Management's Discussion and Analysis

as at November 27, 2009

The Management's Discussion and Analysis (MD&A) section provides a review of the significant developments and issues that influenced Tembec Inc.'s financial performance during the fiscal year ended September 26, 2009 as compared to the fiscal year ended September 27, 2008. The MD&A should be read in conjunction with the audited consolidated financial statements for the fiscal year ended September 26, 2009. All references to quarterly or Company information relate to Tembec Inc.'s fiscal quarters. EBITDA, net debt, total capitalization, free cash flow and certain other financial measures utilized in the MD&A are non-GAAP (Generally Accepted Accounting Principles) financial measures. As they have no standardized meaning prescribed by GAAP, they may not be comparable to similar measures presented by other companies.

The MD&A includes "forward-looking statements" within the meaning of securities laws. Such statements relate to the Company's or management's objectives, projections, estimates, expectations or predictions of the future and can be identified by words such as "anticipate", "estimate", "expect", "will" and "project" or variations of such words. These statements are based on certain assumptions and analyses made by the Company in light of its experience and its perception of future developments. Such statements are subject to a number of risks and uncertainties, including, but not limited to, changes in foreign exchange rates, product selling prices, raw material and operating costs and other factors identified in our periodic filings with securities regulatory authorities. Many of these risks are beyond the control of the Company and, therefore, may cause actual actions or results to materially differ from those expressed or implied herein. The Company disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. The information in the MD&A is at November 27, 2009. Disclosure contained in this document is current to that date, unless otherwise stated.

Throughout the MD&A, "Tembec" or "Company" means Tembec Inc. and its consolidated subsidiaries and investments. "Marathon" refers to the Company's 50% participation in Marathon Pulp Inc., which operated a northern bleached softwood kraft (NBSK) pulp mill in Marathon, Ontario. This investment was accounted for by the proportionate consolidation method. On February 13, 2009, Marathon filed a notice of intention to make a proposal under the Bankruptcy and Insolvency Act. As a result of the filing, the Company concluded that it had lost joint control over Marathon and ceased to apply the proportionate consolidation method to account for its 50% interest in the joint venture. As the Company's proportionate share of net liabilities exceeded the net assets by $4 million, a gain was recorded. "Temlam" refers to the Company's 50% participation in Temlam Inc., which operated laminated veneer lumber (LVL) plants in Ville-Marie and Amos, Quebec and wood I-beam manufacturing plants in Calgary, Alberta, Bolton, Ontario and Blainville, Quebec. On September 15, 2008, Temlam Inc. and Jager Building Systems Inc., a wholly-owned subsidiary of Temlam Inc., made voluntary assignments in bankruptcy. As a result of these filings, the Company concluded that it had lost joint control over Temlam Inc. and ceased to apply the proportionate consolidation method to account for its 50% interest in Temlam Inc. "Temrex" refers to the Company's 50% participation in Produits Forestiers Temrex Limited Partnership, which operates two sawmills in the Gaspé region of Quebec. On September 25, 2009, the Company completed the sale of its 50% equity interest in Temrex for $11 million. The sale generated a gain of $5 million, which is included in the Forest Products segment's operating results.

Tembec's operations consist of four reportable business segments: Forest Products, Pulp, Paper, and Chemicals. On September 26, 2009, Tembec had approximately 5,600 employees, as compared to 7,000 at the end of the prior fiscal year. The Company operated manufacturing facilities in Quebec, Ontario, Manitoba, British Columbia, the State of Ohio as well as in Southern France. Principal facilities are described in the subsequent sections of the MD&A.

On February 29, 2008, the Company completed a major financial recapitalization of its balance sheet by means of a "plan of arrangement". The principal element of the recapitalization was the conversion of US $1.2 billion of senior unsecured notes into 95% of the common equity of the Company. In accordance with Section 1625 of the Canadian Institute of Chartered Accountants (CICA), *Comprehensive Revaluation of Assets and Liabilities*, Tembec applied fresh start accounting as at February 29, 2008. For purposes of the MD&A, reported sales and EBITDA were relatively unaffected and remain directly comparable to prior periods, as the Company's physical operations were not impacted by the financial recapitalization. However, a $804 million reduction in the carrying value of fixed assets did lead to an annual depreciation expense reduction of approximately $78 million, of which $46 million was recorded in fiscal 2008, decreasing the reported operating loss by the same amount. The impact of this reduction on each of the Company's business segments is outlined in subsequent sections of the MD&A. Details regarding the financial recapitalization are included in note 1 of the audited consolidated financial statements.

In July 2007, the Company indefinitely idled its coated paper facility in St. Francisville, Louisiana. As this operation was the only coated paper facility owned by the Company, its financial results were classified as discontinued operations. On April 15, 2009, the Company sold the mill site and production equipment for total consideration of US $16 million. As a result, the Company generated a pre-tax gain of $16 million and an after-tax gain of $10 million. The Company continues to incur "legacy" costs related to pension and healthcare benefits for past employees. As the legacy obligations are denominated in US dollars, the relative value of the Canadian dollar versus the US dollar may give rise to periodic foreign currency gains or losses. These items continue to be included in discontinued operations.

CHANGES IN ACCOUNTING POLICIES AND ESTIMATES

In January 2009, the CICA Emerging Issues Committee issued Abstract 173, *Credit Risk and the Fair Value of Financial Assets and Financial Liabilities* effective for interim and annual financial statements for the periods ended after January 19, 2009. This interpretation must be applied retrospectively without restatement of prior periods. This Abstract clarifies that the Company must consider its own credit risk and the credit risk of a counterparty in the determination of the fair value of derivative instruments. This Abstract did not have a material impact on the Company's financial statements.

As part of the application of fresh start accounting in February 2008 and the requirement to effect a comprehensive revaluation of the Company's fixed assets, a review of the estimated remaining useful life of certain fixed assets was also undertaken. The review indicated that the estimated useful life of several Pulp segment fixed assets was longer than originally anticipated and periodic future depreciation expense should be reduced. The implementation of these changes in estimates reduced Pulp segment depreciation expense by approximately $5 million in fiscal 2008 and $17 million in fiscal 2009.

Effective March 2008, the Company adopted the new standards of the CICA Handbook Section 3031, *Inventories*. The new section requires that inventories be measured at the lower of cost and net realizable value. Prior to the adoption of this section, the Company did not apply net realizable value standards to its log inventories. During fiscal 2008, the Forest Products segment benefited from an $18 million favourable adjustment to the carrying values of its log inventories. During fiscal 2009, the segment absorbed a charge of $6 million relating to the carrying values of its log inventories.

Effective March 2008, the Company adopted the new standards of the CICA Handbook Section 3862, *Financial Instruments-Disclosures*, Section 3863, *Financial Instruments-Presentation* and Section 1535, *Capital Disclosures.* These new sections are effective for interim and annual financial statements beginning on or after October 1, 2007. Section 3862 requires an increased emphasis on disclosing the nature and the extent of risk arising from financial instruments and how the Company manages those risks. Section 3863, establishes standards for presentation of financial instruments and non-financial derivatives. Sections 3862 and 3863 replaced Section 3861, *Financial Instruments-Disclosures and Presentation.* Section 1535 requires the Company to disclose information to enable users of its financial statements to evaluate the Company's objectives, policies and processes for managing capital. The adoption of these new standards did not impact the Company's financial results.

Effective March 1, 2008, the Company adopted the accounting treatment prescribed by Emerging Issues Committee's EIC-166 of the CICA Handbook with respect to transaction costs when it acquires a financial asset or incurs a financial liability. EIC-166 concluded that the same accounting policy choice should be made for all similar financial instruments classified as other than held for trading, but that a different accounting policy choice might be made for financial instruments that are not similar. The adoption of EIC-166 did not impact the Company's financial results.

Effective March 15, 2008, the Company adopted the accounting treatment prescribed by Emerging Issues Committee's EIC-169 of the CICA Handbook with respect to contracts that are routinely denominated in a single currency. EIC-169 provides guidance on the interpretation of the term "routinely denominated" and identifies factors that can be used to determine whether a contract for the purchase or sale of a non-financial item is routinely denominated in a particular currency in commercial transactions around the world. The adoption of EIC-169 did not impact the Company's financial results.

IMPACT OF ACCOUNTING PRONOUNCEMENTS ON FUTURE REPORTING PERIODS

In January 2009, the CICA issued three new accounting standards: Section 1582, *Business Combinations*, Section 1601, *Consolidated Financial Statements* and Section 1602, *Non-Controlling Interest*. Section 1582 replaces former Section 1581 and establishes standards for the accounting of a business combination and is mostly aligned with International Financial Reporting Standards 3 (IFRS 3), *Business Combinations*. This section specifies an expanded definition of a business that most assets acquired and liabilities assumed will be measured at fair value and that acquisition costs will be recognized as expenses. Sections 1601 and 1602 together replace former Section 1600, *Consolidated Financial Statements*. Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602, which converges with the requirements of International Accounting Standard 27 (IAS 27), *Consolidated and Separate Financial Statements*, establishes standards for accounting of a non-controlling interest resulting from a business acquisition, recognized as a distinct component of shareholders' equity. Net income will present the allocation between the controlling and non-controlling interest. These three standards will become effective for the fiscal years beginning on or after January 1, 2011. The Company does not expect these new standards to have a material impact on the Company's consolidated financial statements.

CONVERSION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

CONVERSION PROGRESS

In 2005, the Accounting Standards Board of Canada (AcSB) announced that accounting standards in Canada are to converge with International Financial Reporting Standards (IFRS). On February 13, 2008, the AcSB confirmed that publicly accountable entities will be required to prepare financial statements in accordance with IFRS, in full and without modification, for interim and annual financial statements for fiscal years beginning on or after January 1, 2011, which in the case of the Company, represents interim and fiscal year-end periods beginning on or after September 25, 2011 (the "Changeover" date). In the Company's reporting for those periods following the Changeover date, comparative data for equivalent periods in the previous fiscal year will be required, making September 26, 2010 the "Transition" date for the Company.

IFRS uses a conceptual framework similar to Canadian GAAP, but presents significant differences on certain recognition, measurement and disclosure principles. In the period leading up to the Changeover, the AcSB will continue to issue accounting standards that are better aligned with IFRS thus mitigating the impact of conversion to IFRS. Further, the International Accounting Standards Board (IASB) will also continue to issue new, or amend existing accounting standards during the conversion period, and as a result, the final impact on the Company's consolidated financial statements of applying IFRS in full will only be entirely measurable once all applicable IFRS requirements at the final Changeover date are known.

The Tembec transition to full implementation of IFRS consists of five phases:

- Preliminary Study Phase – This phase involves performing a high-level assessment to identify key areas of accounting differences and their impact (high, medium or low priority) that may arise from the transition to IFRS.

- Project Set-up Phase – This phase includes the identification of a project team and IFRS Steering Committee, the development of a detailed conversion plan, a change management plan as well as other key conversion processes and tools.

- Component Evaluations and Issues Resolution Phase – In this phase, the Company completes a detailed assessment of all accounting differences, including those identified in the preliminary study phase, and their impact on the Company. It involves specification of changes required to existing accounting policies, information systems and business processes, together with an analysis of policy alternatives allowed under IFRS and impacts on drafting of financial statements under IFRS. The analysis and decisions made during this phase are included in IFRS Accounting Policy Choice Memos challenged and approved by the IFRS Steering Committee and External Auditors, which are then submitted to the Audit Committee.

- Conversion Phase – This phase includes execution of changes to information systems, business processes and accounting policies. It also involves the development of a communication and training program for the Company's finance and other staff, as necessary.

- Embedding Phase – The project will culminate in the collection of financial information necessary to compile IFRS-compliant financial statements, embedding IFRS in business processes, eliminating unnecessary data collection processes and submitting IFRS financial statements to the Audit Committee for approval. Implementation also involves further training of staff as revised systems begin to take effect.

To ensure adequate management of this process, the Company has established a project team and an IFRS Steering Committee, both of which are comprised of finance and accounting senior management as well as representatives from various areas of the organization, as deemed appropriate. Progress reporting to the Audit Committee on the status of the IFRS implementation project has been instituted. The Company completed the Preliminary Study Phase in July 2008 and the Project Set-up Phase in January 2009. The IFRS team is currently focusing on the Component Evaluations and Issues Resolution Phase.

POTENTIAL IMPACT OF IMPLEMENTATION ON TEMBEC

The comparisons of IFRS with Canadian GAAP, which are currently reflected in the Company's accounting policies, have helped identify a number of areas of differences.

IFRS 1, *First-Time Adoption of International Financial Reporting Standards*, provides entities adopting IFRS for the first time with a number of optional exemptions and mandatory exceptions, in certain areas, to the general requirement for full retrospective application of IFRS. The Company is analyzing the various accounting policy choices available and will implement those determined to be most appropriate in the circumstances.

Most adjustments required on transition to IFRS will be made, retrospectively, against opening retained earnings as of the date of the first comparative balance sheet presented based on standards applicable at that time. Transitional adjustments relating to those standards where comparative figures are not required to be restated will only be made as of the first day of the year of adoption.

