2016 ANNUAL REPORT

Cascades

GREEN BY NATURE™

CASCADES AT A GLANCE 2016

CONTAINERBOARD PACKAGING GROUP

A Canadian leader

6TH largest producer in North America

34% OF SALES AND 45% OF ADJUSTED OIBD IN 2016[1]

$237 M

invested in property, plant and equipment, business acquisitions and in our ERP platform

88[4]

facilities across **Canada, the United States and Europe**

TISSUE GROUP

A Canadian leader

5TH largest producer in North America

32% OF SALES AND 31% OF ADJUSTED OIBD IN 2016[1]

OSHA RATE | **2.2**[6]

SALES

$4,001 M

#1

Paper collector in **Canada**

ADJUSTED OIBD[3]

$403 M

(10% margin)

SPECIALTY PRODUCTS GROUP

★ A North American leader in industrial packaging products[2]

15% OF SALES AND 13% OF ADJUSTED OIBD IN 2016[1]

NET DEBT REDUCED BY

↓ **11%**

to **$1,532 M**

2.6 M | short tons of **recycled fibre** saved from landfills

~ **11,000**

EMPLOYEES in 5 countries

BOXBOARD EUROPE GROUP[5]

2ND largest producer of coated recycled boxboard in Europe

19% OF SALES AND 11% OF ADJUSTED OIBD IN 2016[1]

1 Before inter-segment sales and corporate activities.
2 Through our joint venture Cascades Sonoco.
3 Please refer to the “Forward-looking Statements and Supplemental Information on Non-IFRS Measures” section on page 35 for more details.
4 Including associates and joint ventures.
5 Via our 57.7% equity ownership in Reno de Medici S.p.A., a public Italian company traded on the Milan and Madrid stock exchanges.
6 OSHA frequency rate: Number of accidents with lost time or temporary assignments or medical treatments X 200,000 hours/hours worked.

(In million of Canadian dollars, unless otherwise noted)	2016	2015	2014
SALES	**4,001**	3,861	3,561
Operating income before depreciation and amortization (OIBD)[1]	**413**	343	311
% of sales	**10.3%**	8.9%	8.7%
Operating income	**221**	153	137
% of sales	**5.5%**	4.0%	3.8%
Net earnings (loss)	**135**	(65)	(147)
per common share	**$1.42**	$(0.69)	$(1.57)
Dividend per share	**$0.16**	$0.16	$0.16
ADJUSTED[1]			
Operating income before depreciation and amortization (OIBD)[1]	**403**	426	340
% of sales	**10.1%**	11.0%	9.5%
Operating income	**211**	236	166
% of sales	**5.3%**	6.1%	4.7%
Net earnings	**114**	112	20
per common share	**$1.21**	$1.18	$0.21
Return on assets[1, 2]	**10.6%**	11.2%	9.4%
Return on capital employed[1, 3]	**5.2%**	5.6%	4.1%
FINANCIAL POSITION (AS AT DECEMBER 31)			
Total assets	**3,813**	3,848	3,673
Capital employed[3]	**3,191**	3,206	3,226
Net debt[1]	**1,532**	1,721	1,613
Net debt/adjusted OIBD[1, 4]	**3.8x**	4.0x	4.7x
Equity attributable to shareholders'	**984**	867	893
per common share	**$10.41**	$9.09	$9.48
Working capital as a % of sales[7]	**11.0%**	11.3%	12.3%
KEY INDICATORS			
Total shipments (in '000 s.t.)[5]	**2,999**	2,992	2,924
Manufacturing capacity utilization rate[6]	**92%**	92%	93%
US$/CAN$ - Average exchange rate	**$0.75**	$0.78	$0.91

1 See "Forward-looking Statements and Supplemental Information on Non-IFRS Measures" on page 35 for more details.
2 Return on assets is a non-IFRS measure defined as the last twelve months' ("LTM") adjusted OIBD/LTM quarterly average of total assets. It includes or excludes significant business acquisitions and disposals, respectively, of the last twelve months. Not adjusted for discontinued operations.
3 Return on capital employed is a non-IFRS measure and is defined as the after-tax (30%) amount of the LTM adjusted operating income, including our share of core joint ventures divided by the LTM quarterly average of capital employed. Capital employed is defined as the total assets less trade and other payables. It includes or excludes significant business acquisitions and disposals, respectively, of the last twelve months. Not adjusted for assets of disposal group classified as held for sale. Starting in Q1 2015, it includes our investment in Greenpac on a LTM basis. Not adjusted for discontinued operations.
4 Adjusted ratio including discontinued operations.
5 Shipments do not take into account the elimination of business sector inter-company shipments.
6 Defined as: Manufacturing internal and external shipments/practical capacity. Excluding discontinued operations and Specialty Products Group manufacturing activities.
7 % of sales = Average LTM working capital/LTM sales. It includes or excludes significant business acquisitions and disposals, respectively, completed during the last twelve months. Not adjusted for assets of disposal group classified as held for sale. Not adjusted for discontinued operations.

SYMBOL: CAS – TSX

(ON THE TORONTO STOCK EXCHANGE)

S&P/TSX

CLEAN TECHNOLOGY INDEX

S&P/TSX

SMALL CAP INDEX

BMO

SMALL CAP INDEX

94.5 MILLION

COMMON SHARES OUTSTANDING
as at December 31, 2016

79 MILLION

TOTAL NUMBER OF COMMON SHARES TRADED
in 2016

$0.04

QUARTERLY DIVIDEND PER SHARE
in 2016

1.3%

ANNUAL DIVIDEND YIELD
as at December 31, 2016

$13.67

INTRADAY HIGH
in 2016

$7.72

INTRADAY LOW
in 2016

$1,144 MILLION

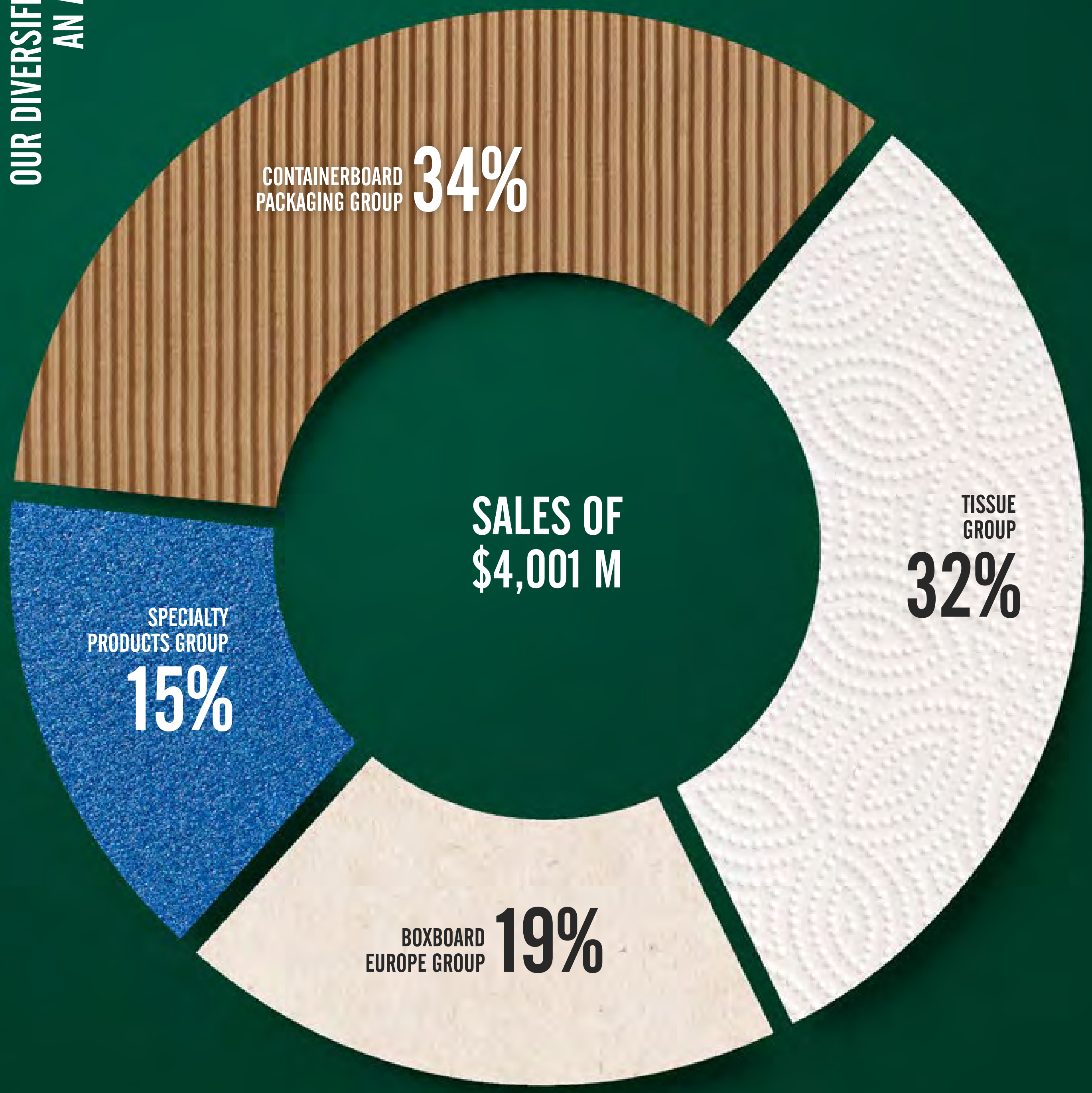
MARKET CAPITALIZATION
as at December 31, 2016

MOODY'S: Ba2 (STABLE)
S&P: BB- (STABLE)

CORPORATE CREDIT RATINGS
as at December 31, 2016

CASCADES' SHARE PRICE PERFORMANCE IN 2016

OUR DIVERSIFIED OFFERING AN ADDED VALUE



The diversification of our sales across several markets reflects Cascades' balanced approach and complementary product offering. The focus of our business activities within two growth sectors—packaging products and tissue papers—has allowed us to generate positive results despite economic fluctuations. Our diverse product lines meet the needs of a wide variety of industries and markets, and uphold our committment to our core values of quality, sustainability and accountability to our shareholders, customers and the community.


TRANSFORMING MATERIAL
CREATING VALUE

How can we successfully merge growth with the responsible use of resources? How can we adapt to an economic environment that is constantly being transformed without renouncing our core values? Above all, how can we build on our past successes to encourage and stimulate a culture of continuous improvement and innovation? These questions remain at the center of our strategic thinking.

Over the past five years, Cascades has reconnected with our true nature, refocusing on packaging, tissue papers and recovery as the main drivers of our competitiveness. As an organization, we have accomplished our priorities, and carried out strategic investments to update our most productive assets, increase our efficiency and improve our competitive positioning in our key markets. An important re-engineering of our business processes was also born from the desire to generate positive financial benefits by making the most of our human and material resources. Begun in 2014, the purpose of this initiative was to strengthen our customer approach and better align the everyday efforts of our employees with Cascades' long-term objectives and vision.

With a strong and distinctive brand, new value-added green products, and sound financial results in 2016, we believe that Cascades has benefitted from this strategic approach. We owe our success to the close ties that link every step of our value chain and to the teamwork that drives Cascaders, as it is these elements which allow the organization to propel itself toward the future with confidence.

For Cascades, transforming material means drawing inspiration from its strengths and doing business differently. It also means transforming our intrinsic values into levers that help increase the return for our partners. By following this path, Cascades is creating value and changing the face of the industry, one green act at a time.

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The annual general shareholders' meeting will be held on **Wednesday, May 10, 2017 at 10 am, at the Musée d'art contemporain de Montréal, located at 185 Sainte-Catherine Street West, Montréal (Québec).**

Cascades Inc.'s 2016 Annual Information Form will be available, upon request, from the Corporation's head office as of **March 31, 2017**.

This report is also available on our website at: www.cascades.com.

On peut se procurer la version française du présent rapport annuel en s'adressant au siège social de la Société à l'adresse suivante :

Secrétaire corporatif
Cascades inc.
404, boulevard Marie-Victorin
Kingsey Falls (Québec) J0A 1B0 Canada

TRANSFER AGENT AND REGISTRAR
Computershare
Shareholder Services
1500 Robert-Bourasse Boulevard, Suite 700
Montréal, Québec
H3A 3S8 Canada

Telephone: 514-982-7555
Toll-Free (Canada): 1-800-564-6253
service@computershare.com

HEAD OFFICE
Cascades Inc.
404 Marie-Victorin Blvd.
Kingsey Falls, Québec
J0A 1B0 Canada

Telephone: 819-363-5100
Fax: 819-363-5155

INVESTOR RELATIONS
For more information, please contact:

Investor Relations
Cascades Inc.
772 Sherbrooke Street West
Montréal, Québec
H3A 1G1 Canada

Telephone: 514-282-2697
Fax: 514-282-2624
www.cascades.com/investors
Jennifer Aitken, MBA
Director, Investor Relations
jennifer_aitken@cascades.com

ALAIN LEMAIRE
EXECUTIVE CHAIRMAN OF THE BOARD

→ CREATING MEANINGFUL POTENTIAL FOR GROWTH BY MEETING CHALLENGES

Dear fellow shareholders,

Continued long term growth and success can only be realized by cultivating the essential building blocks of human capital, productivity, flexibility, innovation, and strategic investments. This has certainly been the case for Cascades in the past, and remains true today. It is with these fundamental principles in mind that the Board of Directors reviews, discusses and debates the investment proposals, business performance, and capital allocation strategies put forward by management. In doing so, the Board carries out its central role of oversight, thus ensuring that management is accountable, implements strategy and plans successfully, and remains focused on increasing competitiveness and shareholder value over the long term. I am proud of our track record in 2016. Mario and the management team as a whole have shown both agility and willingness to be proactive in their response to ever-changing market dynamics.

Like all companies, Cascades is facing both challenges and opportunities going forward. I would be concerned if it were otherwise, as it would signal that there was no room to create and grow value for stakeholders, no ways in which the company could improve its performance, increase its offerings to customers, implement new sustainability initiatives or create meaningful potential for growth. I am confident that the strategic direction that Cascades has been pursuing over recent years will serve both the immediate and future needs of the business, and permit Cascades to successfully adapt to the ever-changing business environments in which it operates.

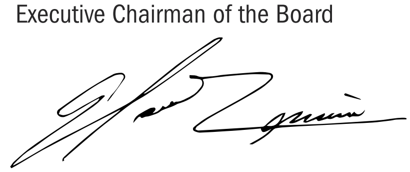
Sustainable development has been a fundamental part of Cascades since my brothers and I founded the company over 50 years ago. I am proud that this culture has been successfully nurtured over the years, and that these business practices continue to be an integral part of Cascades' philosophy to this day under Mario's leadership. We have grown from a single plant in Kingsey Falls, Québec, into a diversified and balanced packaging and tissue paper company with approximately 11,000 employees, and close to 90 facilities across 2 continents. This growth is the direct result of the commitment, focus and ambition of each and every Cascader, and on behalf of both myself and the Board of Directors, I would like to thank them for their dedication, hard work and ability to think outside the box throughout the years.

While I point with pride to Cascades' past accomplishments, management and the members of the Board understand there is more to do. Each day brings a new challenge, and we must never become complacent or stop striving to improve and to innovate. As we embark on a new year, we remain focused on being disciplined in the implementation of business strategies, and will continue to deliberately challenge the what, how, why, when and where of our strategic direction to ensure that the optimal decisions are being made. In doing so, Cascades will be well positioned to continue creating important value for our shareholders and stakeholders over both the mid and long-term.

On behalf of myself and the Board of Directors of Cascades, thank you for your continued support.

Sincerely,

Alain Lemaire
Executive Chairman of the Board



MARIO PLOURDE
PRESIDENT AND CHIEF EXECUTIVE OFFICER

→ TRANSFORMING OUR VALUES INTO RESULTS

Dear shareholders,

For over five decades, Cascades has been breathing new life into recycled materials, converting what would have gone into a landfill into new products for residential, commercial, and industrial use. In many ways, this commitment to sustainable development is more paramount today than when the company was founded 52 years ago. We are proud of this legacy, and continue to hold ourselves accountable to high standards of corporate responsibility on a daily basis. While 2016 was no different on this front, the year brought with it the successful culmination of important internal milestones on other fronts, and the company now stands poised at a new juncture.

Several years ago, we made the commitment to ourselves and to our stakeholders that we would reorganize our asset base and deleverage our balance sheet. I am pleased that we continue to deliver on both counts. Since 2011, we have successfully reduced our leverage ratio from 5.8x to 3.8x and increased both sales and adjusted OIBD, while making some difficult but strategically important decisions to divest or close non-core and less profitable operations. Cascades is stronger as a result, and these strategic choices have enabled us to position our asset portfolio for meaningful profitable future growth. An important part of this remains our diversification, which we believe provides a more robust operational foundation and expanded opportunities for growth, which are central to our efforts to drive profitability and deliver long-term value for shareholders.

FINANCIAL PERFORMANCE

The past year was one of both challenges and achievements. In the case of the latter, our North American operations performed well within the context of the competitive packaging and tissue paper marketplaces, and margin pressure due to fluctuating material costs and market pricing. On the challenging side, results from our European division fared less well in 2016, as difficult market conditions persisted and resulted in lower topline and adjusted OIBD contributions from this segment. Despite these challenges, I am pleased that all of our businesses are operating well on a day-to-day basis and are positioned to respond to evolving marketplace dynamics. As has been the case for over 50 years, the driving force behind our continued success is our employees. It is thanks to their day to day commitment, adaptability and hard work that Cascades has been able to implement our growth initiatives, transform our internal platforms and execute our strategies. In short, Cascades is what and where we are today as a result of their dedication and ingenuity.

CAPITAL ALLOCATION AND RETURN ON CAPITAL EMPLOYED

Financial flexibility plays an integral and fundamental role in the realization of Cascades' medium and long term ambitions. Our focus is on cash flow generation, protecting our financial capacity for strategic investments, ensuring that our capital allocation is both disciplined and effective, and that we continue to improve operational efficiency to further bolster our ability to adapt, prioritize and innovate. To this end, we made good progress on our objective to deleverage our balance sheet in 2016, and have successfully increased return on capital employed from 2.8% in 2012 to 5.2% in 2016. Going forward, we remain dedicated to allocating a minimum of $100 million of free cash flow toward debt repayment annually to maintain a sound balance sheet, and on increasing the return we generate on our capital investments.

OUTLOOK

Many people have asked what will change at Cascades in 2017 and beyond. As I mentioned earlier, Cascades is at a new juncture, and the strategic work we have been pursuing in recent years has reinforced our foundation, and positioned the company for strength and endurance within the context of an ever-changing and competitive marketplace. Looking ahead to 2017 and beyond, I see more bold moves as we evaluate and pursue new opportunities, and proactively respond to the changing needs of our customers. In other ways, however, many important things that define Cascades will stay the same. We will continue to champion sustainable development, and will continue to invest in our operations, our people, and local programs that support families and the communities in which we operate.

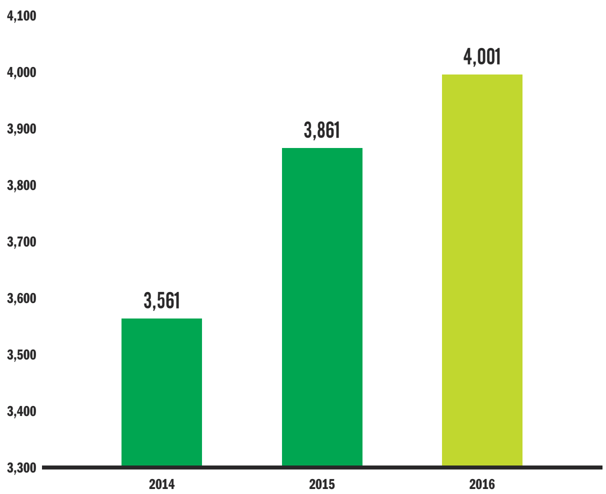
As we begin a new year, let me end with this. We are resolute in our efforts to not only successfully adapt but to thrive in our ever-changing business environments, to lead with innovation, and to provide our shareholders with long-term profitable growth. On this front, we acknowledge investor feedback, and are working hard to be able to provide more strategic clarity in 2017. We are focused not on what Cascades is today, but on what it can and will be tomorrow. We look forward to providing you with greater detail regarding our future plans and strategies, and our roadmap for continuing to marry responsible stewardship with our resolve to deliver long-term profitable growth to all of our stakeholders.

On behalf of myself, the entire Cascades management team, and our employees, we thank you for your continued trust and support.

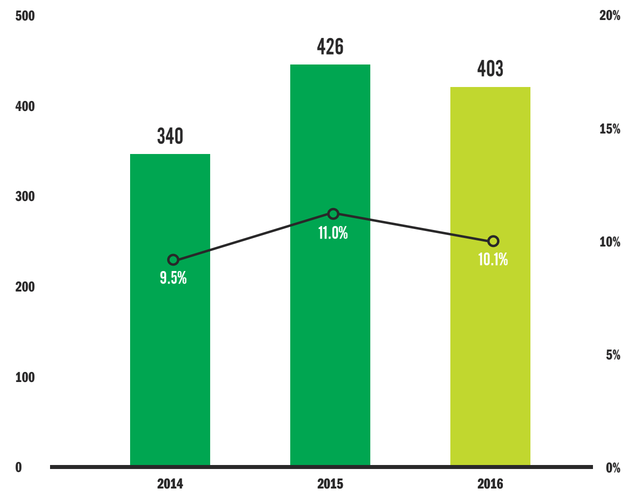
Regards,

Mario Plourde
President and Chief Executive Officer

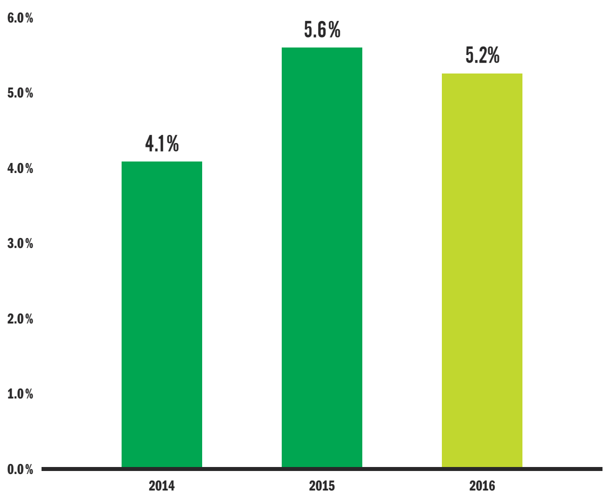
SALES ($M)



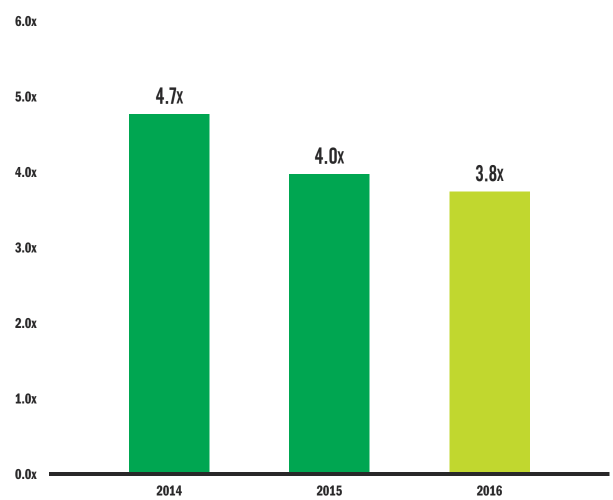
ADJUSTED OIBD AND ADJUSTED OIBD MARGIN[1] ($M and %)



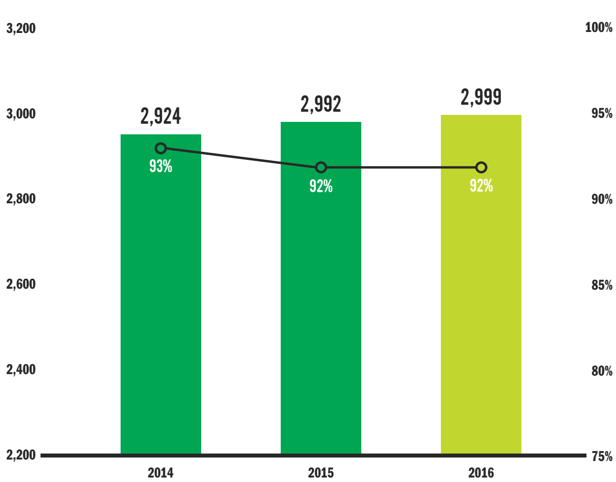
RETURN ON CAPITAL EMPLOYED[1]



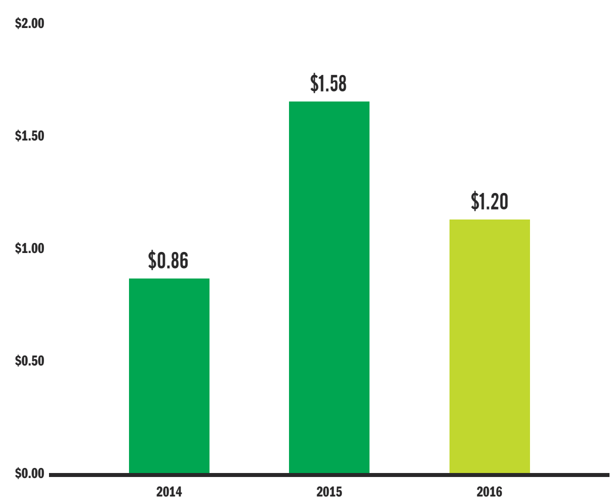
NET DEBT/ADJUSTED OIBD[1]



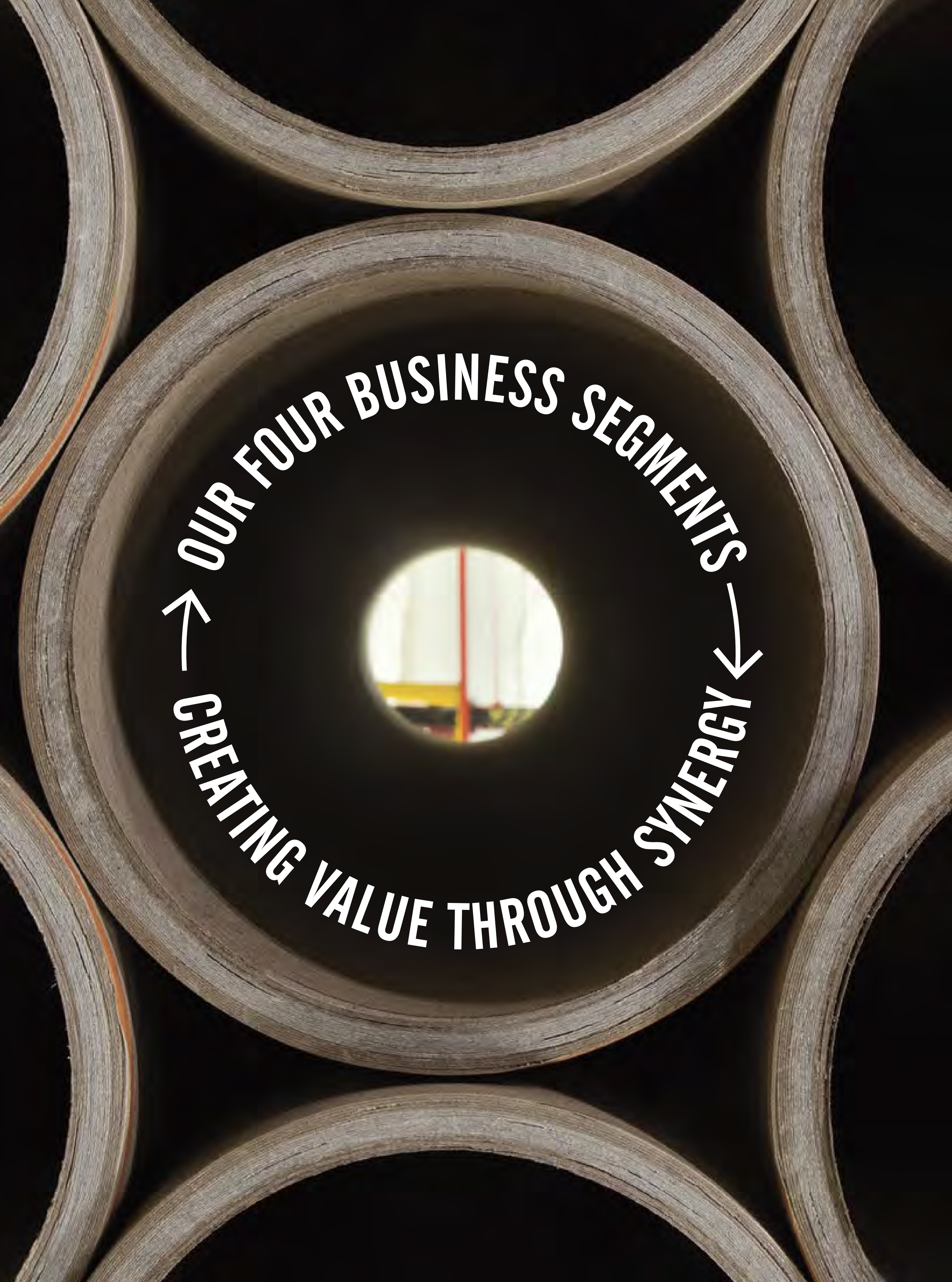
TOTAL SHIPMENTS AND CAPACITY UTILIZATION RATE ('000 s.t. and %)



ADJUSTED FREE CASH FLOW PER COMMON SHARE[1]



1 See "Forward-looking Statements and Supplemental Information on Non-IFRS Measures" on page 35 for more details.



OUR FOUR BUSINESS SEGMENTS

CREATING VALUE THROUGH SYNERGY

Cascades' success is driven by our four business groups, whose operations, and production and converting facilities extend throughout North America and Europe. Three of our groups are focused on packaging products: Containerboard Packaging, Specialty Products, and Boxboard Europe (via our 57.7% ownership of Reno de Medici S.p.A.). These operations have established Cascades as one of the largest packaging manufacturers in Canada, and a leading producer of containerboard and corrugated board. Our fourth business segment is our Tissue Group. Through this segment, we offer a wide range of manufactured and converted paper products and dispensers that showcase Cascades' innovative capabilities, and our commitment to ingraining sustainable development within the very fibre of our products.

