Management's Discussion and Analysis

as at November 27, 2015

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, 2015, as compared to the fiscal year ended September 27, 2014. The MD&A should be read in conjunction with the audited consolidated financial statements for the fiscal year ended September 26, 2015. Financial data has 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, net debt to total capitalization, free cash flow and certain other financial measures utilized in the MD&A 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 section "Use of non-IFRS financial measures".

The MD&A includes "forward-looking statements" within the meaning of securities laws. Such statements relate, without limitation, to the Company's or management's objectives, projections, estimates, expectations or predictions of the future and can be identified by words such as "may", "will", "could", "anticipate", "estimate", "expect", and "project", the negative or variations thereof, and expressions of similar nature. Forward-looking statements are based on certain assumptions and analyses made by the Company in light of its experience, information available to it 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 the Company's periodic filings with securities regulatory authorities, including under the "risk factors" section of the Company's most recent Annual Information Form. 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 forward-looking statements contained herein reflect the Company's expectations as of the date hereof and are subject to change after such date. The Company disclaims any intention to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, unless required by applicable securities legislation. The information in this MD&A is as at November 27, 2015. 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. Tembec's operations consist of five reportable business segments: Forest Products, Specialty Cellulose Pulp, Paper Pulp, Paper and Corporate. On September 26, 2015, the Company had approximately 3,250 employees, as compared to 3,400 at the end of the prior fiscal year. The Company operates manufacturing facilities in Quebec, Ontario, the state of Ohio, as well as in Southern France. Principal facilities are described in subsequent sections of the MD&A.

2015 vs. 2014

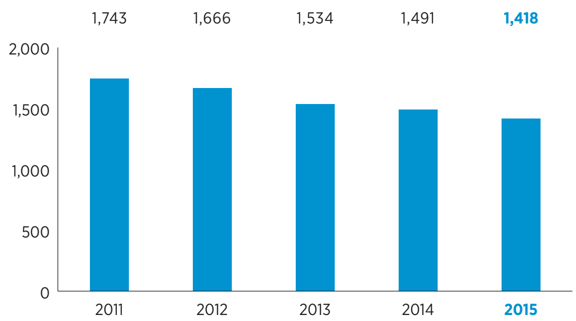
Financial summary

(in millions of dollars, unless otherwise noted)	2014	2015
Sales	1,491	**1,418**
Freight and other deductions	191	**188**
Lumber export taxes	–	**2**
Cost of sales (excluding depreciation and amortization)	1,141	**1,102**
SG&A	66	**59**
Share-based compensation	3	**(3)**
Adjusted EBITDA	90	**70**
Depreciation and amortization	37	**43**
Other items	(35)	**(4)**
Operating earnings	88	**31**
Interest, foreign exchange and other	33	**54**
Loss on refinancing of long-term debt	–	**37**
Exchange loss on long-term debt	26	**81**
Earnings (loss) before income taxes	29	**(141)**
Income tax expense	20	**9**
Net earnings (loss)	9	**(150)**
Basic and diluted net earnings (loss) in dollars per share	0.09	**(1.50)**
Total comprehensive loss	(1)	**(148)**
Total assets (at year-end)	1,155	**1,176**
Total long-term debt (at year-end) (1)	472	**624**
Total long-term liabilities (at year-end)	603	**775**

(1) Includes current portion

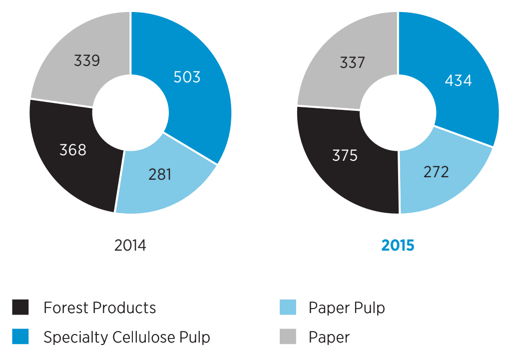
Consolidated sales

(in millions of dollars)



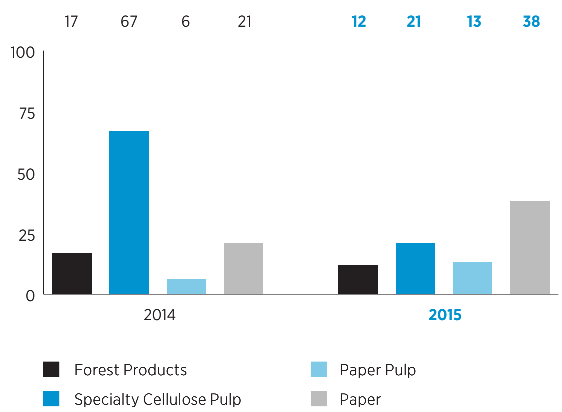
Consolidated sales by segment

(in millions of dollars)

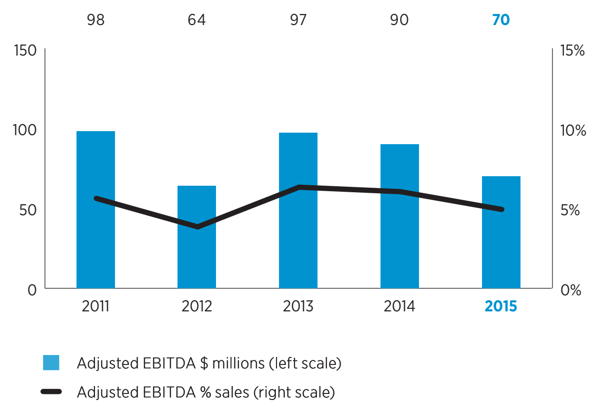


Adjusted EBITDA by segment

(in millions of dollars)



Financial performance



Fiscal 2011 and 2012 results are not restated for IAS 19

Sales

(in millions of dollars)	2014	**2015**	Total variance	Price variance	Volume & mix variance
Forest Products	432	**438**	6	8	(2)
Specialty Cellulose Pulp	503	**436**	(67)	(20)	(47)
Paper Pulp	310	**302**	(8)	3	(11)
Paper	339	**337**	(2)	26	(28)
Corporate	15	**9**	(6)	–	(6)
	1,599	**1,522**	(77)	17	(94)
Less: intersegment sales	(108)	**(104)**	4		
Sales	1,491	**1,418**	(73)		

Sales decreased by $73 million from the prior year. Currency was a positive factor as the Canadian dollar averaged US $0.817, an 11.6% decrease from US $0.924 in the prior year. Forest Products segment sales increased by $6 million as a result of higher prices. Specialty Cellulose Pulp segment sales decreased by $67 million due to lower shipments and prices. Paper Pulp segment sales declined by $8 million due to lower shipments. Paper segment sales declined by $2 million due to lower shipments, largely offset by higher prices.

In terms of geographical distribution, the U.S. remained the Company's principal market with 38% of consolidated sales in fiscal 2015, unchanged from the prior year. Canadian sales represented 20% of sales, compared to 19% in the prior year. Sales outside of the U.S. and Canada represented the remaining 42% in fiscal 2015, as compared to 43% a year ago.

Adjusted EBITDA

(in millions of dollars)	2014	**2015**	Total variance	Price variance	Cost & volume variance
Forest Products	17	**12**	(5)	8	(13)
Specialty Cellulose Pulp	67	**21**	(46)	(20)	(26)
Paper Pulp	6	**13**	7	3	4
Paper	21	**38**	17	26	(9)
Corporate	(21)	**(14)**	7	–	7
	90	**70**	(20)	17	(37)

Adjusted EBITDA decreased by $20 million from the prior year. Forest Products segment adjusted EBITDA decreased by $5 million due to higher costs, partially offset by higher prices. Specialty Cellulose Pulp segment adjusted EBITDA declined by $46 million due to higher costs and lower prices. Paper Pulp segment adjusted EBITDA increased by $7 million due to higher prices and lower costs. Paper segment adjusted EBITDA increased by $17 million due to higher prices, partially offset by higher costs. The decline in Corporate segment costs was due primarily to a $6 million reduction in share-based compensation.

Operating earnings (loss)

(in millions of dollars)	2014	**2015**	Total variance	Adjusted EBITDA variance	Depreciation variance	Other items variance
Forest Products	10	**7**	(3)	(5)	2	–
Specialty Cellulose Pulp	52	**(1)**	(53)	(46)	(7)	–
Paper Pulp	(5)	**2**	7	7	–	–
Paper	18	**34**	16	17	(1)	–
Corporate	13	**(11)**	(24)	7	–	(31)
	88	**31**	(57)	(20)	(6)	(31)

The Company generated operating earnings of $31 million compared to operating earnings of $88 million in fiscal 2014.

The Forest Products segment generated operating earnings of $7 million, as compared to operating earnings of $10 million in the prior year. The previously noted decrease in adjusted EBITDA led to the decline in operating results, partially offset by lower depreciation and amortization expense. The prior year results included an asset impairment charge of $1 million that was reversed in fiscal 2015.

The Specialty Cellulose Pulp segment generated an operating loss of $1 million as compared to operating earnings of $52 million in the prior year. The previously noted decline in adjusted EBITDA reduced operating results. Depreciation expense increased by $7 million as the Company began depreciating the new boiler and turbine at the Temiscaming specialty cellulose mill in February 2015.

The Paper Pulp segment generated operating earnings of $2 million compared to an operating loss of $5 million in the prior year. The previously noted increase in adjusted EBITDA led to the improvement in operating results.

The Paper segment generated operating earnings of $34 million, as compared to operating earnings of $18 million in the prior year. The increase in adjusted EBITDA led to the higher operating profitability.

Corporate segment results declined by $24 million, primarily due to "Other items", which more than offset the previously noted improvement in adjusted EBITDA. The prior year results included a gain of $49 million relating to land sales.

A more detailed analysis of segment variances is included in the analysis that follows.

Segment review – 2015 vs. 2014

Forest Products

(in millions of dollars)	2014	2015
Sales [1]	432	**438**
Freight and other deductions	41	**43**
Lumber export taxes	–	**2**
Cost of sales	362	**370**
SG&A	12	**11**
Adjusted EBITDA	17	**12**
Adjusted EBITDA margin on sales	3.9%	**2.7%**
Depreciation and amortization	7	**5**
Operating earnings	10	**7**
Identifiable assets	164	**159**

[1] Includes intersegment sales eliminated on consolidation

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 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 2015, the Company's operations harvested and delivered 3.1 million cubic metres of timber, compared to 3.4 million cubic metres in the prior year. Additional supply of approximately 0.7 million cubic metres was secured mainly through purchases and exchanges with third parties, unchanged from the prior year.

The Forest Products segment includes operations located in Quebec and Ontario. The SPF lumber operations can produce approximately 855 million board feet of lumber. The specialty wood operations can annually produce 30 million board feet of hardwood lumber. The Company's engineered wood operations consist of a finger joint lumber plant, which was idle for all of fiscal 2014 and fiscal 2015.

The following summarizes the current annual capacity of each facility by product group:

SPF lumber	mbf
Stud lumber – La Sarre, QC	135,000
Stud lumber – Senneterre, QC	100,000
Stud lumber – Cochrane, ON	160,000
Stud lumber – Kapuskasing, ON	105,000
Random lumber – Béarn, QC	110,000
Random lumber – Chapleau, ON	135,000
Random lumber – Hearst, ON	110,000
	855,000

Specialty wood	mbf
Hardwood lumber – Huntsville, ON	30,000

Engineered wood	mbf
Engineered finger joint lumber – La Sarre, QC	60,000

The segment is dominated by SPF lumber, which represented 96% of building material sales in fiscal 2015, unchanged from the prior year. The volume of SPF lumber sold in fiscal 2015 increased by 17.5 million board feet or 2.5%. The shipment to capacity ratio was 84% in fiscal 2015, compared to 82% in the prior year. Market conditions for lumber were similar year-over-year.

Specialty wood represented 4% of building material sales in fiscal 2015, unchanged from the prior year. Prices decreased by $12 per mbf or 1.6%.