The following are selected key areas of accounting differences where changes in accounting policies in conversion to IFRS may impact the Company's consolidated financial statements. The list and comments should not be construed as a comprehensive list of changes that will result from transition to IFRS but rather highlights those areas of accounting differences the Company currently believes to be most significant. Notwithstanding, analysis of changes is still in progress and certain decisions remain to be made where choices relating to accounting policies are available. We note that the standard-setting bodies that promulgate Canadian GAAP and IFRS have significant ongoing projects that could affect the ultimate differences between Canadian GAAP and IFRS and their impact on the Company's consolidated financial statements in future years. The areas of differences highlighted below are based on existing Canadian GAAP and IFRS effective at September 26, 2009. At this stage, the Company is not able to reliably quantify the full impact of these and other differences on Tembec's consolidated financial statements.

Fresh Start Accounting

IFRS does not provide specific guidance on the accounting by entities subject to a financial reorganization. Instead, usual requirements of IFRS apply. In particular, fresh start accounting is not permitted in such circumstances. In order to mitigate the impact of this accounting difference, IFRS 1 provides the choice of recording an item of property, plant and equipment based on a deemed cost, which can be an event driven valuation where some or all of the assets and liabilities were valued and recognized at fair value. The difference may impact the accounting measurement of some assets and liabilities that were revalued on February 29, 2008.

Foreign Exchange Translation

IAS 21, *The Effects of Changes in Foreign Exchange Rates*, requires an operation to determine its functional currency in accordance with the standard and translate all foreign currency items into its functional currency. Upon consolidation, the Company translates all assets and liabilities of consolidated operations with a functional currency that is different than the presentation currency at the closing rate at the date of that balance sheet. Canadian GAAP on the other hand requires a Company to classify each foreign operation as integrated or self-sustaining operations. The translation to the Company's currency of the assets and liabilities of foreign operations differs significantly from IFRS. The difference may impact the accounting measurement of some of the Company's foreign operations.

Provisions

IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, requires a provision to be recognized when: there is a present obligation as a result of a past transaction or event; it is probable that an outflow of resources will be required to settle the obligation; and a reliable estimate can be made of the obligation. "Probable" in this context means more likely than not. Under Canadian GAAP, the criterion for recognition in the financial statements is "likely", which is a higher threshold than "probable". Therefore, it is possible that there may be some provisions or contingent liabilities which would meet the recognition criteria under IFRS that were not recognized under Canadian GAAP. Other differences between IFRS and Canadian GAAP exist in relation to the measurement of provisions, such as the methodology for determining the best estimate where there is a range of equally possible outcomes (IFRS uses the low-point of the range, whereas Canadian GAAP uses the low-end of the range), and the requirement under IFRS for provisions to be discounted where material.

The Company will continue to review all proposed and ongoing projects of the IASB and assess their impact on its conversion process.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Fixed asset depreciation

The Company records its fixed assets, primarily production buildings and equipment, at cost. Interest costs are capitalized for projects in excess of $1 million that have a duration in excess of one year. Investment tax credits or capital assistance received reduce the cost of the related assets. Fixed assets acquired as a result of a business acquisition are recorded at their estimated fair value. Depreciation of fixed assets is provided over their estimated useful lives, generally on a straight-line basis. Forest access roads are depreciated on the basis of harvested volumes and certain equipment is depreciated using the unit of production method. The estimated useful lives of fixed assets are based on judgement and the best currently available information. Changes in circumstances can result in the actual useful lives differing from our estimates. Revisions to the estimated useful lives of fixed assets constitute a change in accounting estimate and are dealt with prospectively by amending the amount of future depreciation expense. In fiscal 2008, a review of the estimated useful life of several Pulp segment fixed assets indicated that their estimated useful life was longer than originally anticipated and periodic future depreciation expense should be reduced. The implementation of these changes in estimates reduced annual Pulp segment depreciation expense by $17 million. Approximately $5 million was recorded in fiscal 2008, whereas the full amount was recorded in fiscal 2009.

Impairment of goodwill

Accounting standards require that goodwill no longer be amortized to earnings, but be annually tested for impairment. The Company uses certain operating and financial assumptions to conduct its impairment test, principally those contained in its most recent multi-year operating plan. This ensures that assumptions are supported, where available, by relevant independent information. As a result of the financial recapitalization undertaken on February 29, 2008, the carrying value of goodwill was reduced from $3 million to nil.

Impairment of long-lived assets

The Company must review the carrying value of long-lived assets when events or changes in circumstances indicate that the value may have been impaired and is not recoverable through future operations and cash flows. To estimate future cash flows, the Company uses operating and financial assumptions, primarily those contained in its most recent multi-year operating plan. This ensures that the assumptions are supported, where available, by relevant independent information. There were no fixed asset impairment charges in fiscal 2008. The work conducted in fiscal 2009 indicated an asset impairment charge of $2 million relating to the Pine Falls, Manitoba newsprint facility.

Employee future benefits

Tembec contributes to several defined benefit pension plans, primarily related to employees covered by collective bargaining agreements. The Company also provides post-retirement benefits to certain retirees, primarily health-care related. For post-retirement benefits, funding of disbursements is done on a "pay as you go" basis. The Company uses independent actuarial firms to quantify the amount of pension and post-retirement obligations. The Company, based on its own experience and recommendations from its actuarial firms, evaluates the underlying assumptions on an annual basis. Changes in estimates or assumptions can have a substantial impact on the amount of pension and post-retirement benefit expense, the carrying values on the balance sheet, and, in the case of defined benefit plans, the amount of plan surplus or deficit. At June 30, 2009, (the "measurement" date), the fair value of defined benefit plan assets was $606 million, an amount equal to 73% of the estimated accrued benefit obligation of $828 million, generating a deficit of $222 million. The plan deficit was $171 million at the prior measurement date, June 30, 2008. The deficit increase of $51 million that occurred over the 12-month period was due to several items. The deficit was increased by $120 million as the return on plan assets of negative $71 million versus an implied interest cost of $49 million. This significant unfavourable item was partially offset by two favourable items. An actuarial gain of $41 million decreased the obligation at the measurement date. This item was caused primarily by an increase in the applicable discount rate from 5.56% to 5.73%. The discount rate is tied to the rates applicable to high-quality corporate bonds (AA or higher) in effect at the measurement date. The deficit was further reduced by $23 million as employer contributions of $38 million exceeded the current service cost of $15 million. Pension expense in fiscal 2009 was $19 million, as compared to $14 million in the prior year. Based on current assumptions, employer contributions and pension expense in fiscal 2010 are expected to be approximately $33 million and $20 million respectively. There is no assurance that current assumptions will materialize in future periods. The defined benefit pension plans may be unable to earn the assumed rate of return. Market driven changes to discount rates and other variables may result in changes to anticipated Company contribution amounts.

With regard to other employee future benefit plans, the accrued benefit obligation at the measurement date was $55 million, a decrease from $59 million in the prior year. Employer contributions were $3 million, up from $2 million in the prior year. In fiscal 2009, the Company recognized an expense of $5 million, unchanged from the prior year. Based on current assumptions, the amount of employer contributions and the amount of expense to be recognized in fiscal 2010 are expected to be approximately $3 million and $4 million respectively.

Future income taxes

Future income tax is provided for using the asset and liability method and recognizes temporary differences between the tax values and the financial statement carrying amounts of balance sheet items as well as certain carry forward items. The Company only recognizes a future income tax asset to the extent that, in its opinion, it is more likely than not that the future income tax asset will be realized. This opinion is based on estimates and assumptions as to the future financial performance of the various taxable legal entities in the various tax jurisdictions. A more detailed review of income taxes is included in a subsequent section of the MD&A.

USE OF NON-GAAP FINANCIAL MEASURES

The following summarizes non-GAAP financial measures utilized in the MD&A. As there is no generally accepted method of calculating these financial measures, they may not be comparable to similar measures reported by other companies.

EBITDA refers to earnings before non-recurring items, interest, income taxes, depreciation, amortization and other non-operating expenses and revenues. The Company considers EBITDA to be a useful indicator of the financial performance of the Company, the business segments and the individual business units.

Free Cash Flow refers to cash provided by operating activities before changes in non-cash working capital balances less net fixed asset additions. Working capital changes are excluded as they are often seasonal and temporary in nature. The Company considers free cash flow to be a useful indicator of its ability to generate discretionary cash flow, thereby improving its overall liquidity position.

Net debt refers to debt less cash and cash equivalents such as marketable securities or temporary investments.

Total capitalization refers to net debt plus future income taxes, other long-term liabilities and shareholders' equity.

Net debt to total capitalization is used by the Company to measure its financial leverage.

Return on capital employed (ROCE) refers to net earnings (or loss) for a given period, adjusted for the after-tax impact of interest expense, divided by the average of total assets less non-interest bearing current liabilities for the period. The Company utilizes this measure to compare its performance to other competitors in its industry.

Return on Equity (ROE) refers to net earnings or loss for a given period divided by the average shareholders' equity for the period.

2009 vs. 2008

FINANCIAL SUMMARY

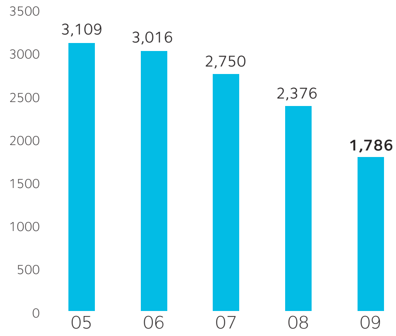
(in millions of dollars)

	2008	**2009**
Sales	2,376	**1,786**
Freight and sales deductions	292	**224**
Lumber export taxes/duties	11	**4**
Cost of sales	1,943	**1,578**
SG&A	109	**88**
EBITDA	21	**(108)**
Depreciation and amortization	123	**73**
Other items	(25)	**(3)**
Operating loss	(77)	**(178)**
Interest, foreign exchange and other	45	**22**
Loss on translation of foreign debt	6	**21**
Pre-tax loss	(128)	**(221)**
Income tax expense (recovery)	11	**(1)**
Minority interests	–	**(1)**
Net loss from continuing operations	(139)	**(219)**
Earnings (loss) from discontined operations	(11)	**5**
Net loss	(150)	**(214)**
Total assets (at year end)	1,619	**1,366**
Total long-term debt (at year end) (1)	396	**402**

(1) includes current portion

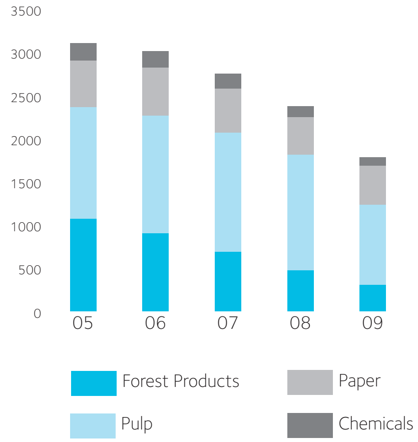
CONSOLIDATED SALES

(in millions of dollars)

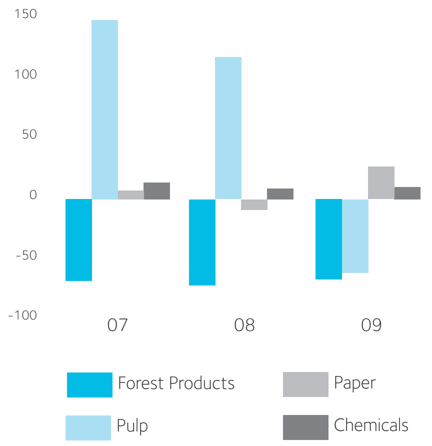


CONSOLIDATED SALES BY SEGMENT

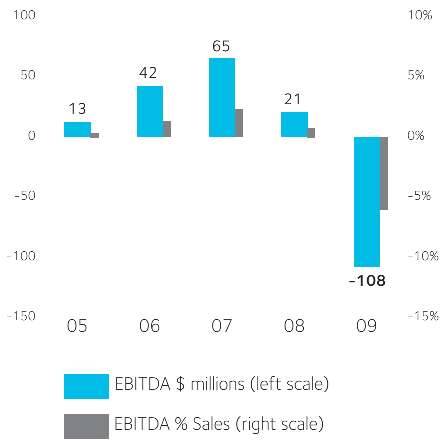
(in millions of dollars)



EBITDA BY SEGMENT
(in millions of dollars)



FINANCIAL PERFORMANCE



SALES
(in millions of dollars)

	2008	**2009**	Total variance	Price variance	Volume & mix variance
Forest Products	617	**407**	(210)	(2)	(208)
Pulp	1,410	**1,010**	(400)	(67)	(333)
Paper	435	**452**	17	69	(52)
Chemicals	130	**98**	(32)	8	(40)
Corporate	3	**4**	1	–	1
	2,595	**1,971**	(624)	8	(632)
Less: internal sales	(219)	**(185)**	34		
Sales	2,376	**1,786**	(590)		

Sales decreased by $590 million as compared to the prior year. The decline was the result of lower sales volumes in all segments. Currency was favourable as the Canadian dollar averaged US $0.850, a 14% decline from US $0.991 in the prior year. Forest Products segment sales declined by $210 million as a result of lower shipments. Pulp segment sales declined by $400 million as a result of lower shipments and prices. Paper segment sales increased by $17 million due to higher prices, partially offset by lower shipments.

