

Imperial Capital Investor Day

November 22, 2016



Rooted in tomorrow.

- James M. Lopez
 - President and Chief Executive Officer

- Michel J. Dumas
 - Executive Vice President and Chief Financial Officer

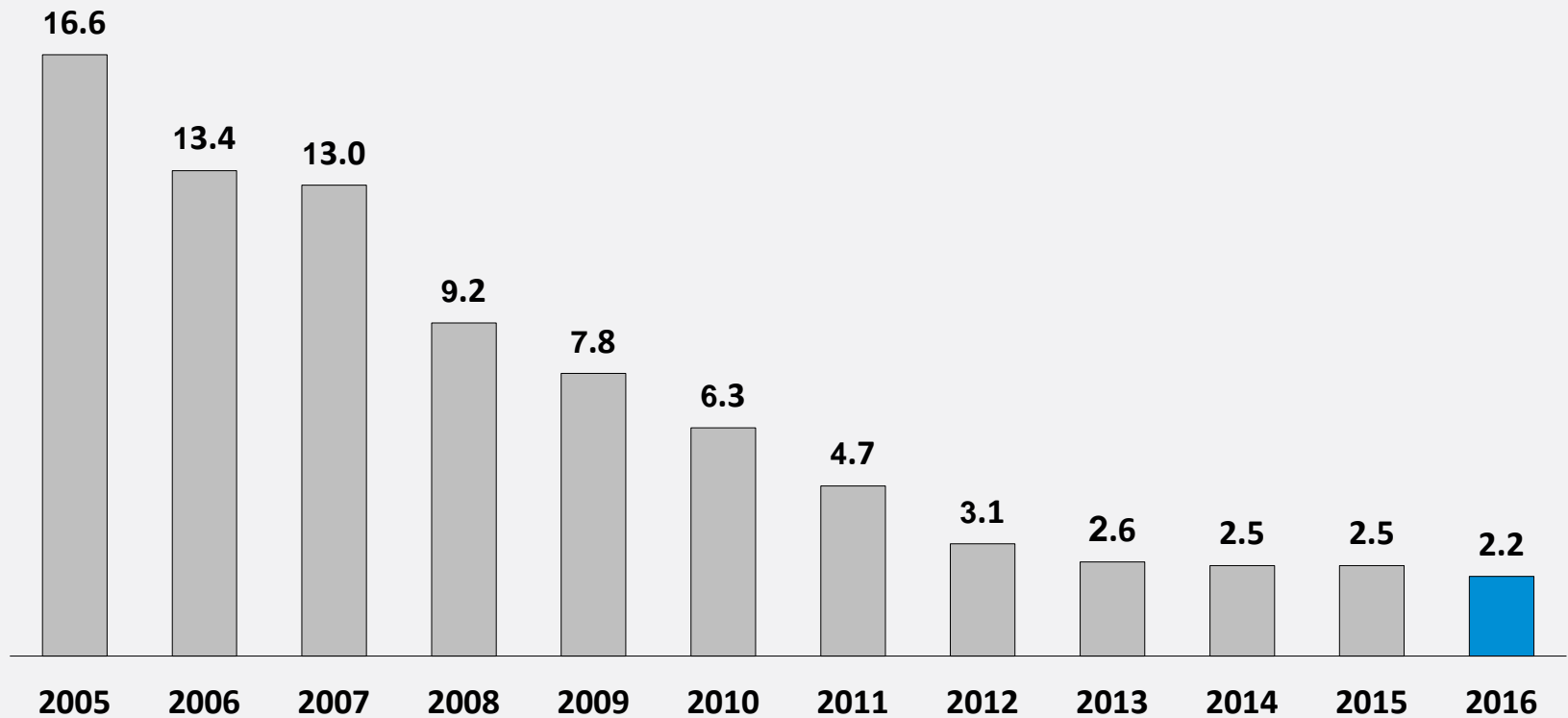
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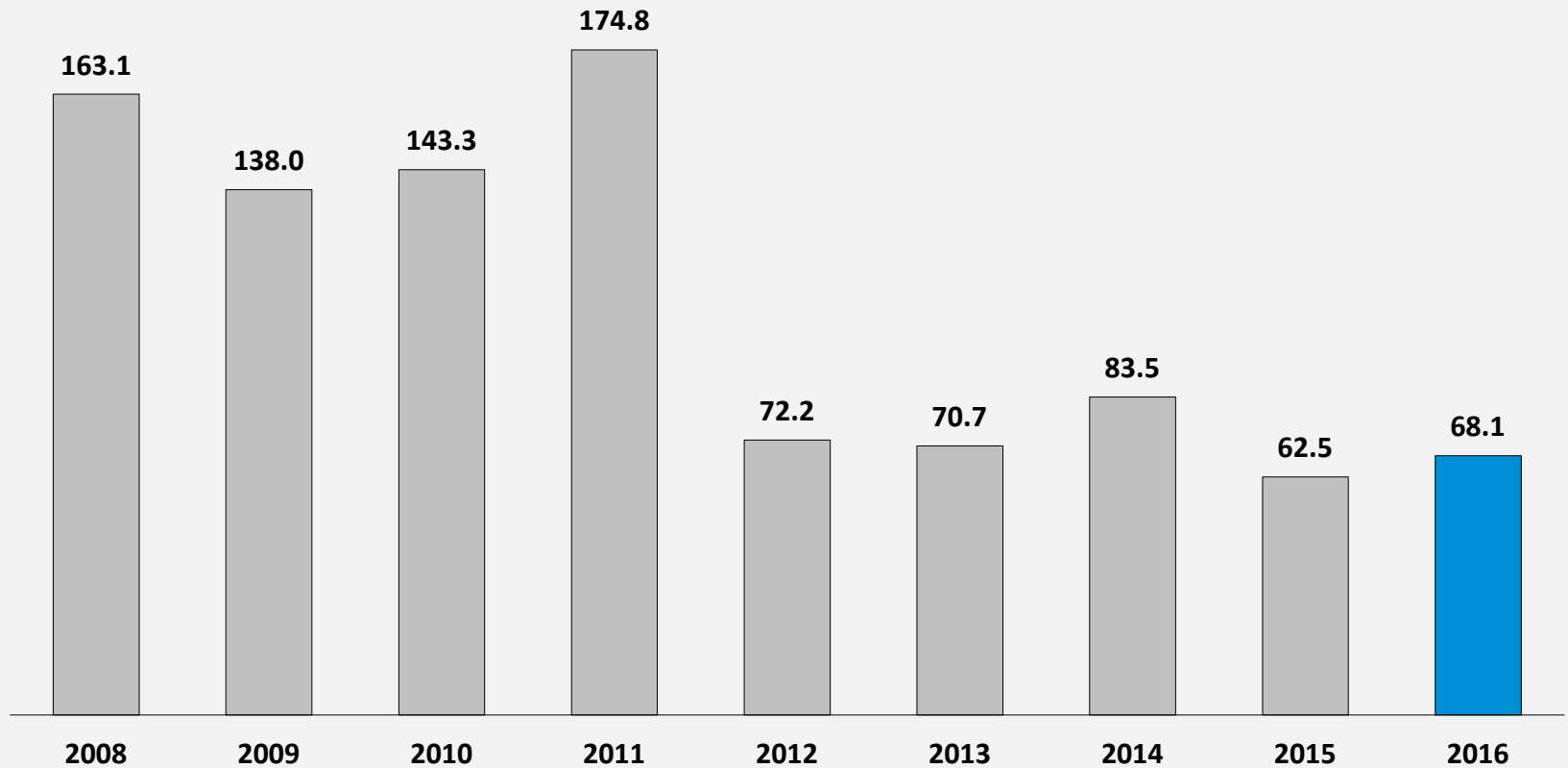
The Company’s financial results have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). All financial references are stated in Canadian dollars, unless otherwise noted. All references to quarterly information relate to Tembec’s fiscal quarters. Adjusted EBITDA and certain other financial measures utilized in the presentation are non-IFRS financial measures. As they have no standardized meaning prescribed by IFRS, they may not be comparable to similar measures presented by other companies. Non-IFRS financial measures are described in the Definitions section on the last page of the interim Management Discussion and Analysis (MD&A) and in the appendix section of this presentation.