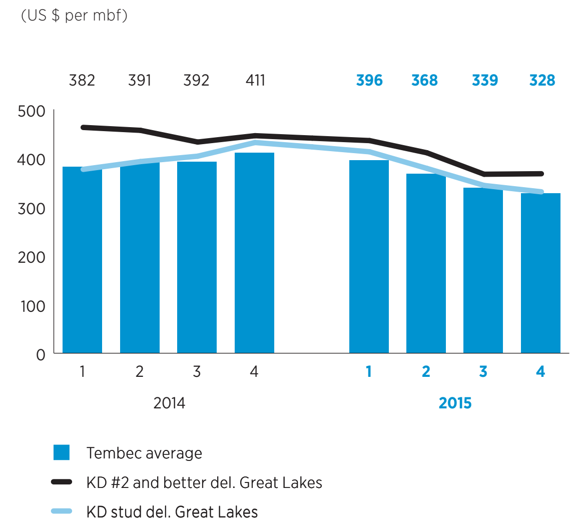
There were no engineered wood sales in fiscal 2014 and 2015. The finger joint facility was idle for all of fiscal 2014 and fiscal 2015.

The SPF sawmills produced and shipped 662,900 tonnes of wood chips in fiscal 2015, 62% of which were directed to the Company's pulp and paper operations. In 2014, the sawmills produced 678,500 tonnes and shipped 58% of this volume to the Company's pulp and paper mills. The internal transfer price of wood chips is based on comparable arms-length transactions.

Total sales for this segment reached $438 million, an increase of $6 million over the prior year. After eliminating internal sales, the Forest Products segment generated 26% of Company consolidated sales, up from 25% in the prior year. The segment's main market is North America, which represented 99% of consolidated sales in fiscal 2015, unchanged from the prior year.

	Sales ($ millions)		Shipments (000 units)		Selling prices ($ / unit)	
	2014	**2015**	2014	**2015**	2014	**2015**
SPF lumber (mbf)	300	**315**	702.1	**719.6**	427	**438**
Specialty wood						
Hardwood (mbf)	12	**12**	15.7	**16.4**	754	**742**
Total building materials	312	**327**				
Wood chips (bone dry tonnes)	66	**63**	678.5	**662.9**	97	**95**
Logs and by-products	54	**48**				
Total sales	432	**438**				
Internal wood chips and other sales	(64)	**(63)**				
Consolidated sales	368	**375**				

Quarterly prices – Eastern SPF delivered



Markets

The Company markets its lumber with its own internal sales force.

The benchmark random length Eastern SPF average lumber price (#2 and better delivered Great Lakes) decreased from US $450 per mbf in fiscal 2014 to US $396 per mbf in fiscal 2015. The reference price for stud lumber decreased as well with the Eastern average lumber price (delivered Great Lakes) down from US $402 per mbf to US $367 per mbf. The price gap between the two grades narrowed as expected. Currency was favourable as the Canadian dollar averaged US $0.817, an 11.6% decline from US $0.924 in the prior year. As a result, the average selling price of SPF lumber increased by approximately $11 per mbf. Housing starts in the U.S. on a seasonally adjusted basis averaged 1,089,000 units in fiscal 2015, a 9.7% increase over the 993,000 units in fiscal 2014. However, these remain below the 1.2 million to 1.3 million average that would be indicative of normal market conditions. Housing starts in Canada on a seasonally adjusted basis averaged 191,000 units, the same level as in the prior year. During fiscal 2015, the Company shipped 382,200 mbf or 53.1% of its volume into the U.S. market. The balance of 337,400 mbf or 46.9% of its volume was sold in Canada. In the prior year, the Company had shipped 400,500 mbf or 57.1% of its volume into the U.S. market. The balance of 301,600 mbf or 42.9% of its volume was sold in Canada.

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. Since that date, the Company's sawmills have been subject to export quota limitations and a variable export tax rate on lumber shipped to the U.S. The SLA provides that during periods of relatively high prices, the export tax rate declines. In fiscal 2015, the average tax rate on lumber shipped to the U.S. was 1.4% and the total cost was $2 million. In fiscal 2014, the average tax rate on lumber shipped to the U.S. was 0.6% and the total cost was $340,000. The rate increase was due to the lower US dollar selling prices.

Operating results

The following summarizes adjusted EBITDA variances by major element:

	Variance – favourable (unfavourable)						
(in millions of dollars)	Price	Export taxes	Mill costs	Inventory NRV adjustments	Freight	Other	TOTAL
SPF lumber	8	(2)	(4)	(1)	(2)	(2)	(3)
Other segment items	–	–	–	–	–	(2)	(2)
	8	(2)	(4)	(1)	(2)	(4)	(5)

In fiscal 2015, adjusted EBITDA was $12 million compared to adjusted EBITDA of $17 million in the prior year. SPF lumber profitability declined by $3 million year-over-year. The previously noted higher selling prices for lumber increased adjusted EBITDA by $8 million. The higher prices were primarily caused by currency as the Canadian dollar averaged 11.6% lower than in the prior year. The previously noted increase in export taxes on lumber shipped to the U.S. decreased adjusted EBITDA by $2 million. Sawmill manufacturing costs increased by $4 million, primarily due to increased fibre costs. The $2 million decline in other segment items was due primarily to lower profitability in the specialty wood operations. The segment adjusted EBITDA margin to total sales was 2.7% compared to 3.9% in the prior year.

The following summarizes operating results variances by major element:

(in millions of dollars)	2014	**2015**	Variance favourable (unfavourable)
Adjusted EBITDA	17	**12**	(5)
Depreciation and amortization	7	**5**	2
Operating earnings	10	**7**	(3)

The Forest Products segment generated operating earnings of $7 million, as compared to operating earnings of $10 million in fiscal 2014. The previously noted decrease in adjusted EBITDA led to the decline in operations results, partially offset by lower depreciation and amortization expense. The prior year results included an asset impairment charge of $1 million that was reversed in fiscal 2015.

Specialty Cellulose Pulp

(in millions of dollars)	2014	2015
Sales – Pulp [1]	387	**333**
Sales – Chemicals	116	**103**
	503	**436**
Freight and other deductions	44	**43**
Cost of sales	372	**355**
SG&A	20	**17**
Adjusted EBITDA	67	**21**
Adjusted EBITDA margin on sales	13.3%	**4.8%**
Depreciation and amortization	15	**22**
Operating earnings (loss)	52	**(1)**
Identifiable assets	656	**683**

[1] Includes intersegment sales eliminated on consolidation

The Specialty Cellulose Pulp segment consists of two manufacturing facilities, which produce specialty cellulose pulps. The specialty cellulose pulp mills have an annual rated capacity of 310,000 tonnes per year. The pulp produced at the two pulp mills is a high-purity cellulose utilized in a wide variety of specialized products such as pharmaceuticals, food additives, and industrial chemicals. The Temiscaming mill also produces "viscose" grade pulp, which is utilized in the production of viscose staple fibre, which in turn is used to produce rayon for the textile industry.

The specialty cellulose mills generate lignin as a by-product of the sulphite process, a portion of which is sold to third parties. The Temiscaming mill previously operated a facility that produced ethanol as a by-product that was sold to third parties. The ethanol plant was permanently idled in October 2014. The segment also includes a stand-alone resin business, which produces powder and liquid phenolic resins at two operating sites in Quebec: Temiscaming and Longueuil. The Company also operates a third facility located in Toledo, Ohio, which manufactures powder and liquid amino-resins. The chemical business periodically purchases and re-sells third party pulp mill by-product chemicals.

The following summarizes the annual operating capacity of each facility:

Specialty cellulose	**tonnes**
Specialty cellulose – Temiscaming, QC	160,000
Specialty cellulose – Tartas, France	150,000
	310,000

Chemicals	**tonnes**
Resin and related products	
– Temiscaming and Longueuil, QC; Toledo, Ohio	170,000
Lignin – Temiscaming, QC; Tartas, France	60,000

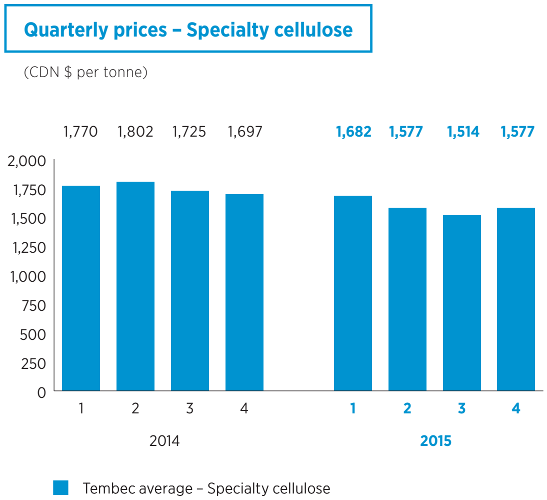
Total sales for the Specialty Cellulose Pulp segment were $436 million, a decrease of $67 million from the prior year. The $54 million decrease in pulp sales was due to lower shipments and prices of specialty grade pulp, partially offset by higher shipments and prices of viscose and other grades. The $13 million decrease in chemical sales was due to lower volumes of ethanol, lignin and resin products. The Specialty Cellulose Pulp segment generated 31% of Company consolidated sales, down from 34% in the prior year. The Specialty Cellulose Pulp segment is a global business. In fiscal 2015, 69% of consolidated sales were generated outside of Canada and the U.S., compared to 67% in fiscal 2014.

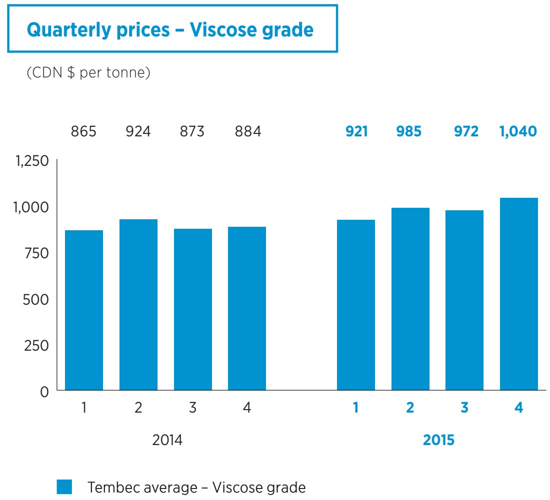
	Sales ($ millions)		Shipments (000 units)		Selling prices ($ / unit)	
	2014	**2015**	2014	**2015**	2014	**2015**
Specialty pulp						
Specialty cellulose (tonnes)	340	**268**	194.4	**168.8**	1,749	**1,585**
Viscose and other grades (tonnes)	47	**65**	52.2	**66.0**	889	**989**
	387	**333**	246.6	**234.8**		
Chemicals						
Resin and related products (tonnes)	64	**58**	55.2	**56.9**	1,157	**1,023**
Lignin (tonnes)	36	**38**	106.8	**88.2**	333	**429**
Ethanol (000 litres)	7	**1**	9.2	**0.7**	800	**1,090**
Other chemical sales	9	**6**				
	116	**103**				
Total sales	503	**436**				
Internal pulp sales	–	**(2)**				
Consolidated sales	503	**434**				

Markets

The Company markets its pulp on a world-wide basis, primarily through its own sales force. Permanent sales offices are maintained in Toronto, Canada and Dax, France. Contractual arrangements with third party representatives are also utilized.

The shipment to capacity ratio for specialty pulp was 76% in fiscal 2015 versus 80% in the prior year. The decrease in shipment ratio was due to a decrease of 25,600 tonnes of specialty grade pulp, partially offset by a 13,800 tonnes increase in shipments of viscose and other grades of pulp. In addition to the previously noted decline in specialty grade pulp demand, shipments in fiscal 2015 were impacted by an 18-day production stoppage at the Temiscaming pulp mill due to a labour dispute with the unionized workforce. The stoppage began in late-November 2014 and continued until mid-December 2014. The Temiscaming mill produced 5,800 fewer tonnes than in fiscal 2014. The reduced demand for specialty grades was accompanied by lower US dollar and euro prices, which declined by 9%-10% from the prior year. Currency was not a significant mitigating factor as the Canadian dollar weakened versus the US dollar, but strengthened vis-à-vis the euro. Overall, Canadian dollar equivalent prices for specialty grades declined by $164 per tonne, or approximately 9.4%. While US dollar prices for viscose and other grades declined by US $7 per tonne, this was more than offset by the weaker Canadian dollar. The net effect was a $100 per tonne increase in the Canadian dollar selling price of viscose and other grades. The Company has a strategy of gradually reducing its exposure to the viscose market by producing additional specialty grade volume. The relatively weak demand for specialty grades in fiscal 2015 led to an increase in non-specialty grade shipments. Specialty grade volumes represented 72% of pulp shipments in fiscal 2015 compared to 79% in the prior year.