In terms of geographical distribution, the U.S. remained the Company's principal market with 37% of consolidated sales in fiscal 2009, as compared to 33% in the prior year. Canadian sales represented 18% of sales, as compared to 17% in the prior year. Sales outside of the U.S. and Canada represented the remaining 45% in fiscal 2009, as compared to 50% a year ago.

EBITDA

(in millions of dollars)

	2008	**2009**	Total variance	Price variance	Cost & volume variance
Forest Products	(72)	**(67)**	5	(2)	7
Pulp	118	**(61)**	(179)	(67)	(112)
Paper	(9)	**27**	36	69	(33)
Chemicals	9	**10**	1	8	(7)
Corporate	(25)	**(17)**	8	–	8
	21	**(108)**	(129)	8	(137)

EBITDA declined by $129 million versus the prior year. The Forest Products segment's EBITDA was relatively unchanged. The Pulp segment's EBITDA declined by $179 million. Lower selling prices and higher manufacturing costs caused by weaker market conditions and significant production curtailments impacted results. The Paper segment's EBITDA increased by $36 million due to higher selling prices, partially offset by higher costs. The Chemicals segment's EBITDA improved by $1 million due to higher profitability of the resin business. Corporate general and administrative expenses declined by $8 million driven primarily by cost reduction initiatives.

OPERATING EARNINGS (LOSS)

(in millions of dollars)

	2008	**2009**	Total variance	EBITDA variance	Depreciation & amortization variance	Other items variance
Forest Products	(90)	**(88)**	2	5	15	(18)
Pulp	59	**(101)**	(160)	(179)	18	1
Paper	(25)	**22**	47	36	14	(3)
Chemicals	6	**7**	1	1	1	(1)
Corporate	(27)	**(18)**	9	8	2	(1)
	(77)	**(178)**	(101)	(129)	50	(22)

The Company generated an operating loss of $178 million compared to an operating loss of $77 million in fiscal 2008. The Forest Products segment generated an operating loss of $88 million in fiscal 2009, compared to an operating loss of $90 million in fiscal 2008. In February 2008, the Company applied fresh start accounting and the carrying values of the Forest Products fixed assets were reduced by $169 million. As a result, segment annual depreciation expense declined by $23 million. As well, the prior year results of the Forest Products segment included a non-recurring gain of $16 million on the sale of land. The Pulp segment generated an operating loss of $101 million during the most recently completed fiscal year, compared to operating earnings of $59 million a year ago. Lower depreciation expense provided a partial offset to the previously noted decrease in EBITDA. In fiscal 2008, fresh start accounting reduced the carrying values of Pulp fixed assets by $217 million. Annual depreciation expense was reduced by $19 million. The Paper segment generated operating earnings of $22 million compared to an operating loss of $25 million in the prior year. In addition to the previously noted improvement in EBITDA, segment depreciation expense declined by $14 million. As a result of fresh start accounting, the carrying values of the Paper fixed assets were reduced by $394 million in February 2008 and segment annual depreciation expense declined by $33 million. The Chemicals segment's operating earnings were relatively unchanged.

A more detailed review of items having impacted sales, EBITDA and operating results of each business segment is outlined in a subsequent section of the MD&A. The following sections review the impact of non-operating items on the financial performance of the Company.

INTEREST, FOREIGN EXCHANGE AND OTHER

(in millions of dollars)

	2008	**2009**
Interest on indebtedness	55	**37**
Foreign exchange items	(11)	**(16)**
Other items	1	**1**
	45	**22**

Interest on debt declined by $18 million as a result of the Company's financial recapitalization. In the prior year, the Company had US $1.2 billion of outstanding senior unsecured notes. On February 29, 2008, the notes were converted into new shares of Tembec and a new US $300-million term loan was put in place. The fiscal 2009 gain of $16 million related to foreign exchange items was caused primarily by the conversion of US $ net monetary assets as the Canadian dollar closing rate versus the US dollar decreased by 5% at the end of September 2009 versus the closing rate at the end of September 2008.

TRANSLATION OF FOREIGN DEBT

During fiscal 2009, the Company recorded a loss of $18 million on the translation of its US $ denominated debt as the relative value of the Canadian dollar decreased from US $0.968 to US $0.916. The Company recorded a loss of $3 million on the translation of its euro-denominated debt as the relative value of the euro versus the Canadian dollar increased from C $1.509 to C $1.602.

During the five-month period ended February 29, 2008, the Company recorded a gain of $12 million on its US $ denominated debt as the relative value of the Canadian dollar increased from US $1.005 to US $1.016. During the same five-month period, the euro appreciated from C $1.419 to C $1.494 and the Company recorded a loss of $3 million on the translation of its euro-denominated debt. During the seven-month period ended September 27, 2008, the Company recorded a loss of $14 million on its new US $300-million loan as the relative value of the Canadian dollar decreased from US $1.016 to US $0.968. In addition, the Company recorded a loss of $1 million on the translation of its euro-denominated debt as the relative value of the euro increased from C $1.494 to C $1.509.

INCOME TAXES

During fiscal 2009, the Company recorded an income tax recovery of $1 million on a pre-tax loss from continuing operations of $221 million. The income tax recovery reflected a $67 million unfavourable variance versus an anticipated income tax recovery of $68 million based on the Company's effective tax rate of 30.9%. The non-recognition of period losses reduced the income tax recovery by $62 million. Based on past financial performance, future income tax assets of the Company's operations have been limited to the amount that is more likely than not to be realized. The non-deductible portion of the loss on translation of foreign denominated debt reduced the income tax recovery by $2 million. The non-deductible loss on consolidation of foreign integrated subsidiaries reduced the income tax recovery by $3 million.

During the year ended September 2008, the Company recorded an income tax expense of $11 million on a pre-tax loss from continuing operations of $128 million. The income tax expense reflected a $52 million unfavourable variance versus an anticipated income tax recovery of $41 million based on the Company's effective tax rate of 31.9%. The non-recognition of period losses increased the income tax expense by $52 million.

DISCONTINUED OPERATIONS

The financial results of the St. Francisville paper mill have been classified as discontinued operations. During the year ended September 2009, the operation generated earnings of $5 million. The financial results include a $10 million after-tax gain on the sale of the mill site and production equipment, a $2 million loss on the translation of the US $ carrying values of the operation's liabilities, primarily pension and post-retirement healthcare, and finally a charge of $5 million for custodial and legacy costs. The prior year loss of $11 million included a $12 million charge for custodial and legacy costs and a $1 million loss on the translation of the US $ carrying values of its liabilities, partially offset by a $2 million gain on the sale of equipment.

NET LOSS

The Company generated a net loss of $214 million or $2.14 per share for the year ended September 26, 2009 compared to a net loss of $102 million or $1.19 per share for the five-month period ended February 29, 2008 and a net loss of $48 million or $0.48 per share for the seven-month period ended September 27, 2008. As noted previously, the Company's financial results were impacted by certain specific items. The following table summarizes the impact of these items on the reported financial results. The Company believes it is useful supplemental information as it provides an indication of results excluding the specific items. This supplemental information is not intended as an alternative measure for net earnings as determined by Canadian GAAP. The table below contains one recurring item, namely the gain or loss on translation of foreign debt. Because the Company has a substantial amount of US $ denominated debt, relatively minor changes in the value of the Canadian dollar versus the US dollar can lead to large unrealized periodic gains or losses. As well, this item receives capital gains/loss tax treatment and is not tax-affected at regular business income rates.

	Five months ended February 29, 2008		Seven months ended September 27, 2008		**Year ended September 26, 2009**	
	$ millions	$ per share	$ millions	$ per share	**$ millions**	**$ per share**
Net loss as reported – in accordance with GAAP	(102)	(1.19)	(48)	(0.48)	**(214)**	**(2.14)**
Specific items (after-tax):						
Loss (gain) on translation of foreign debt	(8)	(0.09)	12	0.12	**18**	**0.18**
Gain on derivative financial instruments	-	-	(1)	(0.01)	**(1)**	**(0.01)**
Other items:						
Gain on sale of land	(13)	(0.16)	-	-	**-**	**-**
Gain on reduced equity participation in AV Cell	(4)	(0.04)	-	-	**-**	**-**
Writedown of Gaspesia investment	2	0.02	-	-	**-**	**-**
Reversal of previously accrued closure costs	(3)	(0.03)	-	-	**-**	**-**
Gain on sale of AV Cell and AV Nackawic shares	-	-	(1)	(0.01)	**-**	**-**
Gain on deconsolidation of Temlam joint venture	-	-	(5)	(0.05)	**-**	**-**
Gain on deconsolidation of Marathon joint venture	-	-	-	-	**(5)**	**(0.05)**
Corporate reorganization costs	-	-	-	-	**1**	**0.01**
Loss on closure of specialty hardwood sawmill	-	-	-	-	**1**	**0.01**
Gain on sale of Temrex	-	-	-	-	**(2)**	**(0.02)**
Asset impairment charge	-	-	-	-	**2**	**0.02**
Discontinued operations – St. Francisville	4	0.05	7	0.07	**(5)**	**(0.05)**
Net loss excluding specific items – not in accordance with GAAP	(124)	(1.44)	(36)	(0.36)	**(205)**	**(2.05)**

QUARTERLY FINANCIAL INFORMATION

(in millions of dollars, except per share amounts)

					2008				2009
	Dec. 07	Two months ended Feb. 29, 2008	One month ended Mar. 29, 2008	June 08	Sept. 08	**Dec. 08**	**Mar. 09**	**June 09**	**Sept. 09**
Sales	545	405	188	609	629	**511**	**417**	**407**	**451**
EBITDA	(16)	(1)	–	9	29	**6**	**(63)**	**(42)**	**(9)**
Depreciation and amortization	42	30	8	24	19	**18**	**18**	**19**	**18**
Other items	(19)	(1)	–	(2)	(3)	**–**	**–**	**–**	**(3)**
Operating earnings (loss)	(39)	(30)	(8)	(13)	13	**(12)**	**(81)**	**(61)**	**(24)**
Net loss from continuing operations	(57)	(41)	(15)	(25)	(1)	**(53)**	**(96)**	**(51)**	**(19)**
Net loss	(60)	(42)	(17)	(27)	(4)	**(60)**	**(99)**	**(38)**	**(17)**
Net loss per share:									
From continuing operations	(0.67)	(0.47)	(0.15)	(0.25)	(0.01)	**(0.53)**	**(0.96)**	**(0.51)**	**(0.19)**
Basic and fully diluted	(0.70)	(0.49)	(0.17)	(0.27)	(0.04)	**(0.60)**	**(0.99)**	**(0.38)**	**(0.17)**

FOURTH QUARTER ANALYSIS

The Company reported a net loss of $17 million or $0.17 per share in the fourth quarter ended September 26, 2009 compared to a net loss of $4 million or $0.04 per share in the same quarter of fiscal 2008. The weighted average number of common shares outstanding was 100 million, unchanged from the prior year.

Sales decreased by $178 million as compared to the same quarter a year ago. The decline was the result of lower sales volumes and prices in all three of the Company's principal business segments. Currency was favourable as the Canadian dollar averaged US $0.910, a 5% decline from US $0.959 in the prior year quarter. Forest Products segment sales declined by $62 million as a result of lower shipments. Pulp segment sales declined by $85 million as a result of lower shipments and prices. Paper segment sales decreased by $33 million due to lower shipments and prices.

EBITDA decreased by $38 million over the prior year quarter. The Forest Products segment's EBITDA increased by $4 million because of lower costs. The Pulp segment's EBITDA declined by $28 million due to weaker demand and prices, partially offset by lower manufacturing costs. The Paper segment's EBITDA decreased by $18 million due to higher costs and lower selling prices.

The Company generated an operating loss of $24 million compared to operating earnings of $13 million in the same quarter a year ago. The increased loss corresponds primarily to the previously noted decline in EBITDA.

There were no significant interest expense variances. The major portion of the interest on long-term debt related to the US $300 million term loan that was put in place in February 2008.

During the September 2009 quarter, the Company recorded a gain of $19 million on the translation of its US $ denominated debt as the relative value of the Canadian dollar increased from US $0.866 to US $0.916. The Company recorded a gain of $1 million on the translation of its euro-denominated debt as the relative value of the euro versus the Canadian dollar decreased from C $1.624 to C $1.602.

During the September 2008 quarter, the Company recorded a loss of $7 million on the translation of its US $ denominated debt as the relative value of the Canadian dollar decreased from US $0.990 to US $0.968. The Company recorded a gain of $4 million on the translation of its euro-denominated debt as the relative value of the euro versus the Canadian dollar decreased from C $1.596 to C $1.509.

During the September 2009 quarter, the Company recorded a "nil" income tax recovery on a pre-tax loss from continuing operations of $19 million. This nil income tax recovery reflected a $6 million unfavourable variance versus an anticipated income tax recovery of $6 million based on the Company's effective tax rate of 30.9%. The non-recognition of period losses reduced the income tax recovery by $6 million. Based on past financial performance, future income tax assets of the Company's operations have been limited to the amount that is more likely than not to be realized.

During the September 2008 quarter, the Company recorded an income tax expense of $3 million on pre-tax earnings from continuing operations of $2 million. The income tax expense reflected a $3 million unfavourable variance versus an anticipated nil expense based on the Company's effective tax rate of 31.9%. The non-recognition of period losses increased the income tax expense by $4 million.