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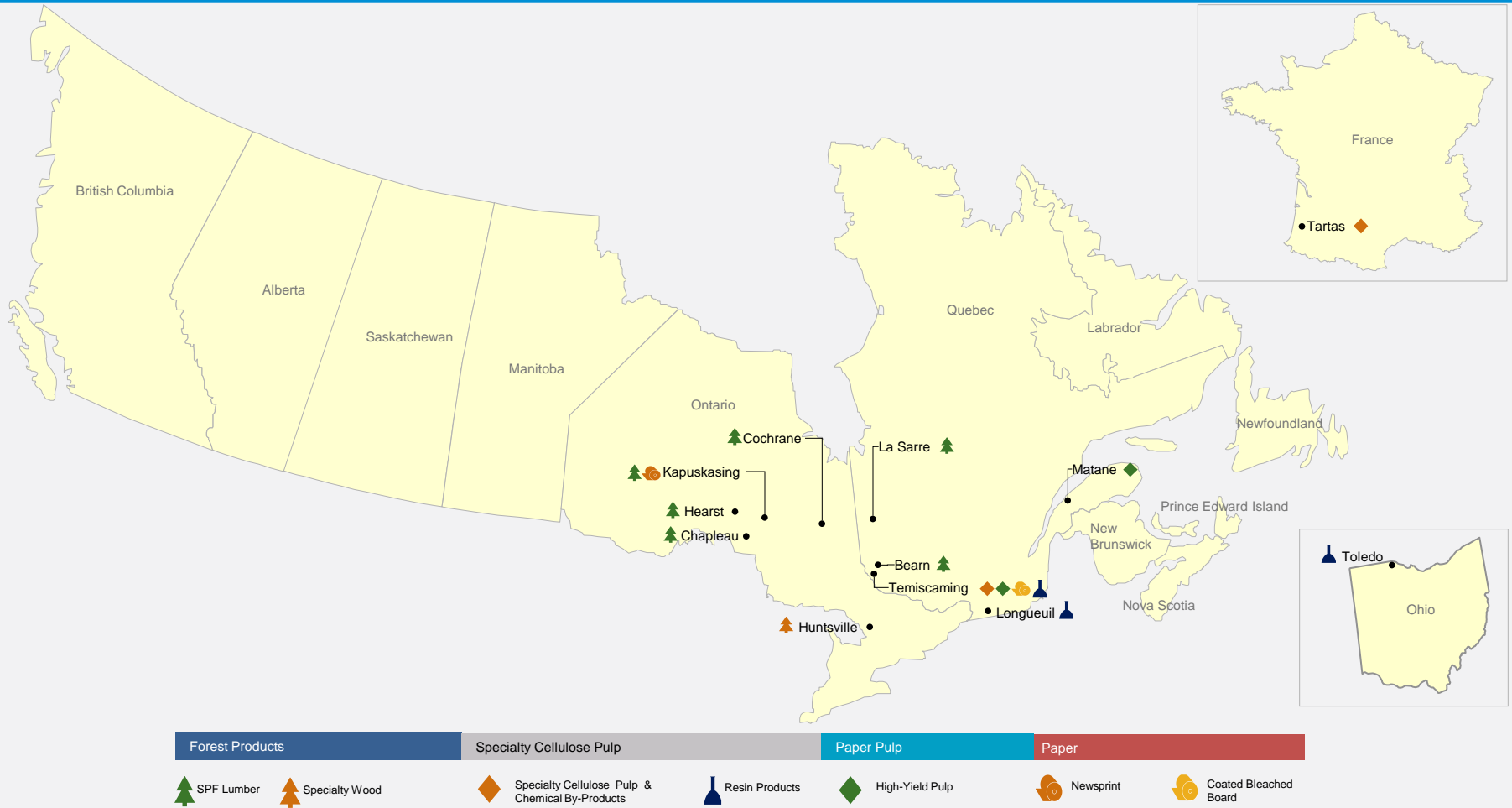
Safety – OSHA Incident Rate