Operating results

The following summarizes adjusted EBITDA variances by major element:

	Variance – favourable (unfavourable)					
(in millions of dollars)	Price	Mill costs	Freight	Mix & volume	Other	TOTAL
Specialty cellulose	(22)	(4)	(2)	(16)	(2)	(46)
Chemicals	2	(2)	–	–	–	–
	(20)	(6)	(2)	(16)	(2)	(46)

Fiscal 2015 adjusted EBITDA was $21 million compared to $67 million in the prior year, a decrease of $46 million. As noted previously, the decline in the selling price of specialty grade pulp led to an unfavourable price variance of $28 million. This was partially offset by a $6 million favourable price variance on viscose and other grades. The $4 million increase in mill costs was caused by the Temiscaming mill, which recorded a negative variance of $3 million for unabsorbed fixed costs resulting from the previously noted labour disruption. The mill also incurred higher costs for chemicals, maintenance material and supplies. The increase was partially offset by a $7 million reduction in energy costs due to the new boiler and turbine. Lower sales of specialty pulp combined with increased sales of viscose and other grades generated an unfavourable sales volume and mix variance, reducing adjusted EBITDA by $16 million.

The $2 million favourable chemicals price variance was due to higher lignin prices, partially offset by lower resin prices. However, lignin costs increased and profitability remained unchanged year-over-year.

Overall, lower prices and a weaker pulp sales mix reduced segment adjusted EBITDA margins from 13.3% in 2014 to 4.8% in 2015.

The Temiscaming specialty cellulose mill purchased approximately 278,800 bone dry tonnes of wood chips in fiscal 2015, down from 319,600 in the prior year. Of this amount, approximately 71% was supplied by the Company's Forest Products segment, compared to 63% in the prior year. The remaining requirements were purchased from third parties under contracts and agreements of various durations. The pulp mill located in Southern France purchased 322,100 bone dry tonnes of wood in fiscal 2015 as compared to 310,300 bone dry tonnes in the prior year. The fibre is sourced from many private landowners.

The following summarizes operating results variances by major element:

(in millions of dollars)	2014	**2015**	Variance favourable (unfavourable)
Adjusted EBITDA	67	**21**	(46)
Depreciation and amortization	15	**22**	(7)
Operating earnings (loss)	52	**(1)**	(53)

The Specialty Cellulose Pulp segment generated an operating loss of $1 million during the most recently completed fiscal year, compared to operating earnings of $52 million in the prior year. The previously noted decline in adjusted EBITDA led to the lower operating results. Depreciation expense increased by $7 million as the Company began depreciating the new boiler and turbine at the Temiscaming specialty pulp mill in February 2015.

Paper Pulp

(in millions of dollars)	2014	**2015**
Sales [1]	310	**302**
Freight and other deductions	60	**60**
Cost of sales	239	**225**
SG&A	5	**4**
Adjusted EBITDA	6	**13**
Adjusted EBITDA margin on sales	1.9%	**4.3%**
Depreciation and amortization	11	**11**
Operating earnings (loss)	(5)	**2**
Identifiable assets	142	**147**

[1] Includes intersegment sales eliminated on consolidation

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

The following summarizes the annual capacity of each facility:

High-yield pulp	**tonnes**
Hardwood high-yield – Temiscaming, QC	300,000
Hardwood high-yield – Matane, QC	270,000
	570,000

This segment shipped 492,300 tonnes of high-yield pulp in fiscal 2015 compared to 511,100 tonnes in the prior year. High-yield pulp shipments include 59,600 tonnes consumed by the Company's paperboard operations, as compared to 58,700 tonnes in the prior year.

Total sales for the Paper Pulp segment were $302 million, a decrease of $8 million from the prior year. After eliminating internal sales, the Paper Pulp segment generated 19% of Company consolidated sales, unchanged from the prior year. The Paper Pulp segment is more export oriented than the other business segments within the Company. In 2015, 97% of consolidated paper pulp sales were generated outside of Canada and the U.S., as compared to 99% in the prior year. China alone accounted for 48% of sales compared to 41% in fiscal 2014.

	Sales ($ millions)		Shipments (000 tonnes)		Selling prices ($ / tonne)	
	2014	**2015**	2014	**2015**	2014	**2015**
Hardwood high-yield pulp	310	**302**	511.1	**492.3**	607	**613**
Internal sales	(29)	**(30)**	(58.7)	**(59.6)**		
Consolidated sales	281	**272**	452.4	**432.7**		

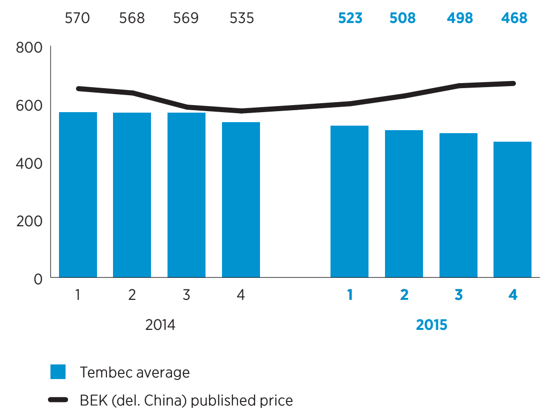
Markets

The Company markets its pulp on a world-wide basis, primarily through its own sales force. Sales offices are maintained in Toronto, Canada and Dax, France. Contractual arrangements with third party representatives are also utilized.

Market conditions for paper pulp were relatively weak in both fiscal 2014 and 2015. Pulp shipments from the two high-yield pulp mills were equal to 87% of capacity as compared to 90% in the prior year. The fiscal 2015 shipments were impacted by a 16-day production stoppage at the Temiscaming high-yield pulp mill due to a labour dispute with the unionized workforce. The stoppage began in late-November and continued until mid-December. The Temiscaming pulp mill shipped 20,100 fewer tonnes in fiscal 2015, as compared to the prior year. The benchmark price for BEK increased by US $27 per tonne. However, this increase did not carry over into the high-yield pulp market where prices decreased by US $61 per tonne over the prior year. Currency was a positive factor as the Canadian dollar averaged US $0.817, an 11.6% decline from the prior year. Overall, Canadian dollar prices for high-yield pulp improved by $6 per tonne. Inventory levels ended the year at 35 days of supply as compared to 25 days at the end of fiscal 2014.

Quarterly prices – High-yield pulp

(US $ per tonne)



Operating results

The following summarizes adjusted EBITDA variances by major element:

	Variance – favourable (unfavourable)					
(in millions of dollars)	Price	Mill costs	Inventory NRV adjustments	Freight	Volume & Other	TOTAL
High-yield pulp	3	5	1	(1)	(2)	6
Other segment items	–	–	–	–	1	1
	3	5	1	(1)	(1)	7

Fiscal 2015 adjusted EBITDA was $13 million compared to $6 million in the prior year. The previously noted increase in high-yield pulp selling prices increased adjusted EBITDA by $3 million. Mill level costs at the two high-yield pulp mills decreased by $5 million, primarily due to lower fibre and energy costs.

The two pulp mills purchased approximately 527,200 bone dry tonnes of wood in fiscal 2015, down from 551,500 tonnes in the prior year. Of this amount, approximately 39% was supplied by the Forest Products segment, compared to 38% in the prior year. The remaining requirements were purchased from third parties under contracts and agreements of various durations.

Overall, higher high-yield pulp prices and lower costs led to improved profitability with an adjusted EBITDA margin of 4.3% in fiscal 2015 compared to 1.9% in the prior year.

The following summarizes operating results variances by major element:

(in millions of dollars)	2014	**2015**	Variance favourable (unfavourable)
Adjusted EBITDA	6	**13**	7
Depreciation and amortization	11	**11**	–
Operating earnings (loss)	(5)	**2**	7

The Paper Pulp segment generated operating earnings of $2 million during the most recently completed fiscal year, compared to an operating loss of $5 million in the prior year. The previously noted increase in adjusted EBITDA led to the improvement in operating results.

Paper

(in millions of dollars)	2014	**2015**
Sales	339	**337**
Freight and other deductions	46	**42**
Cost of sales	261	**247**
SG&A	11	**10**
Adjusted EBITDA	21	**38**
Adjusted EBITDA margin on sales	6.2%	**11.3%**
Depreciation and amortization	3	**4**
Operating earnings	18	**34**
Identifiable assets	144	**163**

The Paper segment currently includes two paper manufacturing facilities with a total of three paper machines. The mill located in Kapuskasing, Ontario, produces newsprint on two machines. The facility located in Temiscaming, Quebec, produces multi-ply coated bleached board on one machine. The board mill is partially integrated with a high-yield pulp mill. The total capacity of the Paper segment is 400,000 tonnes.

The following summarizes the products and capacity of each facility:

Coated bleached board	**tonnes**
Temiscaming, QC	180,000

Newsprint	**tonnes**
Kapuskasing, ON	220,000

Coated bleached board shipments represented 45% of Paper segment shipments in fiscal 2015, as compared to 44% in the prior year. As a percentage of total segment sales, coated bleached board represented 66% of sales compared to 62% in the prior year. Newsprint shipments represented 55% of Paper segment shipments in fiscal 2015, as compared to 56% in the prior year. In terms of total segment sales, newsprint represented 34% of sales compared to 38% in the prior year.

Sales for the Paper segment totalled $337 million, as compared to $339 million in the prior year. The segment generated 24% of Company consolidated sales, as compared to 23% in fiscal 2014. The focus of the paper business is North America, which accounted for 91% of consolidated sales in 2015, unchanged from the prior year. The U.S. alone accounted for 74% of sales in fiscal 2015, unchanged from the prior year.

	Sales ($ millions)		Shipments (000 tonnes)		Selling prices ($ / tonne)	
	2014	**2015**	2014	**2015**	2014	**2015**
Coated bleached board (rolls and sheets)	210	**221**	165.3	**153.8**	1,267	**1,434**
Newsprint	129	**116**	210.8	**189.8**	614	**612**
Consolidated sales	339	**337**	376.1	**343.6**		

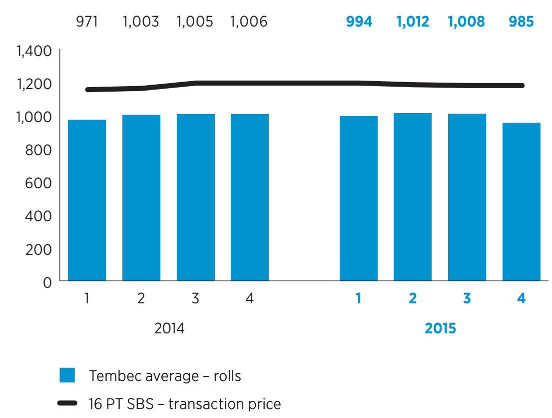
Markets

The benchmark reference price for coated bleached board rolls (16 point) averaged US $1,185 per short ton in fiscal 2015, an US $8 per short ton increase over the prior year. The shipment to capacity ratio for coated bleached board was 85% in fiscal 2015 compared to 92% in the prior year. Fiscal 2015 shipments were impacted by a 13-day production stoppage at the Temiscaming coated bleached board mill due to a labour dispute with the unionized workforce. Currency was a positive factor as the Canadian dollar averaged US $0.817, an 11.6% decrease from US $0.924 in the prior year. Overall, average selling prices for coated bleached board rolls and sheets increased by $167 per tonne. The inventory level at year-end was at 65 days, compared to 45 days at the end of the prior year.

The newsprint market remained weak. The benchmark newsprint price (48.8 gram — East Coast) averaged US $562 per tonne in fiscal 2015, a decrease of US $43 per tonne from the prior year. The weaker Canadian dollar offset this decrease and average newsprint prices were relatively unchanged year-over-year. The shipment to capacity ratio for newsprint was 79% as compared to 88% in the prior year. Finished goods inventories of newsprint were at approximately 17 days of supply at year-end, compared to 11 days at the end of the prior year.