The financial results of the St. Francisville paper mill have been classified as discontinued operations. During the quarter ended September 2009, the operation generated earnings of $2 million. The financial results include a $2 million gain on the translation of the US $ carrying values of the operation's liabilities, primarily pension and post-retirement healthcare. The prior year quarter loss of $3 million included a $1 million loss on translation of the US $ carrying values of liabilities and a charge of $2 million for custodial and legacy costs.

The fourth quarter 2009 interim MD&A issued on November 18, 2009 provides a more extensive analysis of items having impacted the Company's fourth quarter financial results.

SUMMARY OF QUARTERLY RESULTS

On a sequential quarterly basis, sales were negatively impacted by a weakening of US $ lumber reference prices, which decreased to levels not seen in this decade. The Western benchmark price declined by 23% year over year. The weak market conditions also impacted lumber shipments which declined by 28% year over year. Pulp prices were also in decline during fiscal 2009, bottoming out in the June 2009 quarter, down by 30% to 40% from the high of the June 2008 quarter. The weak market conditions also impacted demand and the Company undertook a record amount of production curtailments during the winter of 2008/2009. Overall, pulp shipments declined by 25% year over year. Newsprint reference prices have been very volatile during the last eight quarters. They increased by 28% from December 2007 to December 2008 then dropped by 42% over the final three quarters of fiscal 2009. As a result, the Company continued to generate relatively poor levels of EBITDA, with margins ranging from a low of negative 15% to a high of 5% in the September 2008 quarter.

The Company's financial performance and that of its Forest Products segment for the last eight quarters were negatively impacted by export taxes on lumber shipped to the U.S. Total amount incurred over the last two years was $15 million.

The Company generated negative EBITDA of $87 million in the last eight quarters. Depreciation and amortization expense totalled $196 million. As a partial offset to the negative EBITDA previously noted, the Company recorded other items having a net favourable impact of $28 million over the last eight quarters.

Due to the weaker Canadian dollar, the Company recorded a loss of $27 million on the translation of its foreign-denominated debt over the last two years. However, the impact of the quarterly debt translation gains and losses added considerable volatility to the results, with the impact ranging from a gain of $25 million in the June 2009 quarter to a loss of $59 million in the December 2008 quarter.

Segment Review 2009 vs. 2008

FOREST PRODUCTS

(in millions of dollars)

	2008	**2009**
Total sales	617	**407**
Consolidated sales	472	**304**
Lumber duties / export taxes	11	**4**
EBITDA	(72)	**(67)**
EBITDA margin on total sales	(11.7)%	**(16.5)%**
Depreciation and amortization	39	**24**
Other items	(21)	**(3)**
Operating loss	(90)	**(88)**
Identifiable assets (excluding cash)	296	**251**

The Forest Products segment is divided into two main areas of activity: forest resource management and manufacturing operations.

The Forest Resource Management Group is responsible for managing all of the Company'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 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. As the Company'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. During fiscal 2009, the Company's operations harvested and delivered 3.6 million cubic metres of timber versus 5.1 million cubic metres in 2008. Additional supply of approximately 0.7 million cubic metres was secured mainly through purchases and exchanges with third parties, down from 0.9 million cubic metres in the prior year.

The Forest Products Group includes operations located in Quebec, Ontario and British Columbia. The Group focuses on three main product areas: SPF lumber, specialty wood and engineered wood. The SPF lumber operations can produce approximately 1.7 billion board feet of lumber. The specialty wood operations can annually produce 30 million board feet of lumber and 20 million square feet of hardwood flooring. The engineered wood operations had historically produced laminated veneer lumber (LVL), finger joint lumber, wood I-beams, and rim joists. The production of LVL, wood I-beams and rim joists represented 50% of the output of the Temlam joint venture. In September 2008, Temlam made voluntary assignments in bankruptcy. As a result, there were no sales of the aforementioned products in fiscal 2009. The Company's engineered wood operations now consist of two wholly-owned finger joint lumber operations, which were idled for most of fiscal 2008 and fiscal 2009.

The following summarizes the annual operating levels of each facility by product group:

SPF LUMBER	mbf
Stud lumber – Taschereau / La Sarre, QC (1)	200,000
Stud lumber – Senneterre, QC	150,000
Stud lumber – Cochrane, ON	170,000
Stud lumber – Kapuskasing, ON	105,000
Random lumber – Nouvelle / Saint-Alphonse, QC (2)	75,000
Random lumber – Béarn, QC	110,000
Random lumber – Chapleau, ON	135,000
Random lumber – Timmins, ON	100,000
Random lumber – Hearst, ON	160,000
Random lumber – Canal Flats, BC (3)	180,000
Random lumber – Elko, BC (3)	270,000
Finger joint lumber – Cranbrook, BC	25,000
	1,680,000

SPECIALTY WOOD	mbf
Hardwood lumber – Huntsville, ON	30,000

	thousand square ft.
Flooring – Huntsville, ON / Toronto, ON	20,000

ENGINEERED WOOD	mbf
Engineered finger joint lumber – La Sarre, QC	60,000
Engineered finger joint lumber – Kirkland Lake, ON	30,000
	90,000

	thousand cubic ft.
Laminated veneer lumber – Ville-Marie, QC (4)	475
Laminated veneer lumber – Amos, QC (4)	2,300
	2,775

	thousand linear ft.
Wood I-beams – Bolton, ON (4)	40,000
Wood I-beams – Calgary, AB (4)	18,000
Wood I-beams – Blainville, QC (4)	5,000
	63,000

(1) Sites are operated as a combined entity.
(2) Volumes reflect 50% of the actual capacity as the units are part of the Temrex joint venture. The 50% equity interest was sold at the end of fiscal 2009 and its financial results will no longer be proportionately consolidated in the future.
(3) The Elko and Canal Flats sawmills rely on the Cranbrook planer mill to dry and dress 80,000 mbf of lumber.
(4) Volumes reflect 50% of the actual plant's capacity as the units are part of the Temlam joint venture. On September 15, 2008, Temlam and a subsidiary of Temlam made voluntary assignments in bankruptcy. As a result, Tembec ceased to apply the proportionate consolidation method to account for this investment.

The segment is dominated by SPF lumber, which represented 81% of building material sales in fiscal 2009, compared to 73% in the prior year. The increase in percentage was not driven by higher volumes, but rather by a decrease in the non-SPF business, most notably in engineered wood. The volume of SPF lumber sold in fiscal 2009 declined by 280.6 million board feet or 28%. Shipments were equal to 43% of capacity, down from 60% in fiscal 2008. In response to very low lumber demand, the Company further reduced production by curtailing operations at several facilities for either indefinite or temporary periods. The average selling price of SPF lumber was $6 per mbf lower than in the prior year. The lower prices were the result of lower US $ reference prices for random length and stud lumber, largely offset by a weaker Canadian dollar which averaged 14% lower versus the US dollar.

Specialty wood represented 19% of building material sales in fiscal 2009, up from 16% in the prior year. Pine and hardwood shipments dropped by 15.7 million board feet, primarily as a result of the permanent closure of the Mattawa, Ontario sawmill. Hardwood flooring sales declined by 3 million square feet due to lower demand and housing starts.

Engineered wood sales represented less than 1% of building material sales in fiscal 2009, down from 11% in fiscal 2008. As noted previously, the Temlam joint venture resulted in the effective withdrawal of the Company from the production of LVL, wood I-beams and rim joists. As well, the two remaining finger joint facilities were shut down for most of fiscal 2009.

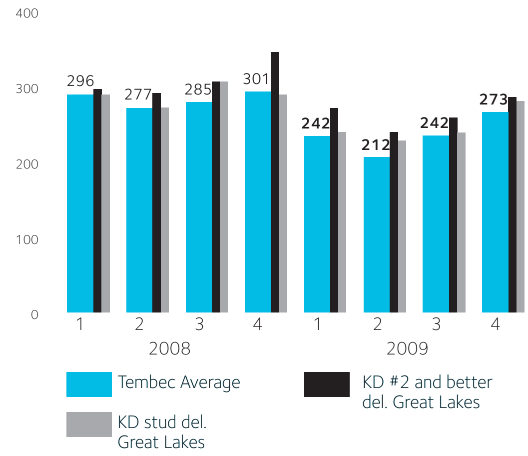
The Forest Products Group produced and shipped approximately 1.1 million tonnes of wood chips in fiscal 2009, 90% of which were directed to the Company's pulp and paper operations. In 2008, the Group produced 1.6 million tonnes and shipped 89% of this volume to the pulp and paper mills. The 0.5 million tonne decline was caused primarily by the lower lumber production. The internal transfer price of wood chips is based on current and expected market transaction prices.

Total sales for this segment reached $407 million, a decrease of $210 million over the prior year. After eliminating internal sales, the Forest Products segment generated 17% of Company consolidated sales, down from 20% in the prior year. The Group's main market is North America, which represented 99% of consolidated sales in fiscal 2009, as compared to 100% in the prior year.

	Sales ($ millions)		Shipments (000 units)		Selling prices ($ / unit)	
	2008	**2009**	2008	**2009**	2008	**2009**
SPF lumber (mbf)	303	**214**	1,004.3	**723.7**	302	**296**
Specialty wood						
Pine and hardwood (mbf)	15	**6**	25.3	**9.6**	593	**625**
Hardwood flooring (000 square ft)	54	**43**	11.7	**8.7**	4,615	**4,943**
	69	**49**				
Engineered Wood						
LVL (cubic ft)	19	**-**	1,088.0	**-**	17	**-**
Engineered finger joint lumber (mbf)	2	**1**	5.0	**5.9**	400	**169**
Wood I-beams and rim joists (000 linear ft)	23	**-**	17.8	**-**	1.29	**-**
	44	**1**				
Total building materials	416	**264**				
Wood chips, logs and by-products	201	**143**				
Total sales	617	**407**				
Internal wood chips and other sales	(145)	**(103)**				
Consolidated sales	472	**304**				

QUARTERLY PRICES – WESTERN SPF MILL NET
(US $ per mbf)

QUARTERLY PRICES – EASTERN SPF DELIVERED
(US $ per mbf)



MARKETS

The benchmark random length Western SPF (#2 and better) lumber net price averaged US $177 per mbf in 2009, a decrease from US $231 per mbf in 2008. In the East, the random length Eastern SPF average lumber price (delivered Great Lakes) decreased from US $313 per mbf to US $264 per mbf in 2009. The Company considers these to be relatively low levels, approximately US $110 to US $120 below normal trend line prices for random lumber. The reference price for stud lumber decreased as well with the Eastern average lumber price (delivered Great Lakes) down from US $291 per mbf to US $250 per mbf, a level approximately US $110 to US $120 per mbf below trend line prices. The collapse in prices was driven by a very weak U.S. housing market. U.S. housing starts declined from 1.03 million units in fiscal 2008 to 0.58 million units in fiscal 2009, a 44% decrease. Canadian housing starts declined from 219,000 units in fiscal 2008 to 151,500 units in fiscal 2009, a 31% decrease. While the Company recognized several years ago that U.S. housing starts could not maintain the 2 million unit per year run rate of the 2005/2006 period, and that a degree of market correction would likely occur at some point, the severity and extent of the correction had not been anticipated. The negative effects of the sub-prime mortgage difficulties, the latter having fuelled the strong demand in 2005/2006, have been much greater than originally anticipated.

In addition to difficult market conditions, the Company's financial performance continued to be impacted by tariffs on lumber shipped to the U.S. Effective October 12, 2006, the Governments of Canada and the United States implemented an agreement for the settlement of the softwood lumber dispute. The Softwood Lumber Agreement (SLA) requires that an export tax be collected by the Government of Canada, which is based on the price and volume of lumber shipped. Beginning on that date, the Company's Eastern Canadian sawmills, located in Quebec and Ontario, were subject to export quota limitations and 5% export tax on lumber shipped to the U.S. During fiscal 2009, the Eastern sawmills incurred $3 million in export taxes, unchanged from the prior year. On April 15, 2009, the effective tax on Eastern lumber shipments increased from 5% to 15% as a result of an arbitration decision relating to alleged over-shipments of lumber between January 2007 and June 2007. This added $1 million for the April 15 to September 26, 2009 period, which is included in the previously noted $3 million. As an offset, the Eastern sawmills benefited from a refund of $2 million relating to overpayment of export taxes previously paid during the October 2007 to March 2008 period. As to the Company's two Western sawmills, which are both located in British Columbia, they are currently subject to a 15% export tax, but shipments are not quota limited. Under certain circumstances, the tax may be increased to 22.5%, which was not the case in either fiscal 2008 or fiscal 2009. During fiscal 2008, the Western sawmills incurred a total of $8 million in export taxes. In the most recent fiscal year, the Western sawmills incurred $4 million of lumber export taxes. The decrease was largely due to a 48% reduction in the volume of shipments to the U.S. The Western sawmills also benefited from a $1 million refund relating to overpayment of export taxes previously paid during the October 2007 to March 2008 period.