CONTAINERBOARD PACKAGING GROUP

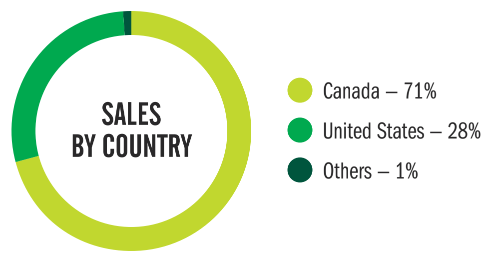
CHARLES MALO

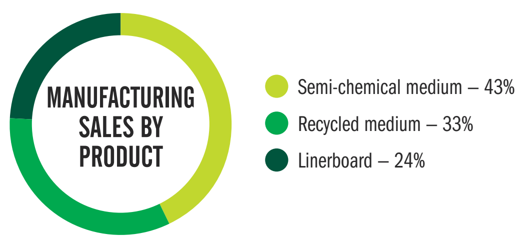
President and Chief Operating Officer
Containerboard Packaging Group
26 years with Cascades

The Containerboard Packaging Group has more than 3,400 employees, and operates five linerboard and corrugated medium mills and eighteen converting plants across Canada and the Northeastern United States. The Group produces a broad range of products from recycled materials for North American customers operating in a variety of industries, including food, beverage and consumer products.

GREENPAC MILL[1]

Our Group oversees the operations of the Greenpac Mill, a partnership in which Cascades owns 59.7%. The mill, a state-of-the-art linerboard facility with annual production of 540,000 short tons, manufactures one of the leading linerboards in North America. The Greenpac Mill is located in Niagara Falls, NY, and employs roughly 140 people.





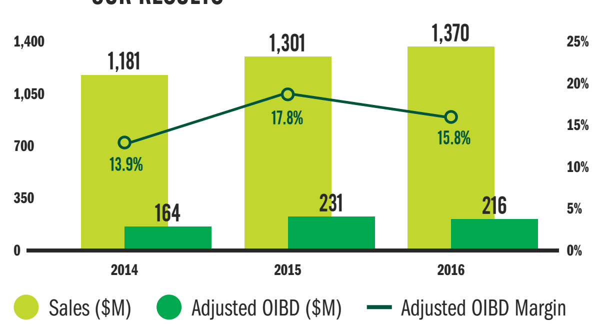
OUR STRENGTHS

- A Canadian leader and the 6th largest producer in North America
- Flexible and adaptable operations to meet diverse needs of customers
- Products manufactured are primarily composed of recycled materials
- Industry-leading sustainable development practices

OUR STRATEGIC PRIORITIES

- Grow our U.S. operational platform
- Continue to improve performance of our mills and facilities
- Increase the rate of integration between our manufacturing and converting facilities
- Innovate and develop new products that respond to the current and future needs of our customers

OUR RESULTS



1 Results of Greenpac are not consolidated in our financial statements but are included in the "Share of results of associates and joint ventures" line of the consolidated statement of earnings.

TISSUE GROUP

JEAN JOBIN
President and Chief Operating Officer
Tissue Group
24 years with Cascades

The Tissue Group manufactures, converts and markets a wide variety of tissue paper products intended for the away-from-home and consumer products markets. The Group operates seven manufacturing facilities, nine converting facilities[1], four facilities with both manufacturing and converting activities and employs more than 2,200 people.

NEW AWAY-FROM-HOME PRODUCTS BRAND

In 2016, the Tissue Group rebranded its away-from-home product offering, and launched the new Cascades PRO brands at the end of the year with a new slogan:

All clean.
All good.™

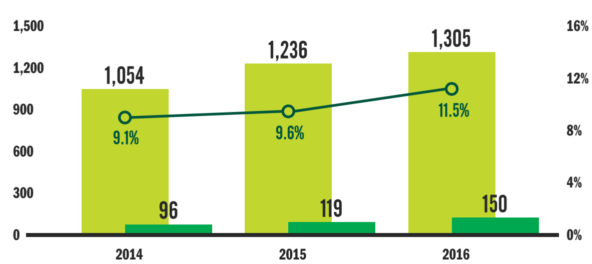
OUR STRENGTHS

- A Canadian leader and the 5th largest North American producer of tissue products
- Diverse product offering in both the away-from-home and consumer products markets
- Market innovator in the manufacturing of products made primarily of recycled materials
- Important player in the private label tissue space

OUR STRATEGIC PRIORITIES

- Ensure our geographic footprint in the United States meets changing population dynamics
- Increase the integration of our manufacturing and converting activities
- Develop and grow the Cascades PRO brand in North America
- Continue to improve our financial performance to generate higher margins

OUR RESULTS



1 Including associates and joint ventures.

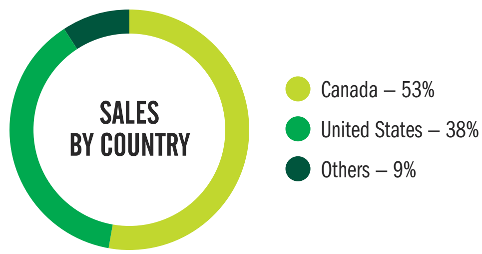
SPECIALTY PRODUCTS GROUP

LUC LANGEVIN
President and Chief Operating Officer
Specialty Products Group
21 years with Cascades

The Specialty Products Group operates in three main sub-segments, namely industrial packaging, consumer products packaging, and recovery and recycling. This Group operates thirty-eight facilities[1] in North America and Europe, including nineteen recovery centers across Canada and the Northeastern United States, and employs more than 2,200 people.

CASCADES RECOVERY+

The newly formed business unit within our Specialty Products Group was created via the merger of our recovery operations and the corporate recycled fibre buying group. This unit manages all of the company's recycled fibre requirements.



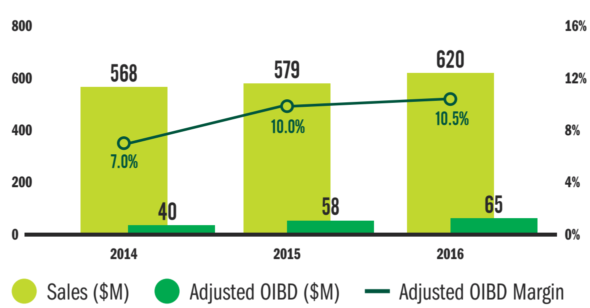
OUR STRENGTHS

- Canada's largest recycled papers collector
- A North American leader in industrial packaging sector
- Developer of innovative products made with recycled materials

OUR STRATEGIC PRIORITIES

- Continue to secure strategic sources of recovered materials
- Increase integration rate within the Group's operations
- Capitalize on the growth potential of consumer product packaging segments

OUR RESULTS



1 Including associates and joint ventures.

BOXBOARD EUROPE GROUP[1]

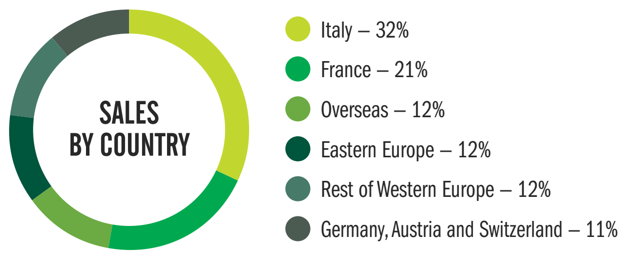
MICHELE BIANCHI
President and Chief Executive Officer
Reno de Medici S.p.A.
Joined the Corporation in 2016

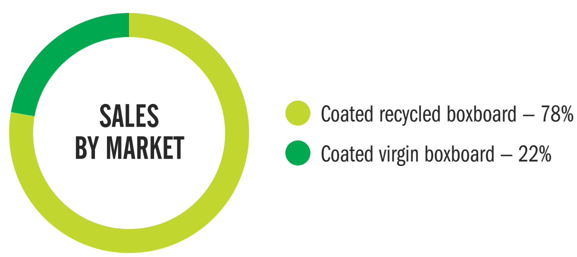
Cascades holds a 57.7% investment in Reno de Medici S.p.A., the second largest European producer of coated recycled boxboard. Reno de Medici operates five recycled boxboard mills, one virgin boxboard mill, two sheeting centers, and employs approximately 1,170 people. Reno de Medici is a publicly traded company listed on the Milan and Madrid stock exchanges.

RENO DE MEDICI'S NEW LOGO

Our new logo reflects our updated selling proposition and organization following the integration of the virgin fibre boxboard mill in La Rochette, France, within our operations.

RDM





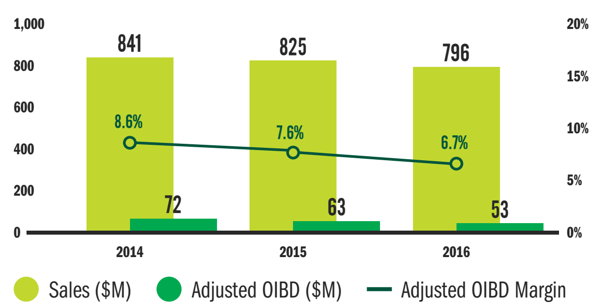
OUR STRENGTHS

- 2nd largest European producer of coated recycled boxboard
- International footprint with operations in three European countries
- Diverse product portfolio
- Newly appointed CEO with extensive industry experience

OUR STRATEGIC PRIORITIES

- Enhance service and product quality
- Promote the "one Reno de Medici" culture
- Continue to translate operational progress into healthy financials
- Minimize the environmental impact of our cartonboard production

OUR RESULTS



1 Via our 57.7% equity ownership in Reno de Medici S.p.A., a public Italian company traded on the Milan and Madrid stock exchanges.

→ SOUND INVESTMENTS TO PROPEL GROWTH

$237 M

is the total amount that we invested in property, plant and equipment, in the implmentation of our ERP system, and in business acquisitions in 2016. These investments will help Cascades to continue to improve its operational and financial performance, and to preserve and create new employment opportunities. In short, our investments are an integral part of our objective to remain a leader in the recovery and manufacturing of green packaging and tissue products.

$16 M invested in acquiring a corrugated box plant in Newtown, Connecticut from the U.S. company Rand-Whitney LLC. This acquisition increased our converting capacity and reinforced our leadership position in the Northeastern United States.

$15 M spent on the ongoing implementation of an ERP system in our production facilities and business operations, increasing the processing speed of production and of our financial data.

$7 M invested to replace a section of the Arnsberg mill paper machine in Europe. This improvement increased both the speed and the capacity of the mill in the production of coated recycled boxboard.

In 2016, we also invested in marketing initiatives to rejuvenate the branding of our Tissue Group's away-from-home activities (Cascades PRO) and Canadian retail activities (Cascades Fluff & Tuff™).

$46 M invested to date in the construction of a state-of-the-art tissue paper converting facility in Scappoose, Oregon. This new plant will allow Cascades to create important synergies with our tissue paper mill located in St. Helens, Oregon, 15 minutes away, and will increase Cascades' footprint on the West Coast of the US.

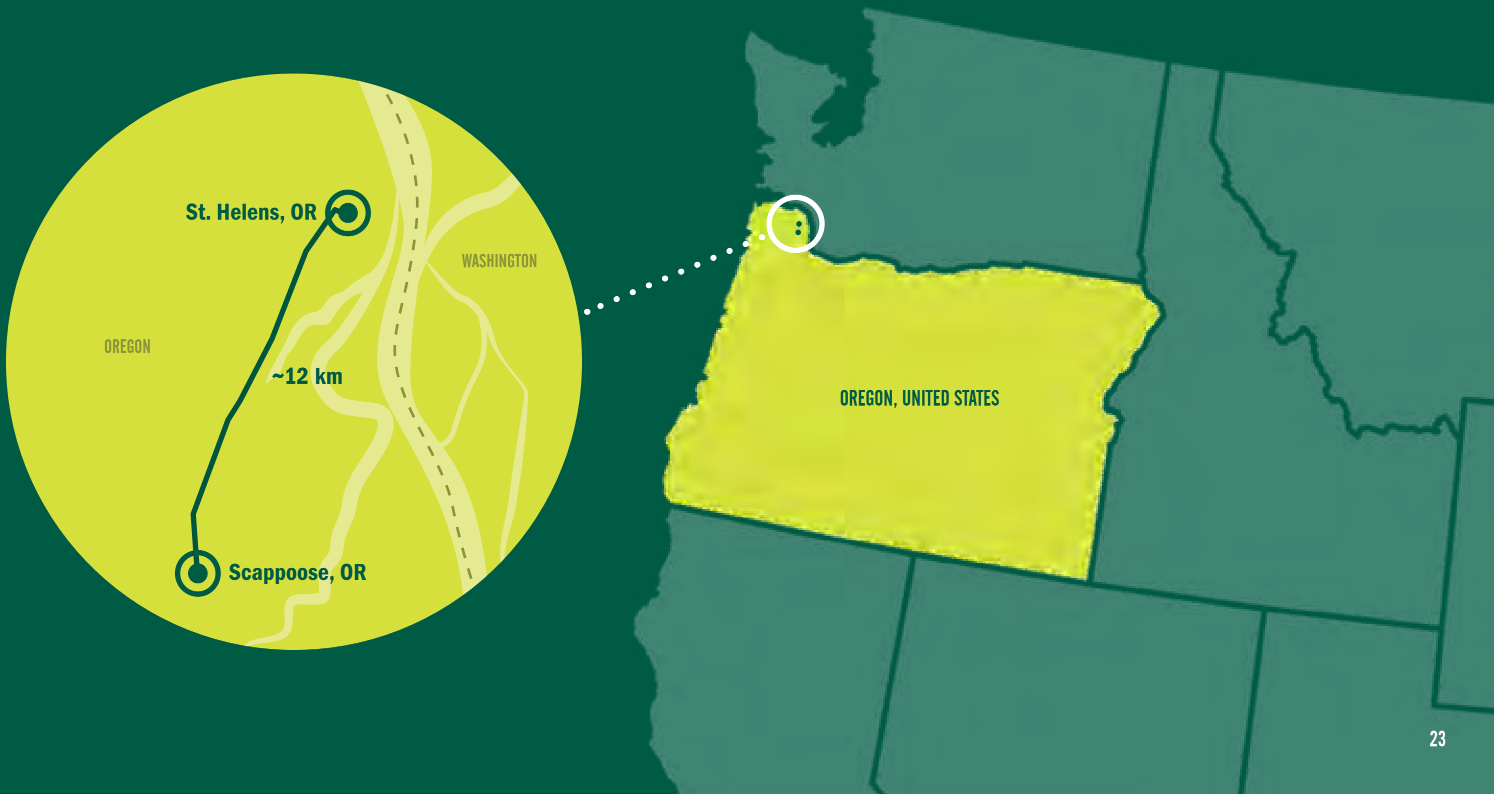
THE NEW STATE-OF-THE-ART TISSUE PAPER CONVERTING FACILITY IN SCAPPOOSE, OREGON

ANNUAL PRODUCTION CAPACITY OF 5.2 M CASES

LATEST TECHNOLOGY ON THE MARKET

SYNERGIES WITH THE ST. HELENS MILL

- Volume integrated at 40%
- Proximity
- Perfect trims



→ INNOVATION FOCUSED ON MAKING CUSTOMERS THE CENTRE OF OUR STRATEGY

Innovation is part of our culture, from the offices of our senior management team to our plant floors, and plays an integral role in every strategic decision taken at Cascades.

THE CASCADES INNOVATION CENTRE: TURNING INNOVATIVE IDEAS INTO COMMERCIAL SUCCESS

Established in 2016, Cascades' innovation hub reinforces our commitment to ensuring that our customers are at the centre of our business strategy. It is both a move forward and a return to our roots: when Cascades was founded in 1964, we chose to make paper from recycled fibres, and to set ourselves apart from our competitors by exploring and developing new methods.

The creation of the Cascades Innovation Centre (CIC) is beneficial for all of the company's stakeholders. The CIC facilitates interaction between the company's various cells of innovation experts, whose specialties range from industrial design to marketing. Plus, it allows the company to identify strategic business opportunities and offer customers highly integrated solutions. Now more than ever, our customers are directly connected to our organization, and we have more resources with which to seek out their opinions and expertise in the field so that we can anticipate their needs and find sustainable solutions for their product and process challenges.

For our business partners, the added value Cascades generates by focusing on innovation translates into a definite competitive edge.

CASCADES CS+: STRENGTH IN NUMBERS

Collaboration within our teams of experts is what brings raw materials to life. Behind the cutting-edge services that have helped the organization carve out its place in the market lies its research and development centre—the Canadian pulp and paper industry's largest private research centre. Since last summer, the strength of this innovation hub has been increased tenfold through its merger with the energy, engineering and used equipment divisions. Grouped together, these four multidisciplinary teams now make up Cascades CS+, a leader in engineering, and also in industrial project management and execution.

Focused on synergy and a drive for excellence, more than 100 technicians, engineers and scientists execute the Cascades CS+ mission, which revolves around four pillars: products, processes, projects and the repurposing of used equipment. This group includes individuals with experience and expertise in over 20 fields both inside and outside the paper industry, which further broadens Cascades' influence and exposure.

By combining the expertise of its service centres, Cascades provides its plants with a one-stop resource for all of their technical and scientific services, and is able to tailor these services to meet specific needs at a very competitive cost. Thanks to this unique integrated project management service offering, Cascades is also winning over a growing number of external clients who are seeking out the innovative ideas and collaborative approach of our experts.

THE NEW FLATBED DIGITAL PRINTER

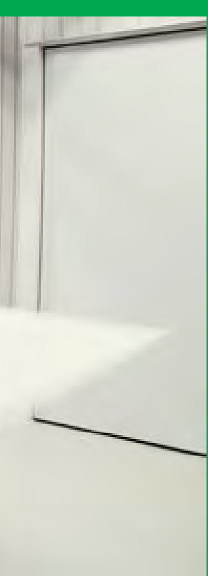
A STATE-OF-THE-ART FLATBED PRINTER

AN EXTREMELY VERSATILE CUTTING TABLE

AN EXAMPLE OF A VALUE-ADDED, CUSTOMIZED PRODUCT

INVESTING IN INNOVATION AT CASCADES CONTAINERBOARD PACKAGING – VICTORIAVILLE

As part of its ongoing focus to provide customers with innovative packaging solutions, Cascades Containerboard Packaging has purchased a flatbed digital printer for its Victoriaville plant. This $500,000+ investment, combined with the use of a versatile cutting table, allows a wide range of value-added, customized products to be printed in a very short space of time.



CREATING VALUE BY APPLYING → THE PRINCIPLES OF THE CIRCULAR ECONOMY

Dare to do things differently and innovate: this approach has contributed to Cascades' success for more than 50 year. On top of implementing special coporate practices, the company has also sought out ways to optimize its entire value chain. The objective is simple: to provide added value to our products and services. This value is created during every step from the initial idea behind a product, to the end of its useful life. At Cascades, this value chain is neither vertical nor horizontal, but rather circular.

Our sustainable development strategy is based on this approach, and it allows us to improve the limits of our environmental, financial and social performance. We believe that our stakeholders—from customers to suppliers, along with shareholders, employees and communities—all benefit from this added value.

The 2016–2020 sustainable development plan focuses on **10 priorities** identified for their applicability and relevance, as well as the impact they can have throughout the entire value chain, especially with regards to cost control and risk management.

REDUCE THE QUANTITY OF ENERGY PURCHASED TO MAKE OUR PRODUCTS	DEVELOP AND MARKET NEW PRODUCTS THAT ARE INNOVATIVE AND ECO-RESPONSIBLE
REDUCE GREENHOUSE GAS EMISSIONS	OPTIMIZE THE RETURN ON CAPITAL EMPLOYED
INCREASE THE BENEFICIAL USE OF RESIDUALS	REDUCE THE NUMBER OF ACCIDENTS
REDUCE THE AMOUNT OF WASTE WATER	INCREASE THE LEVEL OF EMPLOYEE COMMITMENT
OBTAIN SUPPLIES FROM RESPONSIBLE SUPPLIERS	INCREASE OUR INVOLVEMENT IN THE COMMUNITIES AROUND US

COMMUNITY INVOLVEMENT: CASCADES' ADDED VALUE FOR COMMUNITIES... AND THE EMPLOYEES

Giving back to the community has always come natually to the Lemaire brothers, the founders of Cascades, since they first began in business. Their modest background certainly forged some of their character traits, but also contributed to implementing a real business culture where sharing and collegiality are present. After all, strong, healthy communities, on both the human and economic levels, offer a pool of qualified employees, as well as committed customers and consumers.

This tradition of giving back to others continues to be deeply rooted in the organizations's values to this day, and is an important reason why community involvement remains a priority in our sustainable development action plan. While involvement used to be measured in the number of actions carried out, in our 2016-2020 plan, it will be monitored using the the number of hours of employee volunteering. Considerable amounts will continue to be granted to organizations working in the territories where Cascades is present, but now this involvement will also rely on employees' participation. It will allow Cascades to simultaneously work on two aspects: its positive influence in its communities and the engagement rate of its employees. This is called employer-supported volunteering (ESV). This increasingly popular trend is based on numerous studies that have shown the benefits of volunteerism for a company's human capital: improved morale and emotional competencies, increased productivity, better perception of employer, aptitude for teamwork, etc. Cascades only sees benefits in this new practice.

"Workplaces with ESV programs have also benefited from increased legitimacy and trust within the community over the long-term, which helps secure loyal customers and build the brand[1]."

PARTNERSHIPS IN LINE WITH THE COMPANY'S VALUES

In 2016, Cascades reached a three-year agreement with the David Suzuki Foundation. Cascades is pleased to be able to unite its voice with that of a recognized and respected environmental organization to help increase public awareness of environmentally friendly living practices. Cascades' employees will also be invited to work as volunteers for the Foundation's activities, which will promote the ESV program.