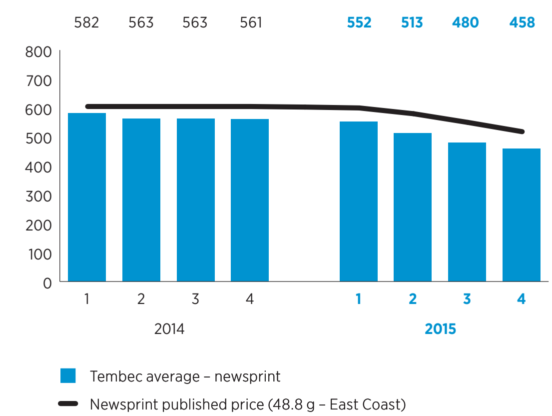
Quarterly prices – Coated bleached board

(US $ per short ton)



Quarterly prices – Newsprint

(US $ per tonne)



Operating results

The following summarizes adjusted EBITDA variances by major element:

	Variance – favourable (unfavourable)				
(in millions of dollars)	Price	Mill costs	Freight	Other	TOTAL
Coated bleached board	26	(10)	(1)	1	16
Newsprint	–	–	–	–	–
Other segment costs	–	–	–	1	1
	26	(10)	(1)	2	17

Fiscal 2015 adjusted EBITDA was $38 million compared to $21 million in the prior year. The previously noted improvement in coated bleached board prices increased adjusted EBITDA by $26 million. The coated bleached board mill level costs increased by $10 million, primarily for purchased external pulp and energy. Freight and distribution costs increased by $1 million. Canadian dollar newsprint prices were relatively unchanged year-over-year. Newsprint mill manufacturing costs also held at similar levels, with higher fixed costs being offset by lower energy costs. Overall, higher prices more than offset higher costs and segment adjusted EBITDA margins improved from 6.2% to 11.3%.

The coated bleached board mill utilizes a combination of chemical kraft and high-yield pulp to produce a three-ply sheet. During fiscal 2015, the mill utilized 59,600 tonnes of high-yield pulp supplied by the Temiscaming high-yield pulp mill versus 58,700 tonnes supplied in fiscal 2014. The balance of pulp requirements was purchased from third parties.

The newsprint mill utilizes virgin fibre, primarily in the form of wood chips. During fiscal 2015, the operations consumed 199,400 bone dry tonnes of virgin fibre, of which 100% was internally sourced. In the prior year, 234,700 bone dry tonnes of virgin fibre were consumed, with 79% being sourced internally.

The following summarizes operating results variances by major element:

(in millions of dollars)	2014	**2015**	Variance favourable (unfavourable)
Adjusted EBITDA	21	**38**	17
Depreciation and amortization	3	**4**	(1)
Operating earnings	18	**34**	16

The Paper segment generated operating earnings of $34 million compared to operating earnings of $18 million in the prior year. The previously noted increase in adjusted EBITDA led to the higher operating earnings.

Corporate

(in millions of dollars)	2014	**2015**
General and administrative expenses	18	**17**
Share-based compensation	3	**(3)**
Depreciation and amortization	1	**1**
Other items:		
Custodial – idled facilities	5	**2**
Gain on sale of land	(49)	**(1)**
Gain on settlement of non-recourse debt obligation	–	**(9)**
Impairment loss – Temlam loan receivable	–	**3**
Past service cost – defined benefit pension plan	–	**1**
Gain on sale of Chetwynd pulp mill	(1)	**–**
Loss on termination of BC defined benefit pension plan	7	**–**
Reorganization – severance costs	3	**–**
Operating loss (earnings)	(13)	**11**

The Company recorded a $3 million credit for share-based compensation in fiscal 2015, as compared to a $3 million charge in the prior year. Senior executives currently participate in a long-term incentive plan, which entitles participants to potentially receive units that are equal in value to one common share. The units have a defined vesting period and are subject to performance conditions that ultimately determine the amount of units that vest and are earned by plan participants. Non-executive members of the Board of Directors receive a portion of their fees in the form of "Deferred Share Units" (DSU). The DSUs vest at specified dates. The period credit/expense for the share-based compensation plan consists of normal periodic variation in the number of units based on anticipated or normal vesting and the change in the value of the Company's share price.

The Corporate segment's "other items" include expenses relating to several permanently idled facilities. The costs relate to custodial, site security, legal, pension administration and remediation activities. These "legacy" items totalled $2 million in the most recent year compared to a $5 million expense a year ago.

In fiscal 2015, the Company completed a land sale for proceeds of $2 million and recorded a gain of $1 million. In the prior year, the Company completed six land sale transactions for total consideration of $60 million and recorded a gain of $49 million.

In fiscal 2015, the Company recorded a gain of $9 million related to the settlement of a non-recourse debt obligation. The debt is secured by a charge against the Kirkland Lake, Ontario, finger-joint plant, which has been idle since 2008.

The fiscal 2015 results also include a $3 million charge relating to the impairment of a loan receivable from Temlam Inc. The latter owned an idled laminated veneer lumber (LVL) manufacturing facility located in Amos, Quebec. The Company had a 50% secured interest in the facility. The Company reduced the carrying value of its loan receivable by $3 million to reflect the total net proceeds of $4 million received when Temlam Inc. sold the facility in January 2015.

In fiscal 2015, the Company negotiated a new collective agreement with the Temiscaming, Quebec, unionized workforce. The agreement included a provision to increase pension payments to retirees, which increased the estimated present value of pension obligations by $1 million with a related charge to operating earnings.

In fiscal 2014, the Company completed the sale of the Chetwynd, British Colombia (BC), high-yield pulp mill for a nominal amount. The sale generated a $1 million gain as the buyer assumed certain liabilities associated with the facility. The Company terminated its BC defined benefit pension plan and recorded a charge of $7 million. The Company entered into an agreement with an insurance company to settle a $55 million pension obligation for an amount of $62 million, which was equivalent to the amount of plan assets held in trust at the time of the settlement. The Company also reorganized certain functions and roles and recorded a charge of $3 million relating to severance and salary continuance costs associated with personnel reductions.

Non-operating items

Interest, foreign exchange and other

(in millions of dollars)	2014	**2015**
Interest on debt	49	**55**
Capitalized interest	(18)	**–**
Foreign exchange items	(5)	**(8)**
Employee future benefits	4	**4**
Bank charges and other	3	**3**
	33	**54**

Fiscal 2015 interest expense relates primarily to interest on the US $375 million — 9% senior secured notes maturing in December 2019. Fiscal 2014 interest expense relates primarily to interest on the US $305 million — 11.25% senior secured notes. The $6 million increase in interest expense is due primarily to new project debt incurred to fund the Temiscaming, QC, specialty cellulose cogeneration project, which totalled $131 million at the end of September 2015. Capitalized interest is also related to the Temiscaming, QC, specialty cellulose cogeneration project. Interest capitalization ceased at the end of September 2014. Foreign exchange items are primarily caused by gains or losses on the translation of US dollar net monetary assets. The charge for employee future benefits relates to interest accretion on net unfunded obligations.

Loss on refinancing of long-term debt

On October 1, 2014, the Company completed a private debt offering of US $375 million — 9% senior secured notes due in December 2019. A portion of the proceeds from the offering was utilized to redeem all of the Company's US $305 million — 11.25% senior secured notes due in December 2018, as well as an early prepayment penalty of $27 million (US $24 million). In addition, the Company absorbed a $10 million charge related to the elimination of previously deferred financing costs.

Translation of foreign debt

During fiscal 2015, the Company recorded a loss of $81 million on the translation of its US dollar denominated debt as the relative value of the Canadian dollar decreased from US $0.896 to US $0.751.

During fiscal 2014, the Company recorded a loss of $26 million on the translation of its US dollar denominated debt as the relative value of the Canadian dollar decreased from US $0.971 to US $0.896.

Income taxes

The following table reconciles the anticipated income tax expense/recovery based on the statutory rate to the actual income tax expense:

(in millions of dollars)	2014	**2015**
Earnings (loss) before income taxes	29	**(141)**
Anticipated income tax expense (recovery)	7	**(37)**
Difference in statutory rates	5	**2**
Unrecognized tax asset arising from period losses	6	**30**
Non-deductible portion of foreign exchange loss on translation of debt	3	**11**
Permanent differences and other tax adjustments	(1)	**3**
Income tax expense	20	**9**

During fiscal 2015, the Company recorded an income tax expense of $9 million on a loss before income taxes of $141 million. The income tax expense reflected a $46 million unfavourable variance versus an anticipated income tax recovery of $37 million based on the Company's effective tax rate of 26.2%. The difference in statutory income tax rates increased the income tax expense by $2 million. This was caused by the higher corporate tax rate applicable to the Company's French operations. The income tax expense was increased by $30 million as the result of losses for which no deferred tax asset was recognized. The Company has a significant balance of unrecognized tax assets relating to its Canadian operations since it has not been determined that the future realization of these assets is probable. The non-deductible portion of the foreign exchange loss on translation of debt increased the income tax expense by $11 million. Permanent differences and other tax adjustments increased the income tax expense by $3 million.

During fiscal 2014, the Company recorded an income tax expense of $20 million on earnings before income taxes of $29 million. The income tax expense reflected a $13 million unfavourable variance versus an anticipated income tax expense of $7 million based on the Company's effective tax rate of 26.2%. The difference in statutory income tax rates increased the income tax expense by $5 million. This was caused by the higher corporate tax rate applicable to the Company's French operations. The Company absorbed a $6 million unfavourable variance related to period losses for which no deferred tax asset was recognized. The Company has a significant balance of unrecognized tax assets relating to its Canadian operations since it has not been determined that the future realization of these assets is probable. The non-deductible portion of the foreign exchange loss on translation of debt increased the income tax expense by $3 million. Permanent differences and other tax adjustments reduced the income tax expense by $1 million.

Net earnings (loss)

The Company generated a net loss of $150 million or $1.50 per share for the year ended September 26, 2015, compared to net earnings of $9 million or $0.09 per share for the year ended September 27, 2014.

Comprehensive loss

The following table summarizes the impact of items affecting the reported total comprehensive loss during the last two fiscal years:

(in millions of dollars)	2014	**2015**
Net earnings (loss)	9	**(150)**
Employee future benefit loss	(13)	**(5)**
Foreign currency translation gain on foreign operations	3	**7**
Total comprehensive loss	(1)	**(148)**

During fiscal 2015, the Company recognized a loss of $5 million relating to the increase of the estimated net obligation for employee future benefits. The average discount rate applied to estimate the present value of future obligations increased from 4.03% to 4.04%, thereby reducing the net obligation by $1 million. The return on plan assets exceeded the expected return, decreasing the net obligation by $5 million. Due to the absence of current service costs in certain legacy pension plans, the Company is limited in its ability to recognize all plan assets held in trust. This increased the net obligation by $3 million. Changes to demographic assumptions and plan experience increased the net obligation by $8 million.

During fiscal 2014, the Company recognized a loss of $13 million relating to the increase of the estimated net obligation for employee future benefits. The average discount rate applied to estimate the present value of future obligations decreased from 4.60% to 4.03%, thereby increasing the net obligation by $58 million. The return on plan assets exceeded the expected return by $67 million, reducing the net obligation. Due to the absence of current service costs in certain legacy pension plans, the Company is limited in its ability to recognize all plan assets held in trust. This increased the net obligation by $9 million. Changes to demographic assumptions and plan experience increased the net obligation by $13 million.

Comprehensive items include gains or losses related to the currency translation of the assets and liabilities of the Company's French and U.S. operations. The gains or losses are generated by changes in the end of period exchange rates. During fiscal 2015, the currency translation of the French operations generated a gain of $10 million and the currency translation of the U.S. operations generated a loss of $3 million. During fiscal 2014, the currency translation of the French operations generated a gain of $3 million.

Subsequent event

On November 18, 2015, the Company announced that it had entered into a new asset-based loan (ABL), which consists of a $150 million revolving credit facility (revolving loan) and a US $62 million "first-in, last out" term loan (FILO loan). The new ABL replaced the Company's existing $175 million ABL revolving credit facility.

