal Officers**") have been engaged in their present principal occupations or in other executive capacities of the Corporation or with related or affiliated companies, except for Chris Black who, from April 2012 to October 2013 was executive Vice President, President Paper and Paper Pulp Group for Tembec, from December 2010 to April 2012 was Executive Vice President, Paper and High Yield Pulp Group, from May 2008 to December 2010 was Executive Vice President, Paper, Marcus Moeltner who from May 2008 to January 2011 was Vice President, Corporate Development of Tembec, Réginald Bastien who from January 1998 to September 2011 was Director of Taxation of Tembec and Linda Coates who from May 2011 to July 2012 was Vice President, Communications and Public Affairs for Tembec, and from January 2007 to April 2011 was a consultant in communications and public affairs, Christian Ribeyrolle who from May, 2009 to January, 2014 was Senior Vice President, Specialty Cellulose for Tembec and Lynn Poirier who from July 2008 to September 2015 was Assistant Treasurer. As at September 24, 2016, the Directors and Principal Officers beneficially owned, as a group, or exercised control or direction over, directly or indirectly, approximately 437,352 common shares representing approximately 0.4374% of the common shares outstanding.

8.4 CEASE TRADE ORDERS, BANKRUPTCIES, PENALTIES AND SANCTIONS

To the knowledge of the Corporation and based on the information furnished by the Directors and the executive officers, none of the Directors or the executive officers of the Corporation: (a) is, as at the date of this AIF, or has been within 10 years before the date of this AIF, a director, chief executive officer or chief financial officer of any corporation that: (i) was subject to a cease trade order (including the Corporation), an order similar to a cease trade order, including a management cease trade order or an order that denied the relevant corporation access to any exemption under securities legislation, that was in effect for a period of more than 30 consecutive days (an "**Order**") that was issued while the Director or executive officer was acting in the capacity as director, chief executive officer or chief financial officer,; or (ii) was subject to an Order that was issued after the Director or executive officer ceased to be a director, chief executive officer or chief financial officer and which resulted from an event that occurred while the Director or executive officer was acting in the capacity as director, chief executive officer or chief financial officer; (b) is, as at the date of this AIF, or has been within the 10 years before the date of this AIF, a director or executive officer of any corporation that: while the Director or executive officer was in that capacity or within one year of that (including the Corporation) person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets; or (c) has, within 10 years before the date of this AIF, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold his assets, except that:

i) Mr. James M. Lopez was a director of Former Tembec and Tembec Industries for varying periods of time immediately prior to the completion of the Recapitalization;

ii) Michel J. Dumas was a director of Tembec Industries prior to the Recapitalization;

iii) At the request of Tembec, Mr. James M. Lopez and Mr. Michel J. Dumas were directors of Marathon Pulp Inc. when it was declared bankrupt after failing to file a proposal within 30 days of filing a notice of intention to file a proposal under the BIA in March 2009;

iv) At the request of Tembec, Mr. Michel J. Dumas was a director of Jager Building Systems Inc. when it filed a voluntary assignment in bankruptcy under the BIA in September 2008;

v) At the request of Tembec, Mr. Michel J. Dumas was a director of Temlam Inc. when it filed a voluntary assignment in bankruptcy under the BIA in September 2008;

vi) Mr. James N. Chapman was a director of Chrysler LLC when it filed for protection from its creditors under Chapter 11 of the United States Bankruptcy Code in April 2009;

vii) Mr. James N. Chapman was a director of American Media Inc. when it filed for voluntary petitions for relief under Chapter 11 of the United States Bankruptcy Code in November 2010;

viii) Mr. Jacques Leduc was a director of Terrestar Corporation and was Chief Financial Officer and Treasurer of Terrestar Solutions Inc. and Terrestar Networks (Canada) Inc. when Terrestar Corporation, Terrestar Networks (Canada) Inc. and Terrestar Networks Holdings (Canada) Inc. filed for and received protection under Chapter 11 of the United States Bankruptcy Code on October 19, 2010; and

ix) Mr. Lorie Waisberg was a director of FMF Capital Group Ltd. when a subsidiary of FMF Capital Group Ltd., of which Mr. Waisberg was not a director, conveyed its assets to a trustee to facilitate the orderly wind-up of its business in May 2007.

None of the directors or the executive officers of the Corporation has been subject to: (i) any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority; (ii) any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to an investor in making an investment decision.