Safety – Total Severity Rate

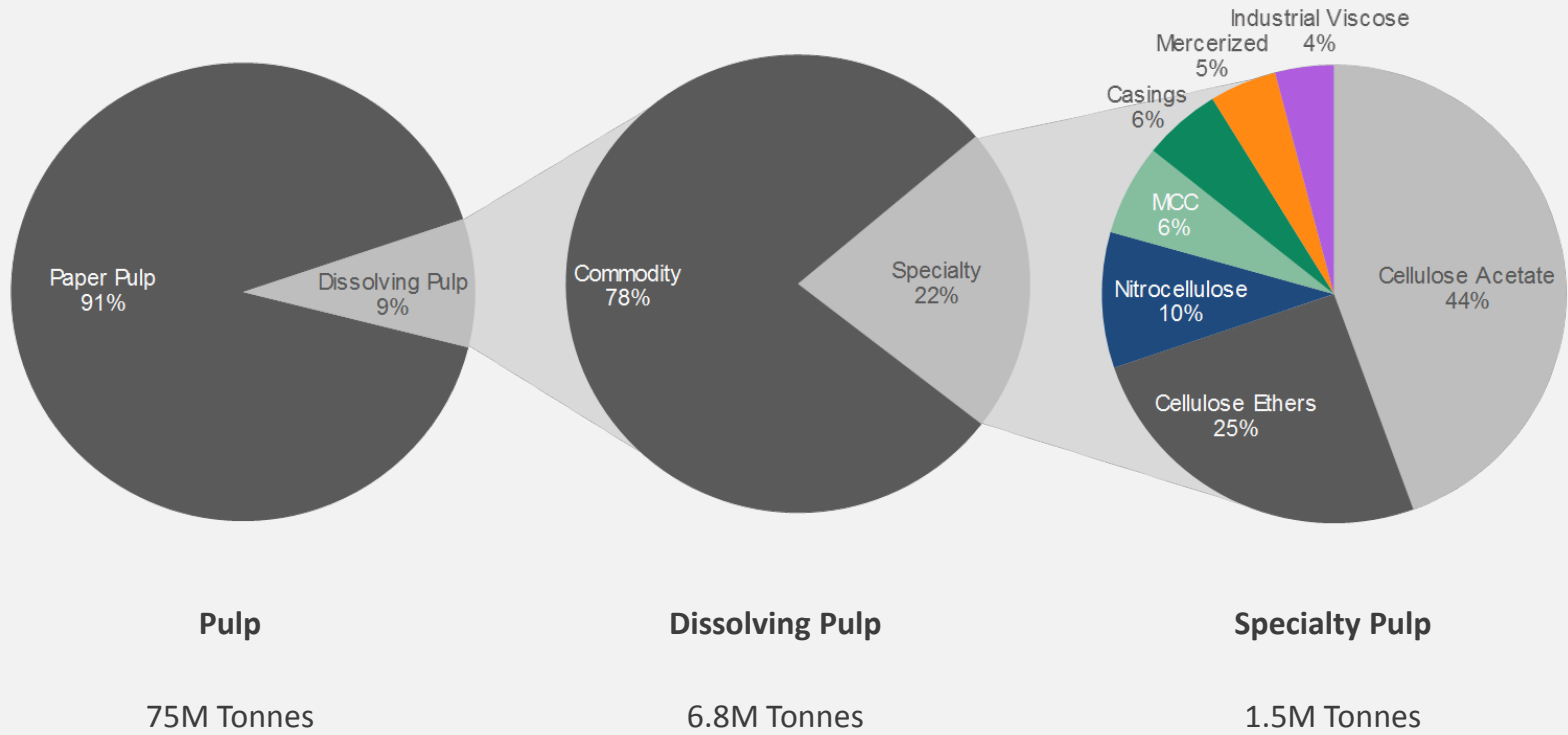


Geographic Footprint



Business Segment Overview

Specialty Cellulose



Specialty Cellulose

Cellulose ethers



Cellulose acetate



Nitrocellulose



MCC

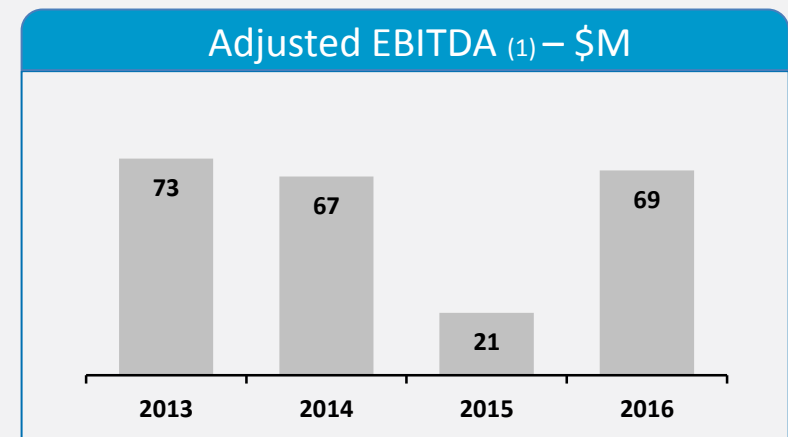
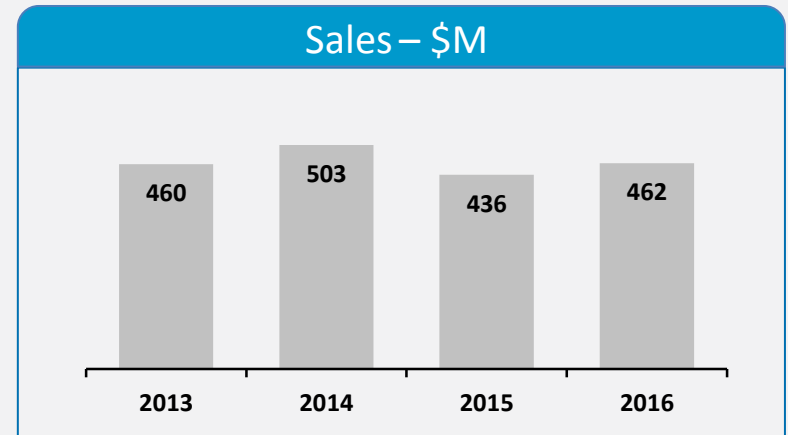