David Suzuki (in the centre) accompanied by members of Cascades' Board of Directors, Management Committee and Sustainable Development team.
PHOTO CREDIT: TORIE GERVAIS

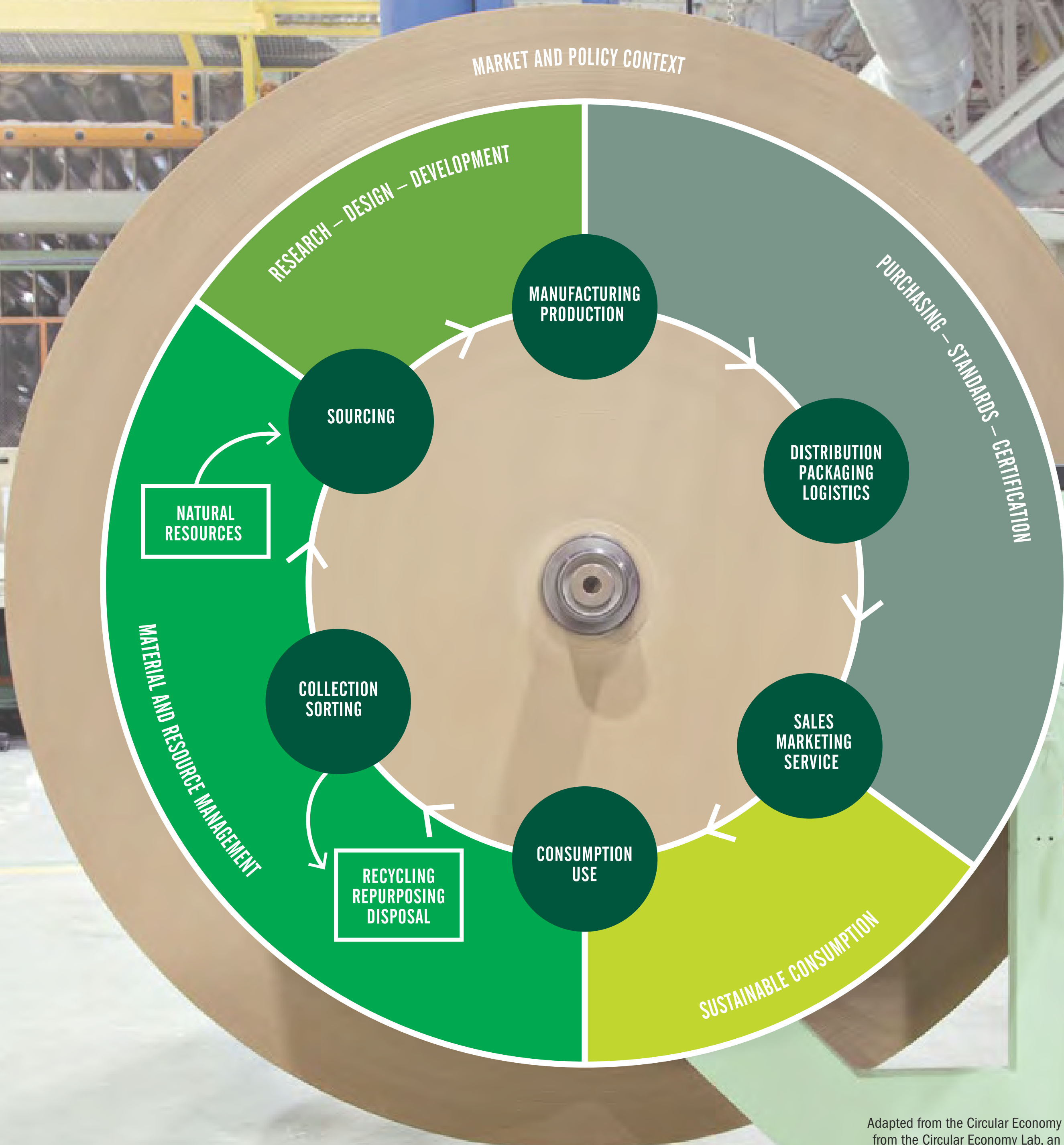
For several decades now, Cascades has supported Centraide's mission, specifically that of its Centre-du-Québec division, since a significant portion of our employees are located in this area (approximately 20%). A record amount of $525,000 was given to Centraide in 2016, proving once again the excellent work by the campaign's ambassadors (who are volunteers), but most of all, the generosity of all our employees.

Cascades employees once again show great generosity by collecting a record amount during the corporate campaign for the benefit of Centraide Centre-du-Québec.

1 Bowen et al. analyzed 200 academic and practitioner sources on corporate community engagement strategies.
Bowen, F., Newenham-Kahindi, A., and I., Herremans. 2010. 'When Suites Meet Roots: The Antecedents and Consequences of Community Engagement Strategy' *Journal of Business Ethics*, 95 (2): 297-318.

OUR SUSTAINABLE DEVELOPMENT ACTIONS: GENERATING BENEFITS AT EACH STEP

The value proposition of the **10 priorities** of Cascades' 2016-2020 Sustainable Development Plan.



Source:
Adapted from the Circular Economy Framework from the Circular Economy Lab, an initiative of The Natural Step Canada.

POSITIVE ECONOMIC AND ENVIRONMENTAL IMPACTS

Founded by entrepreneurs who chose to use old paper to design their products, Cascades has always been concerned with the sound management of resources. Well aware that residuals can become raw materials, the company is trying to recover as much of its own waste as possible. Since energy and water are resources that are used in large quantities in our manufacturing processes, a reduction in their use not only results in positive economic benefits, but environmental ones as well. While energy costs are low right now, Cascades understands that it is subject to the volatility of market prices, and as such, we know that continuously reducing our energy consumption is the best tool to protect ourselves. As for greenhouse gases, carbon regulation costs have become a reality in Canada, and Cascades closely follows this variable so as to include it in our decision-making processes.

OPTIMIZE TRAVEL LOGISTICS

While not an official target in our 2016–2020 Plan, Cascades has worked toward optimizing all of our transportation activities (for both goods and our employees). This optimization will certainly have a positive effect at both the economic and the environmental level. In this regard, Cascades closely follows new developments detailed in the impact studies related to transportation, climate change and fossil energy markets.

A COMMITMENT TO INNOVATIVE PRODUCTS

Cascades' innovation team has a clearly defined priority: focus its efforts in the sectors where the company excels, and develop solutions that always deliver added value for our customers. This strategy bears witness to our focus on understanding and anticipating our clients' needs – both consumers and industrial clients – at every step of a product's life cycle. Cascades believes in innovation and relies on the development of solutions that will allow us to remain a leader in our sectors of activity.

ENHANCED FINANCIAL PERFORMANCE

In the wake of the significant strategic changes that we have implemented over the last few years, Cascades continues to spare no effort to remain a leader in its industry. The general improvement of our financial performance is an essential element to our success, and a key part of providing value for our stakeholders, and particularly our shareholders.

NOTHING IS LOST, EVERYTHING IS TRANSFORMED

Most of the products that we sell on the market can then be recovered and used as raw materials for our plants. By operating sorting centres, and recovering materials from both our customers and others, Cascades successfully meets a challenge that many companies can only dream of: we have closed the loop in our value chain and established a circular economy.

SECURING OUR SUPPLIES

Recycled fibre is the most widely used raw material at Cascades; in 2016, it accounted for 81% of our total raw material purchases. With recycled fibre facing growing demand in the market, Cascades made a strategic decision in 2015 to purchase 100% of the activities of our subsidiary, Cascades Recovery, of which Cascades had previously owned 73%. This business segment allows Cascades to optimize and strengthen its efforts to successfully meet its raw material requirements for all of its operations.

COMMITTED SUPPLIERS

Procurement, which had been previously decentralized, was recently migrated into a new structure that delivers benefits from economies of scale, while allowing the needs of all our plants to be met. As part of our sustainable development strategy, Cascades mapped the source of our purchases to identify both risks and opportunities. On this front, Cascades has been working with a third party since 2012 to assess our suppliers' performance in matters of social responsibility. In this way, the company ensures that the various players in our supply chain share our commitment to adopting the best social and environmental practices possible. This initiative results in a greater range of more environmentally friendly purchasing options, since it allows suppliers to understand Cascades' interests and, therefore, to better align themselves with our values.

OUR EMPLOYEES: A PRECIOUS RESOURCE

Human resources are a key asset throughout our organization. Our employees ensure our day-to-day success and contribute and drive our competitive edge. The company is dedicated to treating our employees with care and respect, and providing them with a stimulating and safe working environment is a priority. Our Human Resources teams actively work to make employees accountable for occupational health and safety. Training follow-up, personal and professional development, competency based management and recognition are some of the measures put forward so that employees feel equipped on a daily basis. We believe that these approaches will increase our employees' level of commitment to the company, and will also provide beneficial effects on productivity levels.


FINANCIAL INFORMATION
2016

OUR BUSINESS

Cascades Inc. is a paper and packaging company that produces, converts and sells packaging and tissue products composed primarily of recycled fibres. Established in 1964 in Kingsey Falls, Québec, the company was founded by the Lemaire brothers, who saw the economic and social potential of building a company focused primarily on the sustainable development principles of reusing, recovering and recycling. More than fifty years later, Cascades is a multinational business with close to 90 operating facilities[1] and nearly 11,000 employees across Canada, the United States and Europe. The Corporation currently operates four business segments:

(Business segments)	Number of Facilities[1]	2016 Sales[2] (in M$)	2016 Adjusted OIBD[2] (in M$)	2016 Adjusted OIBD Margin (%)
PACKAGING PRODUCTS				
Containerboard	24	1,370	216	16%
Boxboard Europe[3]	6	796	53	7%
Specialty Products	38	620	65	10%
TISSUE PAPERS	20	1,305	150	11%

BUSINESS DRIVERS

Cascades' results may be impacted by fluctuations in the following:

SALES

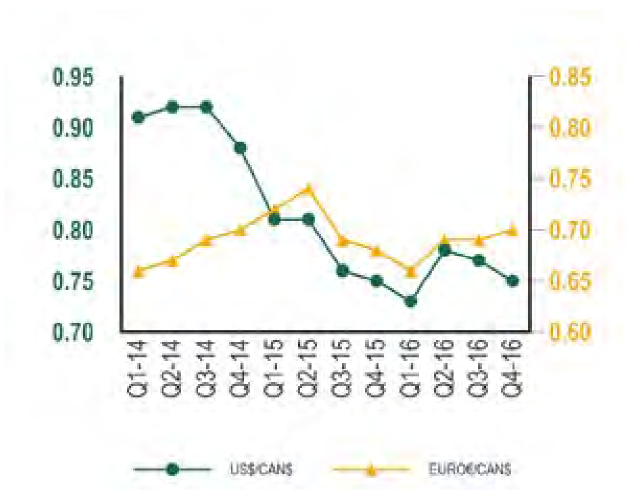
- **Selling prices**
- **Demand for packaging products and tissue papers, mainly made of recycled fibres**
- **Foreign exchange rates**
- **Population growth**
- **Industrial production**
- **Product mix, substitution and innovation**

COSTS

- **Energy prices, mainly electricity and natural gas**
- **Fibre prices and availability (recycled papers, virgin pulp and woodchips) and production recipes**
- **Foreign exchange rates**
- **Labour**
- **Freight**
- **Chemical product prices**
- **Capacity utilization rates and production downtime**

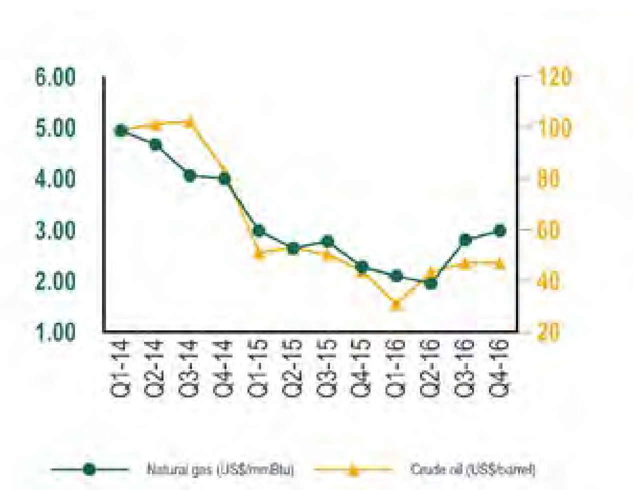
EXCHANGE RATES

The average value of the Canadian dollar declined by 4% and 3% in 2016 against the US dollar and the euro, respectively, compared to 2015.



ENERGY COSTS

The average price of natural gas decreased 8% in 2016 compared to the previous year. In the case of crude oil, the average price was 15% lower in 2016 than in 2015.



1 Including associates and joint ventures.
2 Excluding associates and joint ventures not included in consolidated results. Refer to Note 9 of the 2016 audited consolidated financial statements for more informations on associates and joint ventures.
3 Via our 57.7% equity ownership in Reno de Medici S.p.A., a public company traded on the Milan and Madrid stock exchanges.

HISTORICAL MARKET PRICES OF MAIN PRODUCTS AND RAW MATERIAL

					2015					2016	2016 vs. 2015	
These indices should only be used as trend indicators; they may differ from our actual selling prices and purchasing costs.	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3	Q4	Year	Change	%
Selling prices (average)												
PACKAGING PRODUCTS												
Containerboard (US$/short ton)												
Linerboard 42-lb. unbleached kraft, Eastern US (open market)	630	630	630	630	630	615	615	615	655	625	**(5)**	**(1)%**
Corrugating medium 26-lb. semichemical, Eastern US (open market)	563	560	560	545	557	518	515	505	540	520	**(37)**	**(7)%**
Boxboard Europe (euro/metric ton)												
Recycled white-lined chipboard (WLC) index [1]	656	658	679	676	667	664	659	652	649	656	**(11)**	**(2)%**
Virgin coated duplex boxboard (FBB) index [2]	1,061	1,061	1,061	1,061	1,061	1,049	1,044	1,043	1,043	1,045	**(16)**	**(2)%**
Specialty Products (US$/short ton)												
Uncoated recycled boxboard - 20-pt. bending chip (transaction)	700	700	700	735	709	735	725	725	715	725	**16**	**2 %**
TISSUE PAPERS (US$/short ton)												
Parent rolls, recycled fibres (transaction)	955	979	994	1,013	985	1,016	1,012	1,017	1,008	1,013	**28**	**3 %**
Parent rolls, virgin fibres (transaction)	1,228	1,244	1,259	1,279	1,252	1,273	1,273	1,287	1,287	1,280	**28**	**2 %**
Raw material prices (average)												
RECYCLED PAPER												
North America (US$/short ton)												
Special news, No. 8 (ONP - Northeast average)	59	58	58	58	58	58	63	76	78	69	**11**	**19 %**
Old corrugated containers, No. 11 (OCC - Northeast average)	81	78	88	86	83	83	88	101	102	93	**10**	**12 %**
Sorted office papers, No. 37 (SOP - Northeast average)	158	155	150	137	150	138	142	153	168	150	**—**	**—**
Europe (euro/metric ton)												
Recovered paper index [3]	106	116	123	117	115	115	124	135	134	127	**12**	**10 %**
VIRGIN PULP (US$/metric ton)												
Northern bleached softwood kraft, Canada	995	980	967	945	972	943	980	998	992	978	**6**	**1 %**
Bleached hardwood kraft, mixed, Canada/US	843	873	880	880	869	873	847	842	825	847	**(22)**	**(3)%**

Source: RISI and Cascades.

1 The Cascades Recycled White-Lined Chipboard Selling Price Index is based on published indices and represents an approximation of Cascades' recycled-grade selling prices in Europe. It is weighted by country and has been rebalanced as at January 1, 2016.

2 The Cascades Virgin Coated Duplex Boxboard Selling Price Index is based on published indices and represents an approximation of Cascades' virgin-grade selling prices in Europe. It is weighted by country and has been rebalanced as at January 1, 2016.

3 The Cascades Recovered Paper Index is based on published indices and represents an approximation of Cascades' recovered paper purchase prices in Europe. It is weighted by country, based on the recycled fibre supply mix and has been rebalanced as at January 1, 2016.

MANAGEMENT'S DISCUSSION & ANALYSIS

FINANCIAL OVERVIEW - 2015

Led by prior year efforts and initiatives, our 2015 operating results were the highest ever achieved on a comparable asset base, as operations benefited from favourable exchange rates, higher volumes and lower fibre costs. The first two quarters were challenging for our Tissue Papers Group activities given the ramp-up of two new sites in the U.S., destocking efforts and production downtimes for equipment maintenance and upgrades. However, this sector showed solid results in the second half of the year as sales and operational improvement initiatives led to better profit margins. Our Containerboard Packaging Group improved its results with higher average selling prices and lower fibre costs, and a positive contribution from the Greenpac mill, which continued to improve its performance. Profitability from our Boxboard Europe Group decreased, mainly due to higher raw material costs, while our Specialty Products Group achieved strong results compared to the prior year as a result of lower fibre costs and a favourable currency impact.

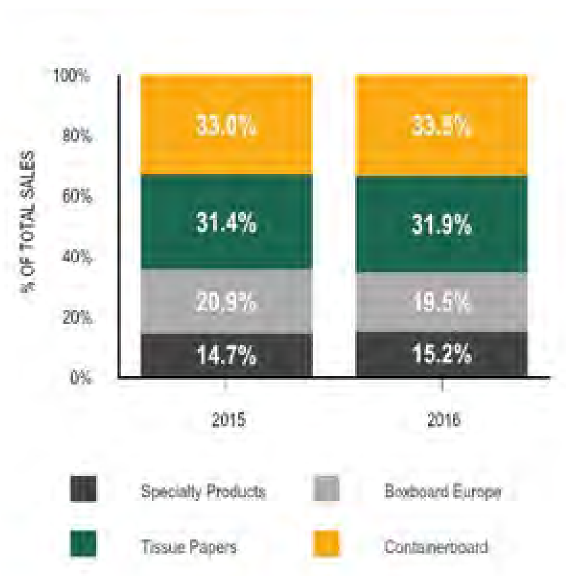
FINANCIAL OVERVIEW - 2016

The Corporation's 2016 financial results reflect sales and operating results growth in the Tissue Group and the Specialty Products Group, in addition to increased sales in the Containerboard Packaging Group. This was offset by higher corporate costs, related to the implementation of our ERP system and other business process optimization initiatives, lower contribution from the Boxboard Europe division due to the persistent challenging market environment, and reduced contribution from the Containerboard Packaging Group attributable to higher production and raw material costs.

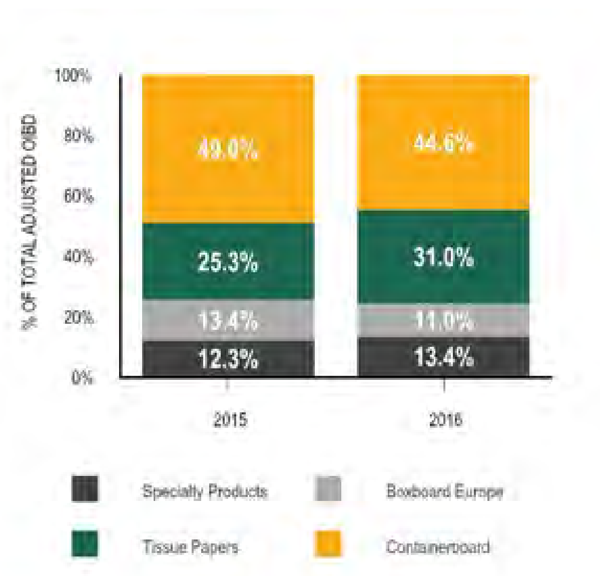
Sales increased by 4%, or $140 million, to $4,001 million in 2016, compared to $3,861 million in 2015. The 4% and 3% average depreciation of the Canadian dollar against the U.S. dollar and the euro, respectively, largely explains this increase. Higher volumes in all of our North American sectors also increased sales in 2016 compared to 2015. As well, the favourable impact of average selling prices in our containerboard and tissue papers activities more than offset the decrease in other segments, which also contributed to the increase in sales.

The following graphics show the breakdown of sales, before inter-segment eliminations, and adjusted operating income before depreciation and amortization by business segment:

SALES BREAKDOWN[1]



ADJUSTED OPERATING INCOME BEFORE DEPRECIATION AND AMORTIZATION BREAKDOWN[2]



1 Excluding inter-segment sales and Corporate activities.
2 Excluding Corporate activities. Please refer to "Supplemental Information on Non-IFRS Measures" for a complete reconciliation.

For the full year 2016, the Corporation posted net earnings of $135 million, or $1.42 per common share, compared to a net loss of $65 million, or $0.69 per common share in 2015. On an adjusted basis, discussed in detail on pages 38 to 40, the Corporation generated net earnings of $114 million during 2016, or $1.21 per common share, compared to net earnings of $112 million or $1.18 per common share in 2015. The Corporation recorded an operating income of $221 million during the year, compared to $153 million in 2015. On an adjusted basis, operating income stood at $211 million during the year, compared to $236 million in 2015 (see the "Supplemental Information on Non-IFRS Measures" section for reconciliation of these amounts).

The $2.11 increase in our net earnings per share in 2016 compared to 2015, can be explained by the following factors:

(in Canadian dollars)		
Change in specific items (see reconciliation in Supplemental information on non-IFRS measures on page 43)	$	2.08
Change in net earnings from continuing operations normalized at a 30% income tax rate	$	(0.16)
Change in tax provision - Other items (see other items analysis on page 58)	$	0.05
Change in share of results of associates and joint ventures - net of income taxes - and change in non-controlling interests	$	0.13
Change in net earnings from discontinued operations - net of income taxes	$	0.01
Increase in net earnings per share	**$**	**2.11**

FORWARD-LOOKING STATEMENTS AND SUPPLEMENTAL INFORMATION ON NON-IFRS MEASURES

The following document is the quarterly financial report and Management's Discussion and Analysis ("MD&A") of the operating results and financial position of Cascades Inc. ("Cascades" or "the Corporation"), and should be read in conjunction with the Corporation's consolidated financial statements and accompanying notes for the years ended December 31, 2016 and 2015. Information contained herein includes any significant developments as at March 1, 2017, the date on which the MD&A was approved by the Corporation's Board of Directors. For additional information, readers are referred to the Corporation's Annual Information Form ("AIF"), which is published separately. Additional information relating to the Corporation is also available on SEDAR at www.sedar.com.

This MD&A is intended to provide readers with information that Management believes is necessary for an understanding of Cascades' current results and to assess the Corporation's future prospects. Consequently, certain statements herein, including statements regarding future results and performance, are forward-looking statements within the meaning of securities legislation, based on current expectations. The accuracy of such statements is subject to a number of risks, uncertainties and assumptions that may cause actual results to differ materially from those projected, including, but not limited to, the effect of general economic conditions, decreases in demand for the Corporation's products, prices and availability of raw material, changes in relative values of certain currencies, fluctuations in selling prices and adverse changes in general market and industry conditions. Cascades disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required under applicable securities regulations. This MD&A also includes price indices, as well as variance and sensitivity analysis that are intended to provide the reader with a better understanding of the trends with respect to our business activities. These items are based on the best estimates available to the Corporation.

The financial information contained herein, including tabular amounts, is expressed in Canadian dollars unless otherwise specified, and is prepared in accordance with International Financial Reporting Standards (IFRS), unless otherwise specified. Unless otherwise specified or if required by context, the terms "we", "our" and "us" refer to Cascades Inc. and all of its subsidiaries, joint ventures and associates. The financial information included in this analysis also contains certain data that are not performance measures under IFRS ("non-IFRS measures"). For example, the Corporation uses net debt, working capital and working capital as a percentage of sales, return on capital employed, consolidated return on assets, operating income, operating income before depreciation and amortization (OIBD) as these are the measures used by Management to assess the operating and financial performance of the Corporation's operating segments. Moreover, we believe that OIBD is a measure often used by investors to assess a corporation's operating performance and its ability to meet debt service requirements. OIBD has limitations as an analytical tool, and should not be considered on its own or as a substitute for an analysis of our results as reported under IFRS. These limitations include the following:

- OIBD excludes certain income tax payments that may represent a decline in available liquidity.
- OIBD does not reflect our cash expenditures, or future requirements for capital expenditures or contractual commitments.
- OIBD does not reflect changes in, or cash requirements for, our working capital needs.
- OIBD does not reflect the interest expense, or the cash requirements needed to service interest and principal payments on our debt.
- Although depreciation and amortization expenses are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future, and OIBD does not reflect any cash requirements for such replacements.

Due to these limitations, OIBD should not be used as a substitute for net earnings or cash flow from operating activities from continuing operations as determined in accordance with IFRS, nor is it necessarily indicative of whether or not cash flow will be sufficient to fund our cash requirements. In addition, our definitions of OIBD may differ from those of other corporations. Any such modification or reformulation may be significant. A reconciliation of OIBD to net earnings and a reconciliation of OIBD to net cash flow from operating activities from continuing operations, which we believe to be the closest IFRS performance and liquidity measure to OIBD, is outlined in "Supplemental Information on Non-IFRS Measures" section.

To provide more information for evaluating the Corporation's performance, OIBD, operating income, net earnings, share of results of associates and joint ventures and cash flow from operating activities from continuing operations are also calculated on an adjusted basis, which excludes specific items such as charges for (reversals of) impairment of assets, restructuring gains or costs, loss on refinancing of long-term debt, some deferred tax assets provisions or reversals, premiums paid on long-term debt refinancing, gains or losses on the acquisition or sale of a business unit, gains or losses on the share of results of associates and joint ventures, unrealized gains or losses on derivative financial instruments that do not qualify for hedge accounting, unrealized gains or losses on interest rate swaps, foreign exchange gains or losses on long-term debt, specific items of discontinued operations and other significant items of an unusual or non-recurring nature. Although we consider these items to be less relevant to evaluating our performance, some of them may arise in the future and may reduce the cash available to us. Our definition of specific items may differ from those of other corporations.

SENSITIVITY TABLE[1]

The following table provides a quantitative estimate of the impact of potential changes in the prices of our main products, the costs of certain raw material, energy and the exchange rates on Cascades' annual OIBD assuming, for each price change, that all other variables remain constant. Estimates are based on Cascades' 2016 manufacturing and converting external shipments and consumption quantities. It is important to note that this table does not consider the Corporations' use of hedging instruments for risk management. These hedging policies and portfolios (see the "Risk Factors" section) should also be considered in order to fully analyze the Corporation's sensitivity to the highlighted factors.

Potential indirect sensitivity to the CAN$/US$ exchange rate is not considered in this table. Some of Cascades' selling prices and raw material costs in Canada are based on U.S. dollar reference prices and costs that are then converted into Canadian dollars. Consequently, fluctuations in the exchange rate may have a direct impact on the value of sales and purchases of Canadian facilities in Canada. However, because it is difficult to measure the precise impact of this fluctuation, we do not take it into consideration in the following table. The impact of the exchange rate on the working capital items and cash positions denominated in currencies other than CAN$ at the Corporations' Canadian units is also excluded. Fluctuations in foreign exchange rates may also impact the translation of the results of our non-Canadian units into CAN$.

