

Message to Shareholders

Fiscal 2015 was a challenging year for the Company. Certain internal issues negatively affected financial results in addition to adverse market conditions in certain segments. Despite these challenges, the Company did experience positive tailwinds in the final quarter of the year that should carry over into fiscal 2016.

Tembec's journey towards world-class health and safety performance continued. The OSHA Incident Rate (OIR) did not improve in 2015. However, substantial improvements were achieved in the lost time incident rate and total severity rate. Simply put, the types of safety incidents that occurred were much less severe than in previous years. The Company will continue its journey to become a world-class health and safety organization and strive to eliminate all incidents and injuries.

The drop in adjusted EBITDA in 2015 from the previous year was disappointing and unexpected. The Specialty Cellulose Pulp segment was the primary cause of the lower profitability. A combination of operating factors and market issues caused results for this business to be below expectations. Lumber prices were also below the Company's forecast and impacted the fiscal 2015 results.

Temiscaming Energy Project

The Company completed the \$273 million energy project in early fiscal 2015 and started the unit in January 2015. The Hydro-Québec commercial-in-service test was completed very quickly in the first month of operation, which qualified the Company to receive the contracted payment rate for electricity produced. The overall start-up and optimization of the boiler, turbine and related equipment continued throughout the balance of the fiscal year.

The energy project will provide benefits in three areas:

1. Reduction in energy costs
2. Pulp mill productivity improvements
3. Reduction in operating costs

We are pleased to report that these benefits are now being achieved and will significantly impact the financial results of the Specialty Cellulose Pulp segment going forward.

Forest Products

The slow and steady increase in U.S. housing starts continued in 2015 and this trend is expected to continue again in 2016. While U.S. housing starts are solidly above 1 million units per year, they remain far below the long-term trend of 1.5 million per year. Lumber price improvements have been muted despite the growth in North American demand due to production increases throughout the continent. The profitability of this business is expected to continue to improve as the anticipated increase in demand translates into higher selling prices.

The Softwood Lumber Agreement (SLA) between Canada and the United States expired on October 12, 2015. The SLA provided for a one-year standstill period that prevents the United States from initiating new trade actions against Canada. The Company expects that the two governments will engage in negotiations in 2016 to develop a replacement for the expired agreement.

Specialty Cellulose

The Specialty Cellulose Pulp segment experienced a decline in profitability due to two years of US dollar and euro price declines in both specialty and commodity grades. Additionally, operating performance was poor in Temiscaming due to an 18-day labour stoppage and an extended annual maintenance outage.

The specialty grade markets suffered from surplus capacity brought on by a competitor's conversion of a fluff pulp mill to produce specialty grades. This created a very competitive market situation and an intense competition for market share. In the second half of calendar 2015, this competitor announced that the additional specialty capacity was being converted back to produce fluff pulp and commodity viscose pulp. The Company anticipates that this capacity change should re-balance the market and mitigate the need for further price declines.

The commodity viscose pulp markets bottomed out in early calendar 2015 and prices have improved in the second half of the calendar year. The fundamentals for the viscose fibre market have improved, leading to better demand and prices.

Paper Pulp

Demand for the Company's high-yield pulp declined in fiscal 2015. While the demand for paper was down in most markets, leading to a demand decline for paper pulp, this was most prevalent in China where the paper and packaging business is overbuilt for the domestic demand. Our customers' mills took significant downtime to reduce their inventories, thereby reducing their orders for high-yield pulp. It is expected that demand and prices will begin a slow recovery in calendar 2016.



JAMES M. LOPEZ
President and Chief Executive Officer

Paper

The Paper segment operates in the coated bleached board market and the newsprint market. The coated bleached board demand and US dollar prices were stable in fiscal 2015 leading to good profitability in this business. Additional competition in the North American markets from European producers in 2015 has begun to put pressure on US dollar selling prices. There is the potential for price weakness in fiscal 2016. However, the business is still expected to be very profitable.

The newsprint sector continues to be affected by a structural decline in demand, which has put downward pressure on US dollar prices. The weakening of the Canadian dollar has mitigated much of the US dollar price decline, giving mills in this country a competitive advantage. However, profitability throughout the sector is expected to remain poor. The Company's newsprint facility has a relatively low cost position and should be modestly profitable.

General

The Company is experiencing some tailwinds that should lead to a year-over-year improvement in profitability. The new energy project in Temiscaming will generate additional adjusted EBITDA. As well, operating performance and productivity is expected to improve and external variables such as foreign exchange rates and selling prices will likely contribute to improved financial performance.



JAMES V. CONTINENZA
Executive Chairman of the Board