Others



Specialty Cellulose

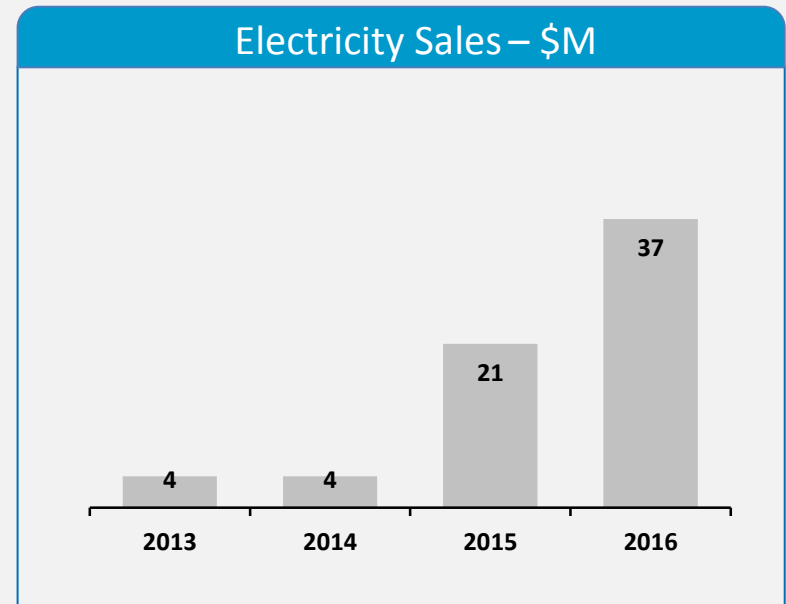
- Currently operating 2 softwood specialty cellulose mills – one in Canada and one in France – approximately 280,000 TPY of pulp sales
- Segment includes smaller silvichemical and resin business
- Recent improvement in profitability due to cost reduction – invested C\$300M in the new Temiscaming boiler and turbine
- Reduced energy cost by approximately \$28M – total cost savings of \$40M including maintenance cost reductions and productivity gains



(1) Non-IFRS financial measure. See appendix.

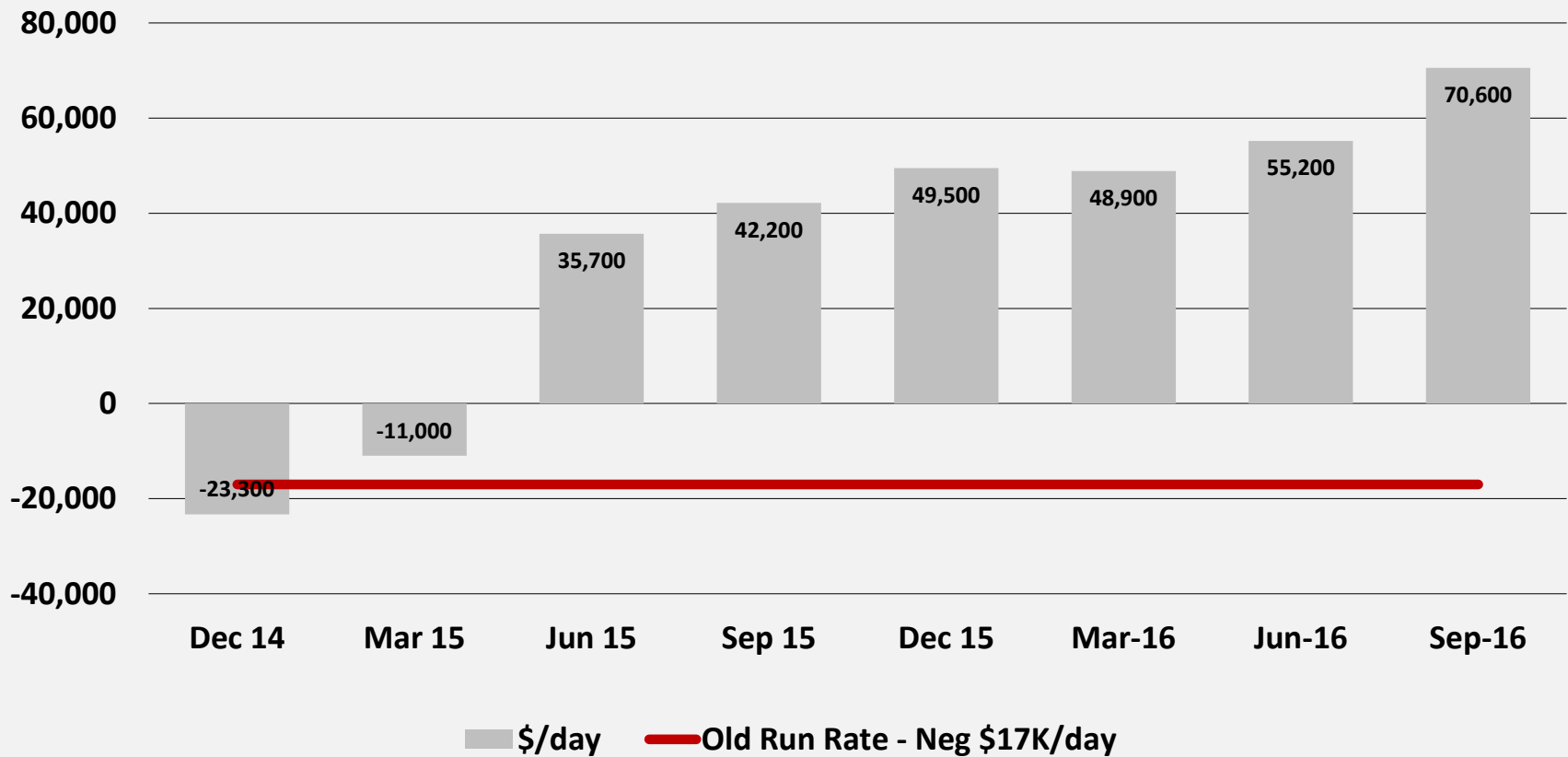
Temiscaming Cogen Project

- Electricity sold to provincial utility under a long-term PPA – 25 years starting in February 2015
- Green power rate indexed to inflation – currently receiving C\$103 per megawatt
- Burning 75% renewable fuel (sulfite liquor and bio-mass) generated primarily from company operations – can burn natural gas but not exceeding 25% of fuel sources