	SHIPMENTS/CONSUMPTION ('000 SHORT TONS, '000 MMBTU FOR NATURAL GAS)	INCREASE	OIBD IMPACT (IN MILLIONS OF CAN$)
SELLING PRICE (MANUFACTURING AND CONVERTING)[2]			
North America			
Containerboard	1,140	US$25/s.t.	38
Tissue Papers	610	US$25/s.t.	20
	1,750		58
Europe			
Boxboard	1,070	€25/s.t.	39
	2,820		97
RAW MATERIAL[2]			
Recycled Papers			
North America			
Brown grades (OCC and others)	1,050	US$15/s.t.	(21)
Groundwood grades (ONP and others)	60	US$15/s.t.	(1)
White grades (SOP and others)	550	US$15/s.t.	(11)
	1,660		(33)
Europe			
Brown grades (OCC and others)	760	€15/s.t.	(17)
Groundwood grades (ONP and others)	160	€15/s.t.	(4)
White grades (SOP and others)	60	€15/s.t.	(1)
	980		(22)
	2,640		(55)
Virgin pulp			
North America	150	US$30/s.t.	(6)
Europe	70	€30/s.t.	(3)
	220		(9)
Natural gas			
North America	8,600	US1.00/mmBtu	(11)
Europe	4,600	€1.00/mmBtu	(7)
	13,200		(18)
Exchange rate[3]			
Sales less purchases in US$ from Canadian operations		CAN$/US$ 0.01 change	2
U.S. subsidiaries translation		CAN$/US$ 0.01 change	1
European subsidiaries translation		CAN$/€ 0.02 change	1

1 Sensitivity calculated according to 2016 volumes or consumption, excluding discontinued operations, with an exchange rate of CAN$/US$ 1.33 and CAN$/€ 1.47, excluding hedging programs and the impact of related expenses such as discounts, commissions on sales and profit-sharing.

2 Based on 2016 external manufacturing and converting shipments, as well as fibre and pulp consumption. Including purchases from our subsidiary Cascades Recovery.

3 As an example, from CAN$/US$ 1.33 to CAN$/US$ 1.34 and from CAN$/€ 1.47 to CAN$/€ 1.49.

KEY PERFORMANCE INDICATORS

We use several key performance indicators to monitor our action plan and analyze the progress we are making toward achieving our long-term objectives. These include the following:

	2014					2015					2016
	TOTAL	Q1	Q2	Q3	Q4	TOTAL	**Q1**	**Q2**	**Q3**	**Q4**	**TOTAL**
OPERATIONAL											
Total shipments (in '000 s.t.)[1]											
Packaging Products											
Containerboard	1,104	268	282	296	268	1,114	**277**	**284**	**294**	**283**	**1,138**
Boxboard Europe	1,093	296	286	266	263	1,111	**278**	**267**	**258**	**263**	**1,066**
Specialty Products[2]	160	41	44	45	40	170	**45**	**48**	**48**	**46**	**187**
	2,357	605	612	607	571	2,395	**600**	**599**	**600**	**592**	**2,391**
Tissue Papers	567	136	154	162	146	598	**143**	**158**	**163**	**144**	**608**
Total	2,924	741	766	769	717	2,993	**743**	**757**	**763**	**736**	**2,999**
Integration rate[3]											
Containerboard	52%	51%	49%	50%	54%	51%	**52%**	**53%**	**54%**	**51%**	**52%**
Tissue Papers	70%	68%	64%	64%	70%	67%	**70%**	**65%**	**65%**	**72%**	**68%**
Manufacturing capacity utilization rate[4]											
Packaging Products											
Containerboard	91%	91%	91%	95%	89%	92%	**93%**	**93%**	**96%**	**91%**	**93%**
Boxboard Europe	95%	101%	97%	91%	89%	94%	**97%**	**92%**	**89%**	**91%**	**92%**
Tissue Papers	93%	83%	90%	94%	90%	89%	**87%**	**89%**	**93%**	**83%**	**88%**
Consolidated total	93%	93%	93%	93%	89%	92%	**93%**	**91%**	**93%**	**89%**	**92%**
FINANCIAL											
Return on assets[5]											
Packaging Products											
Containerboard	13%	15%	16%	18%	19%	19%	**19%**	**19%**	**18%**	**17%**	**17%**
Boxboard Europe	10%	10%	10%	10%	10%	10%	**10%**	**10%**	**9%**	**9%**	**9%**
Specialty Products	13%	14%	14%	15%	17%	17%	**18%**	**19%**	**19%**	**20%**	**20%**
Tissue Papers	12%	11%	11%	12%	13%	13%	**15%**	**17%**	**17%**	**16%**	**16%**
Consolidated return on assets	9.4%	9.7%	10.0%	10.8%	11.2%	11.2%	**11.6%**	**11.9%**	**11.1%**	**10.6%**	**10.6%**
Return on capital employed[6]	4.1%	4.4%	4.8%	5.5%	5.6%	5.6%	**5.9%**	**6.1%**	**5.4%**	**5.2%**	**5.2%**
Working capital[7]											
In millions of $, at end of period	379	409	428	472	406	406	**456**	**475**	**460**	**326**	**326**
As a % of sales[8]	12.3%	11.9%	11.6%	11.3%	11.3%	11.3%	**11.3%**	**11.4%**	**11.3%**	**11.0%**	**11.0%**

1 Shipments do not take into account the elimination of business sector inter-segment shipments.

2 Industrial Packaging shipments only.

3 Defined as: Percentage of manufacturing shipments transferred to our converting operations.

4 Defined as: Manufacturing internal and external shipments/practical capacity. Excluding discontinued operations and Specialty Products Group manufacturing activities.

5 Return on assets is a non-IFRS measure defined as the last twelve months' ("LTM") adjusted OIBD/LTM quarterly average of total assets. It includes or excludes significant business acquisitions and disposals, respectively, of the last twelve months. Not adjusted for discontinued operations.

6 Return on capital employed is a non-IFRS measure and is defined as the after-tax (30%) amount of the LTM adjusted operating income, including our share of core joint ventures, divided by the LTM quarterly average of capital employed. Capital employed is defined as the total assets less trade and other payables. It includes or excludes significant business acquisitions and disposals, respectively, of the last twelve months. Not adjusted for assets of disposal group classified as held for sale. Starting in Q1 2015, it includes our investment in Greenpac on an LTM basis. Not adjusted for discontinued operations.

7 Working capital includes accounts receivable (excluding the short-term portion of other assets) plus inventories less trade and other payables. Not adjusted for assets of a disposal group classified as held for sale. Not adjusted for discontinued operations.

8 % of sales = Average LTM working capital/LTM sales. It includes or excludes significant business acquisitions and disposals, respectively, of the last twelve months. Not adjusted for assets of a disposal group classified as held for sale. Not adjusted for discontinued operations.

HISTORICAL FINANCIAL INFORMATION

	2014					2015					2016
(in millions of Canadian dollars, unless otherwise noted)	TOTAL	Q1	Q2	Q3	Q4	TOTAL	**Q1**	**Q2**	**Q3**	**Q4**	**TOTAL**
Sales											
Packaging Products											
Containerboard	1,181	300	322	353	326	1,301	**336**	**342**	**356**	**336**	**1,370**
Boxboard Europe	841	216	202	205	202	825	**219**	**197**	**189**	**191**	**796**
Specialty Products	568	135	146	151	147	579	**149**	**157**	**158**	**156**	**620**
Inter-segment sales	(49)	(12)	(13)	(15)	(15)	(55)	**(15)**	**(14)**	**(16)**	**(16)**	**(61)**
	2,541	639	657	694	660	2,650	**689**	**682**	**687**	**667**	**2,725**
Tissue Papers	1,054	274	299	341	322	1,236	**320**	**324**	**342**	**319**	**1,305**
Inter-segment sales and Corporate activities	(34)	(3)	(6)	(9)	(7)	(25)	**(6)**	**(8)**	**(8)**	**(7)**	**(29)**
Total	3,561	910	950	1,026	975	3,861	**1,003**	**998**	**1,021**	**979**	**4,001**
Operating income (loss)											
Packaging Products											
Containerboard	108	39	41	58	32	170	**40**	**46**	**44**	**28**	**158**
Boxboard Europe	29	9	9	5	(51)	(28)	**8**	**7**	**1**	**3**	**19**
Specialty Products	6	5	9	6	11	31	**9**	**16**	**12**	**14**	**51**
	143	53	59	69	(8)	173	**57**	**69**	**57**	**45**	**228**
Tissue Papers	48	2	10	30	22	64	**19**	**18**	**26**	**12**	**75**
Corporate activities	(54)	(27)	(8)	(22)	(27)	(84)	**(3)**	**(22)**	**(33)**	**(24)**	**(82)**
Total	137	28	61	77	(13)	153	**73**	**65**	**50**	**33**	**221**
Adjusted OIBD[1]											
Packaging Products											
Containerboard	164	52	55	68	56	231	**55**	**60**	**58**	**43**	**216**
Boxboard Europe	72	17	19	14	13	63	**16**	**17**	**9**	**11**	**53**
Specialty Products	40	10	14	18	16	58	**14**	**16**	**18**	**17**	**65**
	276	79	88	100	85	352	**85**	**93**	**85**	**71**	**334**
Tissue Papers	96	15	23	43	38	119	**34**	**39**	**47**	**30**	**150**
Corporate activities	(32)	(9)	(8)	(9)	(19)	(45)	**(13)**	**(20)**	**(29)**	**(19)**	**(81)**
Total	340	85	103	134	104	426	**106**	**112**	**103**	**82**	**403**
Net earnings (loss)	(147)	(35)	24	22	(76)	(65)	**75**	**36**	**20**	**4**	**135**
Adjusted[1]	20	17	24	49	22	112	**34**	**35**	**30**	**15**	**114**
Net earnings (loss) per common share (in dollars)											
Basic	$ (1.57)	$ (0.37)	$ 0.25	$ 0.24	$ (0.81)	$ (0.69)	**$ 0.79**	**$ 0.38**	**$ 0.21**	**$ 0.04**	**$ 1.42**
Basic, adjusted[1]	$ 0.21	$ 0.18	$ 0.25	$ 0.52	$ 0.23	$ 1.18	**$ 0.35**	**$ 0.38**	**$ 0.32**	**$ 0.16**	**$ 1.21**
Net earnings (loss) from continuing operations per basic common share (in dollars)	$ (0.68)	$ (0.39)	$ 0.27	$ 0.24	$ (0.82)	$ (0.70)	**$ 0.79**	**$ 0.38**	**$ 0.21**	**0.04**	**$ 1.42**
Cash flow from operating activities from continuing operations (excluding changes in non-cash working capital components)	244	35	70	110	107	322	**56**	**107**	**68**	**85**	**316**
Net debt[2]	1,613	1,691	1,693	1,741	1,721	1,721	**1,684**	**1,664**	**1,625**	**1,532**	**1,532**
US$/CAN$ - Average rate	$ 0.91	$ 0.81	$ 0.81	$ 0.76	$ 0.75	$ 0.78	**$ 0.73**	**$ 0.78**	**$ 0.77**	**$ 0.75**	**$ 0.75**
US$/CAN$ End of period rate	$ 0.86	$ 0.79	$ 0.80	$ 0.75	$ 0.72	$ 0.72	**$ 0.77**	**$ 0.77**	**$ 0.76**	**$ 0.74**	**$ 0.74**
EURO€/CAN$ - Average rate	$ 0.68	$ 0.72	$ 0.74	$ 0.69	$ 0.68	$ 0.70	**$ 0.66**	**$ 0.69**	**$ 0.69**	**$ 0.70**	**$ 0.68**
EURO€/CAN$ End of period rate	$ 0.71	$ 0.73	$ 0.72	$ 0.67	$ 0.67	$ 0.67	**$ 0.68**	**$ 0.70**	**$ 0.68**	**$ 0.71**	**$ 0.71**
Natural Gas Henry Hub - US$/mmBtu	$ 4.42	$ 2.98	$ 2.64	$ 2.77	$ 2.27	$ 2.67	**$ 2.09**	**$ 1.95**	**$ 2.80**	**$ 2.98**	**$ 2.46**

Sources: Bloomberg and Cascades.

1 See "Forward-looking statements and supplemental information on non-IFRS measures" for more details.

2 Defined as total debt less cash and cash equivalents. Refer to "Supplemental information on non-IFRS measures" for a reconciliation of this amount for current and comparative periods.

BUSINESS HIGHLIGHTS

From time to time, the Corporation enters into transactions to optimize its asset base and streamline its cost structure. The following transactions should be taken into consideration when reviewing the overall and segmented analysis of the Corporation's 2016 and 2015 results.

BUSINESS ACQUISITION, DISPOSAL AND CLOSURE

CONTAINERBOARD PACKAGING GROUP

- On June 1, 2016, the Corporation announced the completion of a transaction with US-based company Rand-Whitney Container LLC for the acquisition of its plant in Newtown, Connecticut. In return, Cascades transferred equipment and the customer list from its Thompson plant, located in Connecticut, and paid US$12 million ($15 million) to Rand-Whitney.
- On December 11, 2014, the Corporation announced that it had reached an agreement for the sale of its North American boxboard manufacturing and converting assets. The transaction was closed on February 4, 2015. Results and cash flows are classified as discontinued operations.

SPECIALTY PRODUCTS GROUP

- On June 22, 2016, the Corporation announced the closure of its de-inked pulp mill located in Auburn, Maine. The plant closed on July 15, 2016.

TISSUE GROUP

- On May 13, 2016, the Corporation decided to close the tissue papers converting operations in its Toronto, Ontario plant, in order to optimize its supply chain and to maximize its profitability. The Corporation transferred some of the assets to other facilities.

SIGNIFICANT FACTS AND DEVELOPMENTS

i. On June 30, 2016, the Corporation completed the transfer of its virgin fibre boxboard mill located in La Rochette, France, to its 57.7%-owned subsidiary Reno de Medici, for a consideration of €19 million ($27 million). The transaction combined the Corporation's virgin and recycled boxboard activities in Europe. Apart from higher non-controlling interests after the closing, no impact was recorded on the Corporation's financial statements, as both entities had been fully consolidated prior to the transaction.

ii. On June 16, 2016, the Corporation announced construction of a new tissue converting plant in Scappoose, Oregon. The total investment is planned to reach US$64 million ($83 million). The facility will house three new state-of-the-art converting lines that are scheduled for commissioning at the end of the first quarter of 2017. The plant will manufacture virgin and recycled bathroom tissue products and paper hand towels for the Cascades Pro (Away-From-Home) market. The plant will be supplied by the Corporatlons' tissue papers plant located 12 kilometers away in St. Helens, which is expected to generate synergies.

iii. On May 6, 2016, the Corporation announced that its associate company Greenpac, located in Niagara Falls, NY, successfully refinanced its debt. The debt package included a term loan and a revolving credit facility. The five-year agreement allows the mill to reduce its financing costs by approximately 225 basis points, increasing its flexibility to successfully address future market fluctuations.

iv. On November 27, 2015, the Corporation entered into an agreement to acquire the remaining 27% minority interest of Cascades Recovery that it did not previously own for a cash consideration of $32 million, payable over a 10-year period. This transaction consolidated the Corporations' leading position in the Canadian recovery and recycling sector.

v. On July 7, 2015, the Corporation entered into an agreement with its lenders to extend and amend its existing $750 million credit facility. The amendment extended the term of the facility to July 2019. The applicable pricing grid was slightly lowered to better reflect market conditions, while other existing financial conditions remained essentially unchanged.

vi. On May 19, 2015, the Corporation issued US$250 million ($305 million) in aggregate principal amount 5.75% senior notes due in 2023. The Corporation used the proceeds from this offering of notes to repurchase a total of US$250 million aggregate principal amount of 7.875% senior notes due in 2020 for a total consideration of US$250 million ($305 million). The Corporation also paid premiums of US$11 million ($13 million) to repurchase the 2020 notes as well as fees and expenses in connection with the offering and the tender offer totalling $5 million. The refinancing of these notes reduces future interest expense by approximately US$6 million annually.

SPECIFIC ITEMS INCLUDED IN OPERATING INCOME AND NET EARNINGS (LOSS)

The Corporation incurred some specific items during 2016 and 2015 that adversely or positively affected its operating results. We believe it is useful for readers to be aware of these items, as they provide a measure of performance with which to compare the Corporation's results between periods, notwithstanding these specific items.

The reconciliation of the specific items included in operating income (loss) by business segment is as follows:

						2016
(in millions of Canadian dollars)	Containerboard	Boxboard Europe	Specialty Products	Tissue Papers	Corporate Activities	Consolidated
Operating income (loss)	**158**	**19**	**51**	**75**	**(82)**	**221**
Depreciation and amortization	**56**	**32**	**20**	**64**	**20**	**192**
Operating income (loss) before depreciation and amortization	**214**	**51**	**71**	**139**	**(62)**	**413**
Specific items:						
Gain on acquisitions, disposals and others	**—**	**—**	**(4)**	**—**	**—**	**(4)**
Impairment charges (reversals)	**2**	**—**	**(3)**	**4**	**—**	**3**
Restructuring costs (gains)	**(1)**	**2**	**1**	**7**	**—**	**9**
Unrealized loss (gain) on financial instruments	**1**	**—**	**—**	**—**	**(19)**	**(18)**
	2	**2**	**(6)**	**11**	**(19)**	**(10)**
Adjusted operating income (loss) before depreciation and amortization	**216**	**53**	**65**	**150**	**(81)**	**403**
Adjusted operating income (loss)	**160**	**21**	**45**	**86**	**(101)**	**211**

						2015
(in millions of Canadian dollars)	Containerboard	Boxboard Europe	Specialty Products	Tissue Papers	Corporate Activities	Consolidated
Operating income (loss)	170	(28)	31	64	(84)	153
Depreciation and amortization	63	34	21	55	17	190
Operating income (loss) before depreciation and amortization	233	6	52	119	(67)	343
Specific items :						
Gain on acquisitions, disposals and others	(1)	—	—	—	—	(1)
Impairment charges	—	56	11	—	2	69
Restructuring costs (gains)	—	1	(5)	—	1	(3)
Unrealized loss (gain) on financial instruments	(1)	—	—	—	19	18
	(2)	57	6	—	22	83
Adjusted operating income (loss) before depreciation and amortization	231	63	58	119	(45)	426
Adjusted operating income (loss)	168	29	37	64	(62)	236

GAIN ON ACQUISITIONS, DISPOSALS AND OTHERS

The Corporation recorded the following gains during 2016 and 2015:

2016

In the fourth quarter, the Specialty Products Group recorded a $3 million gain on the sale of pieces of land of its former fine paper plant located in St-Jérôme, Québec. The Group also recorded a $3 million environmental provision related to plants in Québec, closed in previous years.

In the second quarter, the Specialty Products Group recorded a $4 million gain on the sale of assets following the closure of its de-inked pulp mill located in Auburn, Maine.

2015

In the third quarter, the Containerboard Packaging Group sold a warehouse in Québec City and recorded a $1 million gain.

IMPAIRMENT CHARGES AND RESTRUCTURING COSTS

The following impairment charges (reversals) and restructuring costs (gains) were recorded in 2016 and 2015:

2016

In the fourth quarter, the Specialty Products Group sold the building of its de-inked pulp mill located in Auburn, Maine, and recorded a $2 million reversal of impairment.

In the third quarter, the Tissue Group incurred $2 million of impairment charges related to the revaluation of some equipment following the closure of its Toronto converting plant in the second quarter. The Group also recorded a $3 million provision related to an onerous lease due to the closure.

In the second quarter, the Containerboard Packaging Group recorded a $1 million gain on the reversal of a provision for an onerous lease contract related to the restructuring of its Ontario converting activities in 2012. In the same quarter, the Group recorded a $2 million impairment charge on assets from the Connecticut converting plant that were not part of the transfer associated with the Rand-Whitney Newtown plant acquisition.

In the second quarter, the Boxboard Europe Group recorded $2 million of restructuring costs related to the reorganization of its activities following the transfer of the virgin fibre boxboard mill located in La Rochette, France, to the Corporation's partly-owned Reno de Medici subsidiary.

In the second quarter, the Specialty Products Group recorded $1 million of restructuring costs following the closure of its de-inked pulp mill located in Auburn, Maine. The Group also sold a piece of land related to a closed plant and recorded a $1 million reversal of impairment.

In the second quarter, the Tissue Group incurred $4 million of severance costs following the transfer of the Toronto plant converting operations to other Tissue Group sites. This transfer resulted in $2 million of impairment charges due to the revaluation of some equipment that was not transferred.

2015

In the fourth quarter, the Boxboard Europe Group reviewed the recoverable value of its virgin boxboard mill located in France and recorded impairment charges of $42 million on fixed assets and $11 million on spare parts. In 2015, the Group also recorded impairment charges of $3 million and a severance provision of $1 million related to plants that were closed over past years.

Also in the fourth quarter, Corporate activities reviewed the recoverable amount of a note receivable related to the sale of a plant in 2014 and recorded an impairment charge of $2 million.

In the third quarter, the Specialty Products Group reviewed the recoverable value of one of its plants and recorded impairment charges of $10 million on fixed assets and $1 million on spare parts.

In the third quarter, the Specialty Products Group proceeded with the legal restructuring of its Norcan Flexible Packaging subsidiary, which was owned at 62.1%. As a result of the restructuring, the Corporation now owns 100% of the net assets of this business through its Cascades Flexible Packaging subsidiary. The Corporation recorded a gain of $5 million on the extinguishment of some liabilities following the transaction (including $2 million attributable to non-controlling interest).

The Corporate activities segment incurred $1 million of severance costs in relation to the reorganization of its activities.

DERIVATIVE FINANCIAL INSTRUMENTS

In 2016, the Corporation recorded an unrealized gain of $18 million, compared to an unrealized loss of $18 million in 2015, on certain derivative financial instruments not designated for hedge accounting. The 2016 unrealized gain is mainly attributable to the reclassification of last year's unrealized loss on foreign exchange hedging contracts in 2016 unadjusted results as they were realized during the year (see note 27 of the 2016 audited consolidated financial statements for more details). The appreciation of the Canadian dollar at the beginning of 2016 also had a positive impact.

LOSS ON REFINANCING OF LONG-TERM DEBT

Following refinancing of the Corporation's 2020 unsecured senior notes during the second quarter of 2015, the Corporation recorded premiums of $13 million to repurchase and redeem notes prior to maturity. The Corporation similarly wrote off financing costs and discounts related to the redeemed notes for an amount totaling $6 million.

INTEREST RATE SWAPS

In 2016, the Corporation recorded an unrealized gain of $1 million on interest rate swaps which is included in financing expense, compared to an unrealized loss of $1 million in 2015.

FOREIGN EXCHANGE LOSS (GAIN) ON LONG-TERM DEBT AND FINANCIAL INSTRUMENTS

In 2016, the Corporation recorded a gain of $22 million on its US$-denominated debt and related financial instruments, compared to a loss of $91 million during 2015. This is composed of a gain of $13 million in 2016, compared to a loss of $76 million in 2015, on our US$-denominated long-term debt, net of our net investment hedges in the U.S. and Europe and forward exchange contracts designated as hedging instruments, if any. It also includes a gain of $9 million during the year, compared to a loss of $15 million in 2015, on foreign exchange forward contracts not designated for hedge accounting.

SHARE OF RESULTS OF ASSOCIATES AND JOINT VENTURES

2016

On May 6, 2016, the Corporation announced that its associate company Greenpac, located in Niagara Falls, New York, successfully refinanced its debt. The Corporations' share of the fees related to this debt refinancing amounted to $7 million. In 2015, the Corporation also recorded its share of an unrealized gain of $1 million on certain derivative financial instruments not designated for hedge accounting.

2015

In September 2015, Boralex redeemed or converted all of its 6.75% convertible unsecured subordinated debentures. As a result, the Corporation's participation in Boralex decreased from 27.43% to 20.29%, which resulted in a dilution gain of $15 million for the Corporation.

In February 2015, Boralex acquired the non-controlling interests in Boralex Europe and became its sole shareholder. The $51 million amount paid over carrying value was accounted for by Boralex as a decrease in net assets and retained earnings. Our $14 million share of the decrease is recorded as a loss under share of results of associates and joint ventures in the consolidated statement of earnings.

In January 2015, Boralex proceeded with a public offering of common shares in order to fully repay a bridge loan in connection with its acquisition of Enel Green Power France SAS in December 2014. The Corporation's participation in Boralex decreased to 27.44%, compared to 34.23% as at December 31, 2014, which resulted in a dilution gain of $9 million for the Corporation.

In 2015, the Corporation reviewed the recoverable amount of some investments and recorded impairment charges of $2 million in the share of results of associates and joint ventures in the consolidated statement of earnings.

PROVISION FOR INCOME TAXES

2016

The Corporation recorded a $2 million income tax provision adjustment related to the sale of one of its businesses over the past years.

2015

The provision for income taxes included $18 million of deferred tax assets reversal following the impairment charge on our virgin boxboard mill in France.

DISCONTINUED OPERATIONS

2015

On December 11, 2014, the Containerboard Group announced that it had reached an agreement for the sale of its boxboard activities in North America to Graphic Packaging Holding Company. The sale was completed on February 4, 2015, and the Corporation received a payment of $46 million in the first quarter of 2015. A selling price adjustment of $8 million was agreed on, of which $6 million was paid during the year. The Corporation recorded a loss of $4 million. The Containerboard Group also recorded a $4 million gain in the first quarter on the reversal of a post-employment benefit liability, which was not part of the transaction, but settled as a consequence of the sale.

On June 30, 2014, we sold the fine papers activities of the Specialty Products Group to Les Entreprises Rolland, a subsidiary of H.I.G. Capital. The Corporation finalized the working capital selling price adjustment related to this transaction and recorded a $1 million gain in the second quarter of 2015 by reducing its final selling price adjustment provision to $2 million, which was paid during the third quarter. The Corporation also sold a piece of land which was not part of the transaction and recorded a $1 million reversal of impairment in the second quarter.