The revolving loan will expire on November 18, 2020, provided several conditions are met, including repayment of the FILO loan prior to March 2, 2018, failing which the maturity would be accelerated to an earlier date, but not earlier than March 2, 2018. The revolving loan has a first priority charge over the receivables and inventories of the Company's Canadian and U.S. operations. The FILO loan is secured by the same collateral as the revolving loan and ranks second in repayment priority relative to the revolving loan. The FILO loan is also secured by a first priority charge on the fixed assets of one of the Company's U.S. subsidiaries.

The Company utilized borrowings under the new ABL to repay the amounts outstanding under the prior ABL revolving credit facility and pay transaction fees and expenses. After giving effect to the refinancing, the Company's total liquidity at November 18, 2015, was approximately $112 million, compared to $56 million at the end of the September 2015 quarter.

Quarterly financial information

(in millions of dollars, except per share amounts)				2014				2015
	Dec. 13	March 14	June 14	Sept. 14	**Dec. 14**	**March 15**	**June 15**	**Sept. 15**
Sales	354	362	404	371	**332**	**348**	**365**	**373**
Adjusted EBITDA	13	18	30	29	**20**	**12**	**2**	**36**
Depreciation and amortization	8	9	9	11	**9**	**10**	**12**	**12**
Other items	(14)	6	(13)	(14)	**3**	**(8)**	**1**	**–**
Operating earnings (loss)	19	3	34	32	**8**	**10**	**(11)**	**24**
Net earnings (loss)	2	(28)	30	5	**(62)**	**(40)**	**(16)**	**(32)**
Basic and fully diluted net earnings (loss) per share ($)	0.02	(0.28)	0.30	0.05	**(0.62)**	**(0.40)**	**(0.16)**	**(0.32)**
Comprehensive earnings (loss)	35	(36)	20	(20)	**(81)**	**(43)**	**5**	**(29)**

Fourth quarter analysis

The Company reported a net loss of $32 million or $0.32 per share in the fourth quarter ended September 26, 2015, compared to net earnings of $5 million or $0.05 per share in the same quarter of fiscal 2014. The weighted average number of common shares outstanding was 100 million, unchanged from the prior year quarter.

Sales increased by $2 million from the same quarter a year ago. Currency was a positive factor as the Canadian dollar averaged US $0.765, a 16.7% decrease from US $0.918 in the year ago quarter. Forest Products segment sales decreased by $6 million as a result of lower prices and shipments. Specialty Cellulose Pulp segment sales decreased by $2 million due to lower prices. Paper Pulp segment sales increased by $7 million due to higher shipments and prices. Paper segment sales increased by $5 million due to higher prices, partially offset by lower shipments.

Adjusted EBITDA increased by $7 million from the prior year quarter. Forest Products segment adjusted EBITDA decreased by $7 million due to lower prices and higher costs. Specialty Cellulose Pulp segment adjusted EBITDA declined by $1 million due to lower prices, partially offset by lower costs. Paper Pulp segment adjusted EBITDA increased by $7 million due to higher prices and lower costs. Paper segment adjusted EBITDA increased by $6 million due to higher prices, partially offset by higher costs.

The Company generated operating earnings of $24 million compared to operating earnings of $32 million in the same quarter a year ago. In addition to the previously noted improvement in adjusted EBITDA, the September 2015 quarter also saw a $14 million unfavourable variance in other items. The prior year quarter results included a $15 million gain related to land sales.

The interest expense relates primarily to interest on the US dollar denominated senior secured notes. Capitalized interest is related to the Temiscaming, QC, specialty cellulose cogeneration project. Interest capitalization ceased at the end of September 2014. Foreign exchange items are primarily caused by gains or losses on the translation of US dollar net monetary assets. The charge for employee future benefits relates to interest accretion on net unfunded obligations.

During the September 2015 quarter, the Company recorded a loss of $38 million on the translation of its US dollar denominated debt as the relative value of the Canadian dollar decreased from US $0.812 to US $0.751.

During the September 2014 quarter, the Company recorded a loss of $15 million on the translation of its US dollar denominated debt as the relative value of the Canadian dollar decreased from US $0.938 to US $0.896.

During the September 2015 quarter, the Company recorded an income tax expense of $3 million on a loss before income taxes of $29 million. The income tax expense reflected an $11 million unfavourable variance versus an anticipated income tax recovery of $8 million based on the Company's effective tax rate of 26.2%. The income tax expense was increased by $6 million as the result of losses for which no deferred tax asset was recognized. The Company has a significant balance of unrecognized tax assets relating to its Canadian operations since it has not been determined that the future realization of these assets is probable. The non-deductible portion of the foreign exchange loss on translation of debt increased the income tax expense by $5 million.

During the September 2014 quarter, the Company recorded an income tax expense of $7 million on earnings before income taxes of $12 million. The income tax expense reflected a $4 million unfavourable variance versus an anticipated income tax expense of $3 million based on the Company's effective tax rate of 26.2%. The difference in statutory income tax rates increased the income tax expense by $1 million. This was caused by the higher corporate tax rate applicable to the Company's French operations. The income tax expense was increased by $3 million as the result of losses for which no deferred tax asset was recognized. The Company has a significant balance of unrecognized tax assets relating to its Canadian operations since it has not been determined that the future realization of these assets is probable. The non-deductible portion of the foreign exchange loss on translation of debt increased the income tax expense by $2 million. Permanent differences and other tax adjustments reduced the income tax expense by $2 million.

During the September 2015 quarter, the Company recognized a loss of $12 million relating to the increase of the estimated net obligation for employee future benefits. The average discount rate applied to estimate the present value of future obligations increased from 3.96% to 4.04%, thereby reducing the net obligation by $8 million. The return on plan assets was less than the expected return, increasing the net obligation by $25 million. Due to the absence of current service costs in certain legacy pension plans, the Company is limited in its ability to recognize all plan assets held in trust. The recognition of previously unrecognized assets reduced the net obligation by $2 million. Changes to demographic assumptions and plan experience reduced the net obligation by $3 million.

During the September 2014 quarter, the Company recognized a loss of $20 million relating to the increase of the estimated net obligation for employee future benefits. The average discount rate applied to estimate the present value of future obligations decreased from 4.16% to 4.03%, thereby increasing the net obligation by $11 million. The return on plan assets did not meet the expected return, increasing the net obligation by $3 million. Due to the absence of current service costs in certain legacy pension plans, the Company is limited in its ability to recognize all plan assets held in trust. This increased the net obligation by $9 million. Changes to demographic assumptions and plan experience reduced the net obligation by $3 million.

Comprehensive items include gains or losses related to the currency translation of the assets and liabilities of the Company's French and U.S. operations. The gains or losses are generated by changes in the end of period exchange rates. During the September 2015 quarter, the currency translation of the French operations generated a gain of $16 million. The currency translation of the U.S. operations generated a loss of $2 million. In the September 2014 quarter, the currency translation of the French operations generated a loss of $6 million.

The fourth quarter 2015 interim MD&A issued on November 19, 2015, provides a more extensive analysis of items having impacted the Company's fourth quarter financial results.

Summary of quarterly results

On a quarterly basis, sales and margins were negatively impacted by relatively low lumber, paper pulp and newsprint US dollar prices. The movement in currency rates was beneficial to Canadian operations as the Canadian dollar declined from US $0.971 at the end of September 2013 to US $0.751 at the end of September 2015, averaging US $0.870 over the last eight quarters.

The Forest Products segment generated adjusted EBITDA of $29 million during the last eight quarters. This represents an average margin of 3.3% on sales of $870 million. The Company's lumber shipment to capacity ratio averaged 83%. The U.S. housing market improved modestly, but lumber prices declined. The previously noted weaker Canadian dollar offset the decline in US dollar prices and selling prices and margins for the Company remained relatively unchanged year-over-year.

The Specialty Cellulose Pulp segment generated adjusted EBITDA of $88 million during the last eight quarters. This represents an average margin of 9.4% on sales of $939 million. Selling prices for specialty pulp generally weakened in the last eight quarters. Average margins declined from 13.3% in fiscal 2014 to 4.8% in fiscal 2015.

The Paper Pulp segment generated adjusted EBITDA of $19 million during the last eight quarters. This represents a margin of 3.1% on sales of $612 million. The market for paper pulp has been weak over the last two years. New hardwood capacity expansions in South America and the restart of idled high-yield pulp capacity in Canada have led to lower US dollar selling prices.

The Paper segment generated adjusted EBITDA of $59 million over the last eight quarters. This represents an average margin of 8.7% on sales of $676 million. Higher US dollar prices for coated bleached board have offset lower newsprint US dollar prices over the last two years. Segment financial results have improved due to the weaker Canadian dollar.

Corporate general and administrative expenses of the Company have averaged approximately $4 million per quarter over the last two years and there has been no significant changes in the composition of those expenses.

Overall, the Company generated adjusted EBITDA of $160 million in the last eight quarters. This represents an average margin of approximately 5.5% on consolidated sales of $2.9 billion.

Corporate other items increased the Company's operating earnings by $39 million during the last eight quarters. While there were several offsetting favourable and unfavourable items, the most significant favourable item was a $50 million gain from land sales. This was partially offset by $7 million spent on custodial costs for idled facilities and a $7 million charge for the termination of a defined benefit pension plan.

The Company recorded a loss of $107 million on the translation of its foreign-denominated debt over the last two years. However, the impact of the quarterly US debt translation gains and losses added considerable volatility to the financial results, with the impact ranging from a gain of $12 million in the June 2014 quarter to a loss of $38 million in the September 2015 quarter.

During the last two years, the Company has recorded an income tax expense of $29 million. The expense relates primarily to its French operations as the Canadian operations have significant amounts of unrecognized tax assets.

Financial position and liquidity

Free cash flow

(in millions of dollars)	2014	2015
Cash flow from operations before working capital changes	38	**53**
Less:		
Additions to property, plant and equipment	151	**57**
Interest on debt	49	**55**
Free cash flow (negative)	(162)	**(59)**

Cash flow from operations before working capital changes in fiscal 2015 was $53 million, compared to $38 million in the prior year. The increase in cash flow from operations was due to a $21 million decrease in income taxes paid for our French operations and a $13 million decrease in excess cash contributions for employee future benefits. These favourable items more than offset the $20 million decline in adjusted EBITDA. After allowing for capital expenditures of $57 million and interest on debt of $55 million, free cash flow in fiscal 2015 was negative $59 million compared to negative $162 million in the prior year.

In fiscal 2015, non-cash working capital items used $33 million. The increase in working capital was caused primarily by a $29 million increase in inventories, with Paper segment inventories (+$16 million) and Paper Pulp segment inventories (+$9 million) accounting for the bulk of the increase. As a result, cash flow from operations declined from $22 million in fiscal 2014 to $20 million in fiscal 2015.

Capital spending

(in millions of dollars)	2014	2015
Forest Products	8	**13**
Specialty Cellulose Pulp – Cogen project		
Construction	117	**19**
Start-up	1	**3**
Specialty Cellulose Pulp – Other	17	**13**
Paper Pulp	4	**5**
Paper	4	**4**
Net capital expenditures	151	**57**
As a % of consolidated sales	10.1%	**4.0%**
As a % of depreciation	408%	**133%**

During fiscal 2015, capital expenditures totalled $57 million, as compared to $151 million in the prior year. The lower level of capital expenditures relates to one relatively large capital project. In March 2012, the Company announced a major capital investment to upgrade its specialty cellulose mill in Temiscaming, Quebec. The project involved the replacement of three low-pressure boilers with a single new high-pressure boiler designed to burn waste sulphite liquor generated by the specialty cellulose manufacturing process. The project also included the installation of a new 50-megawatt electrical turbine. During fiscal 2015, $19 million was spent on the project construction costs, bringing total cumulative project expenditures to $273 million. The Company also incurred $3 million of start-up costs related to the project in fiscal 2015, bringing cumulative capitalized start-up costs to $4 million. The project is now complete and capital spending has ceased.