Temiscaming Cogen Project

Quarterly Electricity Revenues Less Purchased Nat Gas – \$/day

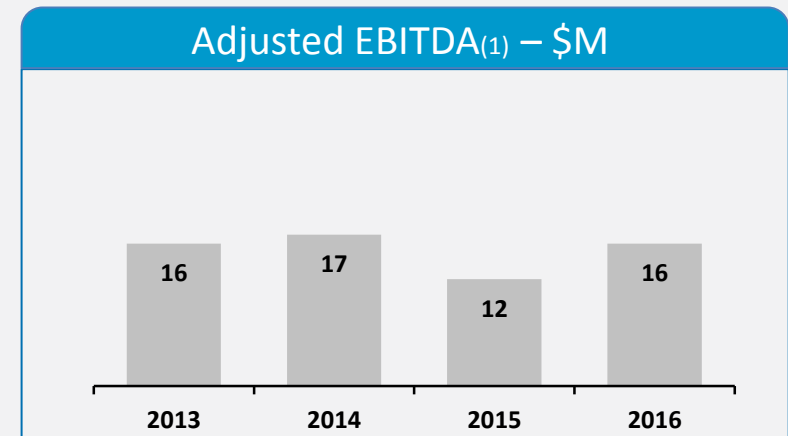
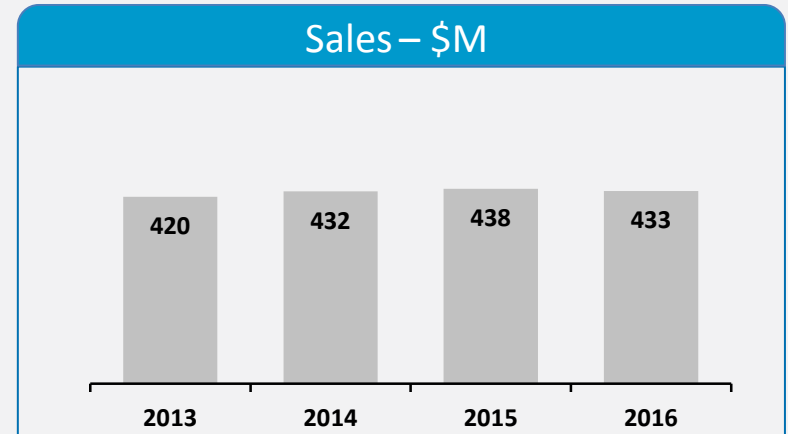


Market Conditions – Specialty Cellulose

- Expect to see increase in specialty cellulose volumes
- Ethers grade volumes and prices should increase – high quality cotton linter pulp availability down and prices are up
- Reduced availability of lower quality cotton linter pulp and higher demand for commodity/viscose pulp are having positive effect on prices – this in turn supports prices for MCC, nitro-cellulose and other specialty grades
- Exception will be acetate grades – flat demand for acetate tow – market leader has guided small price decrease in calendar 2017

Forest Products

- Currently operating 6 Eastern Canadian sawmills (4 in Ontario and 2 in Quebec) – approximately 755 million board feet of SPF lumber capacity
- The relatively slow pace of recovery in US housing as led to extended period of relatively soft lumber prices – stud lumber prices more affected versus random lengths/larger dimension lumber
- Recently sold the Senneterre Qc sawmill – negative EBITDA of \$5M in Fiscal 2016



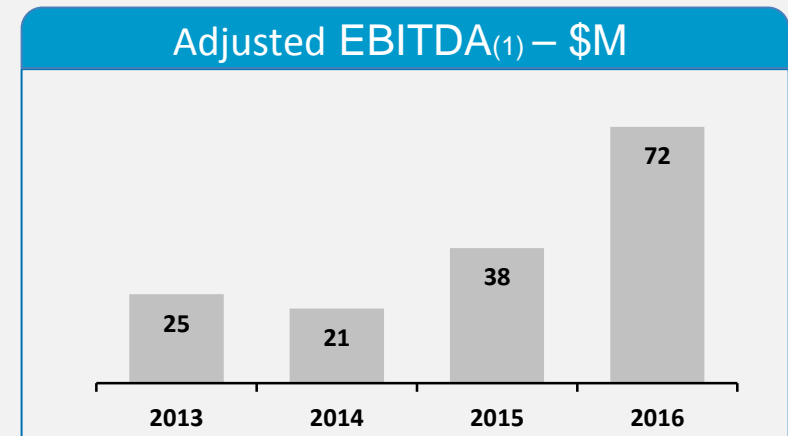
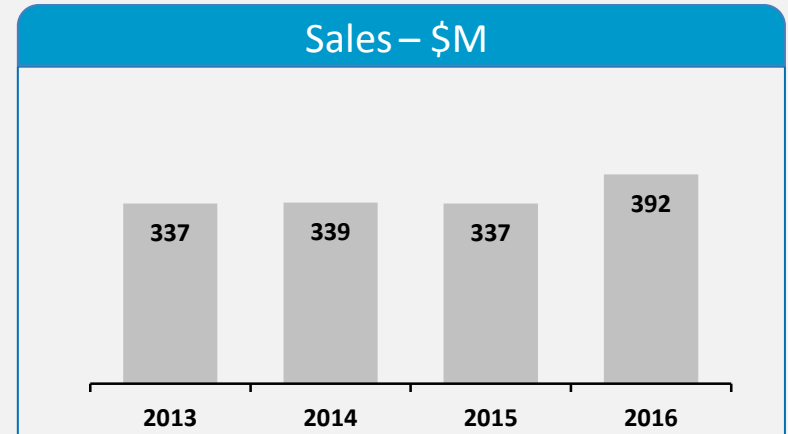
(1) Non-IFRS financial measure. See appendix.

Market Conditions – Lumber

- Expect to see gradual demand and price increases as US housing continues to recover
- Tembec has opportunity to improve cost position of sawmills with fast returning small CAPEX investments
- Potential lumber dispute with US and possibility of lumber export duty deposits creating short term uncertainty
- Canadian producers did relatively well financially in previous duty deposit period (2002 – 2006) – 80% was refunded in late 2006

Paper

- Currently operating a 3-ply coated bleached board mill (180,000 TPY) and a 2-machine newsprint mill (220,000 TPY)
- Both mills located in Canada – have benefited from the weakening C\$
- The coated bleached board business generating most of the profits – machine capable of producing wide range of products – diversified customer mix
- Newsprint mill is low cost – integrated with Company's Ontario sawmill wood chip production