SUPPLEMENTAL INFORMATION ON NON-IFRS MEASURES

Net earnings (loss), a performance measure defined by IFRS, is reconciled below with operating income, adjusted operating income and adjusted operating income before depreciation and amortization:

(in millions of Canadian dollars)	**2016**	2015
Net earnings (loss) attributable to Shareholders for the year	**135**	(65)
Net earnings attributable to non-controlling interests	**2**	9
Net earnings from discontinued operations	**—**	(1)
Provision for income taxes	**45**	40
Share of results of associates and joint ventures	**(32)**	(37)
Foreign exchange loss (gain) on long-term debt and financial instruments	**(22)**	91
Financing expense and interest expense on employee future benefits and loss on refinancing of long-term debt	**93**	116
Operating income	**221**	153
Specific items:		
Gain on acquisitions, disposals and others	**(4)**	(1)
Impairment charges	**3**	69
Restructuring costs (gains)	**9**	(3)
Unrealized loss (gain) on derivative financial instruments	**(18)**	18
	(10)	83
Adjusted operating income	**211**	236
Depreciation and amortization	**192**	190
Adjusted operating income before depreciation and amortization	**403**	426

The following table reconciles net earnings (loss) and net earnings (loss) per common share, as per IFRS, with adjusted net earnings and adjusted net earnings per common share:

	NET EARNINGS (LOSS)		NET EARNINGS (LOSS) PER COMMON SHARE[1]	
(in millions of Canadian dollars, except amount per common share)	**2016**	2015	**2016**	2015
As per IFRS	**135**	(65)	**$ 1.42**	$ (0.69)
Specific items:				
Gain on acquisitions, disposals and others	**(4)**	(1)	**$ (0.03)**	$ (0.01)
Impairment charges	**3**	69	**$ 0.03**	$ 0.67
Restructuring costs (gains)	**9**	(3)	**$ 0.06**	$ (0.03)
Unrealized loss (gain) on derivative financial instruments	**(18)**	18	**$ (0.14)**	$ 0.14
Loss on refinancing of long-term debt	**—**	19	**—**	$ 0.15
Unrealized loss (gain) on interest rate swaps	**(1)**	1	**$ (0.01)**	$ 0.01
Foreign exchange loss (gain) on long-term debt and financial instruments	**(22)**	91	**$ (0.19)**	$ 0.83
Share of results of associates and joint ventures	**7**	(9)	**$ 0.05**	$ (0.07)
Included in discontinued operations, net of tax	**—**	(2)	**—**	$ (0.02)
Tax effect on specific items, other tax adjustments and attributable to non-controlling interests[1]	**5**	(6)	**$ 0.02**	$ 0.20
	(21)	177	**$ (0.21)**	$ 1.87
Adjusted	**114**	112	**$ 1.21**	$ 1.18

1 Specific amounts per common share are calculated on an after-tax basis and are net of the portion attributable to non-controlling interests. Per share amounts in line item "Tax effect on specific items, other tax adjustments and attributable to non-controlling interests" only include the effect of tax adjustments. The $0.02 impact in 2016 is related to an income tax provision adjustment on past years sale of assets. The $0.20 impact in 2015 is related to the $18 million deferred tax assets reversal following the revaluation of our virgin boxboard mill in France.

The following table reconciles cash flow from operating activities from continuing operations with operating income and operating income before depreciation and amortization:

(in millions of Canadian dollars)	2016	2015
Cash flow from operating activities from continuing operations	**372**	284
Changes in non-cash working capital components	**(56)**	38
Depreciation and amortization	**(192)**	(190)
Net income taxes paid (received)	**(10)**	14
Net financing expense paid	**89**	89
Premium paid on long-term debt refinancing	**—**	13
Gain on acquisitions, disposals and others	**4**	1
Impairment charges and restructuring costs	**(4)**	(64)
Unrealized gain (loss) on financial instruments	**18**	(18)
Dividend received, employee future benefits and others	**—**	(14)
Operating income	**221**	153
Depreciation and amortization	**192**	190
Operating income before depreciation and amortization	**413**	343

The following table reconciles cash flow from operating activities from continuing operations with cash flow from operating activities from continuing operations (excluding changes in non-cash working capital components) and adjusted cash flow from operating activities from continuing operations:

(in millions of Canadian dollars)	2016	2015
Cash flow from operating activities from continuing operations	**372**	284
Changes in non-cash working capital components	**(56)**	38
Cash flow from operating activities from continuing operations (excluding changes in non-cash working capital components)	**316**	322
Specific items, net of current income taxes if applicable:		
Restructuring costs	**8**	2
Premium paid on long-term debt refinancing	**—**	13
Adjusted cash flow from operating activities from continuing operations	**324**	337

The following table reconciles total debt and net debt with the ratio of net debt to adjusted operating income before depreciation and amortization (adjusted OIBD):

(in millions of Canadian dollars)	December 31, 2016	December 31, 2015
Long-term debt	**1,530**	1,710
Current portion of long-term debt	**36**	34
Bank loans and advances	**28**	37
Total debt	**1,594**	1,781
Less: Cash and cash equivalents	**62**	60
Net debt	**1,532**	1,721
Adjusted OIBD	**403**	426
Net debt / Adjusted OIBD ratio	**3.8**	4.0

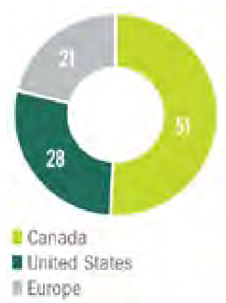
FINANCIAL RESULTS FOR THE YEAR ENDED DECEMBER 31, 2016, COMPARED TO THE YEAR ENDED DECEMBER 31, 2015

SALES

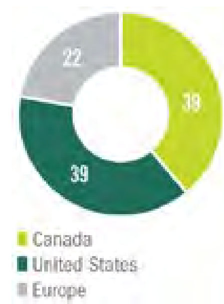
Sales increased by 4%, or $140 million, to $4,001 million in 2016, compared to $3,861 million in 2015. The 4% and 3% average depreciation of the Canadian dollar against the U.S. dollar and the euro, respectively, contributed $95 million to the increase. A strong performance from our recovery and recycling activities[5] increased sales by $32 million compared to last year. Despite a decrease in shipments from our European boxboard activities, higher volumes from our three North American sectors contributed a total net amount of $12 million to sales compared to the prior year. Higher average selling prices in the tissue and containerboard segments more than offset the decrease in the Boxboard Europe Group, and had a net positive impact of $8 million on sales compared to last year.

Sales by geographic segment are as follows, along with the location of our plants and employees around the world:

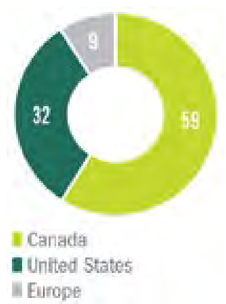
Sales from (in %):



Sales to (in %):



Production units and sorting facilities (in %)[1]



Count of employees worldwide (in %)

1 Excluding sales offices, distribution and transportation hubs and corporate offices. Including the main associates and joint ventures.

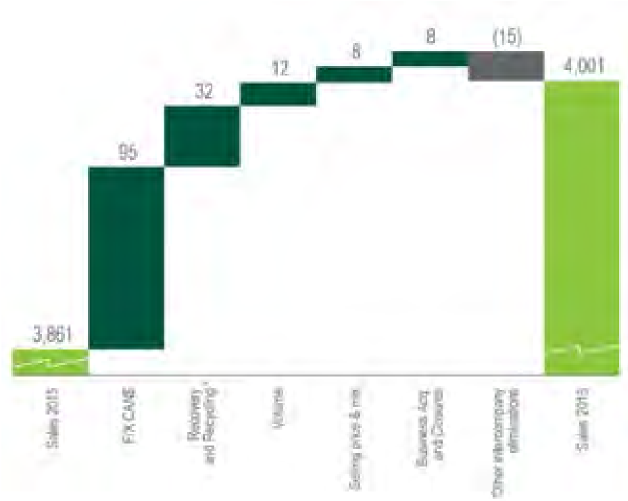
OPERATING INCOME FROM CONTINUING OPERATIONS

The Corporation generated operating income of $221 million in 2016, $68 million higher than the $153 million reported in 2015. Specific items recorded in both years (please refer to the "Specific Items Included in Operating Income and Net Earnings (loss)" section for more details) increased operating income by $93 million, which was partly offset by a $25 million decrease in adjusted operating income. Adding to the benefit derived from increased sales, discussed above, were lower energy costs, which added $23 million to operating income. The 4% and 3% average depreciation of the Canadian dollar against the U.S. dollar and the euro, respectively, also added $7 million to operating income. Offsetting these benefits were higher corporate activities costs related to expenses associated with the implementation of our ERP system and business process optimization initiatives, and costs of $2 million stemming from a fire at our containerboard mill in Mississauga, Ontario. Variations in the mix of products sold in 2016, which generated higher sales, also resulted in corresponding higher production and logistics costs during the year, primarily in the containerboard and tissue papers segments.

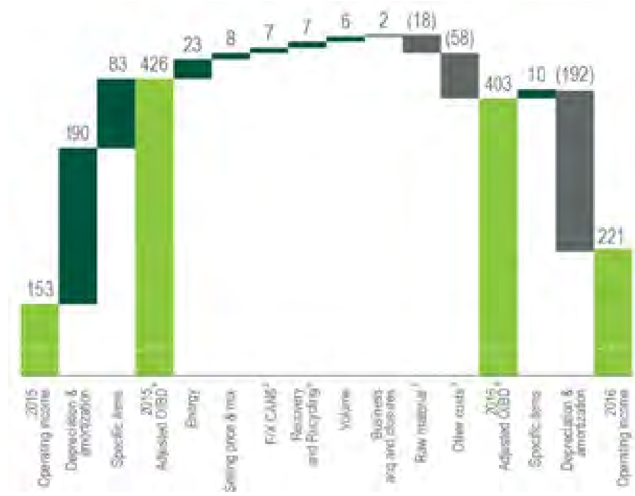
Adjusted operating income was $211 million in 2016, compared to $236 million in 2015 (see the “Supplemental Information on Non-IFRS Measures” and "Specific Items Included in Operating Income and Net Earnings (Loss)" sections for reconciliations of these amounts).

The main variances in sales and operating income in 2016, compared to 2015, are shown below:

Sales ($M)



Operating income ($M)



1 ***Raw material:*** *The impacts of these estimated costs are based on production costs per unit shipped externally or inter-segment, which are affected by yield, product mix changes, and purchase and transfer prices. In addition to market pulp and recycled fibre, they include purchases of external boards and parent rolls for the converting sector, and other raw material such as plastic and wood chips.*

2 ***F/X CAN$:*** *The estimated impact of the exchange rate is based on the Corporation's Canadian export sales less purchases, denominated in US$, that are impacted by exchange rate fluctuations, and by the translation of our non-Canadian subsidiaries OIBD into CAN$. It also includes the impact of exchange rate fluctuations on the Corporation's Canadian units in currency other than the CAN $ working capital items and cash positions, as well as our hedging transactions. It excludes indirect sensitivity (please refer to page 34 for further details).*

3 ***Other costs:*** *"Other costs" include the impact of variable and fixed costs based on production costs per unit shipped externally, which are affected by downtimes, efficiency and product mix changes.*

4 ***OIBD****: Adjusted (excluding specific items).*

5 ***Recovery and Recycling activities:*** *While this segment is integrated within the other segments of the Corporation, any variation in the results of Recovery and Recycling activities are presented separately and on a global basis in the charts.*

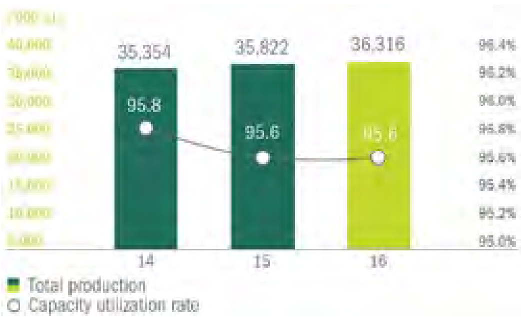
The analysis of variances in segment operating income appear within each business segment review (please refer to pages 47 to 58).

PACKAGING PRODUCTS - CONTAINERBOARD

Our Industry

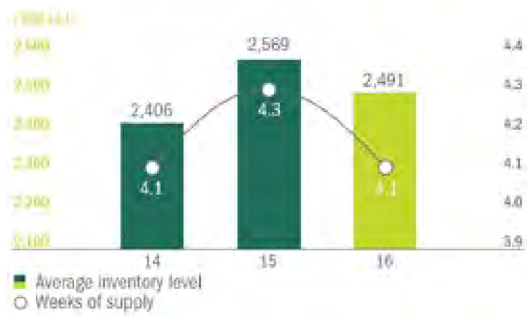
U.S. containerboard industry production and capacity utilization rate [1]

Total U.S.containerboard production increased by 1% for a second consecutive year in 2016. Over the past three years, the industry's capacity utilization rate has remained stable at approximately 96%.



U.S. containerboard inventories at box plants and mills [2]

The average inventory level decreased by 3% in 2016 due to strong demand levels for corrugated boxes. The number of weeks of supply in inventory averaged 4.1 for the year.

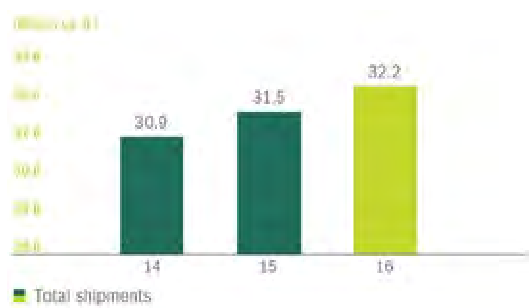


U.S corrugated box industry shipments [2]

Total U.S. corrugated box shipments increased by 2% in 2016, representing the largest increase since 2010. The growing importance of e-commerce and the recovery of agriculture on the American West Coast were two main contributing factors.

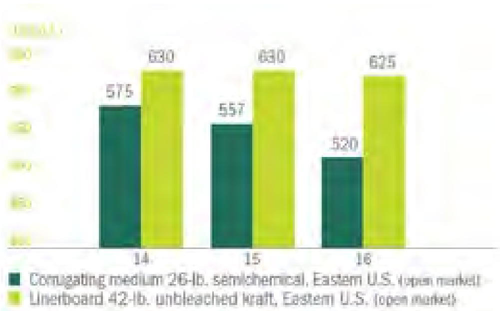
Canadian corrugated box industry shipments [3]

Canadian corrugated box shipments increased for a third consecutive year. The 2% year-over-year increase in 2016 was mainly due to the weakness of the Canadian dollar, which increased demand for Canadian corrugated boxes from U.S. customers.



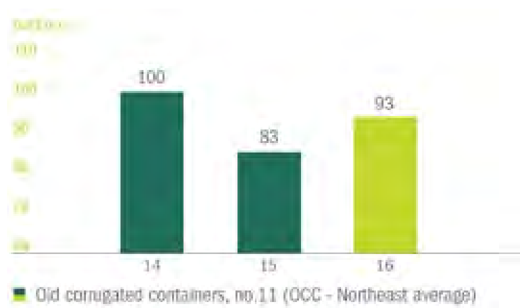
Reference prices - containerboard [1]

Market softness at the beginning of the year negatively impacted containerboard prices. Demand for corrugated products increased through the year, and containerboard producers were able to increase prices by US$40/s.t. in October. Overall, the linerboard and corrugating medium reference prices declined by 1% and 7%, respectively, in 2016.



Reference prices - recovered papers (brown grade) [1]

The average reference price of old corrugated containers no.11 ("OCC") increased by 12% in 2016. This reflects a combination of strong exports, steady to good demand from domestic mills, and new containerboard capacity added to the market. These items resulted in a tightening of supply in the domestic market.



1 Source: RISI

2 Source: Fibre Box Association

3 Source: Canadian Corrugated and Containerboard Association

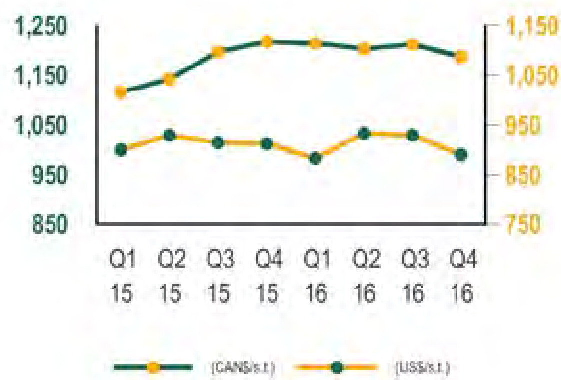
Our Performance

Adjusted OIBD and adjusted OIBD margin

Sales

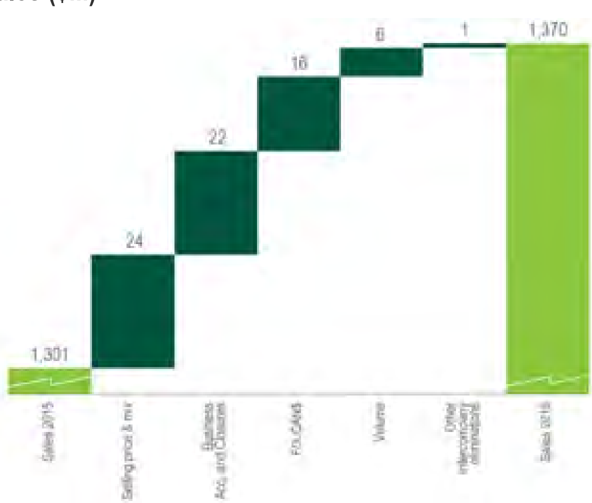
Shipments and manufacturing capacity utilization rate

Average selling price

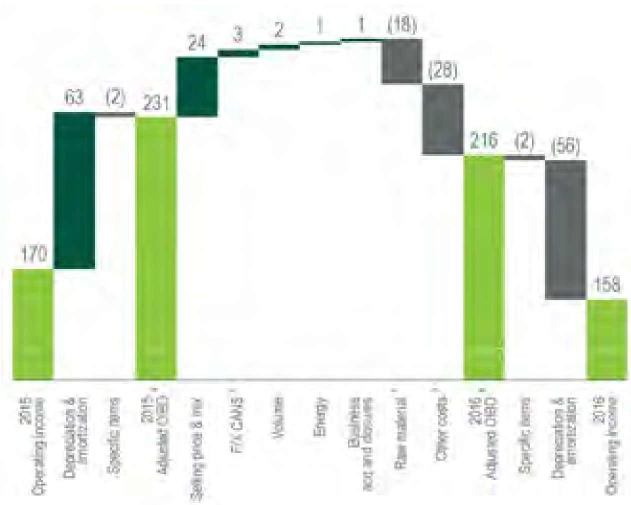


The main variances in sales and operating income for the Containerboard Packaging Group in 2016, compared to 2015, are shown below:

Sales ($M)



Operating income ($M)



For Notes 1 to 4, see definitions on page 46.

The Corporation incurred certain specific items in 2016 and 2015 that adversely or positively affected its operating results. Please refer to pages 40 to 42 for reconciliation statements and further details.

	2015	2016	Change in %
Shipments[1] ('000 s.t.)	1,114	1,138	2%
Average Selling Price (CAN$/unit)	1,169	1,204	3%
Sales ($M)	1,301	1,370	5%
Operating income ($M) (as reported)	170	158	-7%
(adjusted)	168	160	-5%
OIBD ($M) (as reported)	233	214	-8%
% of sales	18%	16%	
(adjusted)	231	216	-6%
% of sales	18%	16%	

1 Shipments do not take into account the elimination of business sector inter-company shipments. Including 11.7 billion square feet in 2015 compared to 12.2 billion square feet in 2016.

2 The Corporation's interest in Greenpac is booked using the equity method. All transactions are therefore treated as external.

External mill shipments decreased by 5,000 s.t., or 1%, although the manufacturing capacity utilization rate rose 1%. This is explained by the greater number of tons shipped internally, which resulted in the mill integration rate increasing to 52% in 2016 compared to 51% in 2015. When including paper sold to our associated companies, the integration rate increased to 67% from 64% last year. On the converting side, shipments increased by 4% or 29,000 s.t. year-over-year. Excluding the 19,000 s.t. of supplementary shipments stemming from the transaction concluded with US-based company Rand-Whitney (please refer to the "Business Highlights" section for further details) in the second quarter of 2016, shipments for the converting activities increased by 2%. This performance is in line with the Canadian and US industries, which both recorded an increase of 2%.

The 3% average selling price increase reflects the combination of a 1% average selling price decrease in our primary products, 3% increase in our converted products and the favorable impact stemming from the depreciation of the Canadian dollar.

The 5% increase in sales reflects increased volume, which added $28 million (including $22 million stemming from the transaction concluded with US-based company Rand-Whitney) to sales. The 4% depreciation of the Canadian dollar and higher average selling price added $16 million and $13 million, respectively. The higher percentage of converted products in the product mix positively impacted sales by $11 million.

The 5% decrease in adjusted operating income is mainly explained by a $28 million increase in other costs. This is partly attributable to an increase in production costs linked to higher repair and maintenance and chemical expenses, and increased logistics and warehousing costs. In addition, the higher percentage of converted products sold, generating higher contribution to operating income, also contributed to the increase in other production costs on a per ton basis. Depreciation of the Canadian dollar and lower energy costs respectively added $3 million and $1 million to operating income, while higher average raw material costs subtracted $18 million from operating income compared to last year. Lower depreciation and amortization, which decreased by $7 million compared to the prior year, positively impacted operating income. This followed major equipment modernization efforts in 2015, which triggered the revaluation of the remaining useful life of some assets. On the other hand, better average selling price and mix denominated in Canadian dollars and higher volume, positively impacted our results of $24 million and $2 million respectively.

The Containerboard Packaging Group recorded a $1 million gain during 2016 on the reversal of a provision for an onerous lease contract related to the 2012 restructuring of its Ontario converting activities. As well, the Group recorded a $2 million impairment charge related to assets from the Connecticut converting plant that were not part of the transfer associated with the Rand-Whitney Newtown, CT, plant acquisition. Finally, the Group recorded a $1 million unrealized loss on embedded derivative financial instruments. In 2015, the Containerboard Packaging Group sold a warehouse in Québec City and recorded a $1 million gain. Also, the Group recorded a $1 million unrealized gain on certain derivative financial instruments not designated for hedge accounting.

Finally, the Corporation's net earnings include our share of results from our associate Greenpac[2] mill (59.7%). On an adjusted basis, Greenpac's contribution to earnings before income taxes was $23 million in 2016, compared to $18 million in 2015.

PACKAGING PRODUCTS - BOXBOARD EUROPE

Our Industry

European industry order inflow of coated boxboard [1]

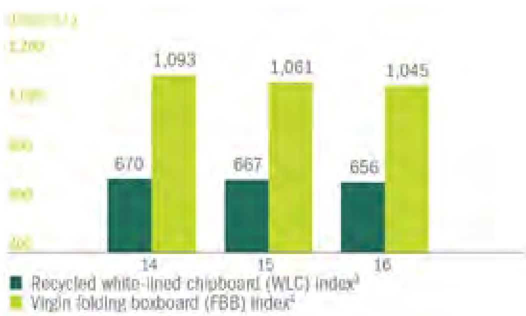
In Europe, order inflows of white-lined chipboard decreased by 4% in 2016 compared to 2015, reflecting particularly high demand in the first eight months of 2015. Notably, order inflows of white-lined chipboard were 6% higher in 2016 than in 2014. Order inflow improved toward the end of 2016, and the industry experienced the best fourth quarter of the last ten years with orders of approximately 790,000 tonnes. Order inflows for folding boxboard in 2016 were 2% lower than in 2015.

Coated recycled boxboard industry's order inflow from Europe
(White-lined chipboard (WLC) - 5-week weekly moving average)

Coated virgin boxboard industry's order inflow from Europe
(Folding boxboard (FBB) - 5-week weekly moving average)

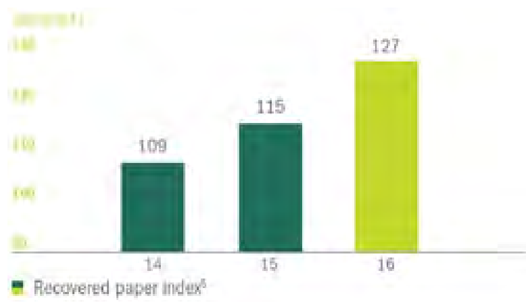
Reference prices - boxboard in Europe [2]

White-lined chipboard reference prices decreased for a second consecutive year in Western European countries. Challenging market conditions resulted in a 2% decline in the average price in 2016 compared to 2015. Folding boxboard reference prices eroded at the beginning of 2016 in some European countries, and then remained relatively stable for the remainder of the year, resulting in a 2% decrease in 2016 compared to 2015.



Reference prices - recovered papers in Europe [2]

Recovered paper prices were under pressure in 2016 due to strong demand and exports. As a result, the recovered paper reference index in Europe was 10% higher in 2016 than in 2015, reflecting an increase in average prices for brown, white and groundwood grades.



1 Source: CEPI Cartonboard

2 Source: RISI

3 The Cascades recycled white-lined chipboard selling prices index represents an approximation of Cascades' recycled grade selling prices in Europe. It is weighted by country. For each country, we use an average of PPI Europe prices for white-lined chipboard.

4 The Cascades virgin coated duplex boxboard selling prices index represents an approximation of Cascades' virgin grade selling prices in Europe. It is weighted by country. For each country, we use an average of PPI Europe prices for coated duplex boxboard.

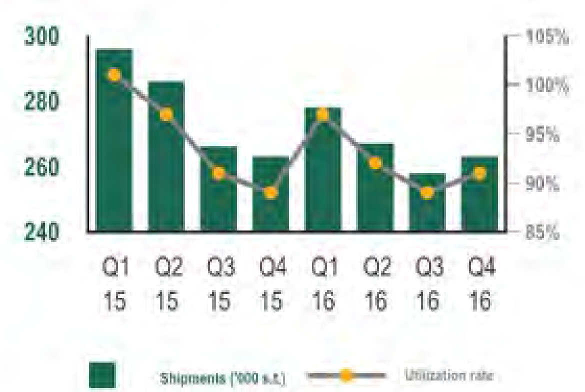
5 The recovered paper index represents an approximation of Cascades' recovered paper purchase prices in Europe. It is weighted by country. For each country, we use an average of PPI Europe prices for recovered papers. This index should only be used as a trend indicator and may differ from our actual purchasing costs and our purchase mix.