ITEM 9 - LEGAL PROCEEDINGS

Tembec is involved in various legal proceedings relating to contracts, commercial disputes, taxes, environmental issues, employment and workers' compensation claims and other matters. The Corporation periodically reviews the status of these proceedings with both inside and outside counsel. The Corporation believes that the ultimate disposition of these matters will not have a material adverse effect on its financial position.

ITEM 10 - TRANSFER AGENT AND REGISTRAR

Tembec's transfer agent and registrar is Computershare Trust Company of Canada. The register of transfers of the common shares of Tembec maintained by Computershare Trust Company of Canada is located at its offices in Montreal, Québec.

ITEM 11 - MATERIAL CONTRACTS

On March 4, 2011, the Corporation, as guarantor, and Tembec Industries, Tembec Enterprises Inc., A.R.C. Resins Corporation and Tembec GP, as borrowers, entered into a financing agreement with GE Canada Finance Holding Company and a syndicate of lenders (the "**ABL Lenders**") governing the Prior ABL Facility. The Prior ABL Facility provided a revolving credit facility of $200 million maturing on March 4, 2016 and was secured by a first priority charge over receivables and inventories of the borrowers' Canadian operations. In fiscal year 2013, Tembec negotiated a reduction of the aggregate revolving loan commitments from $200 million to $175 million and related adjustments to certain thresholds due to a reduction in the number of mills it operates. In Fiscal 2014, the borrowers and the guarantor on one hand and the ABL Lenders on the other hand agreed to amend and extend the Prior ABL Facility by one year. The maturity date of the Prior ABL Facility was set to expire on March 4, 2018. On November 18, 2015, the Prior ABL Facility was replaced by the New ABL Facility, which is more fully described below. Reference is made to the Prior ABL Facility, which was filed on SEDAR and may be found at www.sedar.com.

On March 9, 2012, Tembec, Tembec Industries and Tembec Energy L.P. entered into a $75-million loan (the "**IQ Loan**") with IQ, which was used to finance a portion of the total cost of the Temiscaming Project. The loan bears interest at a rate of 5.5% compounded yearly and is secured by a second ranking charge over the Temiscaming Project's assets. The loan shall be repaid in 112 equal monthly payments of $670,000 beginning in January 2019. Tembec has also granted to IQ a five-year option starting on the first loan disbursement date to acquire three million common shares of Tembec at a price of $7 per share. This option expires on August 30, 2017. The IQ Loan also includes cross default provisions which may deem Tembec, Tembec Industries and Tembec Energy L.P. in default under the IQ Loan if any of them were to default on their obligations under other agreements. Reference is made to the IQ Loan, together with any amendment thereto, which was filed on SEDAR and may be found at www.sedar.com.

On March 16, 2012, Tembec Energy L.P. entered into a long-term power purchase contract with Hydro-Québec acting through its Hydro-Québec Distribution division. The contract allows Tembec Energy L.P. to sell to Hydro-Québec, for a 25-year term, up to 50 megawatts of the electricity generated by a new turbine installed at the Temiscaming Project at favorable green energy rates, indexed annually with Consumer Price Index. Reference is made to the power purchase contract which was filed on SEDAR and may be found at www.sedar.com.

On June 29, 2012, Tembec Energy L.P. entered into a $30 million loan (the "**IPD Loan**"), with IPD, which was used to finance the acquisition of the boiler and the turbine required in connection with the Temiscaming Project. Tembec intervened to the IPD Loan to guarantee all obligations of Tembec Energy L.P. thereunder. The IPD Loan is secured by a first ranking charge over all of the Temiscaming Project's assets. The interest rate on the IPD Loan will be the greater of 6.35% and the yield on equivalent terms Government of Canada bonds plus 4.25% at the date the funds are advanced. The IPD Loan shall be reimbursed in blended monthly instalments over a period of eight years beginning approximately 24 months after the initial advance, with a "balloon" payment of $12 million to be repaid at the end of the ten-year term period and is subject to compliance with certain covenants and undertakings customary with such types of loans. The IPD Loan also includes cross default provisions which may deem Tembec and Tembec Energy L.P. in default under the IPD Loan if any of them were to default on their obligations under other agreements. Reference is made to the IPD Loan, which was filed on SEDAR and may be found at www.sedar.com.