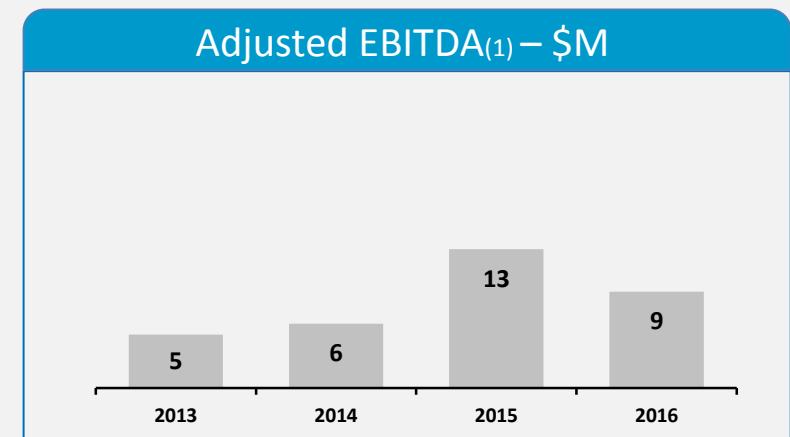
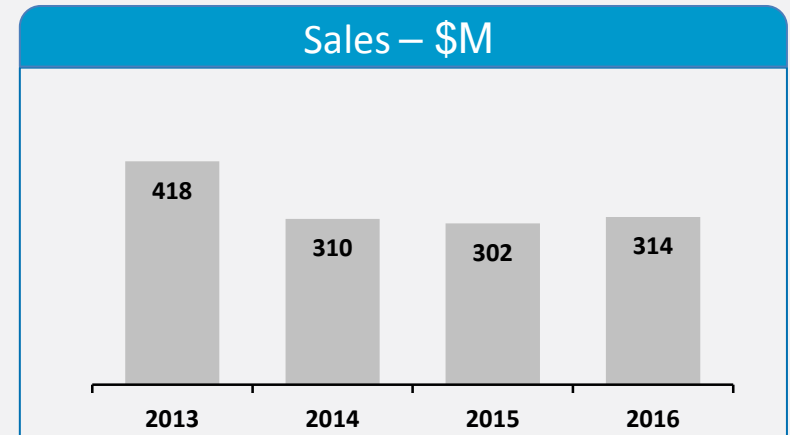
(1) Non-IFRS financial measure. See appendix.

Market Conditions – Paper

- Coated bleached board business is concentrated with relatively few producers – pricing has been stable
- Some European volume coming into NA since Euro weakened – some pricing pressure but not overly disruptive
- Newsprint prices have seen some recent increases – but not demand related
- Newsprint fundamentals remain relatively poor – need to be low cost to produce positive margins

Paper Pulp

- Currently operating 2 high-yield hardwood pulp mills (570,000 TPY)
- Both mills located in Canada
- High-yield pulp mills are modern and efficient – low manpower and low CAPEX
- Business is extremely export oriented – China – Korea – Western Europe
- Hardwood markets have been challenging – large new low-cost South-American and Indonesian bleached eucalyptus kraft (BEK) pulp mills



(1) Non-IFRS financial measure. See appendix.

Market Conditions – Paper Pulp

- Demand should continue to grow
- But current and planned BEK capacity expansions will result in significant supply growth as well
- South American producers also benefiting from weaker currency position versus US\$
- Significant upside to higher prices but conditions expected to remain challenging
- Currently benefiting from good demand for Chinese packaging that uses high-yield maple grades – Tembec only producer

Adjusted EBITDA Improvement

	Adjusted EBITDA ⁽¹⁾			Y-O-Y change		
	F2015	F2016	Var.	Price/FX	Cost/Productivity	Var.
Forest Products	12	16	4	(4)	8	4
Specialty Cellulose Pulp	21	69	48	4	44	48
Paper Pulp	13	9	(4)	(18)	14	(4)
Paper	38	72	34	12	22	34
Corporate G & A	(17)	(19)	(2)	-	(2)	(2)
Share Based Compensation	3	1	(2)	-	(2)	(2)
Consolidated Adjusted EBITDA	70	148	78	(6)	84	78

- Improvement in EBITDA was driven by \$88M of cost and productivity improvement in all four business segments
- The effect of price and currency was negligible

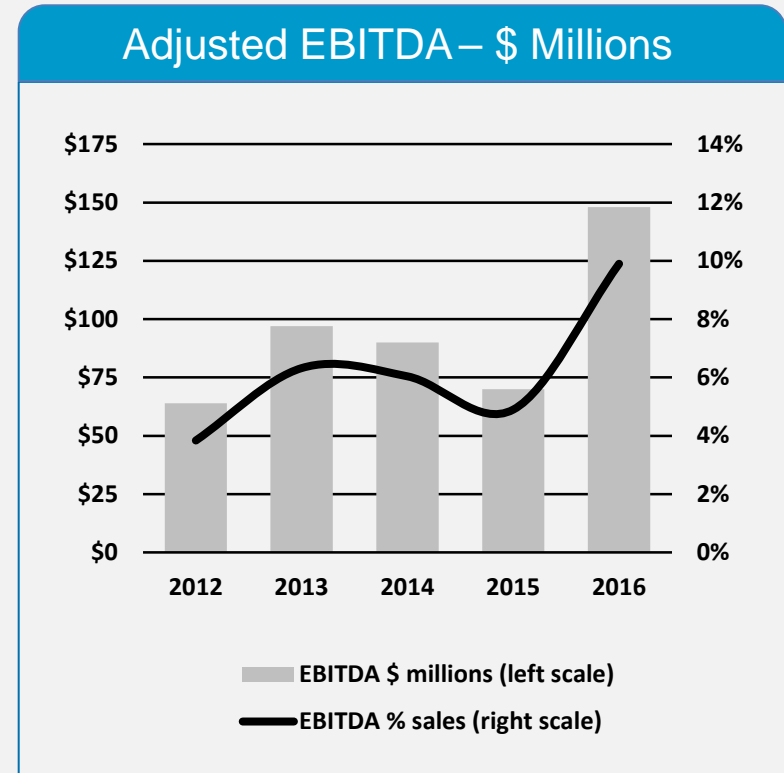
(1) Non-IFRS financial measure. See appendix.

Consolidated Results

Consolidated Financial Results

Adjusted EBITDA⁽¹⁾

- Fiscal 2016 adjusted EBITDA of \$148M compared to \$70M in Fiscal 2015
- Adjusted EBITDA margin of 9.9% compared to 4.9% in Fiscal 2016
- Fiscal 2016 was highest adjusted EBITDA in terms of both \$ and % of sales since recession of 08/09
- Improvement in Specialty Cellulose segment and Paper segment profitability
- Reduced costs in all 4 business segments



⁽¹⁾ Non-IFRS financial measure. See appendix.