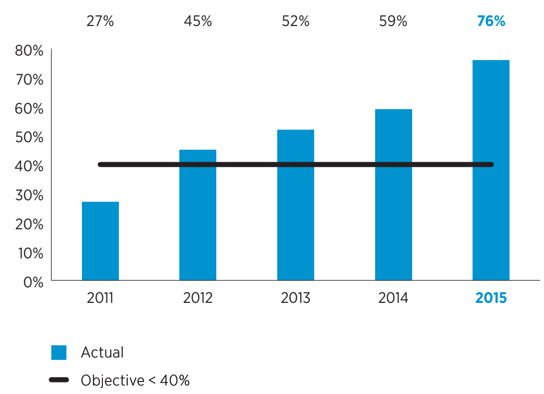
Commissioning of the boiler on natural gas began in late-November 2014. Commissioning of the turbine began in early January 2015, at which time the Company generated its first electricity sales. In late January, the Company successfully met the "commercial-in-service" test set forth in the power purchase agreement with the public utility and began selling electricity at the higher "green" power rate. During the month of February 2015, the Company began the firing of pulp mill residual liquor in the new boiler. Since that time, a significant amount of effort and resources has been dedicated to ramping up the volume of liquor burned and optimizing the exhaust gas scrubber system and related equipment. In the September 2015 quarter, the new boiler incinerated approximately 85% of the targeted quantity of liquor and, combined with the turbine, generated in excess of $4 million of net energy benefit as compared to the same quarter a year ago. Based on boiler and turbine operations to date, the Company is confident it will attain the $28 million of projected annual energy benefits. The Company has also set a target of $7 million per year in operating and maintenance cost reductions, or $1.75 million per quarter. During the September 2015 quarter, the Company continued to periodically operate the old boilers and was required to maintain them on operational readiness. As such, the Company estimates that very little of the projected operating and maintenance savings were realized in the September 2015 quarter. The ability to take the older boilers permanently "offline" will dictate the timing of these savings. Finally, the Company has guided for a potential $13 million per year productivity and margin enhancement associated with the production increase of 15,000 tonnes of specialty pulp. While the previously noted energy and cost benefits are near term items, the productivity and margin enhancement benefit will be dependent on the Company's ability to generate additional specialty pulp sales volumes, which may require an extended period of time.

The Company estimates that annual capital expenditures of $35 million to $40 million are required to adequately maintain its facilities.

Acquisitions, investments and divestitures

In March 2014, the Company completed the sale of the Chetwynd, BC, high-yield pulp mill for a nominal amount. The sale generated a $1 million gain as the buyer assumed certain liabilities associated with the facility.

Net debt to total capitalization



Financing activities

The Company's long-term objective is to maintain the net debt to total capitalization ratio at 40% or less. A strong balance sheet provides the Company with the ability to access capital markets at favourable rates. The net debt to total capitalization ratio of the Company was 76% as at September 2015, as compared to 59% at the end of the prior fiscal year. The increase is due primarily to increased debt levels to finance the previously noted Temiscaming specialty cellulose cogeneration project as well as $81 million of foreign currency translation increases on outstanding US dollar denominated debt. The Company anticipates that the net debt to total capitalization ratio will gradually decrease as the new boiler and turbine installed at the Temiscaming specialty cellulose mill generate the projected incremental adjusted EBITDA. The Company should also benefit from the impact of a weaker Canadian dollar in terms of selling prices and competitiveness, gradually offsetting the negative impact of the previously noted translation losses on US dollar denominated debt.

Long-term debt

(in millions of dollars)	2014	2015
Tembec Industries – US $375 million 9% senior secured notes due December 2019	–	**499**
Tembec Industries – US $305 million 11.25% senior secured notes due December 2018	340	**–**
Temiscaming project financing – 5.5% secured term loan	86	**93**
Temiscaming project financing – secured term loan – 6.35% tranche	20	**19**
Temiscaming project financing – secured term loan – 6.86% tranche	20	**19**
French operations	12	**7**
Kirkland Lake Engineered Wood Products Inc.	9	**–**
Other debt	2	**1**
Total long-term debt	489	**638**
Less unamortized financing costs	17	**14**
	472	**624**
Current portion included in above	17	**11**

In October 2014, the Company completed a private debt offering of US $375 million — 9% senior secured notes. The secured notes mature in December 2019. A significant portion of the proceeds was utilized to purchase and redeem US $305 million — 11.25% senior secured notes, in addition to paying US $10 million of accrued interest and an early prepayment penalty of US $24 million.

In March 2012, the Company entered into a $75 million term loan facility to assist with the financing of the previously mentioned Temiscaming, Quebec, specialty cellulose cogeneration project. The interest rate on the facility is 5.5%. The loan has a 15½ -year term consisting of a 42-month construction or drawdown period followed by a 12-year monthly amortization period beginning in April 2016. The term of the loan will be shortened by three years if the Company does not complete certain future capital expenditures at the Temiscaming specialty cellulose mill. The loan is secured by a second ranking charge on the project assets. The Company has also granted the lender a five-year option starting on the first loan disbursement date to acquire 3 million common shares of Tembec at a price of $7 per share. This option expires on August 30, 2017. During the September 2013 quarter, the Company negotiated an additional tranche of project financing, effectively increasing the total funding from the lender to $93 million. This second $18 million tranche is also secured by a second ranking charge on project assets and the interest rate remains at 5.5%. This second tranche is repayable in 48 equal monthly instalments beginning in April 2016. In connection with the additional funding, the Company granted the lender a five-year option to acquire 712,000 common shares of Tembec at a price of $3.783 per share. This option expires on December 11, 2018. As at the end of September 2015, the Company had drawn the entire $93 million.

In June 2012, the Company entered into a $30 million term loan facility to assist with the financing of the previously noted specialty cellulose cogeneration project in Temiscaming, Quebec. The interest rate on this loan is the greater of 6.35% and the yield on equivalent terms Government of Canada bonds plus 4.25% at the date the funds are advanced. The loan is secured by a first ranking charge on the project assets. In July 2012, the Company received $20 million representing the first advance under the facility. The interest rate on this advance was set at 6.35%. During the September 2013 quarter, the Company increased the size of the facility to $40 million. As part of the loan amendment, the terms of the remaining $10 million to be drawn on the original facility were amended to correspond to those of the new $10 million in funding. The initial $20 million drawn in July 2012 is repayable in blended monthly instalments over an eight-year period beginning in July 2014, with a "balloon" payment of $12 million to be repaid in July 2022. During the December 2013 quarter, the Company received the remaining $20 million on the facility. This second tranche bears interest at a rate of 6.86% and is repayable in blended monthly instalments over a period of eight years beginning in November 2014, with a "balloon" payment of $12 million to be repaid in October 2022. As at the end of September 2015, the Company has repaid $2 million of principal related to the term loan and $38 million remained outstanding.

The debt of the French operations relates to the Company's specialty cellulose pulp mill. The decrease in debt was due to scheduled amortization payments.

During fiscal 2015, the Company arrived at a settlement agreement with the secured lenders of Kirkland Lake Engineered Wood Products Inc. (KLEWP). KLEWP is a wholly-owned subsidiary of Tembec, which owns a wood products facility that has been idle for several years. The debt is non-recourse in nature. In exchange for the extinguishment of this obligation, Tembec and the secured lenders have agreed to sell the facility on an "as is" basis and to divide the net proceeds based on a pre-arranged formula. At time of writing, the facility had not yet been sold.

Moody's Investors Service (Moody's) has assigned a B3 rating to the 9% senior secured notes and the same level for the Company's corporate credit rating. Moody's has a "negative" outlook with respect to its rating. Standard and Poor's (S&P) has assigned a B- rating to the 9% senior secured notes and the same level for the Company's corporate credit rating. S&P has a "negative" outlook with respect to its rating.

The Company has set an objective of maintaining a minimum liquidity of $135 million to $150 million. At the end of September 2015, the Company had total cash, including restricted cash, of $23 million plus unused operating lines of $33 million, for total liquidity of $56 million. At September 2014, the Company had net cash of $42 million and unused operating lines of $42 million, for total liquidity of $84 million. Subsequent to the end of fiscal 2015, on November 18, 2015, the Company announced that it had entered into a new ABL (see Subsequent Event). After giving effect to the refinancing, the Company's total liquidity at November 18, 2015, was approximately $112 million. While total liquidity remained below its objective, the lower on-going capital expenditures as well as the projected incremental adjusted EBITDA of the Temiscaming cogeneration project will positively impact cash flow and liquidity in future periods.

Operating lines

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

(in millions of dollars)	2014	**2015**
Borrowing base	188	**210**
Less: permanent availability reserve	–	**(15)**
Less: variable availability reserve	(3)	**(2)**
Net availability	185	**193**
Outstanding letters of credit	(56)	**(46)**
Amount drawn	(87)	**(114)**
Unused amount	42	**33**

At the end of fiscal 2015, the Company had a $175 million ABL facility expiring in March 2018. The ABL had a first priority charge over the receivables and inventories of the Company's Canadian operations. As at September 26, 2015, an amount of $111 million was drawn on the ABL facility and a further $33 million was utilized to issue letters of credit. As noted previously, the ABL facility was refinanced on November 18, 2015 (see Subsequent Event). The new ABL consists of a $150 million revolving loan and a US $62 million FILO loan. The revolving loan will expire on November 18, 2020, provided several conditions are met, including repayment of the FILO loan prior to March 2, 2018, failing which the maturity would be accelerated to an earlier date, but not earlier than March 2, 2018. The revolving loan has a first priority charge over the receivables and inventories of the Company's Canadian and U.S. operations. The FILO loan is secured by the same collateral as the revolving loan and ranks second in repayment priority relative to the revolving loan. The FILO loan is also secured by a first priority charge on the fixed assets of one of the Company's U.S. subsidiaries.

The Company also has a dedicated unsecured credit facility that can only be utilized to issue letters of credit. As at September 2015, there were $13 million of outstanding letters of credit issued on this facility.

The French operations are supported by "receivable factoring" agreements. As such, the borrowing base fluctuates periodically, depending on shipments and cash receipts. As at September 2015, an amount of $3 million was drawn on these facilities.

The outstanding letters of credit constitute security for various operating items, principally the unfunded portion of supplementary retirement plans, future landfill closure liabilities and performance guarantees related to electricity generation agreements.

Common shares

(in millions)	2014	**2015**
Shares outstanding – opening	100	**100**
Shares outstanding – ending	100	**100**

There were no shares issued in fiscal 2014 and fiscal 2015.

Pursuant to options granted under the prior Long-Term Incentive Plan (LTIP), an additional 45,084 shares may be issued. The weighted average exercise price of the options was $29.93 per share as at September 26, 2015, and they will expire in 2016. As at September 26, 2015, all of the options were exercisable.

In connection with the $75 million second ranking term loan facility, the Company has granted the lender an option to acquire 3 million common shares of the Corporation at a price of $7 per share. The warrants expire on August 30, 2017. In connection with the $18 million second ranking term loan facility, the Company has granted the lender an option to acquire 712,000 common shares of the Corporation at a price of $3.783 per share. The warrants expire on December 11, 2018.

Financial instruments and contractual obligations

Financial assets and liabilities

As at September 26, 2015 (in millions of dollars)	Carrying value	Fair value
Financial assets		
Cash and cash equivalents	21	21
Restricted cash	2	2
Trade and other receivables	161	161
Loans receivable	3	3
Financial liabilities		
Operating bank loans	114	114
Trade, other payables and accrued charges	188	188
Interest payable	13	13
Long-term debt (including current portion)	624	494

The carrying values for cash and cash equivalents, restricted cash, trade and other receivables, loans receivable, operating bank loans, trade, other payables and accrued charges, and interest payable approximate their fair values due to the near-term maturity of these instruments.

The fair value of the long-term debt was reduced by $145 million as the Company's US $375 million senior notes were trading below par at year-end. The balance of the difference relates primarily to unamortized financing costs of $14 million, which were netted against the long-term debt carrying value.

Financial risks

Credit risk

Credit risk arises from the possibility that entities to which the Company sells products may experience financial difficulty and be unable to fulfill their contractual obligations. The Company does not have a significant exposure to any individual customer or counterparty. The Company reviews a new customer's credit history before extending credit and conducts regular reviews of its existing customers' credit performance. All credit limits are subject to evaluation and revision at any time based on changes in levels of creditworthiness and must be reviewed at least once per year. Sales orders cannot be processed unless a credit limit has been properly approved. The Company may require payment guarantees, such as letters of credit, or obtain credit insurance coverage. Bad debt expense has not been significant in the past. The allowance for doubtful accounts at September 2015 was negligible as compared to $1 million at the end of the prior year.