On September 6, 2013, Tembec, Tembec Industries and Tembec Energy L.P. entered into an additional loan in the amount of $18 million with IQ (the "**Additional IQ Loan**"). The Additional IQ Loan will bear interest at the same rate as that applicable under the IQ Loan entered into in fiscal year 2012 and is secured by a second priority charge over the Temiscaming Project's assets. The Additional IQ Loan shall be repaid in 15 equal monthly payments of $520,000 beginning in December 2018 and a "balloon" payment of $10 million in March 2020. Tembec has also agreed to grant a five year option to IQ to subscribe for 712,000 common shares at a price of $3.783 per common share. This option expires on December 11, 2018. The Additional IQ Loan also includes cross default provisions which may deem Tembec, Tembec Industries and Tembec Energy L.P. in default under the Additional IQ Loan if any of them were to default on their obligations under other agreements. Reference is made to the Additional IQ Loan, together with any amendment thereto, which was filed on SEDAR and may be found at www.sedar.com.

On September 19, 2013**,** Tembec Energy L.P. entered into an amended and restated credit agreement (the "**Restated Credit Agreement**") with IPD, as agent for the Temiscaming Project's senior lenders, increasing its credit facility by $10 million (the "**Increased IPD Facility**"), to finance a portion of the costs overruns of the Temiscaming Project. Tembec intervened to the Restated Credit Agreement to guarantee all obligations of Tembec Energy L.P. thereunder. The Increased IPD Facility will be subject to the current general terms and conditions of the IPD Loan. The Increased IPD Facility will be reimbursed in blended monthly instalments over a period of eight years beginning in November 2014 with a balloon payment of $12 million to be repaid in October 2022 and is subject to compliance with certain covenants and undertakings customary with such types of loans. The Restated Credit Agreement also includes cross default provisions which may deem Tembec and Tembec Energy L.P. in default under the Restated Credit Agreement if any of them were to default on their obligations under other agreements. Reference is made to the Restated Credit Agreement, which was filed on SEDAR and may be found at www.sedar.com.

On May 16, 2013, Tembec entered into an asset purchase agreement for the sale of its NBSK pulp mill and related assets and liabilities located in Skookumchuck, British Columbia to an affiliate of Paper Excellence Canada Holdings Corporation for a purchase price of $97 million, including $29 million in working capital. Reference is made to the asset purchase agreement which was filed on SEDAR and may be found at www.sedar.com.

On October 1, 2014, Tembec Industries entered into the Indenture with Wilmington Trust FSB, an indenture which governs the 9% Senior Secured Notes issued by Tembec Industries in an aggregate principal amount of US $375 million. The 9% Senior Secured Notes are guaranteed by the Corporation and certain of the Corporation's Subsidiaries. The Indenture requires compliance with certain terms and conditions that could in certain circumstances restrict the ability of the Corporation or its Subsidiaries to incur or guarantee additional indebtedness, to encumber or dispose of its assets or make certain payments or distributions. The Indenture also includes cross default provisions which may deem the Corporation and certain of its Subsidiaries in default under the Indentures if one or more of them were to default on their obligations under other agreements. Reference is made to the Indenture, which was filed on SEDAR and may be found at www.sedar.com.

On November 18, 2015, the Corporation, as guarantor, and Tembec Industries, Tembec Enterprises Inc., Tembec GP and Tembec BTLSR Inc., as borrowers, entered into a credit agreement with Wells Fargo Capital Finance Corporation Canada, as administrative agent, and PNC Financial Bank, National Association as syndication agent, and the lenders party thereto for a new asset-based secured credit facility (the "**New ABL Facility**") which consists of a $150 million revolving credit facility (the "**Revolving Facility**") and a US $62 million "first-in, last-out" term loan (the "**FILO Facility**"). The Revolving Facility will expire on November 18, 2020, provided several conditions are met, including the repayment of the FILO Facility prior to the FILO Maturity Date, failing which the maturity would be accelerated to an earlier date, but no earlier than the FILO Maturity Date. The New ABL Facility is also guaranteed, on a secured basis, by certain of the Corporation's North American Subsidiaries. The New ABL Facility is secured by first priority charge over the receivables and inventory of the Corporation's Canadian and U.S. operations and a first priority charge on the fixed assets of the Corporation's

U.S. Subsidiaries. Interest, at the borrowers' option, is determined based on the Canadian prime rate or the CDOR rate for Canadian dollar loans and the US Prime Rate or the LIBOR rate for U.S. dollar loans. This New ABL Facility replaced the Corporation's existing $175 million asset-based secured revolving facility led by GE Canada Finance Holding Company. This New ABL Facility requires compliance with certain covenants that put some limitations on the ability of the Corporation and its Subsidiaries to incur or guarantee additional indebtedness, to encumber or dispose of their assets and to make certain payments or distributions. The New ABL Facility also includes customary events of default. Reference is made to the New ABL Facility, which was filed on SEDAR and may be found at www.sedar.com.