Consolidated Financial Results

Operating Results

- Higher depreciation expense relates to the Temiscaming Cogen facility – 30 year useful life
- Fiscal 2014 results included a large gain related to the sale of timberlands in British Columbia

Operating Earnings – \$ Millions

	<u>2014</u>	<u>2015</u>	<u>2016</u>
Adjusted EBITDA ⁽¹⁾	90	70	148
Depreciation	(37)	(43)	(53)
Gain on Sale of Assets	49	1	6
Other Operating Items	(14)	3	(2)
Operating Earnings	<u>88</u>	<u>31</u>	<u>99</u>

(1) Non-IFRS financial measure. See appendix.

Consolidated Financial Results

Net Earnings (Loss)

- Higher interest & financing expense due to increased borrowings to complete Cogen project
- Gain/loss on US\$ debt translation is non-cash item
- Income tax expense relates to French operations
- No taxes payable on Canadian operations – significant tax sheltering is available

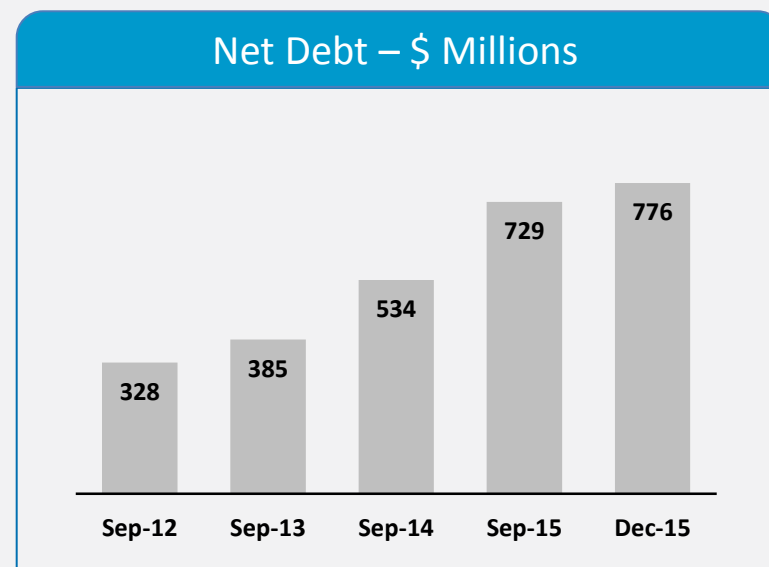
Net earnings (Loss) – \$ Millions

	<u>2014</u>	<u>2015</u>	<u>2016</u>
Operating Earnings	88	31	99
Interest & Fin. Costs	(46)	(52)	(61)
Cap. Int & Other Fin. Items	13	(2)	(14)
Loss on Debt Refi	-	(37)	-
Gain (Loss) on US\$ Debt	(26)	(81)	6
Income Tax Expense	(20)	(9)	(10)
Net Earnings (Loss)	<u>9</u>	<u>(150)</u>	<u>20</u>

Consolidated Financial Results

Net Debt⁽¹⁾

- Net debt increased by \$448M between September 2012 and December 2015
- Invested \$300M in Temiscaming Cogen facility – CAPEX and capitalized interest
- Invested \$200M in other CAPEX over the last 5 years
- Also recorded \$132M of non-cash translation losses on US\$ denominated debt due to weakening C\$

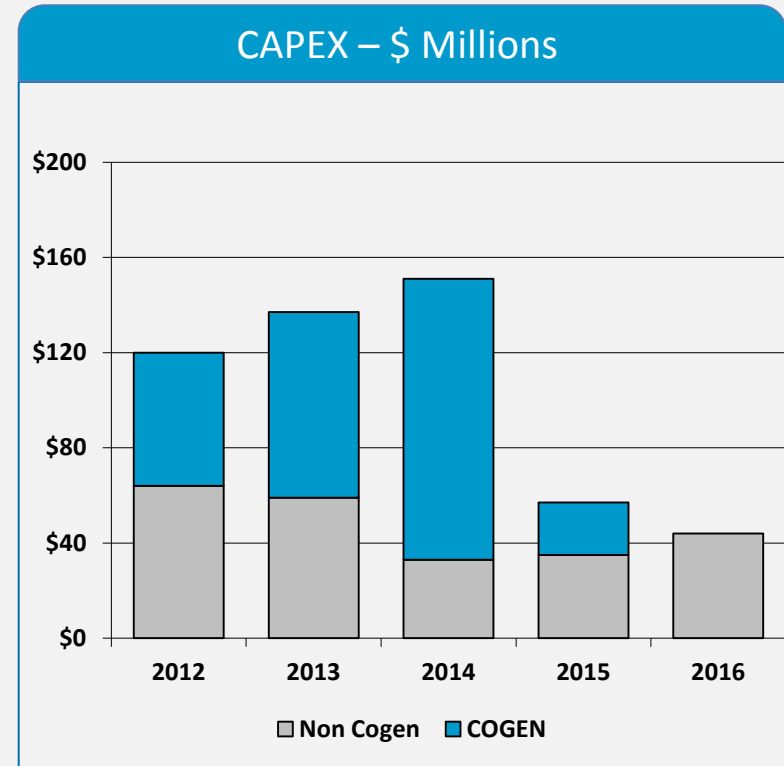


(1) Non-IFRS financial measure. See appendix.