Liquidity risk

Liquidity risk arises from the possibility that the Company will not be able to meet its financial obligations as they fall due. The Company has an objective of maintaining liquidity equal to 12 months of maintenance capital expenditures, interest and principal repayments and seasonal working capital requirements, which would require approximately $135 million to $150 million of liquidity. As noted previously, the Company had total cash of $23 million plus unused operating lines of $33 million, for total liquidity of $56 million as at September 26, 2015. Subsequent to the end of fiscal 2015, on November 18, 2015, the Company announced that it had entered into a new ABL (see Subsequent Event). After giving effect to the refinancing, the Company's total liquidity at November 18, 2015, was approximately $112 million. While total liquidity remained below its objective, the lower on-going capital expenditures as well as the projected incremental adjusted EBITDA of the Temiscaming cogeneration project will positively impact cash flow and liquidity in future periods.

The Company's liquidity is dependent on generating a sufficient amount of adjusted EBITDA and cash flow from operations. Based on existing liquidity, current initiatives to obtain additional liquidity and anticipated future operating cash flow, the Company believes that it will be able to adequately fund its operations and meet its future obligations as they become due. This determination could be impacted by economic, financial, competitive, legislative and regulatory factors, as well as other events, that are beyond the Company's control.

Foreign currency risk

This item is discussed in detail in a subsequent section of the MD&A, "Significant Risks and Uncertainties".

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. This will have little impact on the Company's financial results since the majority of the Company's debts are at fixed interest rates.

Commodity price and operational risk

These items are discussed in detail in a subsequent section of the MD&A, "Significant Risks and Uncertainties".

Contractual obligations

The following table shows the Company's contractual obligations as at September 26, 2015. The Company has long-term debt with contractual maturities and applicable interest. Pension obligations past service costs include estimated solvency and going concern amortization payments.

(in millions of dollars)	Total	Within 1 year	2 – 3 years	4 – 5 years	After 5 years
Long-term debt	638	11	28	527	72
Interest on long-term debt	230	52	104	65	9
Pension obligations – past service costs	55	10	12	10	23
	923	73	144	602	104

Other contractual obligations not included in the table above are:

- Operating lease obligations totalling $7 million, related primarily to property and equipment rentals entered into the normal course of business.
- Outstanding payable and accruals of $4 million related to capital expenditures.
- Purchase obligations related to ongoing normal commercial commitments to purchase timber, fibre, energy, chemicals and other operating inputs. Many of the obligations are subject to "force majeure" clauses and may vary significantly from contracted amounts depending on the Company's requirements.

2014 vs. 2013

Financial summary

(in millions of dollars, unless otherwise noted)	2013	2014
Sales	1,534	1,491
Adjusted EBITDA	97	90
Depreciation and amortization	40	37
Other items	29	(35)
Operating earnings	28	88
Net earnings (loss)	(39)	9
Basic and diluted net earnings (loss) in dollars per share	(0.39)	0.09
Total assets (at year-end)	1,021	1,155
Total long-term debt (at year-end) [(1)]	385	472
Total long-term liabilities (at year-end)	510	603

[(1)] Includes current portion

In this section, current year refers to fiscal 2014 and prior year refers to fiscal 2013.

Sales decreased by $43 million compared to the prior year. Currency was a positive factor as the Canadian dollar averaged US $0.924, a 6.2% decrease from US $0.985 a year ago. Forest Products segment sales increased by $12 million as a result of higher selling prices, partially offset by lower shipments. Specialty Cellulose Pulp segment sales increased by $43 million due to higher shipments and prices. Paper Pulp segment sales declined by $108 million due to lower shipments, partially offset by higher prices. Paper segment sales increased by $7 million as higher prices were partially offset by lower shipments.

In fiscal 2014, adjusted EBITDA declined by $7 million compared to the prior year. Forest Products segment adjusted EBITDA increased by $1 million due to higher prices, offset by higher costs. Specialty Cellulose Pulp segment adjusted EBITDA declined by $6 million due to higher costs, partially offset by higher selling prices. Paper Pulp segment adjusted EBITDA increased by $1 million as higher prices were largely offset by higher costs. Paper segment adjusted EBITDA decreased by $4 million due to higher costs, offset by higher prices.

Operating earnings (loss)

(in millions of dollars)	2013	2014	Total variance	Adjusted EBITDA variance	Depreciation variance	Other items variance
Forest Products	7	10	3	1	2	–
Specialty Cellulose Pulp	59	52	(7)	(6)	(1)	–
Paper Pulp	(32)	(5)	27	1	3	23
Paper	22	18	(4)	(4)	–	–
Corporate	(28)	13	41	1	(1)	41
	28	88	60	(7)	3	64

The Company generated operating earnings of $88 million compared to operating earnings of $28 million a year ago. The improvement in operating results is due primarily to a favourable variance in other items, which more than offset the decrease in adjusted EBITDA. In the most recent year, the Company realized a gain of $49 million from the sale of BC lands. In the prior year, the Company had absorbed a $23 million charge related to the impairment and sale of the Skookumchuck, BC, NBSK pulp mill.

The Forest Products segment generated operating earnings of $10 million, as compared to operating earnings of $7 million in fiscal 2013. In addition to the previously noted improvement in adjusted EBITDA, the segment also benefited from lower depreciation expense.

The Specialty Cellulose Pulp segment generated operating earnings of $52 million compared to operating earnings of $59 million in the prior year. The previously noted decline in adjusted EBITDA led to the lower operating earnings.

The Paper Pulp segment generated an operating loss of $5 million compared to an operating loss of $32 million in the prior year. In addition to the previously noted improvement in adjusted EBITDA, the segment saw depreciation expense decline by $3 million due to the sale of the Skookumchuck, BC, NBSK pulp mill. The prior year operating results included a $22 million asset impairment charge and a subsequent $1 million loss on sale related to the Skookumchuck pulp mill.

The Paper segment operating results declined by $4 million due to the previously noted reduction in adjusted EBITDA.

Corporate segment results improved by $41 million, primarily due to "other items". The current year results include a gain of $49 million relating to land sales. It also includes a charge of $7 million for the termination of a defined benefit pension plan.

The Corporate segment's "other items" include expenses relating to several permanently idled facilities. The costs relate to custodial, site security, legal, pension administration and remediation activities. These "legacy" costs totalled $5 million in fiscal 2014 compared to $8 million a year ago. During the year ended September 2013, the Company sold the Cranbrook, BC, office and realized a gain of $2 million. During the year ended September 2014, the Company recorded six BC land sales transactions for total consideration of $60 million and recorded a gain of $49 million. During the December 2013 quarter, the Company reorganized certain functions and roles and recorded a charge of $3 million relating to severance costs associated with personnel reductions. In March 2014, the Company completed the sale of the Chetwynd, BC, high-yield pulp mill for a nominal amount. The sale generated a $1 million gain as the buyer assumed certain liabilities associated with the facility. During the March 2014 quarter, the Company terminated its BC defined benefit pension plan and recorded a charge of $7 million. The Company entered into an agreement with an insurance company to settle a $55 million pension obligation for an amount of $62 million, which was equivalent to the amount of plan assets held in trust at the time of the settlement.

Interest, foreign exchange and other

(in millions of dollars)	2013	2014
Interest on debt	42	49
Capitalized interest	(9)	(18)
Foreign exchange items	(1)	(5)
Employee future benefits	10	4
Bank charges and other	3	3
	45	33

The interest expense relates primarily to interest on the US $305 million — 11.25% senior secured notes maturing in December 2018. The $7 million increase in interest expense is due primarily to new project debt incurred to fund the Temiscaming, QC, specialty cellulose cogeneration project, which had reached $126 million at the end of September 2014. The increase in capitalized interest is also related to the Temiscaming, QC, specialty cellulose cogeneration project. Foreign exchange items are primarily caused by gains or losses on the translation of US dollar net monetary assets. The charge for employee future benefits relates to interest accretion on net unfunded obligations.

During fiscal 2014, the Company recorded a loss of $26 million on the translation of its US dollar denominated debt as the relative value of the Canadian dollar decreased from US $0.971 to US $0.896. During fiscal 2013, the Company recorded a loss of $14 million on the translation of its US dollar denominated debt as the relative value of the Canadian dollar decreased from US $1.017 to US $0.971.

During fiscal 2014, the Company recorded an income tax expense of $20 million on earnings before income taxes of $29 million. The income tax expense reflected a $13 million unfavourable variance versus an anticipated income tax expense of $7 million based on the Company's effective tax rate of 26.2%. The difference in statutory income tax rates increased the income tax expense by $5 million. This was caused by the higher corporate tax rate applicable to the Company's French operations. The Company absorbed a $6 million unfavourable variance related to period losses for which no deferred tax asset was recognized. The Company has a significant balance of unrecognized tax assets relating to its Canadian operations since it has not been determined that the future realization of these assets is probable. Permanent differences and other tax adjustments increased the tax expense by $2 million.

During fiscal 2013, the Company recorded an income tax expense of $8 million on a loss before income taxes of $31 million. The income tax expense reflected a $16 million unfavourable variance versus an anticipated income tax recovery of $8 million based on the Company's effective tax rate of 26.3%. The difference in statutory income tax rates increased the income tax expense by $1 million. This included an increase of $6 million due to the higher corporate tax rate applicable to the Company's French operations, partially offset by a decrease of $5 million due to reduced operations in the Province of BC. The Company absorbed a $13 million unfavourable variance related to period losses for which no deferred tax asset was recognized. Based on past financial performance, deferred income tax assets of the Company's Canadian operations have not been recognized as it has not been determined that future realization of these assets is probable. Permanent differences and other tax adjustments increased the tax expense by $2 million.

Net earnings (loss)

The Company generated net earnings of $9 million or $0.09 per share for the year ended September 27, 2014, compared to a net loss of $39 million or $0.39 per share for the year ended September 28, 2013.

Comprehensive earnings (loss)

The following table summarizes the impact of items affecting the reported total comprehensive earnings (loss) during the years ended September 2014 and September 2013:

(in millions of dollars)	2013	2014
Net earnings (loss)	(39)	9
Employee future benefit loss	151	(13)
Income tax expense	(11)	–
Foreign currency translation gain on foreign operations	15	3
Total comprehensive earnings (loss)	116	(1)

During fiscal 2014, the Company recognized a loss of $13 million relating to the increase of the estimated net obligation for employee future benefits. The average discount rate applied to estimate the present value of future obligations decreased from 4.60% to 4.03%, thereby increasing estimated future obligations by $58 million. The return on plan assets exceeded the expected return by $67 million, reducing net future obligations. Due to the absence of current service costs in certain legacy pension plans, the Company is limited in its ability to recognize all plan assets held in trust. This generated an unfavourable variance of $9 million in fiscal 2014. Changes to demographic assumptions and plan experience increased net obligations by $13 million.

During fiscal 2013, the Company recognized a gain of $151 million relating to the reduction of the estimated net obligation for employee future benefits. The average discount rate applied to estimate the present value of future obligations increased from 3.69% to 4.60%, thereby reducing estimated future obligations by $103 million. As well, the actual return on plan assets exceeded the expected return by $50 million. The limitation on the recognition of pension plan assets held in trust was unfavourable by $1 million. Changes to demographic assumptions and plan experience increased net obligations by $1 million.

Comprehensive items include gains or losses related to the currency translation of the assets and liabilities of the Company's French and U.S. operations. The gains or losses are generated by changes in the end of period exchange rates. During fiscal 2014, the currency translation of the French operations generated a gain of $3 million. In the prior year, the currency translation of the French operations generated a gain of $16 million. The currency translation of the U.S. operations generated a loss of $1 million.

Critical accounting estimates

Property, plant and equipment depreciation

The Company records its property, plant and equipment, 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. Property, plant and equipment acquired as a result of a business acquisition are recorded at their estimated fair value. Depreciation of property, plant and equipment is provided over their estimated useful lives, generally on a straight-line basis. The estimated useful lives of property, plant and equipment are based on judgement and the best currently available information. Changes in circumstances can result in the actual useful lives differing from the Company's estimates. Revisions to the estimated useful lives of property, plant and equipment constitute a change in accounting estimate and are dealt with prospectively by amending the amount of future depreciation expense. There were no significant revisions to the estimated useful lives of property, plant and equipment in fiscal 2015 and fiscal 2014.