ITEM 12 - EXPERTS

KPMG LLP are the external auditors of the Corporation who prepared the Independent Auditors' Report to the shareholders dated November 25, 2016, with respect to the 2016 Financial Statements consisting of consolidated balance sheets as of September 24, 2016 and September 26, 2015 and the consolidated statements of net earnings (loss), comprehensive earnings (loss), changes in shareholder's equity and cash flows for the years then ended. KPMG LLP has represented to Tembec that it is independent with respect to Tembec within the meaning of the applicable rules and related interpretations prescribed by the relevant professional bodies in Canada and any applicable legislation.

ITEM 13 - ADDITIONAL INFORMATION

Additional information relating to Tembec, including the documents incorporated by reference in this AIF, may be found on SEDAR at www.sedar.com.

Additional information, including Directors' and executive officers' remuneration and indebtedness, principal holders of the Corporation's securities and securities authorized for issuance under equity compensation plans, where applicable, is contained in the Management Information Circular prepared in connection with the Annual and Special General Meeting of Shareholders of the Corporation to be held on January 26, 2017. Additional financial information is provided in the Corporation's 2016 Financial Statements and 2016 MD&A.

DEFINITIONS

Adjusted EBITDA – Earnings before interest, income taxes, depreciation, amortization and other items.

ADMT – Air Dryed Metric Tonne.

BIA – *Bankruptcy and Insolvency Act* (Canada).

Biomass – Bark and residual wood waste used as fuel to operate cogeneration facilities or boilers.

Board feet – The plural of board foot; a board foot is calculated by multiplying 1″ x 12″ x 12″ = 1 foot board measure gross count. Lumber is then finished (planed/sanded) to a smaller size and sold based on the original gross count. The difference between gross size and net size is approximately 72%.

Capacity – The number of units which can be produced in a year based on operating with the normal number of shifts and maintenance interruptions.

Cogeneration – Generation of both power and steam in an industrial power plant.

Effluent – Outflowing waste discharge from a pulp and paper mill.

Hectare – 2.471 acres.

ISO-14001 – is an independent third party certification that confirms that Tembec's internal Environmental Management system meets internationally accepted standards for protecting environmental values, and that the system is properly maintained and applied by Tembec.

Measurements

> **Tonne** – metric ton – 1,000 kilograms or 2,204 pounds (1.1023 tons).
>
> **MBF** – One thousand board feet (see board feet).

NBSK – northern bleached softwood kraft pulp.

Newsprint – A printing paper whose major use is in newspapers. It is made largely from groundwood or mechanical pulp.

Pulp – the generic term describing the fibres derived from wood. Pulp can result from a variety of pulping processes including cooking, refining, grinding or the processing and cleaning (de-inking) of waste paper. Pulp can be either in a wet or dry state. Types of pulp include:

> **Kraft pulp** – chemical pulp produced by an alkaline cooking process using sodium sulphate.
>
> **High-yield pulp** – pulp produced by a combined chemical, thermal and refining process.
>
> **Specialty cellulose pulp** – chemical pulp produced by an acid cooking process which can be either ammonia, sodium or calcium based.

Wood chips - Small pieces of wood used to make pulp. The wood chips are produced either from wood waste in a sawmill or a log merchandiser or from pulp wood cut specifically for this purpose. Wood chips are generally uniform in size and are larger and coarser than sawdust.

SCHEDULE "A"
AUDIT COMMITTEE CHARTER

TEMBEC INC.

I. OVERALL PURPOSE / OBJECTIVES

The Audit Committee (the "Committee") will assist the Board of Directors (the "***Board***") of Tembec Inc. (the "***Corporation***") in fulfilling its oversight responsibilities. The Committee will review the financial reporting process, the system of internal control and management of financial risks, the audit process, the attestation process regarding internal controls and the Corporation's process for monitoring compliance with laws and regulations and its own corporate policies. In performing its duties, the Committee will maintain effective working relationships with the Board, management, and the internal and external auditors. The Corporation shall ensure that appropriate funding is provided to the Committee to compensate the auditors and any other advisors engaged by the Committee, as well as for ordinary administrative expenses.