Consolidated Financial Results

CAPEX

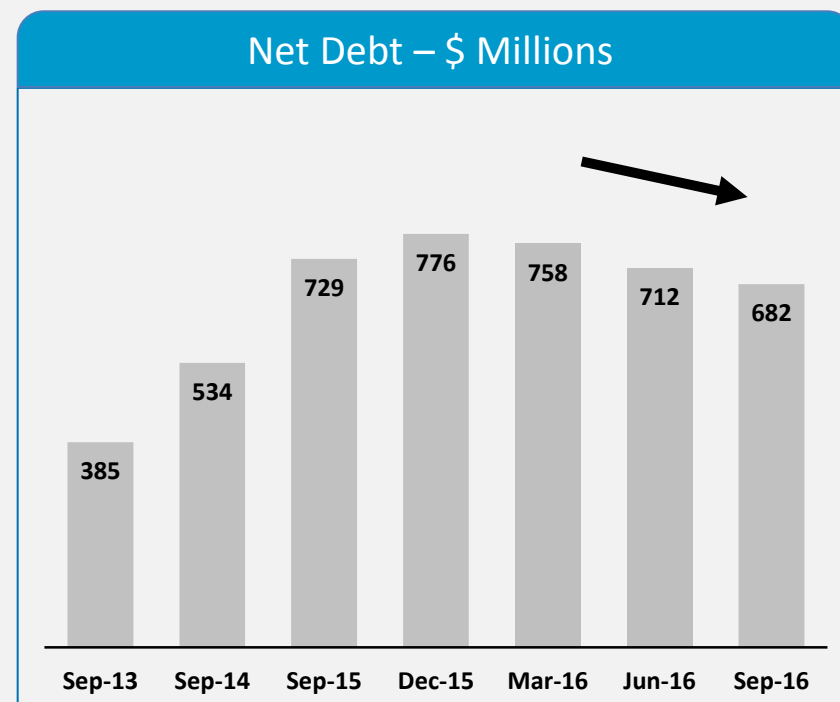
- Temiscaming Cogen project led to significant annual CAPEX in 2012 to 2014 period
- Project was also very long in terms of lead time – 3 ½ years of construction and 1 year of start-up before seeing full financial benefit
- Have now returned to more normal levels of CAPEX \$35M to \$45M per year



Consolidated Financial Results

Net Debt⁽¹⁾

- Company must now focus on reaping the financial benefits of the CAPEX investments and reduce balance sheet leverage
- Good progress being made – reduction of \$94M over the nine-month period ended September 2016
- Expect continued progress in 2017

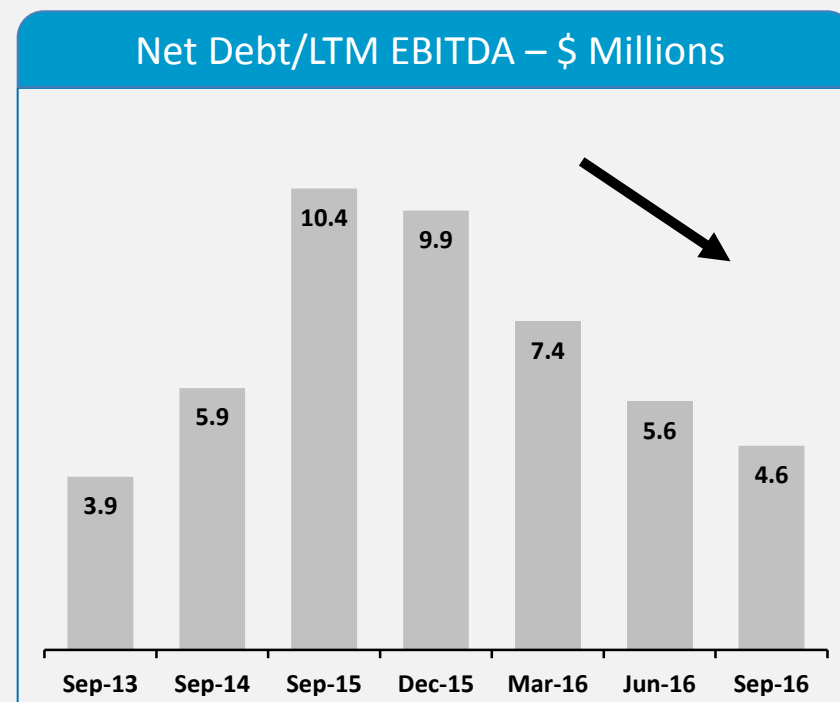


(1) Non-IFRS financial measure. See appendix.

Consolidated Financial Results

Net Debt/LTM Adjusted EBITDA⁽¹⁾

- Significantly higher adjusted EBITDA combined with lower CAPEX has led to improvement in credit/risk profile in Fiscal 2016
- Objective is to get to 3 times
- Will continue to focus on balance sheet improvement in Fiscal 2017



(1) Non-IFRS financial measure. See appendix.

Questions?

Appendix – Non-IFRS⁽¹⁾ Financial Measures

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

Adjusted EBITDA refers to earnings before interest, income taxes, depreciation, amortization and other items. Since the Company excludes “other items” such as gains and losses on significant asset disposals, restructuring charges and custodial costs for permanently idled facilities, it differs from EBITDA. Adjusted EBITDA does not have any standardized meaning according to IFRS. The Company defines adjusted EBITDA as sales less cost of sales and selling, general and administrative expenses, meaning it represents operating earnings before depreciation, amortization and other items. The Company considers adjusted EBITDA to be a useful indicator of the financial performance of the Company, the business segments and the individual business units. The most comparable financial measure is operating earnings or loss. The following table is a reconciliation of operating earnings to the Company’s definition of adjusted EBITDA:

<i>(in millions of dollars)</i>	2015	2016
Operating earnings	31	99
Depreciation and amortization	43	53
Other items	(4)	(4)
Adjusted EBITDA	70	148

(1) International Financial Reporting Standards

Appendix – Non-IFRS⁽¹⁾ Financial Measures

Net debt refers to debt less cash, cash equivalents and restricted cash.

Total capitalization refers to net debt plus deferred tax liabilities, employee future benefit liabilities, long-term provisions, other long-term liabilities, and shareholders' equity.

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

<i>(in millions of dollars)</i>	2015	2016
Long-term debt	613	679
Net unamortized financing costs	14	20
Current portion of long-term debt	11	22
Operating bank loans / Bank indebtedness	114	7
Less: cash, cash equivalents and restricted cash	(23)	(46)
Net debt	729	682
Long-term liabilities	162	183
Shareholders' equity	71	59
Total capitalization	962	924
Net debt to total capitalization ratio	76%	74%

(1) International Financial Reporting Standards

Appendix – Non-IFRS⁽¹⁾ Financial Measures

Net debt to LTM (last twelve months) adjusted EBITDA is used by the Company to measure its financial leverage.

<i>(in millions of dollars)</i>	2015	2016
Long-term debt	613	679
Net unamortized financing costs	14	20
Current portion of long-term debt	11	22
Operating bank loans / Bank indebtedness	114	7
Less: cash, cash equivalents and restricted cash	(23)	(46)
Net debt	729	682
LTM adjusted EBITDA	70	148
Net debt to LTM adjusted EBITDA (times)	10.4	4.6

(1) International Financial Reporting Standards