OPERATING RESULTS

The following summarizes EBITDA variances by major business:

	Variance – favourable (unfavourable)			
(in millions of dollars)	Price	Export taxes	Costs	TOTAL
SPF lumber	(4)	7	–	3
Specialty wood	2	–	(2)	–
Engineered wood	–	–	6	6
Other segment items	–	–	(4)	(4)
	(2)	7	–	5

Fiscal 2009 EBITDA was negative $67 million compared to negative EBITDA of $72 million in the prior year. SPF lumber EBITDA improved by $3 million. Lower selling prices for SPF lumber were more than offset by the previously noted decline in lumber export taxes. Specialty wood EBITDA was unchanged, with higher prices offset by higher costs. Engineered wood EBITDA improved by $6 million as the current year results did not absorb the losses of the Temlam joint venture. The EBITDA margin was negative 16.5% compared to negative 11.7% in the prior year.

The following summarizes operating results variances by major element:

(in millions of dollars)	2008	**2009**	Variance favourable (unfavourable)
EBITDA	(72)	**(67)**	5
Depreciation and amortization	39	**24**	15
Other items	(21)	**(3)**	(18)
Operating loss	(90)	**(88)**	2

The Forest Products segment generated an operating loss of $88 million in fiscal 2009, compared to an operating loss of $90 million in fiscal 2008. As a result of fresh start accounting, the carrying values of the Forest Products' fixed assets were reduced and depreciation expense declined by $15 million in fiscal 2009. The prior year results included a non-recurring gain of $16 million on the sale of land.

PULP

(in millions of dollars)

	2008	2009
Total sales	1,410	**1,010**
Consolidated sales	1,343	**932**
EBITDA	118	**(61)**
EBITDA margin on total sales	8.4%	**(6.0)%**
Depreciation and amortization	62	**44**
Other items	(3)	**(4)**
Operating earnings (loss)	59	**(101)**
Identifiable assets (excluding cash)	979	**833**

The Pulp Group consisted of nine market pulp manufacturing facilities operating at eight sites. The facilities are divided into two main types. Seven paper pulp mills produce softwood kraft, hardwood kraft and high-yield pulps. Two specialty pulp mills produce specialty cellulose, fluff and dissolving pulps. Eight of the pulp mills are wholly-owned and the Company had a 50% joint venture position in the Marathon, Ontario softwood kraft pulp mill. On February 13, 2009, the Marathon Pulp Inc. joint venture filed a notice of intention to make a proposal under the Bankruptcy and Insolvency Act. As a result of the filing, the Company concluded that it had lost joint control over Marathon Pulp Inc. and ceased to apply the proportionate consolidation method to account for its 50% interest in the joint venture.

The paper pulp mills can produce approximately 1,740,000 tonnes per year, including the Marathon volume. The two specialty pulp mills can produce approximately 320,000 tonnes per year.

The following summarizes the annual operating levels of each facility by product group:

PAPER PULPS	**tonnes**
Softwood kraft – Skookumchuck, BC	270,000
Softwood kraft – Tarascon, France	260,000
Softwood kraft – Marathon, ON [1]	100,000
	630,000
Hardwood kraft – Saint-Gaudens, France	305,000
Hardwood high-yield – Temiscaming, QC	315,000
Hardwood high-yield – Matane, QC	250,000
Hardwood high-yield – Chetwynd, BC	240,000
	805,000

SPECIALTY PULPS	
Specialty cellulose – Temiscaming, QC	165,000
Specialty cellulose / fluff – Tartas, France	155,000
	320,000

TOTAL	2,060,000

(1) 50% of current annual capacity. On February 13, 2009, Marathon filed a notice of intention to make a proposal under the Bankruptcy and Insolvency Act. As a result of the filing, the Company concluded that it had lost joint control over Marathon and ceased to apply the proportionate consolidation method to account for its 50% interest in the joint venture.

The segment is dominated by paper pulps, which represented 82% of total pulp shipments in fiscal 2009, compared to 84% in the prior year. The volume of paper pulps shipped in fiscal 2009 declined by 26%. Shipments were equal to 67% of capacity, down from 86% in the prior year. In response to very low demand in the first half of the fiscal year, the Company undertook record amounts of production curtailments at all of its facilities. In total, the Company incurred 368,100 tonnes of paper pulp downtime as compared to 23,400 in the prior year. In addition, the Marathon Pulp bankruptcy led to a sales decline of 62,100 tonnes from that facility. Despite the relatively weak demand, the Company was successful in reducing its inventory levels. Fiscal 2009 began with 135,900 tonnes in inventory, representing 28 days of supply versus only 48,300 or 11 days of supply at the end of the fiscal year. The average selling prices of the principal grades of paper pulps declined by between $193 per tonne to $81 per tonne versus the prior year. The lower prices were the result of significantly lower US $ reference prices for all grades of paper pulps, partially offset by a weaker Canadian dollar, which averaged 14% lower versus the US dollar.

Specialty pulps shipments represented 18% of total pulp shipments in fiscal 2009, compared to 16% in the prior year. The volume of specialty pulps shipped in fiscal 2009 declined by 19%. Shipments were equal to 74% of capacity versus 92% in the prior year. In response to lower demand, the Company undertook 18,400 tonnes of market curtailments to maintain target inventory levels. Reduced daily operating rates also contributed to the lower shipments. Inventory levels remained stable. Fiscal 2009 began with 32,200 tonnes in inventory and the year ended with the same tonnage in inventory. The average selling price for the various grades of specialty pulp increased by $171 per tonne versus the prior year. The weaker Canadian dollar, which averaged 14% lower versus the US dollar, was the principal cause of the price increase.

Total 2009 shipments of 1,348,400 tonnes include 51,200 tonnes of high-yield pulp and 35,000 tonnes of softwood kraft pulp consumed by the Company's paperboard operations as compared to 55,500 tonnes and 19,700 tonnes respectively in the prior year. Overall, internal pulp consumption increased by 11,000 tonnes. The prior year consumption was less because of lower production at the paperboard operations.

Total sales for the Pulp segment reached $1,010 million, a decrease of $400 million from the prior year. After eliminating internal sales, the Pulp segment generated 52% of Company consolidated sales, down from 57% in the prior year. The Pulp segment is more global than the other business segments within Tembec. In 2009, 79% of consolidated pulp sales were generated outside of Canada and the U.S., as compared to 83% in the prior year.

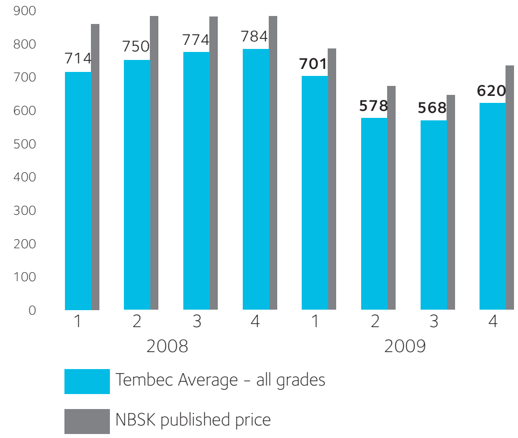
	Sales ($ millions)		Shipments (000 units)		Selling prices ($ / unit)	
	2008	**2009**	2008	**2009**	2008	**2009**
Paper pulps						
Softwood kraft	419	**278**	544.7	**414.4**	769	**671**
Hardwood kraft	184	**142**	257.7	**236.2**	714	**601**
Hardwood high-yield	449	**259**	699.3	**461.3**	642	**561**
	1,052	**679**	1,501.7	**1,111.9**		
Specialty pulps	317	**296**	293.2	**236.5**	1,081	**1,252**
Total pulp sales	1,369	**975**	1,794.9	**1,348.4**		
Other sales	41	**35**				
Total sales	1,410	**1,010**				
Internal sales	(67)	**(78)**	(75.2)	**(86.2)**		
Consolidated sales	1,343	**932**	1,719.7	**1,262.2**		

MARKETS

The Company markets its pulp on a world-wide basis, primarily through its own sales force. The Pulp Group maintains sales or representative offices in Toronto, Canada, Toulouse, France, San Sebastian, Spain, and Beijing, China.

As noted previously, average paper pulp selling prices decreased in fiscal 2009. The benchmark NBSK pulp price (delivered U.S.) began the year at US $870 per tonne and experienced a continuous series of price decreases, which bottomed out in April 2009 at US $635 per tonne. The precipitous drop in price was accompanied by a drop in demand as well, leading to record amounts of market downtime. During the second half of the year, the reference price increased back to US $770 per tonne. Demand for paper pulps also improved during this period. The benchmark average price was US $709 per tonne for fiscal 2009, down considerably from US $875 per tonne in the prior year. As noted previously, the net $ price effect was partially offset by the weaker Canadian dollar. Specialty pulp markets were more resilient in fiscal 2009. Despite weaker demand, US $ prices held up for most grades and the Company was able to capture the benefit of the weaker Canadian dollar.

QUARTERLY PRICES
(US $ per tonne)



OPERATING RESULTS

The following summarizes EBITDA variances by major business:

	Variance – favourable (unfavourable)						
(in millions of dollars)	Price	Mix & volume	Mill costs	Inventory NRV adjustments	Foreign exchange impact on costs	Other	TOTAL
Paper pulps	(104)	(29)	(5)	(5)	(15)	(7)	(165)
Specialty pulps	37	–	(23)	(3)	(6)	(3)	2
Other segment costs	–	–	–	–	–	(16)	(16)
	(67)	(29)	(28)	(8)	(21)	(26)	(179)

Fiscal 2009 EBITDA was negative $61 million compared to positive $118 million in the prior year. The previously noted decline in paper pulp selling prices reduced EBITDA by $104 million while specialty pulp pricing provided a partial offset. Mix and volume variances reduced EBITDA by $29 million, primarily due to the decline in paper pulp shipments. Paper pulp mill level costs increased by only $5 million despite record amounts of production curtailments. Lower fibre and energy prices mitigated the negative impact of under-absorbed fixed costs such as labour and overheads. Specialty pulp mill level costs increased by $23 million, primarily due to the Temiscaming mill which saw higher fibre costs as well as under-absorbed labour and fixed costs resulting from production curtailments and reduced daily operating rates. The lower paper pulp prices and higher specialty pulp costs generated the $8 million in unfavourable net realizable value (NRV) adjustments on the carrying values of inventories. The restatement of the euro costs of the two French paper pulp mills and the specialty pulp mill increased Canadian $ equivalent costs by $21 million as the relative value of euro averaged higher versus the Canadian dollar. Other Pulp segment costs increased by $16 million. The lower sales volume led to an under-absorption of $7 million of Pulp segment fixed selling costs. Higher freight costs generated a negative variance of $3 million.

The six North American pulp mills purchased approximately 1.3 million bone dry tonnes of wood chips in fiscal 2009, down from 1.8 million in the prior year. Of this amount, approximately 44% was supplied by the Forest Products Group, compared to 48% in the prior year. The remaining requirements were purchased from third parties under contracts and agreements of various durations. The three pulp mills located in Southern France purchased 1.2 million bone dry tonnes of wood in fiscal 2009 as compared to 1.5 million tonnes in the prior year. The fibre is mainly sourced from many private landowners.

Overall, higher manufacturing costs and lower prices led to EBITDA margins of negative 6.0% compared to positive 8.4% in the prior year.

The following summarizes operating results variances by major element:

(in millions of dollars)	2008	**2009**	Variance favourable (unfavourable)
EBITDA	118	**(61)**	(179)
Depreciation and amortization	62	**44**	18
Other items	(3)	**(4)**	1
Operating earnings (loss)	59	**(101)**	(160)

The Pulp segment generated an operating loss of $101 million during the most recently completed fiscal year, compared to operating earnings of $59 million in the year ago period. As a partial offset to the previously noted decrease in EBITDA, the segment depreciation expense declined by $18 million. In February 2008, the Company applied fresh start accounting and the carrying values of the Pulp segment's fixed assets were reduced.

PAPER

(in millions of dollars)

	2008	2009
Consolidated sales	435	**452**
EBITDA	(9)	**27**
EBITDA margin	(2.1)%	**6.0%**
Depreciation and amortization	17	**3**
Other items	(1)	**2**
Operating earnings (loss)	(25)	**22**
Identifiable assets (excluding cash)	170	**126**

The Paper segment includes three paper manufacturing facilities with a total of six paper machines. The mills located in Kapuskasing, Ontario and Pine Falls, Manitoba produce newsprint. The facility located in Temiscaming, Quebec produces multi-ply bleached coated paperboard. The paperboard mill is partially integrated with a high-yield pulp mill and also consumes pulp manufactured by the Company at other sites. The total capacity of the Paper Group is 695,000 tonnes. Beginning in fiscal 2008, the Paper segment includes the financial results of a hydro-electric dam located in Smooth Rock Falls, Ontario.

The following summarizes the products and operating levels of each facility by main type:

NEWSPRINT	**tonnes**
Kapuskasing, ON	330,000
Pine Falls, MB	185,000
	515,000

SPECIALTY PAPER	
Coated paperboard – Temiscaming, QC	180,000

TOTAL	695,000

The segment is dominated by newsprint, which represented 53% of Paper segment shipments in fiscal 2009, compared to 60% in the prior year. The volume of newsprint shipped in fiscal 2009 declined by 22%. Shipments were equal to 62% of capacity, down from 79% in the prior year. In response to continued decreases in the North American demand for newsprint, the Company continued to curtail production at both of its facilities. In total, the Company incurred 167,900 tonnes of market-related downtime compared to 79,800 tonnes in the prior year. A further 12,500 tonnes of newsprint production were lost in fiscal 2009 as a result of a work stoppage at the Pine Falls, Manitoba newsprint mill. The unionized employees were locked-out in early September after the Company was not successful in negotiating a new labour contract. Despite the weak market environment, the Company was successful in maintaining inventory levels. Fiscal 2009 began with 10,500 tonnes of newsprint inventory versus 11,400 tonnes at the end of the fiscal year. The average selling price of newsprint increased by $107 per tonne. While US $ reference prices averaged slightly lower, the weaker Canadian dollar, which averaged 14% lower versus the US dollar, generated higher selling prices for Canadian newsprint producers.