Subject to any power (i) conferred to the Committee under the Corporation's by-laws or any applicable laws, rules or regulations (including those of any stock exchange), or (ii) otherwise assigned to the Committee by resolution of the Board of Directors, the Committee shall have no decision-making authority other than as specifically contemplated in this Charter.

II. COMPOSITION

The Committee shall consist of not fewer than three directors, each of whom shall be "independent", as defined in applicable securities legislation. All members of the Committee shall be "financially literate", as defined in applicable securities legislation. Members of the Committee shall be appointed by the Board and shall serve at the pleasure of the Board. Unless a chairman is appointed by the Board, the members of the Committee will select its chairman (the "***Chairman***").

III. MEETINGS

The Committee shall meet at least four times annually. The Committee shall meet at least quarterly with the external auditors and at least annually with the internal auditors to discuss any matters that the Committee believes should be discussed, including privately held conversations. Meetings of the Committee may be called by its Chairman or the chairman of the Board, the external auditors or the internal auditors. Minutes of all meetings of the Committee shall be maintained and submitted as soon as practicable to the Board. In addition, the Committee will report to the Board on the Committee's activities at the Board meeting following each Committee meeting.

A majority of Committee members shall constitute a quorum.

The members of the Committee shall have the right, for the purposes of discharging the powers and responsibilities of the Committee, to inspect any relevant records of the Corporation and its subsidiaries. The Committee shall also have the authority to hire independent counsel and other advisors at the Corporation's expense, if necessary to carry out its duties and the authority to set and pay the compensation for any independent counsel or advisor employed by the Committee. The Committee shall also have the authority to communicate directly with internal and external auditors.

IV. RESPONSIBILITIES AND DUTIES

The Audit Committee shall:

Documents/Reports Review

(1) Review and reassess the adequacy of this Charter annually, report to the Board thereon and ensure that it is reproduced in the annual information form on an annual basis and posted in an up-to-date format on the Corporation's website.

(2) Review and discuss with management and the external auditor and, if appropriate, recommend for approval by the Board prior to any disclosure:

i. interim unaudited financial statements;

ii. audited annual financial statements, in conjunction with the report of the external auditors; and

iii. all public disclosure documents containing audited or unaudited financial information, including management's discussion and analysis of financial condition and results of operations, any prospectus and annual and interim earnings press releases.

This review shall include, where appropriate, an examination of:

i. the existence and substance of significant accruals, estimates, or accounting judgments;

ii. transactions with related parties and adequacy of disclosures; and

iii. qualifications, if any, contained in letters of representation and the contents of review or audit reports from the Corporation's external auditors, with respect to the Corporation's financial statements.

(3) Review any report which accompanies published financial statements (to the extent such a report discusses financial condition or operating results) for consistency of disclosure with the financial statements themselves.

(4) Obtain an explanation from management of all significant variances between comparative reporting periods and an explanation from management for items which vary from expected or budgeted amounts as well as from previous reporting periods.

(5) Review uncertainties, commitments, and contingent liabilities material to financial reporting.

External Audit

(6) Recommend to the Board the firm to be proposed to the Corporation's shareholders for appointment or reappointment as external auditors and recommend the fees to be paid to the external auditors. The external auditors are accountable to the Board and the Committee, as representatives of the Corporation's shareholders, and the external auditors shall confirm same in their annual engagement letter. The external auditors must report directly to the Committee.

(7) Pre-approve all services to be provided by the external auditors to the Corporation or any of its subsidiaries or adopt specific policies and procedures for the engagement of such services, provided that such pre-approval policies and procedures are detailed as to the particular service, the Committee is informed of each service and the procedures do not include delegation of the

Committee responsibilities to management. The Committee may delegate to one or more members of the Committee the authority to pre-approve services provided by external auditors, provided that such member or members must present any such services so approved to the full Committee at its first scheduled meeting following such pre-approval.

(8) On an annual basis, review and discuss a written report by the external auditors detailing all factors that might have an impact on the auditors' independence, including all services provided and fees charged by the external auditors.

(9) Oversee the work, review the performance of the external auditors and approve any proposed change of the external auditors. In such a case, approve the information required to be disclosed by regulations.

(10) Approve the scope and plan of the annual audit, of the attest services and require the external auditors to review the quarterly financial statements and related documents.

(11) Review the audit findings and recommendations and management's response thereto.

(12) Review any analysis prepared by management and/or the external auditor setting forth significant financial reporting issues and judgements made in connection with the preparation of the financial statements, including any analysis of the effects of alternative generally accepted accounting principles methods on the financial statements.