Our Performance

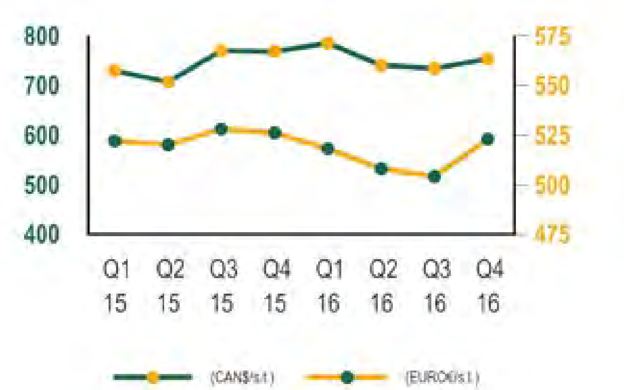
Adjusted OIBD and adjusted OIBD margin

Sales

Shipments and manufacturing capacity utilization rate

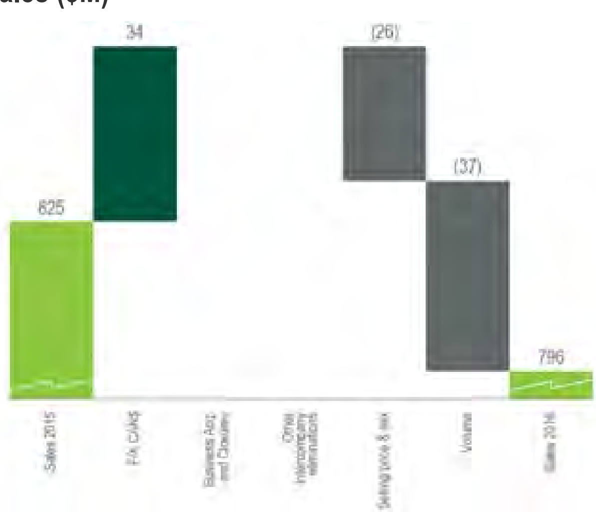


Average selling price

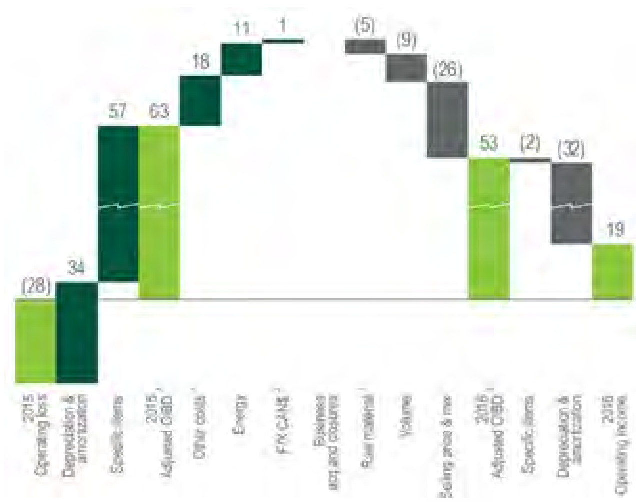


The main variances in sales and operating income (loss) for the Boxboard Europe Group in 2016, compared to 2015, are shown below:

Sales ($M)



Operating income (loss) ($M)



For Notes 1 to 4, see definitions on page 46.

The Corporation incurred certain specific items in 2016 and 2015 that adversely or positively affected its operating results. Please refer to pages 40 to 42 for reconciliation statements and further details.

	2015	2016	Change in %
Shipments[1] ('000 s.t.)	1,111	1,066	-4%
Average Selling Price[2] (CAN$/unit)	743	746	—
(Euro€/unit)	523	509	-3%
Sales ($M)	825	796	-4%
Operating income (loss) ($M) (as reported)	(28)	19	168%
(adjusted)	29	21	-28%
OIBD ($M) (as reported)	6	51	750%
% of sales	1%	6%	
(adjusted)	63	53	-16%
% of sales	8%	7%	

1 Shipments do not take into account the elimination of business sector inter-company shipments.
2 Average selling price is a weighted average of virgin and recycled boxboard shipments.

The decrease in shipments is mostly attributable to lower recycled boxboard shipments, which declined 43,000 s.t. or 5% to 904,000 s.t. during the year, while shipments of virgin boxboard marginally decreased by 1%. The decrease in shipments is mainly a reflection of the challenging economic environment in Europe.

The average selling price remained stable in 2016, as the impact of a 3% decrease in the average selling price in euros was offset by a 3% average depreciation of the Canadian dollar against the euro. The decrease in the 2016 average selling price in euros reflects lower demand and unfavourable geographic sales mix. When compared to 2015, the average selling price in recycled boxboard activities declined €17, or 3%, while the average selling price in virgin boxboard activities decreased €18, or 2%, in 2016. On a consolidated basis, however, the average selling price decreased by a less pronounced €14 year-over-year, reflecting the greater proportion of higher priced virgin boxboard sold in 2016.

Sales decreased 4% in 2016 to $796 million. This reflects lower volumes from recycled boxboard activities and a lower average selling price, which decreased sales by $37 million and $26 million, respectively. Partially offsetting this was the benefit from the 3% average depreciation of the Canadian dollar against the euro, which increased sales by $34 million in 2016.

Adjusted operating income decreased by $8 million in 2016, reflecting a lower average selling price, lower volumes from recycled boxboard activities and higher material costs, which negatively impacted operating income by $26 million, $9 million, and $5 million, respectively. Partially offsetting these impacts were a $18 million decrease in production costs, savings of $11 million related to lower energy costs in France and Italy, and a $1 million currency exchange benefit due to the 3% average depreciation of the Canadian dollar against the euro.

In 2016, the Boxboard Europe Group recorded $2 million of restructuring costs relating to the reorganization of our activities following the transfer of our fully-owned virgin fibre boxboard mill located in La Rochette, France, to our Reno de Medici partially-owned subsidiary.

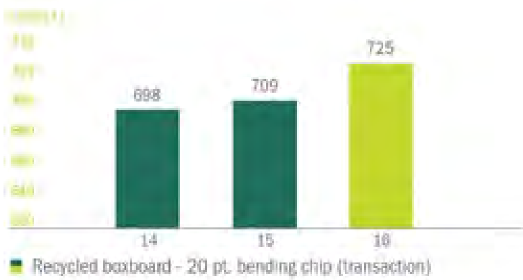
In 2015, the Boxboard Europe Group reviewed the recoverable value of its virgin boxboard mill located in France and recorded impairment charges of $42 million on fixed assets and $11 million on spare parts. The Group also recorded impairment charges of $3 million and severance provisions of $1 million in 2015 related to plants that were closed in previous years.

PACKAGING PRODUCTS - SPECIALTY PRODUCTS

Our Industry

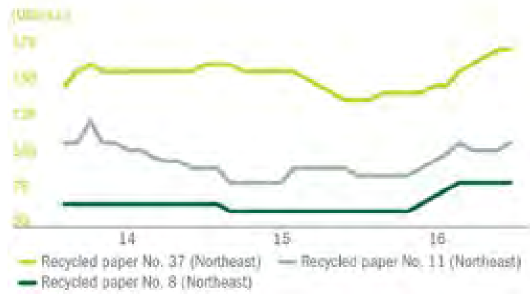
Reference prices - uncoated recycled boxboard [1]

The reference price for uncoated recycled boxboard was higher in early 2016 as a result of a price increase at the end of 2015. The price softened as the year progressed, which resulted in a 2% increase in 2016 compared to 2015.



Reference prices - fibre costs in North America [1]

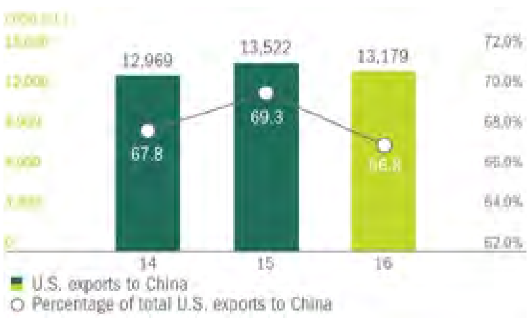
The white grade recycled paper No. 37 (sorted office papers) annual price remained stable in 2016 compared to 2015. The brown grade recycled paper No. 11 (old corrugated containers) annual price was 12% higher in 2016 due to strong demand. The annual price for recycled paper No. 8 (special news) increased 19% in 2016 compared to 2015 after two years relatively stable.



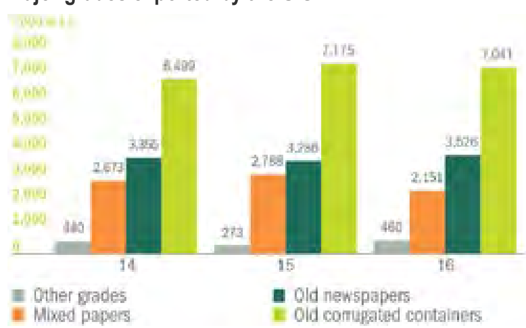
U.S. recycled fibres exports to China [1]

The relationship between recovered paper supply and demand, particularly from Asia, plays an important role in pricing dynamics. U.S. exports of recycled fibres to China declined by 3% in 2016. Old corrugated container and mixed paper exports decreased by 2% and 23% respectively, over 2015, while old newspaper and other grades increased by 7% and 69% over the same period. The global percentage of total U.S exports to China decreased slightly in 2016 to 67% from 69% in 2015.

Total U.S. exports of recycled papers to China - all grades



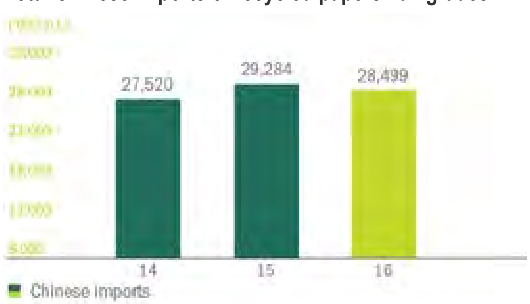
Major grades exported by the U.S.



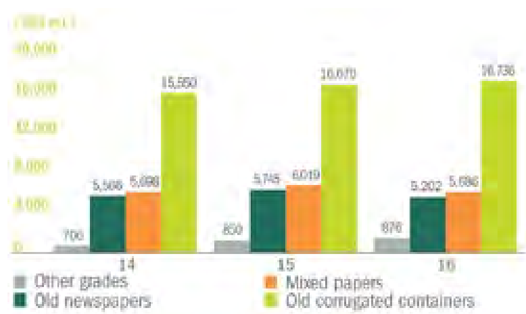
Chinese imports of recycled fibre [1]

Total Chinese imports fell by 3% in 2016 compared to 2015 as the second half of the year was affected by the bankruptcy of an important ocean freight carrier. On a more detailed basis, old corrugated container imports were essentially flat as were other grades, while mixed paper and old newspaper imports fell by 6% and 9%, respectively.

Total Chinese imports of recycled papers - all grades



Major grades imported by China



1 *Source: RISI*

Our Performance

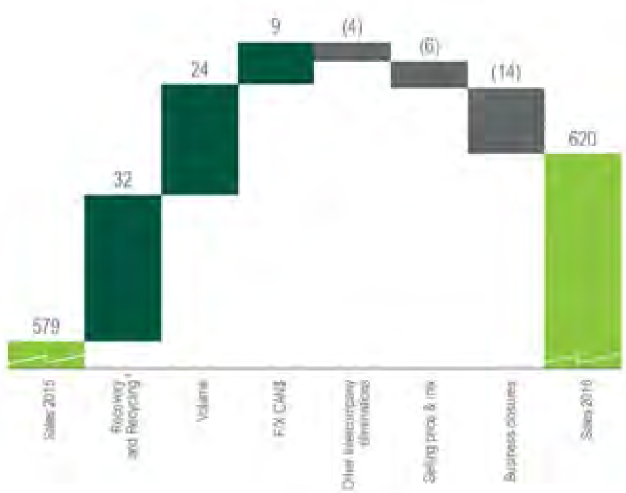
Adjusted OIBD and adjusted OIBD margin

Sales

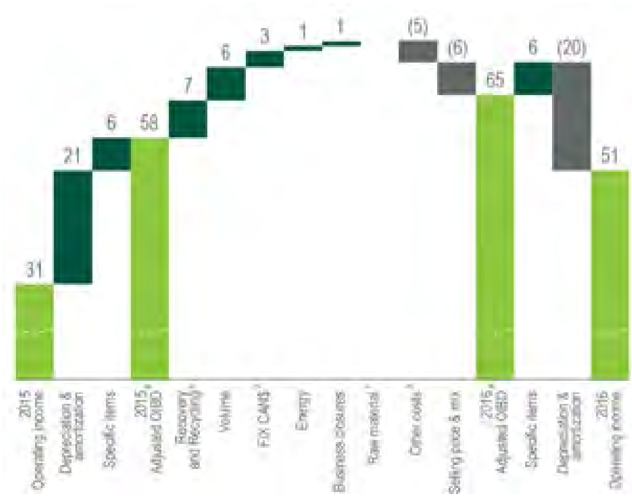
Shipments

The main variances in sales and operating income for the Specialty Products Group in 2016, compared to 2015, are shown below:

Sales ($M)



Operating income ($M)



For Notes 1 to 5, see definitions on page 46.

The Corporation incurred certain specific items in 2016 and 2015 that adversely or positively affected its operating results. Please refer to pages 40 to 42 for reconciliation statements and further details.

	2015	2016	Change in %
Shipments[1] ('000 s.t.)	170	187	10%
Sales ($M)	579	620	7%
Operating income ($M) (as reported)	31	51	65%
Operating income ($M) (adjusted)	37	45	22%
OIBD ($M) (as reported)	52	71	37%
% of sales	9%	11%	
OIBD ($M) (adjusted)	58	65	12%
% of sales	10%	10%	

1 Industrial packaging shipments only. Shipments do not take into account the elimination of business sector inter-company shipments.

2 Recovery and Recycling activities: Given the level of integration of this segment within the other segments of the Corporation, variances in results are presented excluding the impact of this segment. The variations of this segment are presented separately on a global basis.

Shipments for the Specialty Products Group increased in all sectors, with the exception of Recovery and Recycling activities[2]. Shipments in the Industrial Packaging sector, primarily our uncoated recycled board mill, increased by 10% in 2016 compared to 2015.

The 7% year-over-year increase in sales is the result of increased shipments, higher selling prices in Recovery and Recycling activities[2] and the Industrial Packaging sector, and a favourable exchange rate. These positive factors were partly offset by lower average selling prices in the Consumer Product Packaging sector and the loss of revenues following the closure of the mill in Auburn, Maine, in the second quarter of 2016.

Adjusted operating income increased by 22% in 2016. This reflects higher realized spreads (average selling price and raw material costs) in Recovery and Recycling activities[2], improved volumes in all packaging sectors, and a favourable exchange rate. These factors were counterbalanced by higher administrative and maintenance costs during the year as well as a lower average selling price in Consumer Products packaging.

In 2016, the Specialty Products Group recorded a $3 million gain on the sale of pieces of land close to its former fine paper plant located at St-Jérôme, Québec. As well, the Group recorded a $4 million gain on the sale of assets and $1 million in restructuring costs following the closure of its de-inked pulp mill located in Maine, and also recorded a $3 million reversal of impairment following mainly the sale of a building related to this closure. Finally, the Group recorded a $3 million environmental provision related to plants closed in Québec in prior years.

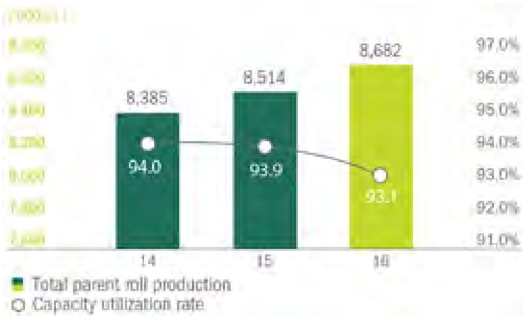
In 2015, the Specialty Products Group reviewed the recoverable value of one of its plants and recorded impairment charges of $10 million on fixed assets and $1 million on spare parts. Also during the year, the Group proceeded with the legal restructuring of its Norcan Flexible Packaging subsidiary, which was owned at 62.1%. As a result of the restructuring, 100% of the net assets of this business were acquired through the Cascades Flexible Packaging subsidiary. The Corporation recorded a gain of $5 million on the extinguishment of some liabilities following the transaction (including $2 million attributable to non-controlling interests).

TISSUE PAPERS

Our Industry

U.S. tissue paper industry production (parent rolls) and capacity utilization rate [1]

Total parent roll production increased by 2% for a second consecutive year in 2016. The average capacity utilization rate fell by approximately 1% to 93% in 2016 compared to 2015, due to new capacity additions in the market.

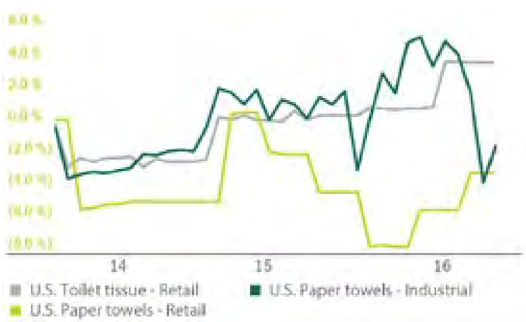


U.S. tissue paper industry converted product shipments [1]

In 2016, shipments for the retail and the away-from-home markets increased by 2% and 3%, respectively, compared to 2015.

U.S. producer price index - annual changes in converted tissue prices [2]

In the U.S., prices for retail toilet tissue increased in the second half of 2016. Prices for industrial paper towels surged at the beginning of the year and then dramatically declined towards year-end. Prices for retail paper towels were down significantly in 2016 compared to 2015.

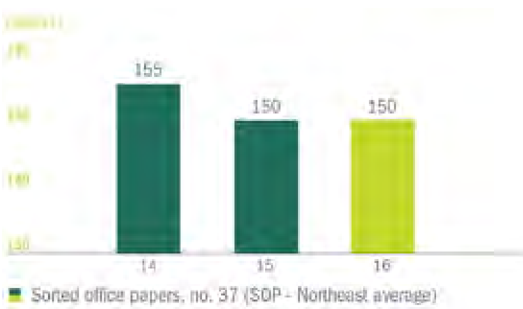


Reference prices - parent rolls [1]

In 2016, the reference price for recycled parent rolls increased by 3% compared to 2015, while the reference price for virgin parent rolls rose by 2% during the year.

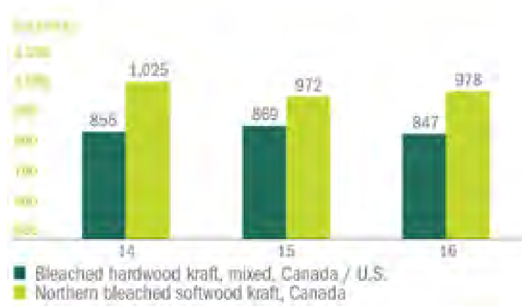
Reference prices - recovered papers (white grade) [1]

Despite an upward trend between May and December caused by lower levels of material generation, the reference price of Sorted office papers no.37 ("SOP") remained stable in 2016 compared to 2015.



Reference prices - market pulp [1]

In 2016, the reference price for NBSK rose by 1% compared to 2015 due to limited domestic supply and strong Chinese demand. The NBHK reference price fell by 3% in 2016 as a result of weak supply and demand fundamentals.



1 *Source: RISI*

2 *Source: U.S. Bureau of Labor Statistics*

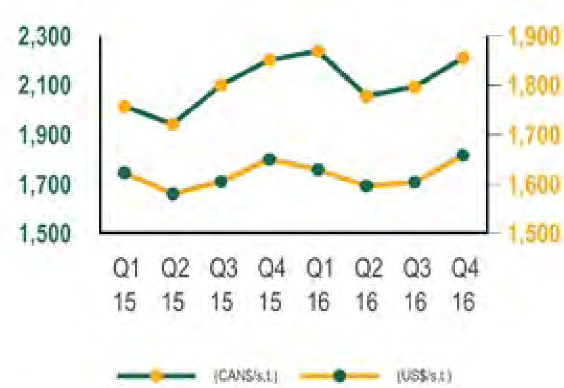
Our Performance

Adjusted OIBD and adjusted OIBD margin

Sales

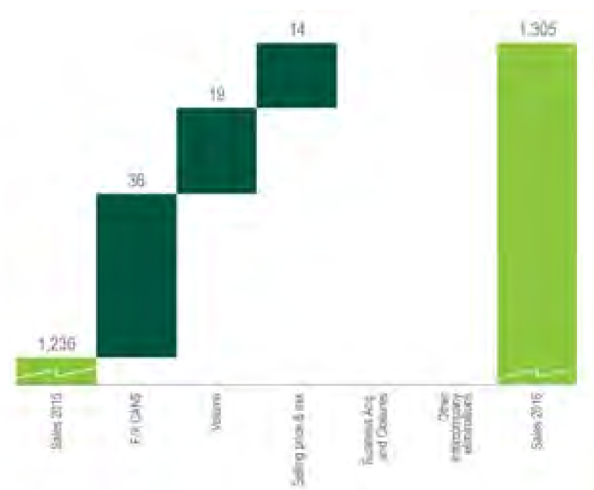
Shipments and manufacturing capacity utilization rate

Average selling price

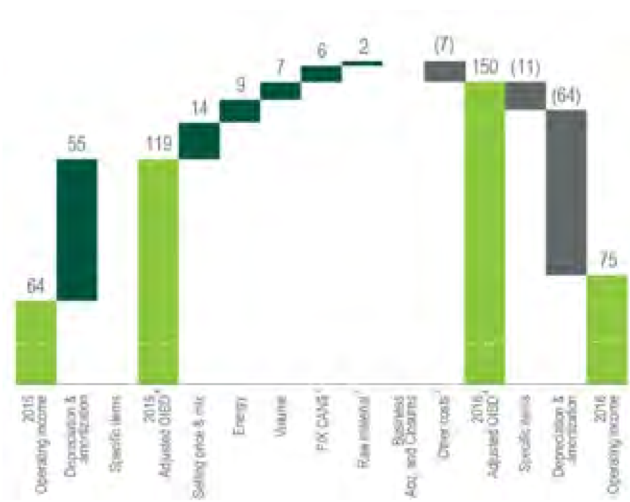


The main variances in sales and operating income for the Tissue Group in 2016, compared to 2015, are shown below:

Sales ($M)



Operating income ($M)



For Notes 1 to 4, see definitions on page 46.

The Corporation incurred certain specific items in 2016 and 2015 that adversely or positively affected its operating results. Please refer to pages 40 to 42 for reconciliation statements and further details.

	2015	2016	Change in %
Shipments[1] ('000 s.t.)	598	608	2%
Average Selling Price (CAN$/unit)	2,065	2,146	4%
Sales ($M)	1,236	1,305	6%
Operating income ($M) (as reported)	64	75	17%
(adjusted)	64	86	34%
OIBD ($M) (as reported)	119	139	17%
% of sales	10%	11%	
(adjusted)	119	150	26%
% of sales	10%	11%	

1 Shipments do not take into account the elimination of business sector inter-company shipments.

External manufacturing shipments decreased by 7,000 s.t., or 3%, in 2016 compared to 2015. Converting shipments increased by 17,000 s.t., or 4%, year-over-year in 2016, with this increase primarily reflecting higher shipments in Canada in both the Away-from-Home and the Consumer Products sectors. Please note that Cascades' Away-from-Home sector product line has been rebranded as "Cascades Pro".

The average selling price was positively impacted by price increases in both the Pro and the Consumer Products sectors, but was partially offset by price decreases in parent rolls.

The increase in total sales was largely driven by a $19 million favourable volume impact, a $14 million beneficial impact related to the change in the mix of products sold, and the higher average selling price as detailed above. In addition, the depreciation of the Canadian dollar against the U.S. dollar positively impacted sales by $36 million.

On an adjusted basis, operating income was largely driven by the sales increase as detailed above. Improved operational efficiency, lower raw material costs stemming from lower purchases of externally sourced jumbo rolls, and reduced energy prices all positively contributed to operating income. These improvements were partially offset by increased marketing investments in both the Consumer Products and Pro markets, project expenses related to the start-up of our new Oregon converting plant, and additional market related downtime at year end.

In 2016, the Tissue Group incurred impairment charges of $4 million related to the revaluation of some equipment following the transfer of the Toronto plant converting operations to other sites. Also related to this closure, the Group recorded a $3 million provision related to an onerous lease contract, and $4 million in severance costs.

CORPORATE ACTIVITIES

Operating income in 2016 includes an unrealized gain of $19 million on financial instruments, in addition to a $6 million foreign exchange loss that is mainly related to hedging contracts. This compares to an unrealized loss of $19 million on financial instruments and a $1 million foreign exchange loss in 2015.

2016 results also include a $2 million loss related to a fire which occurred at our containerboard mill in Mississauga, Ontario, in early July. Comparable 2015 results included $8 million of insurance refunds related to a 2014 fire at our Niagara Falls, New York, containerboard mill. Also in 2015, the company entered into employment contracts with some members of Senior Management, and recorded a liability of $3 million. Finally, in 2015, we incurred $1 million of severance costs related to the reorganization of Corporate activities.

Activities related to our ERP system and business process re-engineering increased our costs in 2016 compared to 2015. These higher costs reflect the implementation of our ERP platform in twice as many plants compared to last year, and costs associated with efforts to optimize several internal processes such as planning, logistics and procurement during the year. These activities are expected to reduce future cost levels, and will require average quarterly investments of approximately $7 million until they are completed at the end of 2017.

STOCK-BASED COMPENSATION EXPENSE

Share-based compensation expense recognized in the Corporate Activities results amounted to $4 million in 2016 compared to $8 million in 2015. For more details on stock-based compensation please refer to Note 20 of the 2016 audited consolidated financial statements.

OTHER ITEMS ANALYSIS

DEPRECIATION AND AMORTIZATION

Depreciation and amortization expense increased by $2 million to $192 million in 2016 from $190 million in 2015. Impairment charges recorded in 2016 and 2015 decreased depreciation and amortization expense for 2016, but were more than offset by the depreciation of the Canadian dollar and capital investments completed during the same period. The 4% and 3% average depreciation of the Canadian dollar against the U.S. dollar and the euro, respectively, increased annual depreciation expense by $2 million in 2016. Recently completed property, plant and equipment projects and the revision of the useful life of some assets mainly explains the increase of depreciation and amortization expense for the Tissue Group by $9 million in 2016 compared to 2015. For the same reasons, the Corporation incurred $11 million of depreciation and amortization expense in 2015.

Other intangible asset amortization expense increased by $4 million in 2016 compared to 2015 as a result of the accelerated ERP platform implementation during the year.

FINANCING EXPENSE AND INTEREST ON EMPLOYEE FUTURE BENEFITS

The financing expense and interest on employee future benefits decreased by $4 million to $93 million in 2016, from $97 million in 2015. The 4% and 3% average depreciation of the Canadian dollar, against the U.S. dollar and the euro, respectively, increased the interest expense by $2 million in 2016 compared to 2015. This was more than offset by the 2015 refinancing of senior notes at lower interest rates (see the "Business Highlights" section for more details), which decreased our interest expense by $3 million in 2016 compared to 2015. Our lower net indebtedness also reduced interest expense.

Interest expense on employee future benefit obligations stood at $5 million in 2016 compared to $6 million in 2015.