Coated paperboard shipments represented 46% of Paper segment shipments in fiscal 2009, compared to 39% in the prior year. The volume of paperboard shipments increased by 4%. Shipments were equal to 88% of capacity versus 85% in the prior year. While shipments increased, it was still not sufficient to ensure full operations and the Company undertook 9,200 tonnes of market downtime, although this represented a decrease from 20,200 tonnes taken in the prior year. The improvement in demand allowed the Company to reduce inventory levels as well. Fiscal 2009 began with 40,300 tonnes in inventory and ended with 20,000 tonnes of finished paperboard in inventory. The average selling price of paperboard products increased by $212 per tonne as it benefited from the combined effect of higher US $ reference prices and the previously noted weaker Canadian dollar.

Total sales for the Paper segment reached $452 million, as compared to $435 million in the prior year. The segment generated 25% of Company consolidated sales, an increase from 18% in fiscal 2008. The focus of the paper business is North America, which accounted for 94% of consolidated sales in 2009, compared to 93% in the prior year. The U.S. alone accounted for 77% of sales, unchanged from 2008.

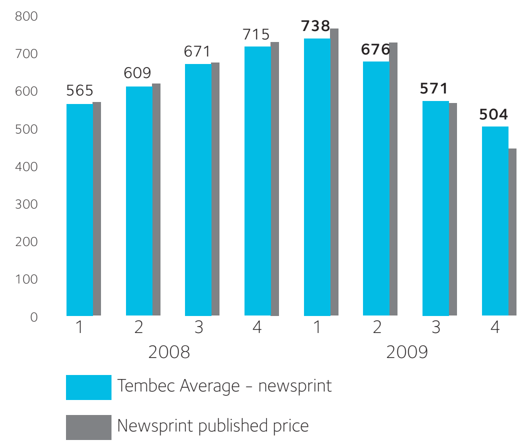
	Sales ($ millions)		Shipments (000 units)		Selling prices ($ / unit)	
	2008	**2009**	2008	**2009**	2008	**2009**
Newsprint	262	**239**	405.2	**316.8**	647	**754**
Coated paperboard	170	**210**	153.0	**158.7**	1,111	**1,323**
Electricity sales	3	**3**				
Consolidated sales	435	**452**	558.2	**475.5**		

MARKETS

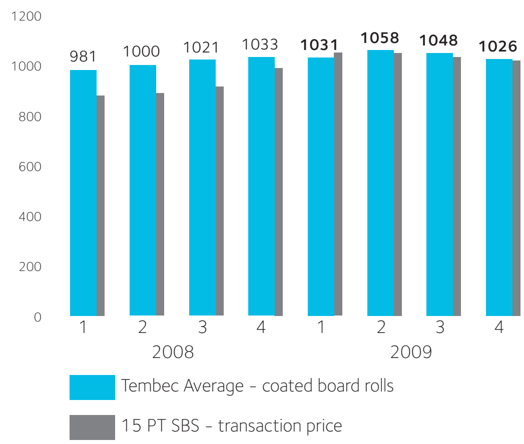
As noted previously, newsprint prices increased in fiscal 2009. The benchmark newsprint grade (48.8 gram – East Coast) began the year at US $745 per tonne and maintained this level until January 2009, at which point it began to decline, culminating in a precipitous drop during the summer months of 2009. It reached bottom in August at US $435 per tonne, a 42% decline in the span of 11 months. It ended fiscal 2009 at US $445 per tonne. Despite this significant drop in the last half of the year, the average reference price for newsprint was US $625 per tonne in fiscal 2009, down by only US $21 per tonne from the US $646 per tonne average of fiscal 2008. The weaker Canadian dollar accounted for the overall improvement in Canadian $ newsprint prices.

The benchmark for coated bleached boxboard (15 point) averaged US $1,038 per short ton in fiscal 2009, a US $119 per short ton increase over the prior year. The improved US $ reference prices were assisted by the weaker Canadian dollar and average prices for coated paperboard increased by $212 per tonne.

QUARTERLY PRICES
(US $ per tonne)



QUARTERLY PRICES
(US $ per short ton)



OPERATING RESULTS

The following summarizes EBITDA variances by major business:

	Variance – favourable (unfavourable)				
(in millions of dollars)	Price	Mix & volume	Mill costs	Other	TOTAL
Newsprint	34	–	(24)	(6)	4
Coated paperboard	35	–	(5)	2	32
	69	–	(29)	(4)	36

Fiscal 2009 EBITDA was positive $27 million compared to negative $9 million in the prior year. The previously noted increase in newsprint selling prices increased EBITDA by $34 million. However, higher newsprint manufacturing costs mitigated a large portion of this favourable variance. At the mill level, energy costs increased by $11 million, largely due to higher effective rates for purchased electricity at the Kapuskasing newsprint mill. The remainder of the $24 million unfavourable variance, as well as the $6 million unfavourable other cost newsprint variance, relates primarily to under-absorption of fixed costs due to the previously noted increase in market downtime and lower daily production rates.

Higher coated paperboard prices increased EBITDA by $35 million. Overall, manufacturing costs were relatively unchanged.

The Paper Group's two newsprint mills utilize virgin fibre, primarily in the form of wood chips. During fiscal 2009, the operations purchased 334,000 bone dry tonnes of virgin fibre, of which approximately 85% was internally sourced. In the prior year, they had purchased 407,000 bone dry tonnes of virgin fibre, with 85% being sourced internally. The operations in Kapuskasing and Pine Falls can produce newsprint that contains recycled fibre. In 2008, these two facilities consumed 6,400 tonnes of wastepaper. Due to the significant increase in demand and price for wastepaper, the Company ceased its utilization in fiscal 2008 and there was no consumption in fiscal 2009.

Overall, the higher prices more than offset the higher costs and EBITDA margins improved from negative 2.1% to positive 6.0%.

The following summarizes operating results variances by major element:

(in millions of dollars)	2008	**2009**	Variance favourable (unfavourable)
EBITDA	(9)	**27**	36
Depreciation and amortization	17	**3**	14
Other items	(1)	**2**	(3)
Operating earnings (loss)	(25)	**22**	47

The Paper segment generated operating earnings of $22 million compared to an operating loss of $25 million in the prior year. In addition to the previously noted improvement in EBITDA, the segment depreciation expense declined by $14 million. In February 2008, the Company applied fresh start accounting and the carrying values of the Paper segment's fixed assets were reduced.

CHEMICALS

(in millions of dollars)

	2008	2009
Total sales	130	**98**
Consolidated sales	126	**98**
EBITDA	9	**10**
EBITDA margin on total sales	6.9%	**10.2%**
Depreciation and amortization	3	**2**
Other items	-	**1**
Operating earnings	6	**7**
Identifiable assets (excluding cash)	50	**38**

The Chemicals segment operates in three main areas of activity: resins, lignin and ethanol.

The resin business produces powder and liquid phenolic resins at three operating sites in Quebec: Temiscaming, Longueuil and Trois-Pistoles. The Company also operates a fourth manufacturing operation located in Toledo, Ohio which manufactures powder and liquid amino-based resins and distributes other products such as melamine. The Longueuil operation also produces formaldehyde, both for internal resin production and external sales.

The lignin business uses residual sulphite liquor produced by the specialty pulp mills located in Temiscaming, Quebec and Tartas, France. Lignin products are sold in liquid form and are also converted into powder by utilizing spray dryers. As well, the Group operates an ethanol plant located in Temiscaming, Quebec. The lignin and ethanol businesses effectively convert pulp mill residuals into value-added products. The segment also purchases and resells pulp mill by-product chemicals from third parties. These sales are included in "Other chemicals".

	Sales ($ millions)		Shipments (000 units)		Selling prices ($ / unit)	
	2008	2009	2008	2009	2008	2009
Resins and related products (tonnes)	78	**51**	83.1	**55.3**	937	**922**
Lignin (tonnes)	41	**35**	181.9	**132.6**	225	**264**
Ethanol (000 litres)	8	**9**	10.1	**10.9**	792	**826**
Other chemicals	3	**3**				
Total sales	130	**98**				
Internal sales	(4)	**-**				
Consolidated sales	126	**98**				

MARKETS

Chemical products are sold primarily in North America with sales representing 75% of consolidated segment sales in 2009, compared to 79% in 2008. Resin products, which accounted for 52% of total chemical sales, are designed for the OSB industry and other specialty applications. The 33% decline in shipments is due largely to the current low demand for OSB, which, like SPF lumber, is being negatively impacted by the significant decline in housing starts. Lignin is sold as a binder, dispersant and surfactant for industrial markets such as animal feed, concrete admixture and carbon black. The 27% decline in shipments corresponds largely to the lower production levels of the two specialty pulp mills that generate lignin by-products. Ethanol is sold into the Canadian vinegar, hygiene and cosmetics markets. The Chemical Products Group sales represented 5% of consolidated sales in 2009, unchanged from the prior year.

OPERATING RESULTS

Despite the difficult housing environment noted previously, the Company was able to maintain prices for its resin products. Combined with cost reductions, resin EBITDA improved by $3 million. While the price for lignin products improved, lower volumes and higher costs more than offset the increase and EBITDA declined by $2 million. Operating earnings in fiscal 2009 were $7 million, up from $6 million in the prior year.

Financial Position and Liquidity

FREE CASH FLOW
(in millions of dollars)

	2008	2009
Cash flow from operations before working capital changes	(61)	**(132)**
Net fixed asset additions	(63)	**(42)**
Free cash flow (negative)	(124)	**(174)**

Cash flow from operations before working capital changes in fiscal 2009 was negative $132 million, a $71 million decline from fiscal 2008. The decrease was caused by the $129 million decline in EBITDA. Offsetting positive items included a $17 million income tax refund related to the Company's French operations, an $18 million reduction in interest expense and a $10 million reduction in excess pension contributions.

In fiscal 2009, non-cash working capital items generated $71 million as compared to $33 million used in the prior year period. The decrease in selling prices and volumes in all of the Company's business segments generated a $82 million decline in accounts receivables. A $86 million decline in inventories was generated by a planned reduction in the Pulp Group as well as market-related production curtailments in the Forest Products and Paper segments. The $103 million reduction in accounts payable was due to reduced production activity combined with payments of $23 million to settle obligations in relation to the bankruptcy of the Temlam engineered wood joint venture. As of September 2009, an amount of $23 million is included in accounts receivable. The Company holds a first ranking security interest on the Temlam fixed assets. After allowing for net fixed asset additions of $42 million, free cash flow in fiscal 2009 was negative $174 million versus a negative amount of $124 million in the prior year.

CAPITAL SPENDING
(in millions of dollars)

	2008	2009
Forest Products	8	**6**
Pulp	49	**31**
Paper	5	**4**
Chemicals	2	**1**
Corporate	(1)	**-**
Net fixed asset additions	63	**42**
As a % of total sales	2.4%	**2.1%**
As a % of fixed asset depreciation	53%	**58%**

In response to relatively low EBITDA and significant operating losses brought on by challenging market conditions and export taxes on lumber shipped to the U.S., the Company has continued to limit capital expenditures. During fiscal 2009, net fixed asset additions totalled $42 million compared to $63 million in the prior year period. The Company estimates that annual capital expenditures of $50 million to $60 million are required to adequately maintain its facilities.

Significant capital expenditures in fiscal 2009 included an amount of $13 million to complete the installation of a condensing turbine and a 12-megawatt electrical generator at the Tarascon paper pulp mill. The $19-million project was completed in the fourth quarter of fiscal 2009 and will reduce energy costs at the mill in fiscal 2010.

Significant capital expenditures in fiscal 2008 included an amount of $17 million to complete the construction of a new $48-million biomass/bark boiler at the Tartas specialty pulp mill. The new boiler was put into service in the fourth quarter of fiscal 2008 and reduced purchased fossil fuel costs at this facility. An investment of $6 million was made to begin the installation of the condensing turbine and electrical generator at the Tarascon paper pulp mill.

On October 9, 2009, the Company was advised that it had qualified for $24 million of credits under the federal government's Pulp and Paper Green Transformation Program. The credits can be used to finance capital projects that generate environmental benefits, including investments in energy efficiency or the production of renewable energy from forest biomass. The Company has identified several high-returning projects that should qualify for this program and will be submitting them for qualification in the near future.