(13) Review annually with the external auditors the acceptability and the quality of the implementation of generally accepted accounting principles focused on the accounting estimates and judgments made by management and their selection of accounting principles.

(14) Review any disagreement between management and the external auditors regarding financial reporting and, to the extent possible, resolve any such disagreements.

(15) At least annually consult with the external auditors out of the presence of management about the adequacy of internal controls (including the steps to be adopted in light of any material control deficiencies), the fullness and accuracy of the financial statements and any significant difficulties encountered during the course of the audit, including any restrictions on the scope of work or access to required information.

(16) Monitor the rotation of the lead audit partner, concurring partner and other audit partners;

(17) Review and approve the Corporation's hiring of any partners, employees and former partners and employees of its present external auditors and of its former external auditors.

Internal Audit and Internal Control

(18) Review any decisions related to the need for internal auditing, including whether this function should be outsourced and in that case, approve the supplier which shall not be the external auditors.

(19) Review and approve the appointment or removal of the director of internal audit who shall report to a senior officer other than the Corporate Controller.

(20) Approve the mandate of the internal audit function, and review annually the internal audit plan and the corresponding budgets.

(21) Ensure that management has established and maintained adequate internal controls and procedures for financial reporting and accounting, with particular emphasis on controls over computerized systems, and review annually a management assessment of the effectiveness of internal controls. In the event of a material deficiency in internal controls, the Committee shall work with the external auditors and internal auditors to resolve such deficiency.

(22) Review significant internal audit findings, recommendations and management's response.

(23) Ensure the coordination of the work between internal and external auditors.

(24) Ensure the internal auditor has ongoing access to the Chairman as well as all officers of the Corporation, particularly the chairman of the Board and the President.

(25) At least annually, undertake private discussions with staff of the internal audit function to establish internal audit independence, the level of co-operation received from management, the degree of interaction with the external auditor, and any unresolved material differences of opinion or disputes.

Financial Risk Management

(26) Review periodically and inquire of management, the internal auditors and the external auditors concerning the financial risk or exposures of the Corporation and assess the steps management has taken to control such risks. Business financial risks include, but are not limited to, risks in the nature of treasury-related risks (including foreign exchange risks), information systems-related risks, disclosure quality and standards relating to financial reporting.

Financial Reporting Processes

(27) In consultation with the external auditors and the internal auditors, review the integrity and adequacy of the financial reporting processes, both internal and external, including procedures for review of the Corporation's public disclosure of financial information extracted or derived from its financial statements.

(28) Consider and approve, if appropriate, changes to the accounting principles and practices as recommended by the external auditors, management or the internal auditors.

Disclosure Policy Oversight

(29) Review, report and, where appropriate, provide recommendations to the Board on the Corporation's disclosure policy and other related policies and procedures, and recommend changes as deemed appropriate. The Committee, in performing this task, will review any reports on or proposed amendments to the disclosure policy submitted to it by the Disclosure Committee.

(30) Assist the Disclosure Committee and the Board in interpreting and applying the Corporation's disclosure policy and other related policies and procedures.

(31) Oversee compliance with the Corporation's disclosure policy.

Legal compliance and other responsibilities

(32) Review incidents of fraud, illegal acts, conflicts of interest and related-party transactions.

(33) Establish procedures for the receipt, retention and treatment of complaints received by the Corporation regarding accounting, internal accounting controls, or auditing matters, and the

confidential, anonymous submission by employees of the Corporation of concerns regarding questionable accounting or auditing matters.

(34) Review claims or potential claims and any other legal matters as reported to the Committee that could have an impact on the financial statements.

(35) Satisfy itself that the corporate expense policy is being enforced in relation to officers of the Corporation.

(36) Review material matters relating to audits of subsidiaries.

(37) Review, assess and, if appropriate, recommend for approval by the Board any and all new borrowings.

(38) Perform any other activities consistent with this Charter, the Corporation's by-laws and policies and governing laws, as the Committee or the Board deems necessary or appropriate.

Remuneration of Committee Members

(39) No member of the Committee may earn fees from the Corporation or any of its subsidiaries other than fees for acting as a member of the Board or any Board committee (which fees may include cash or other in-kind consideration ordinarily available to directors, as well as all of the regular benefits that other directors receive). For greater certainty, no member of the Committee shall accept, directly or indirectly, any consulting, advisory or other compensatory fee from the Corporation.