PROVISION FOR INCOME TAXES

In 2016, the Corporation recorded an income tax provision of $45 million, for an effective tax rate of 25%. This compared to $40 million in 2015. The provision for income taxes based on the effective income tax rate differs from the provision for (recovery of) income taxes based on the combined basic rate for the following reasons:

(in millions of Canadian dollars)	2016	2015
Provision for (recovery of) income taxes based on the combined basic Canadian and provincial income tax rate	**48**	(4)
Adjustment of provision for (recovery of) income taxes arising from the following:		
Difference in statutory income tax rate of foreign operations	**2**	(4)
Reassessment	**1**	5
Reversal of deferred tax assets on tax losses	**—**	18
Permanent differences - others	**(5)**	7
Change in unrecognized to recognized tax asset in operating losses	**(3)**	—
Tax rates changes	**2**	—
Change in temporary differences	**—**	18
	(3)	44
Provision for income taxes	**45**	40

The Corporation did not record any deferred tax on the $53 million impairment charge related to our Boxboard mill in France during 2015. In addition, deferred tax assets of $18 million were reversed following reassessment of the value of the mill. The tax provision or recovery on foreign exchange gains or losses on long-term debt and related financial instruments, in addition to some share of results of Canadian associates and joint ventures, are calculated at the rate of capital gains.

The Corporation's share of results for our United States-based joint ventures and associates, which are mostly composed of the Greenpac mill, is taxed based on the statutory tax rate. Moreover, as Greenpac is a limited liability company (LLC), partners agreed to account for it as a disregarded entity for tax purposes. As such, income taxes at the United States statutory tax rate are fully integrated into each partners' consolidated income tax provision based on its respective share in the LLC, and no income tax provision is included in Greenpac's net earnings.

The effective tax rate and income taxes are affected by the results of certain subsidiaries and joint ventures located in countries, notably the United States, France and Italy, where the income tax rate is higher than in Canada. The normal effective tax rate is expected to be in the range of 26% to 39%. The weighted-average applicable tax rate was 26.2% in 2016.

SHARE OF RESULTS OF ASSOCIATES AND JOINT VENTURES

The share of results of associates and joint ventures includes our 20.12% interest in Boralex Inc. (“Boralex”), a Canadian public corporation. Boralex is a producer of electricity whose core business is the development and operation of power stations that generate renewable energy, with operations in the Northeastern United States, Canada and France. To finance its acquisition of Enel Green Power France SAS in December 2014, Boralex issued common shares in January 2015, which diluted our participation from 34.23% to 27.44%. In September 2015, Boralex redeemed or converted all of its 6.75% convertible unsecured subordinated debentures. As a result, the Corporation's participation in Boralex decreased from 27.43% to 20.29%.

On January 18, 2017, Boralex proceeded with the closing of its financing following the acquisition of the interest of Enercon Canada Inc in Niagara Region Wind Farm in Southern Ontario, Canada. The acquisition was financed partly through subscription receipts issued in December 2016 and were exchanged for common shares at the closing. Following this transaction, our participation in Boralex now stands at 17.37%.

The Corporation records its 59.7% share of the results of our associate Greenpac mill. In 2016, on an adjusted basis, Greenpac's contribution to our share of results was $23 million compared to $18 million in 2015. No provision for income taxes is included in our Greenpac share of results, as it is a disregarded entity for tax purposes (see the "Provision for income taxes" section above for more details). For more information on specific items, please refer to section "Specific items included in operating income and net earnings".

LIQUIDITY AND CAPITAL RESOURCES

CASH FLOWS FROM OPERATING ACTIVITIES FROM CONTINUING OPERATIONS

Continuing operating activities generated $372 million of operating cash flow in 2016, compared to $284 million in 2015. Changes in non-cash working capital components produced $56 million of liquidity in 2016, versus liquidity requirements of $38 million in 2015. The first half of the year normally requires cash for working capital purposes due to seasonal variations, and prepaid expenses and payments of year-end volume rebates are also more elevated in the first three months of the year. Moreover, inventory build-up normally takes place during the first half of the year in preparation for the seasonally stronger summer. Higher sales in 2016 combined with increased efficiencies of our finance shared services led to good cash inflow in the second half of the year. As at December 31, 2016, working capital as a percentage of LTM sales stands at 11.0% compared to 11.3% as at December 31, 2015.

Cash flow from operating activities from continuing operations, excluding changes in non-cash working capital components, stood at $316 million in 2016, which compared to $322 million in 2015. In 2016, we incurred $8 million of cash cost following the closure of some plants, compared to $2 million in 2015. In 2015, we also incurred $13 million of premium payments associated with the refinancing of long-term debt. This cash flow measurement is relevant to the Corporation's ability to pursue its capital expenditure program and reduce its indebtedness.

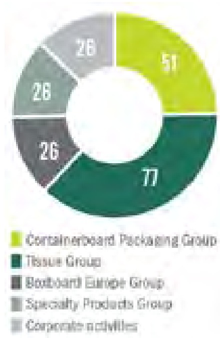
INVESTING ACTIVITIES FROM CONTINUING OPERATIONS

Investment activities amounted to $185 million in 2016, compared to $153 million in 2015. Capital expenditure payments accounted for in 2016 totaled $182 million, compared to $163 million in 2015. We also paid $16 million (including transaction fees) for the acquisition of the Rand-Whitney plant located in Newtown, Connecticut (please refer to the "Business Highlights" section for more details).

PAYMENTS FOR PROPERTY, PLANT AND EQUIPMENT

Total capital expenditure payments in 2016 were $182 million, compared to $163 million in 2015. However, new capital expenditure projects amounted to $206 million in 2016, up 25% compared to the comparable $165 million in 2015. The variance in amounts is related to purchases of property, plant and equipment included in "Trade and Other Payables" and to capital-lease acquisitions and other debt financing.

New capital expenditure projects by sector were as follows (in $M):



The major capital projects that were initiated, are in progress or were completed in 2016 are as follows:

CONTAINERBOARD PACKAGING GROUP

- Converting capacity investments at the Drummondville, Québec, plant;
- Installation of a new water pulp process at the Cabano, Québec, mill to increase the return on wood-chips and reduce chemical usage and atmospheric emissions;
- New rotary equipment at the converting plant in Winnipeg, Manitoba, which will increase efficiency and capacity;

BOXBOARD EUROPE

- Rebuilding of some sections of the equipment at the Arnsberg, Germany, mill, which will increase production capacity, efficiency and savings throughout the production process;

SPECIALTY PRODUCTS GROUP

- A new sorting line for the collection of household and commercial recyclable materials for the Ottawa, Ontario, recovery facility;

TISSUE GROUP

- Investments associated with the new tissue converting plant in Scappoose, Oregon. Please refer to the "Significant Facts and Developments" section for more details;
- Upgrading of equipment at the Wagram, North Carolina, converting plant.

INVESTMENTS IN INTANGIBLE, OTHER ASSETS, ASSOCIATES & JOINT VENTURES

Investments in intangible and other assets and in associated and joint ventures led to cash inflow of $8 million in 2016, compared to an outflow of $6 million in 2015.

In 2016, we received amounts from our associate company Greenpac that were related to a bridge loan from the Corporation, and management fees that were due. In addition, we collected an amount that was no longer required to be held in trust, and also received payments for property, plant and equipment sold in prior years. The amounts received were partly offset by the investments made in our ERP information technology system, for software needed to support our business process re-engineering efforts, and by investments made in our associates companies.

In 2015, similar investments were made in our ERP information technology system and in software to support our business process re-engineering. Amounts were received from our associate company Greenpac related to a bridge loan and management fees that were due to the Corporation. We also received an amount related to the reimbursement of notes receivable from a business that had been sold in 2011.

FINANCING ACTIVITIES FROM CONTINUING OPERATIONS

Financing activities from continuing operations, including $15 million of dividend payments, debt repayment and the change in our revolving facility, required $182 million in liquidity in 2016, compared to $129 million required in 2015.

In 2016, Cascades purchased for cancellation 1,047,243 common shares at an average price of $8.62 representing an aggregate amount of $9 million. We also issued 262,836 common shares and received $1 million in 2016 following options that were exercised and we also paid dividends to non-controlling interests of Reno de Medici for a total amount of $1 million. During the year, the Corporation also received $3 million related to the settlement of a portion of its 2017 derivatives related to repayment of long-term debt.

DEBT REFINANCING

On May 19, 2015, the Corporation issued US$250 million ($305 million) in aggregate principal amount of 5.75% senior notes due in 2023. The Corporation used the proceeds from this offering of notes to repurchase a total of US$250 million aggregate principal amount of 7.875% senior notes due in 2020 for a total consideration of US$250 million ($305 million). The Corporation also paid premiums of US$11 million ($13 million) to repurchase the 2020 notes, as well as fees and expenses in connection with the offering and the tender offer totaling $5 million.

Issuance proceeds and the credit facility were used as follows:

(in millions of Canadian dollars)	2015
Debt issuance	305
Offering and tender offer fees	(5)
Refinanced debt repurchase	(305)
Premium paid on refinanced debt	(13)
Increase of credit facility	18

On July 7, 2015, the Corporation entered into an agreement with its lenders to extend and amend its existing $750 million credit facility. The amendment provides that the term of the facility is extended to July 2019, and that the applicable pricing grid is slightly lowered to better reflect market conditions. Other existing financial conditions remained essentially unchanged.

In 2015, we entered into agreements to acquire the 37.9% and 27% minority interests of Norcan Flexible Packaging and Cascades Recovery, respectively, for a total amount of $5 million paid in 2015. An additionnal $30 million purchase price balance of Cascades Recovery is payable over a ten-year period.

CASH FLOWS FROM DISCONTINUED OPERATIONS

The Corporation generated cash flows of $30 million from discontinued operations in 2015. In 2015, the Containerboard Packaging Group sold its North American boxboard activities and received $40 million and the Specialty Products Group paid $6 million for the settlement of the pension plan of its East Angus, Québec, kraft paper mill closed in 2014. This Group also paid $2 million for the final selling price adjustment related to its fine paper activities sold in 2014 for an amount of $36 million.

CONSOLIDATED FINANCIAL POSITION

AS AT DECEMBER 31, 2016, 2015 AND 2014

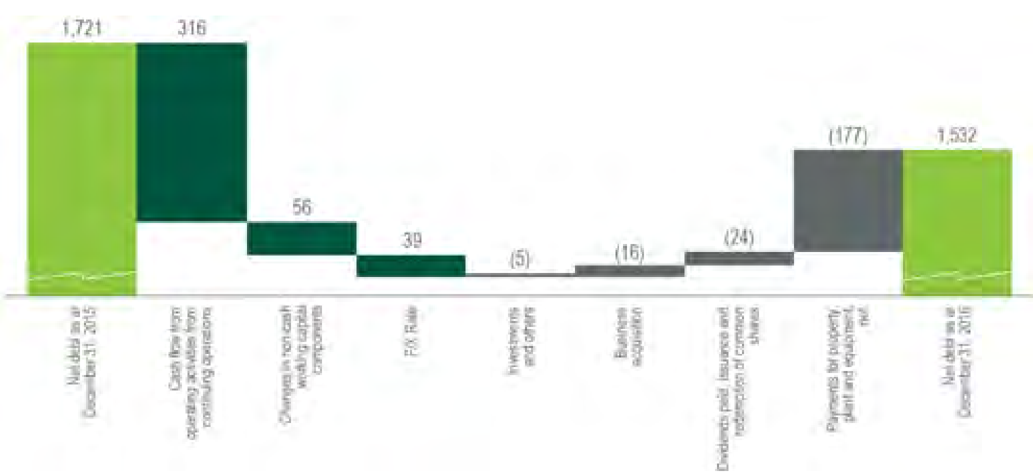
The Corporation's financial position and ratios are as follows:

(in millions of Canadian dollars, unless otherwise noted)	**December 31, 2016**	December 31, 2015	December 31, 2014
Cash and cash equivalents	**62**	60	29
Working capital[1]	**326**	406	379
As a % of sales[2]	**11.0%**	11.3%	12.3%
Bank loans and advances	**28**	37	46
Current portion of long-term debt	**36**	34	40
Long-term debt	**1,530**	1,710	1,556
Total debt	**1,594**	1,781	1,642
Net debt (total debt less cash and cash equivalents)	**1,532**	1,721	1,613
Equity attributable to Shareholders	**984**	867	893
Non-controlling interests	**90**	96	110
Total equity	**1,074**	963	1,003
Total equity and net debt	**2,606**	2,684	2,616
Ratio of net debt/(total equity and net debt)	**58.8%**	64.1%	61.7%
Shareholders' equity per common share (in dollars)	**$ 10.41**	$ 9.09	$ 9.48

1 Working capital includes accounts receivable (excluding the short-term portion of other assets) plus inventories less trade and other payables.
2 % of sales = Average LTM working capital/LTM sales. It includes or excludes significant business acquisitions and disposals, respectively, of the last twelve months. Not adjusted for assets of disposal group classified as held for sale. Not adjusted for discontinued operations.

NET DEBT RECONCILIATION

The variances in the net debt (total debt less cash and cash equivalents) in 2016 are shown below (in millions of dollars), with the applicable financial ratios included (see the “Supplemental Information on Non-IFRS Measures” section for reconciliation of these figures):



426	Adjusted OIBD (last twelve months)	**403**
4.0	Net debt/Adjusted OIBD	**3.8**

Liquidity available via the Corporation's credit facilities, along with the expected cash flow generated by its operating activities, will provide sufficient funds to meet our financial obligations and to fulfill our capital expenditure program for at least the next twelve months. Capital expenditures for 2017 have been budgeted at approximately $200 million. This amount is subject to change, depending on the Corporation's operating results and on general economic conditions. As at December 31, 2016, the Corporation had $647 million (net of letters of credit in the amount of $13 million) available through its $750 million credit facility (excluding our subsidiary Reno de Medici credit facility).

EMPLOYEE FUTURE BENEFITS

The Corporation's employee future benefits assets and liabilities amounted to $460 million and $588 million respectively as at December 31, 2016, including an amount of $106 million for post-retirement benefits other than pension plans. The pension plans include an amount of $61 million, which does not require any funding by the Corporation until it is paid to the employees. This amount is not expected to increase, as the Corporation has reviewed its benefits program to phase out some of them for future retirees.

With regard to pension plans, the Corporation's risk is limited, since all defined benefit pension plans are closed to new employees and less than 10% of its active employees are subject to those pension plans, while the remaining employees are part of the Corporation's defined-contribution plans, such as group RRSPs or 401(k). Based on their balances as at December 31, 2016, 18% of the Corporation pension plans have been evaluated on December 31, 2015 (17% in 2014). Where applicable, Cascades used the measurement relief allowed by law in order to reduce the impact of its increased current contributions.

Considering the assumptions used and the asset ceiling limit, the deficit status for accounting purposes of its pension plans amounted to $22 million as at December 31, 2016, compared to $36 million in 2015. The 2016 pension plan expense was $7 million and the cash outflow was $7 million. Due to the good investment returns in 2016 and the change in the assumptions, the expected expense for these pension plans is $6 million in 2017. As for the cash flow requirements, these pension plans are expected to require a net contribution of approximately $7 million in 2017. Finally, on a consolidated basis, the solvency ratio of the Corporation's pension plans has remained stable at around 100%.

COMMENTS ON THE FOURTH QUARTER OF 2016

Sales increased by $4 million to $979 million in the fourth quarter of 2016, compared to $975 million in the same period of 2015. This reflects higher sales from Recovery and Recycling activities and higher volumes from our containerboard packaging activities. Partially offsetting these increases were lower average selling prices, primarily in our boxboard Europe and containerboard activities.

The Corporation generated operating income of $33 million in the fourth quarter of 2016, an increase of $46 million from the comparable operating loss of $13 million in the same period of 2015. This increase is largely due to the beneficial impact of the $61 million variance in specific items recorded in the both periods.

On an adjusted basis, fourth quarter 2016 operating income stood at $32 million compared to $47 million in the same period of 2015. The decrease is due to higher raw material costs in each business segment, higher repair and maintenance and logistics costs, as well as additional marketing initiatives in our Tissue Papers Group. Lower average selling prices from our boxboard Europe and containerboard activities during the fourth quarter of 2016 also contributed to the reduction in operating income year-over-year. On the other hand, the $7 million decrease in the depreciation and amortization expense in the fourth quarter of 2016 compared to 2015, following major equipment modernization efforts in 2015, which triggered the revaluation of the remaining useful life of some assets, partly offset these factors.

The main specific items, before income taxes, that impacted our fourth quarter 2016 operating income and/or net earnings were:

- a $2 million impairment reversal related to a building sold after the closure of our de-inked pulp mill located in Auburn, Maine
- a $1 million unrealized loss on derivative financial instruments
- a $13 million foreign exchange loss on long-term debt and financial instruments

Adjusted net earnings amounted to $15 million, or $0.16 per share, in the fourth quarter of 2016, compared to net earnings of $22 million, or $0.23 per share, for the same period of 2015. As reported, net earnings stood at $4 million, or $0.04 per share in the fourth quarter of 2016, compared to a net loss of $76 million, or $0.81 per share, for the same period of 2015.

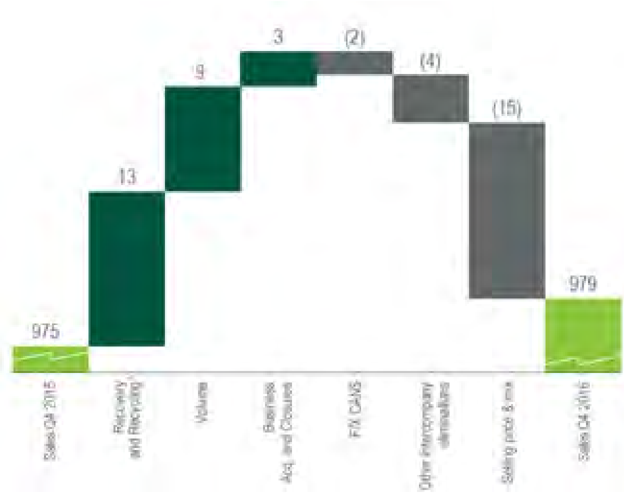
The reconciliation of the specific items included in operating income (loss) by business segment is as follows:

(in millions of Canadian dollars)	Containerboard	Boxboard Europe	Specialty Products	Tissue Papers	Corporate Activities	Consolidated
	For the 3-month period ended December 31, 2016					
Operating income (loss)	**28**	**3**	**14**	**12**	**(24)**	**33**
Depreciation and amortization	**14**	**8**	**5**	**18**	**5**	**50**
Operating income (loss) before depreciation and amortization	**42**	**11**	**19**	**30**	**(19)**	**83**
Specific items :						
Impairment reversal	**—**	**—**	**(2)**	**—**	**—**	**(2)**
Unrealized loss on financial instruments	**1**	**—**	**—**	**—**	**—**	**1**
	1	**—**	**(2)**	**—**	**—**	**(1)**
Adjusted operating income (loss) before depreciation and amortization	**43**	**11**	**17**	**30**	**(19)**	**82**
Adjusted operating income (loss)	**29**	**3**	**12**	**12**	**(24)**	**32**

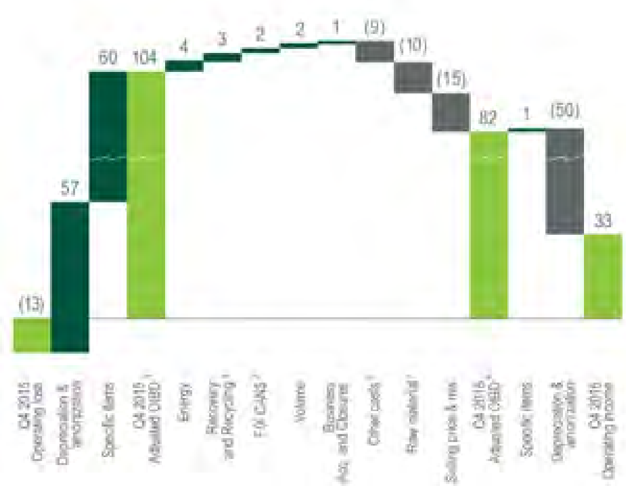
(in millions of Canadian dollars)	Containerboard	Boxboard Europe	Specialty Products	Tissue Papers	Corporate Activities	Consolidated
	For the 3-month period ended December 31, 2015					
Operating income (loss)	32	(51)	11	22	(27)	(13)
Depreciation and amortization	23	9	5	16	4	57
Operating income (loss) before depreciation and amortization	55	(42)	16	38	(23)	44
Specific items :						
Impairment charges	—	55	—	—	2	57
Restructuring gain	—	—	—	—	(1)	(1)
Unrealized loss on financial instruments	1	—	—	—	3	4
	1	55	—	—	4	60
Adjusted operating income (loss) before depreciation and amortization	56	13	16	38	(19)	104
Adjusted operating income (loss)	33	4	11	22	(23)	47

The main variances in sales and operating income (loss) in the fourth quarter of 2016, compared to the same period of 2015, are shown below:

Sales ($M)



Operating income (loss) ($M)



For Notes 1 to 5, see definitions on page 46.

NEAR-TERM OUTLOOK

Looking ahead, we expect near-term financial performance to reflect recent increases in raw material costs and the usual seasonal trends in our business segments. In Europe, favourable order inflow trends at the beginning of 2017, and the recently announced €60 April price increase suggest early signs of improvement in market dynamics compared to the softness seen in 2016. On a segmented basis, we expect the fall 2016 price increase announcement to benefit our Containerboard Packaging division in the first quarter, and to be fully implemented as of the end of the second quarter. However, recent raw material price increases will counterbalance the benefit. We recently announced a second price increase in Containerboard, which should start to take effect in the second quarter, and be fully realized during the second half of the year. In our Tissue Group, the combination of lower marketing costs, recent product repositioning efforts and the beneficial impact of price increases announced in 2016 are expected to support performance going forward. On a positive note, our new Tissue converting facility in Scappoose, Oregon, began operating its first line last month, as planned. The facility will continue ramping up, and will add two new converting lines through the second quarter. Finally, we anticipate our Specialty Products Group to maintain its positive momentum built over the past two years. On the cost side, tight market dynamics, including strong demand, are expected to continue putting pressure on the price of our input materials in the near-term.

Corporate investments are expected to remain elevated through the end of this year. However, we look forward to completing the implementation of our ERP platform and other initiatives undertaken to modernize our internal processes in 2017. In addition, we will continue our efforts to deleverage our balance sheet, and to analyze our strategic options with the view of creating additional value for our shareholders. As always, our strategic efforts will be guided by our commitment to increase operational efficiency, execution and flexibility through targeted investments and growth initiatives.

CAPITAL STOCK INFORMATION

SHARE TRADING

Cascades' stock is traded on the Toronto Stock Exchange under the CAS ticker. From January 1, 2016 to December 31, 2016, Cascades' share price fluctuated between $7.72 and $13.67. During the same period, 43.6 million Cascades' shares were traded on the Toronto Stock Exchange. On December 31, 2016, Cascades shares closed at $12.10. This compares to a closing price of $12.71 on the same day last year.

COMMON SHARES OUTSTANDING

As at December 31, 2016, the Corporation's issued and outstanding capital stock consisted of 94,526,516 common shares (95,310,923 as at December 31, 2015), and 5,093,536 issued and outstanding stock options (5,262,796 as at December 31, 2015). In 2016, the Corporation repurchased for cancellation 1,047,243 common shares, and 262,836 options were exercised. As at March 1, 2017, issued and outstanding capital stock consisted of 94,606,610 common shares and 5,013,442 stock options.

NORMAL COURSE ISSUER BID PROGRAM

The current normal course issuer bid enables the Corporation to purchase for cancellation up to 1,907,173 common shares between March 17, 2016 and March 16, 2017. During the period from March 17, 2016 to March 1, 2017, Cascades purchased and canceled 902,738 common shares at a weighted average price of $8.65 per common share, representing an aggregate amount of approximately $7.8 million.

DIVIDEND POLICY

On March 1, 2017, Cascades' Board of Directors declared a quarterly dividend of $0.04 per share to be paid on April 3, 2017, to shareholders of record at the close of business on March 24, 2017. This $0.04 per share dividend is in-line with the previous quarter and the same quarter last year. On March 1, 2017, dividend yield was 1.2%.

				2015				**2016**
TSX Ticker: CAS	Q1	Q2	Q3	Q4	Q1	Q2	Q3	**Q4**
Common shares outstanding (in millions) 1	94.2	94.4	94.5	95.3	95.4	94.5	94.4	**94.5**
Closing price 1	$ 7.63	$ 7.15	$ 8.61	$ 12.71	$ 8.57	$ 9.15	$ 12.83	**$ 12.10**
Average daily volume 2	171,939	121,917	123,487	218,204	291,483	166,510	118,987	**118,554**
Dividend yield 1	2.1%	2.2%	1.9%	1.3%	1.9%	1.7%	1.2%	**1.3%**

1 On the last day of the quarter.
2 Average daily volume on the Toronto Stock Exchange.

CASCADES' SHARE PRICE FOR THE PERIOD STARTING JANUARY 1, 2015 TO DECEMBER 31, 2016

CONTRACTUAL OBLIGATIONS AND OTHER COMMITMENTS

The Corporation's principal contractual obligations and commercial commitments relate to outstanding debt, operating-leases and obligations for its pension and post-employment benefit plans. The following table summarizes these obligations as at December 31, 2016:

CONTRACTUAL OBLIGATIONS

Payment due by period (in millions of Canadian dollars)	TOTAL	LESS THAN A YEAR	BETWEEN 1-2 YEARS	BETWEEN 2-5 YEARS	OVER 5 YEARS
Long-term debt and capital-leases, including capital and interest	2,011	118	113	624	1,156
Operating leases	65	23	13	20	9
Pension plans and other post-employment benefits[1]	1,096	38	37	119	902
Total contractual obligations	**3,172**	**179**	**163**	**763**	**2,067**

[1] These amounts represent all the benefits payable to current members during the following years and thereafter without limitations. The majority of benefit payments are payable from trustee-administered funds. The difference will come from future investment returns expected on plan assets and future contributions that will be made by the Corporation for services rendered after December 31, 2016.

FACTORING OF ACCOUNTS RECEIVABLE

The Corporation sells its accounts receivable from one of its European subsidiaries through a factoring contract with a financial institution. The Corporation uses factoring of receivables as a source of financing by reducing its working capital requirements. When the receivables are sold, the Corporation removes them from the balance sheet, recognizes the amount received as the consideration for the transfer and records a loss on factoring which is included in Financing expense. As at December 31, 2016, the off-balance sheet impact of the factoring of receivables amounted to $31 million (€22 million). The Corporation expects to continue to sell receivables on an ongoing basis. Should it decide to discontinue this contract, its working capital and bank debt requirements would increase.

TRANSACTIONS WITH RELATED PARTIES

The Corporation has also entered into various agreements with its joint-venture partners, significantly influenced companies and entities that are affiliated with one or more of its directors, for the supply of raw material, including recycled paper, virgin pulp and energy, as well as the supply of unconverted and converted products, and other agreements entered into in the normal course of business. Aggregate sales by the Corporation to its joint-venture partners and other affiliates totaled $240 million and $189 million for 2016 and 2015 respectively. Aggregate sales to the Corporation from its joint-venture partners and other affiliates came to $182 million and $196 million for 2016 and 2015 respectively.