Impairment of non-financial assets

The Company must review the carrying value of non-financial 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. If any such indication exists, then the asset's recoverable amount is estimated. The recoverable amount of a non-financial asset is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets. An impairment loss is recognized if the carrying amount of an asset exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss. An impairment loss recognized in prior periods is assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized. To estimate future cash flows, the Company uses operating and financial assumptions, primarily those contained in its most recent multi-year operating plan. There were no material asset impairment charges in fiscal 2014 and fiscal 2015.

Employee future benefits

The Company contributes to several defined benefit pension plans, primarily related to employees covered by collective bargaining agreements. The Company also provides post-retirement benefits to retirees, primarily healthcare related. For post-retirement benefits, funding of disbursements is done on a "pay as you go" basis. The Company uses an independent actuarial firm to quantify the amount of pension and post-retirement obligations. The Company, based on its own experience and recommendations from its actuarial firm, evaluates the underlying assumptions on an annual basis. Discount rates utilized to calculate the present value of future obligations are prescribed by IFRS accounting standards. 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 September 26, 2015, the fair value of defined benefit pension plan assets was $803 million, an amount equal to 91% of the estimated accrued benefit pension obligations of $879 million, generating a shortfall of $76 million. The plan deficit was $68 million at the end of the prior year. The deficit increase of $8 million that occurred over the 12-month period was due to several items as noted in the following table:

(in millions of dollars)	
Deficit – September 27, 2014	(68)
Return on plan assets exceeding obligation interest accretion	2
Employer contributions in excess of current service costs	7
Increase in discount rate	1
Changes to demographic assumptions and plan experience	(9)
Administration costs, foreign exchange and other	(9)
Deficit – September 26, 2015	(76)

The deficit was decreased by $2 million as the return on plan assets totalled $36 million, exceeding the $34 million of obligation interest accretion. The deficit was further reduced by $7 million as employer contributions of $17 million exceeded current service costs of $10 million. The average discount rate applied to estimate the present value of future obligations increased from 4.03% to 4.04%, thereby decreasing estimated future obligations by $1 million. The discount rate is tied to rates applicable to high-quality corporate bonds (AA or higher) in effect at the end of the fiscal year. Changes to demographic assumptions and plan experience increased net obligations by $9 million.

Pension expense included in cost of sales in fiscal 2015 was $11 million, as compared to $10 million in the prior year. Based on current assumptions, pension expense in fiscal 2016 is expected to be approximately $10 million. Employer contributions to defined benefit pension plans totalled $17 million in fiscal 2015 as compared to $27 million in fiscal 2014. Employer contributions in fiscal 2016 are expected to be approximately $17 million. There is no assurance that current assumptions will materialize in future periods. The defined benefit pension plans may be unable to earn the satisfactory rates of return. Market driven changes to discount rates and other assumptions may result in changes to anticipated Company contribution amounts.

With regard to other employee future benefit plans, the accrued benefit obligation at September 2015 was $28 million, as compared to $29 million at the end of the prior year. The previously noted increase in discount rates generated an actuarial gain, reducing the obligation by $1 million. Employer contribution for the employee future benefit plans totalled $2 million in fiscal 2014 and fiscal 2015. Based on current assumptions, the amount of employer contributions in fiscal 2016 are expected to be approximately $2 million.

Deferred income taxes

Deferred 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 deferred income tax asset to the extent that the future realization of the tax asset is probable. This is based on estimates and assumptions as to the future financial performance of the various taxable legal entities in the various tax jurisdictions. At September 26, 2015, the Company had unrecognized deferred tax assets of $589 million, as compared to $554 million at the end of the prior year.

Use of non-IFRS financial measures

The following summarizes non-IFRS 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.

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:

(in millions of dollars)	2014	2015
Operating earnings	88	31
Depreciation and amortization	37	43
Other items	(35)	(4)
Adjusted EBITDA	90	70

Free cash flow refers to cash provided by operating activities before changes in non-cash working capital balances less interest expense and capital expenditures. 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, restricted cash and cash equivalents.

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

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

(in millions of dollars)	2014	2015
Long-term debt	455	613
Net unamortized financing costs	17	14
Current portion of long-term debt	17	11
Operating bank loans/ Bank indebtedness	87	114
Less: total cash	(42)	(23)
Net debt	534	729
Long-term liabilities	148	162
Shareholders' equity	219	71
Total capitalization	901	962
Net debt to total capitalization ratio	59%	76%

Changes in accounting policies and estimates

IAS 19 Employee Benefits

At the beginning of fiscal 2014, the Company adopted the amended IAS 19, *Employee Benefits*, which changes the recognition and measurement of defined benefit pension plans expense, other benefit plans expense, termination benefits and enhances the disclosure of employee future benefits.

There were no other new standards impacting the Company's consolidated financial statements in fiscal 2014 or fiscal 2015.

Impact of accounting pronouncements on future reporting periods

IFRS 15 Revenue from Contracts with Customers

In May 2014, the IASB released IFRS 15, *Revenue from Contracts with Customers*, which establishes principles for reporting the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. It provides a single model in order to depict the transfer of promised goods or services to customers. The core principle of IFRS 15 is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods and services. IFRS 15 also requires more comprehensive disclosures about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers.

IFRS 15 supersedes IAS 11, *Construction Contracts*, IAS 18, *Revenue*, and a number of revenue-related interpretations (IFRIC 13, *Customer Loyalty Programs*, IFRIC 15, *Agreements for the Construction of Real Estate*, IFRIC 18, T*ransfers of Assets from Customers*, and SIC-31, *Revenue — Barter Transactions Involving Advertising Service*). IFRS 15 will be effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Company has not yet assessed the impact of the adoption of this standard on its consolidated financial statements and does not plan to early adopt the new requirement.

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9, *Financial Instruments* (IFRS 9). IFRS 9 supersedes IAS 39, IFRIC 9 and earlier versions of IFRS 9 and is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. This standard provides guidance on the classification and measurement of financial liabilities and the presentation of gains and losses on financial liabilities designated at fair value through profit and loss. When an entity elects to measure a financial liability at fair value, gains or losses due to changes in the credit risk of the instrument must be recognized in other comprehensive income. The Company has not yet begun the process of assessing the impact that the new standard will have on its financial statements and does not plan to early adopt the new requirement.

There are no other standards or amendments or interpretations of existing standards issued but not yet effective that are expected to have a material impact on our financial statements.

Significant risks and uncertainties

Product prices

The Company's financial performance is dependent on the selling prices of its products. The markets for lumber, paper 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 2015 actual sales volumes, the following table illustrates the approximate annual impact of changes to average Canadian dollar selling prices on adjusted EBITDA:

Selling price sensitivity

	Impact on adjusted EBITDA ($ millions)	Average selling prices ($/unit) Sept. 2015 quarter
Specialty cellulose pulp – $25/tonne	4	1,418
Paper pulp – $25/tonne	8	627
Coated bleached board and newsprint – $25/tonne	6	1,028
SPF lumber – $10/mbf	5	429

The Company's strategy is to develop niche products where possible; maintain low cost, high-quality flexible production facilities; establish and develop long-term relationships with its customers. In addition, the Company may periodically purchase lumber, pulp and newsprint derivative commodity contracts to mitigate the impact of price volatility. At September 26, 2015 and September 27, 2014, the Company did not hold any product derivative commodity contracts.

Foreign exchange

The Company's revenues for most of its products are affected by fluctuations in the relative exchange rates of the US dollar as compared to the Canadian dollar. The Company generated approximately US $740 million of US dollar denominated sales from its Canadian operations in fiscal 2015. As a result, any increase in the value of the US dollar relative to the Canadian dollar increases the amount of revenues realized on sales in local currency. The Company's foreign exchange exposure to fluctuations in the relative exchange rate of the euro compared to the Canadian dollar is not significant as the Tartas specialty cellulose mill's sales and costs are both largely euro denominated. 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.

Based on 2015 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. 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	9
Cost of sales increase	3
Adjusted EBITDA increase	6
Interest expense increase	–
Cash flow increase	6
Loss on translation of US dollar denominated debt	4
Pre-tax earnings increase	2

Direct US dollar purchases of raw materials, supplies and services for the Canadian operations totalled approximately $232 million in fiscal 2015 and provided a partial offset to the impact on sales. The above does not include the potential indirect impact of currency on the cost of items purchased in Canadian dollars.

To potentially further reduce the impact of fluctuations in the value of the US dollar, the Company has a policy which permits hedging up to 50% of its anticipated US dollar net receipts for up to 36 months in duration. At September 26, 2015 and September 27, 2014, 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 20 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 operation in France sources its 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 2015, purchased energy costs totalled approximately $100 million, including $53 million for electricity, $29 million for fossil fuels and $18 million for wood biomass purchases. Electrical purchases are made primarily from large public utilities, at rates set by regulating bodies. At certain sites, the Company produces electrical energy that is sold to the public utility. The $53 million noted previously is net of electricity sales. 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 commodity contracts and operational curtailments in periods of high prices (load shedding). At September 2015 and 2014, the Company did not hold any derivative commodity contracts relating to purchased electricity. Fossil fuels, primarily natural gas, are purchased at market rates. The Company periodically purchases derivative commodity contracts to reduce its exposure. At September 2015 and 2014, the Company did not hold any natural gas derivative commodity contracts.

Nearly all the Company's manufacturing units have a unionized workforce. Over the past 40 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 2015, the Company had approximately 2,454 employees covered by collective bargaining agreements. At the end of fiscal 2015, there were three agreements covering 129 employees that had expired. In fiscal 2016, three collective agreements covering 69 employees will expire. The remaining contracts expire at various dates up to July 2022. 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. 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 lumber, pulp and paper is capital intensive. The Company estimates that it must invest approximately $35 million to $40 million per year on capital expenditures to avoid degradation of its current operations. As the majority of the funding is provided by cash flow from operations, there can be no assurance that the funds will be available to meet all of the Company's capital expenditure needs. Failure to reinvest can lead to older equipment that is less productive, less reliable and more costly to maintain and operate. The risk of technological obsolescence also increases. Capital expenditure projects can be large in scale, requiring the Company to maintain and/or acquire expertise in the design, planning and execution of major capital projects. There are inherent risks in the capital expenditure process, including the potential for project cost overruns, new equipment that does not perform to anticipated or projected levels, a lengthy start-up period and disruptions to normal operations. Due to relatively low operating cash flow generation over the last several years, the Company has limited capital expenditures. This has led to a "backlog" of capital expenditure projects in many operating facilities.

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 oversupply and lower prices, further increasing the inherent cyclicality of the industry.

Trade restrictions

The Company's manufacturing operations are located primarily in Canada. However, sales into the Canadian market represented only 20% of consolidated sales in fiscal 2015. As such, the Company's financial results are highly dependent 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. 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. The outcome was less than satisfactory. Through a combination of quotas and export taxes, the agreement ensured that Canadian producers of softwood lumber remained at a competitive disadvantage versus U.S. producers when it came to accessing the U.S. market. The softwood lumber agreement expired in October 2015. The agreement provided for a one-year moratorium on any trade action after its expiry. The Company does not anticipate that the current "free trade" environment will last beyond the prescribed 12-month period. The United States government will likely impose or negotiate future measures to limit the flow of Canadian lumber into the U.S. market. China has imposed antidumping duties on viscose grade pulp imports. As a result, the Company has had to find new customers outside of China.

Financial risks / debt service

Of the total long-term debt of $638 million, 78% relates to the US $375 million — 9% senior secured notes maturing December 2019. The 9% notes do 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 notes. There is no assurance that the Company will be able to refinance the notes on commercially acceptable terms.

In addition to the above significant risks, the Company's Annual Information Form (AIF) provides a comprehensive list of potential risk factors related to the Company's operations. The AIF can be found on SEDAR at sedar.com.

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 have 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 have 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 IFRS. 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 (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) 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.

Additional information

Additional information relating to Tembec, including the Annual Information Form, can be found on SEDAR at sedar.com and on the Company's website at 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 International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) 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. 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 27, 2015