ACQUISITIONS, INVESTMENTS AND DIVESTITURES

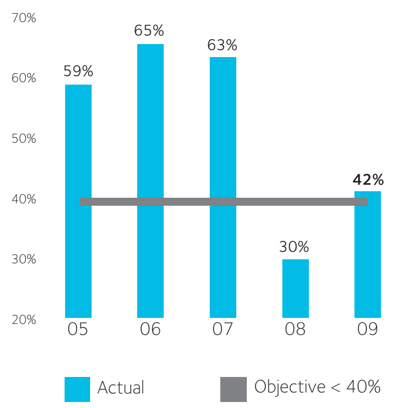
During fiscal 2009, reduced participation in joint ventures generated $18 million. As the result of a filing under the Bankruptcy and Insolvency Act by the Marathon Pulp joint venture in February 2009, the Company ceased to proportionately consolidate its 50% of the joint venture's assets and liabilities. As the Company's share of Marathon's net bank indebtedness was $8 million at the time of the filing, cash and cash equivalents increased by the same amount. In September 2009, the Company completed the sale of its 50% interest in Temrex and net cash increased by $10 million.

In April 2009, the Company sold the St. Francisville, Louisiana mill site and production equipment for total consideration of US $16 million, of which $7 million was cash.

During fiscal 2008, the Aditya Birla Group purchased 20% of the Company's remaining 25% equity interest in the issued and outstanding shares of both AV Cell Inc. and AV Nackawic Inc. for total consideration of $9 million. A $7 million loan previously made to AV Cell Inc. was also reimbursed. As well, the Company disposed of several parcels of land for total consideration of $17 million. The land was of relatively high value and was better suited to commercial development then to long-term forestry and timber harvesting.

FINANCING ACTIVITIES

NET DEBT TO TOTAL CAPITALIZATION



Net debt to total capitalization stood at 42% at September 2009, an increase of 12% from 30% at September 2008. The fiscal 2009 reported net loss led to the higher leverage. As part of its long-term strategy, the Company has resolved to maintain its percentage of net debt to total capitalization to 40% or less. The objective of the plan is to keep a strong balance sheet and maintain the ability of the Company to access capital markets at favourable rates. The Company remains committed to this program.

LONG-TERM DEBT
(in millions of dollars)

	2008	2009
Tembec Industries – US $300 million bearing interest at LIBOR (+700 basis points) or prime (+600 basis points) rate – February 2012	310	**328**
Tembec Inc. – 6% unsecured notes – September 2012	16	**12**
Tembec SAS debt	19	**6**
Tembec Envirofinance SAS debt	27	**30**
Tembec Energie SAS debt	9	**8**
Bioenerg SAS debt	–	**8**
Proportionate share of Marathon debt (50%)	5	**-**
Other debt	10	**10**
	396	**402**
Current portion included in above	18	**19**

As part of the financial recapitalization that occurred in February 2008, the Company entered into a loan agreement with various lenders for a non-revolving term loan of US $300 million due February 28, 2012. The facility is secured by a charge on the assets of the Company's material North American operations, including a first priority charge on all assets except receivables and inventories, where it has a second priority charge. The increase of $18 million relates to the translation of the debt into its Canadian dollar equivalent. The ending exchange rate for the Canadian dollar in fiscal 2009 was US $0.916, compared to US $0.968 at the end of the prior year.

As part of the financial recapitalization, the Company issued $18 million of 6% unsecured notes having a maturity of September 30, 2012. These notes are subject to an amortization schedule and the amount of $4 million was repaid in fiscal 2009, compared to $2 million in the prior year.

Tembec SAS debt declined by $13 million as a term loan secured by an anticipated income tax refund was repaid when the refund was received in fiscal 2009.

As noted previously, the Company is no longer consolidating its proportionate share of the Marathon financial results.

At the end of September 2009, the Company had net cash of $105 million plus unused operating lines of $65 million. At the date of the previous audited financial statements, the Company had net cash of $112 million and unused operating lines of $207 million. The Company defines "operating lines" to include loans of various durations which are secured by charges on accounts receivable and/or inventories. Operating lines are used primarily to fund short-term requirements associated with both seasonal and cyclical inventory increases which can occur in the Company's business segments. The Company would not normally draw on the operating lines to fund capital expenditures or normal average working capital requirements. The operating lines are established across multiple entities and jurisdictions to ensure they meet the needs of the various operating units.

The following table summarizes the unused operating lines by major area at the end of the last two fiscal years:

OPERATING LINES - UNUSED
(in millions of dollars)

	2008	2009
Canadian operations	157	**14**
U.S. / French operations	46	**51**
Proportionate share of joint ventures	4	**-**
	207	**65**

At the beginning of fiscal 2008, the Company's Canadian operations had in place a committed revolving working capital facility of $250 million maturing in December 2009. The amount available on the $250-million facility (borrowing base) was $229 million, of which $135 million was unused. As part of the financial recapitalization that occurred on February 29, 2008, the Company negotiated a new $205-million revolving working capital facility maturing in December 2011. The new facility has a first priority charge over the receivables and inventory and a second priority charge over the remainder of the assets of the Company's significant North American operations. As of the end of September 2009, the amount available on the $205-million facility (borrowing base) was $150 million, of which an amount of $14 million was unused. CIT Business Credit Canada Inc. (CITBCC) is the agent and the lender holding the largest commitment ($100 million) of the aforementioned facility. CITBCC is jointly owned by Canadian Imperial Bank of Commerce (CIBC) and CIT Group, Inc. (CIT). On November 1, 2009, CIT filed under Chapter 11 bankruptcy protection from creditors in the United States and announced a pre-packaged plan of reorganization for CIT and a subsidiary that will restructure its debt and streamline its capital structure. None of CIT's operating subsidiaries were included in this filing. While the Company understands that CITBCC has separate and adequate funding, the Company decided it was prudent to draw a further $45 million under this facility in July 2009.

The French operations are supported by several mill specific "receivable factoring" agreements. As such, the borrowing base fluctuates periodically, depending on shipments and cash receipts. As at September 26, 2009, the amount available was $73 million, of which an amount of $51 million was unused.

COMMON SHARES

(in millions)

	2008	**2009**
Shares outstanding - opening	85.6	**100.0**
Financial recapitalization		
- Conversion of existing equity	(85.6)	**-**
- Issued to existing equity	5.0	**-**
Financial recapitalization		
- Issued to unsecured senior noteholders	95.0	**-**
Shares outstanding - ending	100.0	**100.0**

On December 19, 2007, the Company announced a proposed financial recapitalization transaction. On February 22, 2008, the transaction was approved by the Company's shareholders and the holders of its unsecured senior notes (the noteholders). On February 29, 2008, the financial recapitalization was implemented. The following were key elements of the plan:

- Conversion of US $1.2 billion of unsecured senior notes into equity of the Company;
- The noteholders received 88% of the equity of the Company in full settlement of their notes;
- An additional 7% of the equity was allocated to noteholders who backstopped a new US $300 million four-year term loan;
- Existing shareholders received 5% of the equity of the Company and 11,111,111 warrants to acquire common shares of the Company.

The warrants are convertible into an equal amount of common shares and expire on February 29, 2012. They shall be deemed to be exercised and shall be automatically converted into common shares of the Company when the 20-day volume-weighted average trading price of a single common share reaches or exceeds $12 or immediately prior to any transaction that would constitute a change of control.

In addition to the previously noted warrants, an additional 185,031 shares may be issued pursuant to options granted under the prior Long-Term Incentive Plan (LTIP). The exercise price of the options ranges from $16.61 per share to $306.85 per share with expiry dates from 2010 to 2016. As at September 26, 2009, 149,103 options were exercisable. At the end of the prior year, 201,456 shares were issuable pursuant to options. The exercise price of the options ranged from $16.61 per share to $306.85 per share and a total of 135,465 were exercisable.

CONTRACTUAL OBLIGATIONS

(in millions of dollars)

	Total	Within 1 year	2 - 3 years	4 - 5 years	After 5 years
Long-term debt	409	21	353	18	17
Interest on long-term debt	64	26	36	1	1
Operating leases	23	6	9	4	4
Purchase obligations	181	73	67	19	22
Pension obligations:					
Normal cost	171	10	21	22	118
Contractual	109	13	35	26	35
	957	149	521	90	197

The table above shows the Company's contractual obligations as at September 26, 2009. The Company has long-term debt with contractual maturities and applicable interest. The operating lease obligations relate primarily to property and equipment rentals entered into in the normal course of business. Purchase obligations relate to ongoing normal commercial commitments to purchase timber, wood chips, energy, chemicals and other operating inputs. They also include outstanding obligations relating to capital expenditures. Pension obligations have two components. The normal cost obligations are limited to a ten-year period and are based on estimated future employee service for existing registered defined benefit plans. Contractual obligations include estimated solvency and going concern amortization payments.

2008 vs. 2007

FINANCIAL SUMMARY

(in millions of dollars, unless otherwise noted)

	2007	Five months to February 29, 2008	Seven months to September 27, 2008
Sales	2,750	950	1,426
EBITDA	65	(17)	38
Depreciation and amortization	173	72	51
Other items	(227)	(20)	(5)
Operating earnings (loss)	119	(69)	(8)
Net earnings (loss) from continuing operations	150	(98)	(41)
Net loss	(49)	(102)	(48)
Net loss per share - basic	(0.58)	(1.19)	(0.48)
Diluted loss per share	(0.58)	(1.19)	(0.48)
Total assets (at year end)	2,655	N/A	1,619
Total long-term debt (at year end) [1]	1,340	N/A	396

[1] includes current portion

Sales decreased by $374 million as compared to the prior year. The decline was the result of lower sales volumes in all segments. Pricing in all segments was negatively impacted by currency as the Canadian dollar averaged US $0.991, a 10% increase from US $0.900 in the prior year. Forest Products segment sales declined by $215 million as a result of lower prices and shipments. Pulp segment sales decreased by $48 million as a result of lower shipments, partially offset by higher prices. Paper segment sales declined by $74 million as a result of lower selling prices and shipments.

EBITDA declined by $44 million over the prior year. The Forest Products segment's EBITDA declined by $4 million as lower prices more than offset the impact of lower costs. The segment benefited from a $20 million favourable adjustment to the carrying values of log and lumber inventories as increasing lumber selling prices led to higher projected net realizable values. The Pulp segment's EBITDA declined by $31 million as higher manufacturing costs, primarily fibre and energy related, exceeded the positive impact of higher selling prices. The Paper segment's EBITDA declined by $14 million as a result of lower prices.

OPERATING EARNINGS (LOSS)

(in millions of dollars)

	2007	2008	Total variance	EBITDA variance	Depreciation & amortization variance	Other items variance
Forest Products	129	(90)	(219)	(4)	17	(232)
Pulp	46	59	13	(31)	12	32
Paper	(27)	(25)	2	(14)	18	(2)
Chemicals	6	6	-	(1)	1	-
Corporate	(35)	(27)	8	6	2	-
	119	(77)	(196)	(44)	50	(202)

The Company generated an operating loss of $77 million compared to operating earnings of $119 million in the prior year. In addition to the previously noted $44 million deterioration in EBITDA, the balance of the decline related to unusual items. In the prior year, the Company recorded a credit of $238 million pertaining to the recovery of lumber export duties on deposit with the U.S. Department of Commerce. As a partial offset, depreciation expense declined by $50 million. In February 2008, the Company applied fresh start accounting and the carrying values of fixed assets were reduced by $804 million.

Interest on long-term debt declined by $70 million as a result of the Company's financial recapitalization. In the prior year, the Company had US $1.2 billion of senior unsecured notes in circulation. In December 2007, the Company announced the details of its proposed recapitalization transaction. During the months of January and February 2008, no interest was paid on the senior unsecured notes. On February 29, the notes were converted into new shares of Tembec and a new US $300-million term loan was put in place. In the prior year, the Company received a total of US $242 million as a refund of lumber duties. The refund was divided into two components in the financial statements. An amount of $238 million was credited to operating earnings and a further $30 million was shown as interest income.

During the five-month period ended February 29, 2008, the Company recorded a gain of $12 million on its US $ denominated debt as the relative value of the Canadian dollar increased from US $1.005 to US $1.016. During the same five-month period, the euro appreciated from C $1.419 to C $1.494 and the Company recorded a loss of $3 million on the translation of its euro-denominated debt. During the seven-month period ended September 27, 2008, the Company recorded a loss of $14 million on its new US $300-million loan as the relative value of the Canadian dollar decreased from US $1.016 to US $0.968. In addition, the Company recorded a loss of $1 million on the translation of its euro-denominated debt as the relative value of the euro increased from C $1.494 to C $1.509. In the prior year, the Company recorded a gain of $147 million on the translation of its US $ denominated debt as the relative value of the Canadian dollar increased from US $0.895 to US $1.005.

During the year ended September 2008, the Company recorded an income tax expense of $11 million on a pre-tax loss from continuing operations of $128 million. The income tax expense reflected a $52 million unfavourable variance versus an anticipated income tax recovery of $41 million based on the Company's effective tax rate of 31.9%. The non-recognition of period losses increased the income tax expense by $52 million. Based on past financial performance, future income tax assets of the Company's Canadian operations have been limited to the amount that is more likely than not to be realized.

During fiscal 2007, the Company recorded an income tax expense of $1 million on pre-tax earnings from continuing operations of $150 million. The income tax expense reflected a $49 million favourable variance versus an anticipated income tax expense of $50 million based on the Company's effective tax rate of 33.3 %. The non-taxable portion of the gain on translation of US $ denominated debt reduced the income tax expense by

$21 million. The recognition of prior period losses decreased the income tax expense by $20 million. Based on past financial performance, future income tax assets of the Company's Canadian operations have been limited to the amount that is more likely than not to be recovered. Finally, the rate differential between jurisdictions decreased the income tax expense by $10 million.

The financial results of the St. Francisville paper mill have been classified as discontinued operations. During the year ended September 2008, the operation generated a loss of $11 million. In the prior year, the facility had generated a loss of $199 million, including $173 million relating to asset impairment.

The Company generated a net loss of $102 million or $1.19 per share for the five-month period ended February 29, 2008 and a net loss of $48 million or $0.48 per share for the seven-month period ended September 27, 2008 compared to a net loss of $49 million or $0.58 per share in the prior year.

Risks and Uncertainties

FUTURE OPERATIONS

Current economic conditions combined with difficult market fundamentals for certain of the Company's principal products, namely lumber and newsprint, are negatively impacting EBITDA and cash flows from operations. Should these conditions deteriorate further or persist for an extended period of time, there is a risk that the Company's liquidity will decline to levels where it will not be able to discharge all its obligations as they become due. Management is monitoring the situation very closely. On a quarterly basis, updated rolling 12-month forecasts are prepared which include revised assumptions relating to product pricing and production levels, foreign exchange rates, operating cash flows, debt service costs, pension funding requirements and CAPEX. The ongoing availability of the Company's operating lines of credit is also analyzed.

In an effort to mitigate the impact of the current conditions, a list of liquidity enhancing initiatives totalling $100 million was developed in fiscal 2009. The majority of the initiatives relate to the sale of non-core assets. As of the date of this report, approximately $27 million has been achieved and it is anticipated that the remaining $73 million will be realized in fiscal 2010.

Management believes that effective and diligent management of its operations and financial resources will allow the Company to meet all of its obligations as they become due.

PRODUCT PRICES

The Company's financial performance is dependent on the selling prices of its products. The markets for most 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 additions, periods of decreased demand due to weak general economic activity, inventory de-stocking by customers, and fluctuations in currency exchange rates. During periods of low prices, the Company is subject to reduced revenues and margins, resulting in substantial declines in profitability and possibly net losses.

Based on 2010 planned sales volumes, the following table illustrates the approximate annual impact of changes to average Canadian dollar selling prices on after-tax earnings.

SELLING PRICE SENSITIVITY

	Impact on after-tax earnings ($ millions)	Average selling prices ($) Sept. 2009 quarter
Pulp - $25/tonne	28	686
Paper - $25/tonne	7	849
SPF lumber - $10/mbf	6	323

The Company's strategy is to mitigate price volatility by maintaining operations in three core sectors, namely wood products, pulp and paper; maintaining low cost, high quality flexible production facilities; establishing and developing long-term relationships with its customers; developing specialty niche products where possible. In addition, the Company may periodically purchase lumber, pulp and newsprint price hedges to mitigate the impact of price volatility. At September 26, 2009, the Company did not hold any product price hedges. At September 27, 2008, the Company held lumber futures equal to approximately 3% of its annual SPF lumber capacity. The fair value of the contracts was $1 million.

FOREIGN EXCHANGE

The Company's revenues for most of its products are affected by fluctuations in the relative exchange rates of the Canadian dollar, the US dollar and the euro. The prices for many products, including those sold in Canada and Europe are generally driven by US $ reference prices of similar products. The Company generates approximately $1.5 billion of US $ denominated sales annually from its Canadian and European operations. As a result, any decrease in the value of the US dollar relative to the Canadian dollar and the euro reduces the amount of revenues realized on sales in local currency. In addition, since business units purchase the majority of their production inputs in local currency, fluctuations in foreign exchange can significantly affect the unit's relative cost position when compared to competing manufacturing sites in other currency jurisdictions. This could result in the unit's inability to maintain its operations during periods of low prices and/or demand.

Based on 2010 planned sales volumes and prices, the following table illustrates the impact of a 1% change in the value of the US dollar versus the Canadian dollar and the euro. For illustrative purposes, an increase of 1% in the value of the US dollar is assumed. A decrease would have the opposite effects of those shown below.

FOREIGN EXCHANGE SENSITIVITY
(in millions of dollars)

Sales increase	15
Cost of sales increase	2
EBITDA increase	13
Interest expense increase	-
Cash flow increase	13
Loss on US $ debt translation	3
Pre-tax earnings increase	10
Tax expense increase	4
Net earnings increase	6

Direct US $ purchases of raw materials, supplies and services provide a partial offset to the impact on sales. This does not include the potential indirect impact of currency on the cost of items purchased in the local currency.

To further reduce the impact of fluctuations in the value of the US dollar, the Company has adopted a policy which permits hedging up to 50% of its anticipated US $ receipts for up to 36 months in duration. At September 26, 2009 and September 27, 2008, the Company did not hold any foreign exchange contracts.

OPERATIONAL RISKS

The manufacturing activities conducted by the Company's operations are subject to a number of risks including availability and price of fibre, competitive prices for purchased energy, a productive and reliable workforce, compliance with environmental regulations, maintenance and replacement/upgrade of process equipment to manufacture competitive quality products and the requirement to operate the manufacturing facilities at high rates of utilization and efficiency to maintain a competitive cost structure.

Fibre represents the Company's major raw material in the production of wood products, pulp and paper. In Canada, virgin fibre or timber is sourced primarily by agreements with provincial governments. The agreements are granted for various terms from five to 25 years and are generally subject to regular renewals every five years. The agreements incorporate commitments with respect to sustainable forest management, silvicultural work, forest and soil renewal, as well as cooperation with other forest users. In addition, the Company has undertaken, on a voluntary basis, to have its timber harvesting certified by the Forest Stewardship Council (FSC). The Company expects the agreements to be extended as they come up for renewal. 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 and for which they are seeking compensation from various levels of government. The Company has taken a proactive approach to enhance the economic participation of First Nations in its operations wherever feasible. The Company's operations in France source their fibre requirements from various private sources, primarily through long-term supply arrangements.

Energy is an important component of mill costs, especially for high-yield pulp mills and newsprint mills. In 2009, purchased energy costs totalled approximately $168 million, 60% of which was electricity. Electrical purchases are made primarily from large public utilities, at rates set by regulating bodies. In certain jurisdictions, electricity is deregulated which can lead to greater price volatility. To mitigate the effect of price fluctuations on its financial performance, the Company employs several tactics, including the securing of longer term supply agreements, the purchase of derivative financial instruments and operational curtailments in periods of high prices (load shedding). At September 2009 and September 2008, the Company did not hold any derivative financial instruments relating to purchased electricity. Fossil fuels, primarily natural gas, are purchased at market rates. The Company periodically purchases derivative financial instruments to hedge its exposure. At September 26, 2009 and September 27, 2008, the Company did not hold any natural gas hedges.

Nearly all the Company's manufacturing units have a unionized workforce. Over the past 30 years, the Company has successfully negotiated new collective agreements in nearly all instances, with relatively few work stoppages. At many of the Company's facilities, as well as those of the North American industry as a whole, we have seen reductions in employment levels resulting from technological and process improvements resulting in a workforce with more years of service. This increases the relative costs of pensions and benefits. At September 2009, the Company had approximately 4,300 hourly paid employees covered by collective bargaining agreements. At September 26, 2009, there were 17 agreements covering 1,400 employees that had expired. During fiscal 2010, a total of 18 agreements covering 1,700 employees will expire. The remaining contracts expire at various dates up to April 2012. The Company anticipates it will reach satisfactory agreements on contracts currently under active negotiations and those expiring in the future.

The Company's operations are subject to industry specific environmental regulations relating to air emissions, wastewater (effluent) discharges, solid waste, landfill operations, forestry practices, and site remediation. The Company has made significant progress in reducing the environmental impact of its operations over the last 15 years. 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.

The production of pulp and paper products is capital intensive. The Company estimates it must spend approximately $50 million to $60 million per year on capital expenditures to avoid degradation of its current operations.

Because of the relatively high fixed cost component of certain manufacturing processes, especially in pulp and paper, the operations are 24/7 with target efficiency in the 80-85% range. Failure to operate at these levels jeopardizes the continued existence of a mill. Producers are forced to operate the facilities at "full" rate even when demand is not sufficient to absorb all of the output. This can lead to over supply and lower prices, further increasing the inherent cyclicality of the industry.

TRADE RESTRICTIONS / LUMBER EXPORT TAXES

The Company's manufacturing operations are located primarily in Canada. However, sales into the Canadian market represented only 18% of consolidated sales in 2009. As such, the Company's financial results are highly dependant on its ability to sell its products into the "export" markets. Tariffs and trade barriers that reduce or prohibit the movement of our products across international borders constitute an ongoing risk. The agreement between Canada and the United States over softwood lumber is a case in point. In May 2002, the U.S. Department of Commerce initially assessed the Company with aggregate countervailing and antidumping duties at an average rate of 29%. On October 12, 2006, Canada and the United States entered into an agreement to govern the shipment of Canadian softwood lumber into the United States. As part of the agreement, the Company received a US $242-million payment on October 30, 2006, pertaining to the recovery of lumber duties on deposit with the Department of Commerce (DOC) that had accumulated since May 2002. The outcome was less than satisfactory. Through a combination of quotas and export taxes, the agreement will ensure that Canadian producers of softwood lumber will remain at a competitive disadvantage versus U.S. producers when it comes to accessing the U.S. market.

FINANCIAL RISKS / DEBT SERVICE

Of the total long-term debt of $402 million, 82% relates to a US $300-million term loan expiring February 2012. The term loan does not require periodic payments for principal amortization. Since the entire principal amount will become due on the maturity date, it is possible the Company will not have the required funds/liquidity to repay the principal due. The Company may require access to the public or private debt markets to issue new debt instruments to replace or partially replace the term loan. There is no assurance that the Company will be able to refinance this loan on commercially acceptable terms. The Company's objective is to maintain a relatively modest debt level and improve its financial results prior to the maturity of the term loan.

Evaluation of Disclosure Controls and Procedures

The Company's President and Chief Executive Officer and the Company's Executive Vice President, Finance and Chief Financial Officer have designed, or caused to be designed under their supervision, disclosure controls and procedures to provide reasonable assurance that material information relating to the Company has been made known to them and that information required to be disclosed in the Company's annual filings, interim filings or other reports filed by it or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified by applicable securities legislation. The Company's President and Chief Executive Officer and the Company's Executive Vice President, Finance and Chief Financial Officer have evaluated, or caused to be evaluated under their supervision, the effectiveness of the Company's disclosure controls and procedures and have determined, based on that evaluation, that such disclosure controls and procedures are effective at the financial year end.

Internal Control over Financial Reporting

The Company's President and Chief Executive Officer and the Company's Executive Vice President, Finance and Chief Financial Officer have designed, or caused to be designed under their supervision, internal control over financial reporting as defined under *National Instrument 52-109 – Certification of Disclosure in Issuer's Annual and Interim Filings*, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. The Company's President and Chief Executive Officer and the Company's Executive Vice President, Finance and Chief Financial Officer have evaluated, or caused to be evaluated under their supervision, the effectiveness of the Company's internal control over financial reporting and have determined, based on the criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and on this evaluation, that such internal controls over financial reporting are effective at the financial year end.

Changes in Internal Controls

During the period covered by this report, there have been no changes that have materially affected, or are reasonably likely to materially affect Tembec's internal control over financial reporting.

Oversight Role of Audit Committee and Board of Directors

The Audit Committee reviews the Company's annual MD&A and related financial statements with management and the external auditors, and recommends their approval to the Board. Management and the internal auditor of the Company also present periodically to the Committee a report of their assessment of the Company's internal controls and procedures for financial reporting. The external auditor periodically prepares for management a report on internal control weaknesses identified during the course of the auditor's annual audit, which is reviewed by the Audit Committee.

Additional Information

Additional information relating to Tembec, including the Annual Information Form, can be found on SEDAR at www.sedar.com and on the Company's website at www.tembec.com.

Management Responsibility

The consolidated financial statements and all information in the Financial Report are the responsibility of the Company's management. The consolidated financial statements have been prepared by management in accordance with Canadian Generally Accepted Accounting Principles (GAAP) and, where necessary, include amounts which are based on best estimates and judgement. Financial information presented throughout the Financial Report is consistent with the data presented in the consolidated financial statements.

A system of internal accounting and administrative controls is maintained by management in order to provide reasonable assurance that transactions are appropriately authorized, assets are safeguarded and financial records are properly maintained to provide accurate and reliable financial statements.

The Company's external auditors are responsible for auditing the consolidated financial statements and giving an opinion thereon. The external auditors also prepare for management a report on internal control weaknesses identified during the course of the annual audit. In addition, the Company employs internal auditors to evaluate the effectiveness of its systems, policies and procedures.

The Board of Directors has appointed an Audit Committee, consisting solely of independent directors, which reviews the consolidated financial statements and recommends their approval to the Board of Directors. The Committee meets periodically with the external auditors, the internal auditors and management to review their respective activities and the discharge of each of their responsibilities. Both the external and internal auditors have direct access to the Committee to discuss the scope of their audit work and the adequacy of internal control systems and financial reporting procedures.

The accompanying consolidated financial statements have been audited by the external auditors, KPMG LLP, whose report follows.

JAMES M. LOPEZ
President and Chief Executive Officer

MICHEL J. DUMAS
Executive Vice President, Finance and Chief Financial Officer

November 6, 2009