Starting in June 2013, the Corporation entered into a take-or-pay agreement with its associate Greenpac. For a period of eight years, the Corporation has the obligation to purchase a minimum quantity of 340,000 short tons per year from Greenpac. If the Corporation fails to purchase the minimum quantity, it must compensate Greenpac for the lost gross margin on those short tons. Included in related party transaction in Note 29 is the minimum amount to be paid to Greenpac, which corresponds to the potential lost gross margin on 340,000 tons.

CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

A) NEW IFRS ADOPTED

IAS 1 - PRESENTATION OF FINANCIAL STATEMENTS

In December 2014, the IASB issued amendments to IAS 1, Presentation of Financial Statements (IAS 1 amendments). The IAS 1 amendments provide guidance on the application of judgment in the preparation of financial statements and disclosures. The IAS 1 amendments are effective for annual periods beginning on or after January 1, 2016. The application of the standard did not result in significant changes.

B) RECENT IFRS PRONOUNCEMENTS NOT YET ADOPTED

IFRS 15 — REVENUE RECOGNITION

In May 2014, the International Accounting Standards Board (IASB) issued IFRS 15 - Revenue from Contracts with Customers. IFRS 15 replaces all previous revenue recognition standards, including IAS 18 - Revenue, and related interpretations such as IFRIC 13 - Customer Loyalty Programs. The standard sets out the requirements for recognizing revenue. Specifically, the new standard introduces a comprehensive framework with the general principle being that an entity recognizes revenue to depict the transfer of promised goods and services in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard introduces more prescriptive guidance than was included in previous standards and may result in changes in classification and disclosure in addition to changes in the timing of recognition for certain types of revenues. The new standard is effective for annual periods beginning on or after January 1, 2018 with early adoption permitted. At this time, the Corporation is reviewing the impact that this standard will have on its consolidated financial statements.

IFRS 9 — FINANCIAL INSTRUMENTS

In July 2014, the IASB released the final version of IFRS 9, Financial Instruments. This standard addresses classification and measurement of financial assets and replaces the multiple category and measurement models for debt instruments in IAS 39, Financial Instruments: Recognition and Measurement, with a new mixed measurement model having only two categories: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments, and such instruments are recognized either at fair value through profit or loss or at fair value through other comprehensive income. Where such equity instruments are measured at fair value through other comprehensive income, dividends are recognized in profit or loss insofar as they do not clearly represent a return on investment; however, other gains and losses (including impairments) associated with such instruments remain in accumulated comprehensive income indefinitely. Requirements for financial liabilities carry forward existing requirements in IAS 39, except that fair value changes due to credit risk for liabilities designated at fair value through profit and loss would generally be recorded in the statement of other comprehensive income. It also includes guidance on hedge accounting. The standard is effective for annual periods beginning on or after January 1, 2018, with earlier application permitted. The Corporation is currently evaluating the impact of the standard on its consolidated financial statements.

IFRS 16 — LEASES

In January 2016, the IASB released IFRS 16, Leases, which supersedes IAS 17, Leases, and the related interpretations on leases: IFRIC 4, Determining whether an arrangement contains a lease, SIC 15, Operating Leases - Incentives and SIC 27, Evaluating the substance of transactions in the legal form of a lease. The standard is effective for annual periods beginning on or after January 1, 2019, with earlier application permitted for companies that also apply IFRS 15, Revenue from Contracts with Customers. The Corporation is currently evaluating the impact of the standard on its consolidated financial statements. As at December 31, 2016, the Corporation has $65 million of operating lease commitments.

IAS 7 - STATEMENT OF CASH FLOWS

In January 2016, the IASB published amendments to IAS 7, Statement of Cash Flows. The amendments are intended to clarify IAS 7 to improve information provided to users of financial statements about an entity's financing activities. They are effective for annual periods beginning on or after January 1, 2017, with earlier application being permitted. The Corporation is currently evaluating the impact of IAS 7 on its consolidated financial statements.

IAS 12 - INCOME TAXES

In February 2016, the IASB issued amendments to IAS 12, Income Taxes regarding the recognition of deferred tax assets for unrealized losses, effective for annual periods beginning on or after January 1, 2017. The amendments clarify how to account for deferred tax assets related to debt instruments measured at fair value. The Corporation is currently evaluating the impact of these amendments on its consolidated financial statements.

CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities in the financial statements and disclosure of contingencies at the balance sheet date, and the reported amounts of revenues and expenses during the reporting period. On a regular basis and with the information available, Management reviews its estimates, including those related to environmental costs, employee future benefits, collectability of accounts receivable, financial instruments, contingencies, income taxes, useful life and residual value of property, plant and equipment and impairment of property, plant and equipment and intangible assets. Actual results could differ from those estimates. When adjustments become necessary, they are reported in earnings in the period in which they occur.

A. IMPAIRMENT OF LONG-LIVED ASSETS, INTANGIBLE ASSETS AND GOODWILL

In determining the recoverable amount of an asset or a "CGU", the Corporation uses several key assumptions, based on external information on the industry when available, and including estimated production levels, selling prices, volume, raw material costs, foreign exchange rates, growth rates, discounting rates and capital spending.

The Corporation believes its assumptions are reasonable. Based on available information at the assessment date, however these assumptions involve a high degree of judgment and complexity. Management believes that the following assumptions are the most susceptible to change and therefore could impact the valuation of the assets in the next year.

DESCRIPTION OF SIGNIFICANT IMPAIRMENT TESTING ASSUMPTIONS (see Notes 5 and 25 of consolidated financial statements)

GROWTH RATES

The assumptions used were based on the Corporation's internal budget. Revenues, operating margins and cash flows were projected for a period of five years, and a perpetual long-term growth rate was applied thereafter. In arriving at its forecasts, the Corporation considers past experience, economic trends such as gross domestic product growth and inflation, as well as industry and market trends.

DISCOUNT RATES

The Corporation assumed a discount rate in order to calculate the present value of its projected cash flows. The discount rate represents a weighted average cost of capital ("WACC") for comparable companies operating in similar industries of the applicable "CGU," group of "CGUs" or reportable segment, based on publicly available information.

FOREIGN EXCHANGE RATES

When estimating the fair value less cost of disposal, foreign exchange rates are determined using the financial institutions' average forecast for the first two years of forecasting. For the following three years, the Corporation uses the last five years' historical average of the foreign exchange rate. Terminal rate is based on historical data of the last 20 years and adjusted to reflect management's best estimate.

Considering the sensitivity of the key assumptions used, there is measurement uncertainty, since adverse changes in one or a combination of the Corporation's key assumptions could cause a significant change in the carrying amounts of these assets.

B. INCOME TAXES

The Corporation is required to estimate the income taxes in each jurisdiction in which it operates. This includes estimating a value for existing tax losses based on the Corporation's assessment of its ability to use them against future taxable income before they expire. If the Corporation's assessment of its ability to use the tax losses proves inaccurate in the future, more or less of the tax losses might be recognized as assets, which would increase or decrease the income tax expense and, consequently, affect the Corporation's results in the relevant year.

C. EMPLOYEE BENEFITS

The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

The cost of pensions and other retirement benefits earned by employees is actuarially determined using the projected benefit method pro-rated on years of service and Management's best estimate of expected plan investment performance, salary escalations, retirement ages of employees and expected healthcare costs. The accrued benefit obligation is evaluated using the market interest rate at the evaluation date. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty. All assumptions are reviewed annually.

CRITICAL JUDGMENTS IN APPLYING THE CORPORATION'S ACCOUNTING POLICIES

SUBSIDIARIES AND EQUITY ACCOUNTED INVESTMENTS

Significant judgment is applied in assessing whether certain investment structures result in control, joint control or significant influence over the operations of the investment. Management's assessment of control, joint control or significant influence over an investment will determine the accounting treatment for the investment. The Corporation has a 59.7% interest in an associate ("Greenpac"). Greenpac's Shareholders agreement requires a majority of 80% for all decision-making related to relevant activities. Consequently, the Corporation does not have power over relevant activities of Greenpac and its participation is accounted for as an associate.

CONTROLS AND PROCEDURES

EVALUATION OF THE EFFECTIVENESS OF DISCLOSURE CONTROLS AND PROCEDURES, AND INTERNAL CONTROL OVER FINANCIAL REPORTING

The Corporation's President and Chief Executive Officer, and its Vice-President and Chief Financial Officer have designed, or caused to be designed under their supervision, disclosure controls and procedures (DC&P), and internal controls over financial reporting (ICFR) as defined in National Instrument 52-109, “Certification of Disclosure in Issuer's Annual and Interim Filings,” in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

The DC&P have been designed to provide reasonable assurance that material information relating to the Corporation is made known to the President and Chief Executive Officer, and the Vice-President and Chief Financial Officer by others, and that information required to be disclosed by the Corporation in its annual filings, interim filings or other reports filed or submitted by the Corporation under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation. The President and Chief Executive Officer and the Vice-President and Chief Financial Officer have concluded, based on their evaluation, that the Corporation's DC&P were effective as at December 31, 2016, providing reasonable assurance that material information related to the issuer is made known to them by others within the Corporation.

The President and Chief Executive Officer, and the Vice-President and Chief Financial Officer have assessed the effectiveness of the ICFR as at December 31, 2016, based on the control framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 COSO Framework). Based on this assessment, they have concluded that the Corporation’s ICFR were effective as at December 31, 2016 and expect to certify the Corporation’s annual filings with the U.S. Securities and Exchange Commission on Form 40-F, as required by the United States Sarbanes-Oxley Act.

During the quarter ended December 31, 2016, there were no changes to the Corporation's ICFR that materially affected, or are reasonably likely to materially affect, its ICFR.

RISK FACTORS

As part of its ongoing business operations, the Corporation is exposed to certain market risks, including risks ensuing from changes in selling prices for its principal products, costs of raw material, interest rates and foreign currency exchange rates, all of which impact the Corporation's financial position, operating results and cash flows. The Corporation manages its exposure to these and other market risks through regular operating and financing activities and, on a limited basis, through the use of derivative financial instruments. We use these derivative financial instruments as risk management tools, not for speculative investment purposes. The following is a discussion of key areas of business risks and uncertainties that we have identified, and our mitigating strategies. The risk areas below are listed in no particular order, as risks are evaluated based on both severity and probability. Readers are cautioned that the following is not an exhaustive list of all the risks we are exposed to, nor will our mitigation strategies eliminate all risks listed.

a) The markets for some of the Corporation's products tend to be cyclical in nature and prices for some of its products, as well as raw material and energy costs, may fluctuate significantly, which can adversely affect its business, operating results, profitability and financial position.

The markets for some of the Corporation's products, particularly containerboard and boxboard, are cyclical. As a result, prices for these types of products and for its two principal raw material, recycled paper and virgin fibre, have fluctuated significantly in the past and will likely continue to fluctuate significantly in the future, principally due to market imbalances between supply and demand. Demand is heavily influenced by the strength of the global economy and the countries or regions in which Cascades does business, particularly Canada and the United States, the Corporation's two primary markets. Demand is also influenced by fluctuations in inventory levels held by customers and consumer preferences. Supply depends primarily on industry capacity and capacity utilization rates. In periods of economic weakness, reduced spending by consumers and businesses results in decreased demand, which can potentially cause downward price pressure. Industry participants may also, at times, add new capacity or increase capacity utilization rates, potentially causing supply to exceed demand and exerting downward price pressure. Depending on market conditions and related demand, Cascades may have to take market-related downtime. In addition, the Corporation may not be able to maintain current prices or implement additional price increases in the future. If Cascades is unable to do so, its revenues, profitability and cash flows could be adversely affected. In addition, other participants may introduce new capacity or increase capacity utilization rates, which could also adversely affect the Corporation's business, operating results and financial position. Prices for recycled and virgin fibre also fluctuate considerably. The costs of these material present a potential risk to the Corporation's profit margins, in the event that it is unable to pass along price increases to its customers on a timely basis. Although changes in the price of recycled fibre generally correlate with changes in the price of products made from recycled paper, this may not always be the case. If Cascades wasn't able to implement increases in the selling prices for its products to compensate for increases in the price of recycled or virgin fibre, the Corporation's profitability and cash flows would be adversely affected. In addition, Cascades uses energy, mainly natural gas and fuel oil, to generate steam, which it then uses in the production process and to operate machinery. Energy prices, particularly for natural gas and fuel oil, have continued to remain very volatile. Cascades continues to evaluate its energy costs and consider ways to factor energy costs into its pricing. However, should energy prices increase, the Corporation's production costs, competitive position and operating results would be adversely affected. A substantial increase in energy costs would adversely affect the Corporation's operating results and could have broader market implications that could further adversely affect the Corporation's business or financial results.

To mitigate price risk, our strategies include the use of various derivative financial instrument transactions, whereby it sets the price for notional quantities of old corrugated containers, electricity and natural gas.

Additional information on our North American electricity and natural gas hedging programs as at December 31, 2016 is set out below:

NORTH AMERICAN ELECTRICITY HEDGING

	UNITED STATES	CANADA
Electricity consumption	40%	60%
Electricity consumption in a regulated market	56%	65%
% of consumption hedged in a de-regulated market (2016)	23%	—
Average prices (2017 - 2018) (in US$, per KWh)	$ 0.04	—
Fair value as at December 31, 2016 (in millions of CAN$)	$ (1)	—

NORTH AMERICAN NATURAL GAS HEDGING

		UNITED STATES		CANADA
Natural gas consumption		42%		58%
% of consumption hedged (2016)		46%		47%
Average prices (2017 - 2021) (in US$, per mmBTU) (in CAN$, per GJ)	$	3.29	$	3.75
Fair value as at December 31, 2016 (in millions of CAN$)	$	(1)	$	(4)

b) Cascades faces significant competition and some of its competitors may have greater cost advantages or be able to achieve greater economies of scale, or be able to better withstand periods of declining prices and adverse operating conditions, which could negatively affect the Corporation's market share and profitability.

The markets for the Corporation's products are highly competitive. In some of the markets in which Cascades competes, such as tissue papers, it competes with a small number of other producers. In some businesses, such as the containerboard industry, competition tends to be global. In others, such as the tissue industry, competition tends to be regional. In the Corporation's packaging products segment, it also faces competition from alternative packaging materials, such as vinyl, plastic and Styrofoam, which can lead to excess capacity, decreased demand and pricing pressures. Competition in the Corporation's markets is primarily based on price, as well as customer service and the quality, breadth and performance characteristics of its products. The Corporation's ability to compete successfully depends on a variety of factors, including:

- its ability to maintain high plant efficiency, operating rates and lower manufacturing costs
- the availability, quality and cost of raw material, particularly recycled and virgin fibre, and labour, and
- the cost of energy.

Some of the Corporation's competitors may, at times, have lower fibre, energy and labour costs, and less restrictive environmental and governmental regulations to comply with than Cascades. For example, fully integrated manufacturers, or those whose requirements for pulp or other fibre are met fully from their internal sources, may have some competitive advantages over manufacturers that are not fully integrated, such as Cascades, in periods of relatively high raw material pricing, in that the former are able to ensure a steady source of these raw material at costs that may be lower than prices in the prevailing market. In contrast, competitors that are less integrated than Cascades may have cost advantages in periods of relatively low pulp or fibre prices because they may be able to purchase pulp or fibre at prices lower than the costs the Corporation incurs in the production process. Other competitors may be larger in size or scope than Cascades, which may allow them to achieve greater economies of scale on a global basis or to better withstand periods of declining prices and adverse operating conditions. In addition, there has been an increasing trend among the Corporation's customers towards consolidation. With fewer customers in the market for the Corporation's products, the strength of its negotiating position with these customers could be weakened, which could have an adverse effect on its pricing, margins and profitability.

To mitigate competition risk, Cascades' targets are to offer quality products that meet customers' needs at competitive prices and to provide good customer service.

c) Because of the Corporation's international operations, it faces political, social and exchange rate risks that can negatively affect its business, operating results, profitability and financial condition.

Cascades has customers and operations located outside Canada. In 2016, sales outside Canada, in Canadian dollars, represented approximately 61% of the Corporation's consolidated sales, including 39% in the United States. In 2016, 25% of sales from Canadian operations were made to the United States.

The Corporation's international operations present it with a number of risks and challenges, including:

- effective product marketing in other countries
- tariffs and other trade barriers, and
- different regulatory schemes and political environments applicable to the Corporation's operations, in areas such as environmental and health and safety compliance.

In addition, the Corporation's consolidated financial statements are reported in Canadian dollars, while a portion of its sales is made in other currencies, primarily the U.S. dollar and the euro. The variation of the Canadian dollar against the U.S. dollar may adversely or positively affect the Corporation's reported operating results and financial condition. This has a direct impact on export prices and also contributes to the impact on Canadian dollar prices in Canada, because several of the Corporation's product lines are priced in U.S. dollars. As well, a substantial portion of the Corporation's debt is also denominated in currencies other than the Canadian dollar. The Corporation has senior notes outstanding and also some borrowings under its credit facility that are denominated in U.S. dollars and in euros, in the amounts of US$889 million and €73 million respectively as at December 31, 2016.

Moreover, in some cases, the currency of the Corporation's sales does not match the currency in which it incurs costs, which can negatively affect the Corporation's profitability. Fluctuations in exchange rates can also affect the relative competitive position of a particular facility, where the facility faces competition from non-local producers, as well as the Corporation's ability to successfully market its products in export markets. As a result, if the Canadian dollar were to remain permanently strong compared to the U.S. dollar and the euro, it could affect the profitability of the Corporation's facilities, which could lead Cascades to shut down facilities either temporarily or permanently, all of which could adversely affect its business or financial results. To mitigate the risk of currency rises from future commercial transactions, recognized assets and liabilities, and net investments in foreign operations, which are partially covered by purchases and debt, Management has implemented a policy for managing foreign exchange risk against the relevant functional currency.

The Corporation uses various foreign exchange forward contracts and related currency option instruments to anticipate sales net of purchases, interest expenses and debt repayment. Gains or losses from the derivative financial instruments designated as hedges are recorded under "Other comprehensive income (loss)" and are reclassified under earnings in accordance with the hedge items.

Additional information on our North American foreign exchange hedging program is set out below:

NORTH AMERICAN FOREIGN EXCHANGE HEDGING [1]

Sell contracts and currency options on net exposure to $US:	2017	2018
Total amount (in millions of US$)	$ 48 to 92	$ 15 to 40
Estimated % of sales, net of expenses from Canadian operations (excluding subsidiaries with non-controlling interests)	29% to 55%	9% to 24%
Average rate (US$/CAN$)	0.77 to 0.79	0.74 to 0.77
Fair value as at December 31, 2016 (in millions of CAN$)	$ (6)	$ (2)

1 See Note 27 of the audited consolidated financial statements for more details on financial instruments.

d) The Corporation's operations are subject to comprehensive environmental regulations and involve expenditures that may be material in relation to its operating cash flow.

The Corporation is subject to environmental laws and regulations imposed by the various governments and regulatory authorities in all countries in which it operates. These environmental laws and regulations impose stringent standards on the Corporation regarding, among other things:

- air emissions
- water discharges
- use and handling of hazardous materials
- use, handling and disposal of waste, and
- remediation of environmental contamination.

The Corporation is also subject to the U.S. Federal Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA") as well as to other applicable legislation in the United States, Canada and Europe that holds companies accountable for the investigation and remediation of hazardous substances. The Corporation's European subsidiaries and some of our Québec plants are also subject to an emissions market, aimed at reducing worldwide CO_2 emissions. Each unit has been allocated emission rights ("CO_2 quota"). On a calendar-year basis, the Corporation must buy the necessary credits to cover its deficit, on the open market, if its emissions are higher than quota.

The Corporation's failure to comply with applicable environmental laws, regulations or permit requirements may result in civil or criminal fines, penalties or enforcement actions. These may include regulatory or judicial orders enjoining or curtailing operations, or requiring corrective measures, the installation of pollution control equipment or remedial actions, any of which could entail significant expenditures. It is difficult to predict the future development of such laws and regulations, or their impact on future earnings and operations, but these laws and regulations may require capital expenditures to ensure compliance. In addition, amendments to, or more stringent implementation of, current laws and regulations governing the Corporation's operations could have a material adverse effect on its business, operating results or financial position. Furthermore, although Cascades generally tries to plan for capital expenditures relating to environmental and health and safety compliance on an annual basis, actual capital expenditures may exceed those estimates. In such an event, Cascades may be forced to curtail other capital expenditures or other activities. In addition, the enforcement of existing environmental laws and regulations has become increasingly strict.

The Corporation may discover currently unknown environmental problems or conditions in relation to its past or present operations, or may face unforeseen environmental liabilities in the future.

These conditions and liabilities may:

- require site remediation or other costs to maintain compliance or correct violations of environmental laws and regulations, or
- result in governmental or private claims for damage to person, property or the environment.

Either of these could have a material adverse effect on the Corporation's financial condition or operating results.

Cascades may be subject to strict liability and, under specific circumstances, joint and several (solidary) liability for the investigation and remediation of soil, surface and groundwater contamination, including contamination caused by other parties on properties that it owns or operates, and on properties where the Corporation or its predecessors have arranged for the disposal of regulated materials. As a result, the Corporation is involved from time to time in administrative and judicial proceedings and inquiries relating to environmental matters. The Corporation may become involved in additional proceedings in the future, the total amount of future costs and other environmental liabilities of which could be material.

To date, the Corporation is in compliance, in all material respects, with all applicable environmental legislation or regulations. However, we expect to incur ongoing capital and operating expenses in order to achieve and maintain compliance with applicable environmental requirements.

EMISSIONS MARKET

The Corporation is exposed to the emissions trading market and has to hold carbon credits equivalent to its emissions. Depending on circumstances, the Corporation may have to buy credits on the market or could sell some in the future. At short or medium term, these transactions would have no significant effect on the financial position of the Corporation and it is not anticipated that this will change in the future.

e) Cascades may be subject to losses that might not be covered in whole or in part by its insurance coverage.

Cascades carries comprehensive liability, fire and extended coverage insurance on most of its facilities, with policy specifications and insured limits customarily carried in its industry for similar properties. In addition, some types of losses, such as losses resulting from wars, acts of terrorism or natural disasters, are generally not insured because they are either uninsurable or not economically practical. Moreover, insurers have recently become more reluctant to insure against these types of events. Should an uninsured loss or a loss in excess of insured limits occur, Cascades could lose capital invested in that property, as well as the anticipated future revenues derived from the manufacturing activities conducted on that property, while remaining obligated for any mortgage indebtedness or other financial obligations related to the property. Any such loss could adversely affect its business, operating results or financial condition.

To mitigate the risk subject to insurance coverage, the Corporation reviews its strategy annually with the Board of Directors and is seeking different alternatives to achieve more efficient forms of insurance coverage at the lowest costs possible.

f) Labour disputes could have a material adverse effect on the Corporation's cost structure and ability to run its mills and plants.

As at December 31, 2016, the Corporation had nearly 11,000 employees, of whom approximately 9,000 were employees of its Canadian and United States operations. Approximately 28% of the Corporation's Canadian and United States employees are unionized under 27 separate collective bargaining agreements. In addition, in Europe, some of the Corporation's operations are subject to national industry collective bargaining agreements that are renewed on an annual basis. The Corporation's inability to negotiate acceptable contracts with these unions upon expiration of an existing contract could result in strikes or work stoppages by the affected workers, and increased operating costs as a result of higher wages or benefits paid to union members. If the unionized workers were to engage in a strike or another form of work stoppage, Cascades could experience a significant disruption in operations or higher labour costs, which could have a material adverse effect on its business, financial condition, operating results and cash flow. Of the Corporation's 27 collective bargaining agreements in North America, 2 are expired and are currently under negotiation, 6 will expire in 2017 and 6 more will expire in 2018.

The Corporation generally begins the negotiation process several months before agreements are due to expire and is currently in the process of negotiating with the unions where the agreements have expired or will soon expire. However, Cascades may not be successful in negotiating new agreements on satisfactory terms, if at all.

g) Cascades may make investments in entities that it does not control and may not receive dividends or returns from those investments in a timely fashion or at all.

Cascades has established joint ventures, made investments in associates and acquired significant participation in subsidiaries in order to increase its vertical integration, enhance customer service and increase efficiency in its marketing and distribution in the United States and other markets. The Corporation's principal joint ventures, associates and significant participations in subsidiaries are:

- two 50%-owned joint ventures with Sonoco Products Corporation, of which one are in Canada (two plants) and one in the United States (two plants), that produce specialty paper packaging products such as headers, rolls and wrappers;
- a 20.12% interest in Boralex Inc., a Canadian public corporation and a major electricity producer whose core business is the development and operation of power stations that generate renewable energy, with operations in Canada, the North-eastern United States and France.;
- a 57.7%-owned subsidiary, Reno de Medici S.p.A. (RdM), a European manufacturer of recycled boxboard; and
- a 59.7% interest in Greenpac Mill LLC, an American corporation that manufactures a light-weight linerboard made with 100% recycled fibres.

Apart from RdM, Cascades does not have effective control over these entities. The Corporation's inability to control entities in which it invests may affect its ability to receive distributions from these entities or to fully implement its business plan. The incurrence of debt or entrance into other agreements by an entity not under the Corporation's control may result in restrictions or prohibitions on that entity's ability to pay distributions to the Corporation. Even where these entities are not restricted by contract or by law from paying dividends or making distributions to Cascades, the Corporation may not be able to influence the payout or timing of these dividends or distributions. In addition, if any of the other investors in a non-controlled entity fails to observe its commitments, the entity may not be able to operate according to its business plan or Cascades may be required to increase its level of commitment. If any of these events were to transpire, the Corporation's business, operating results, financial condition and ability to make payments on the notes could be adversely affected.

In addition, the Corporation has entered into various shareholder agreements relating to its joint ventures and equity investments. Some of these agreements contain "shotgun" provisions, which provide that if one Shareholder offers to buy all the shares owned by the other parties to the agreement, the other parties must either accept the offer or purchase all the shares owned by the offering Shareholder at the same price and conditions. Some of the agreements also stipulate that, in the event that a Shareholder is subject to bankruptcy proceedings or otherwise defaults on any indebtedness, the non-defaulting parties to that agreement are entitled to invoke the "shotgun" provision or sell their shares to a third party. The Corporation's ability to purchase the other Shareholders' interests in these joint ventures if they were to exercise these "shotgun" provisions could be limited by the covenants in the Corporation's credit facility and the indenture. In addition, Cascades may not have sufficient funds to accept the offer or the ability to raise adequate financing should the need arise, which could result in the Corporation having to sell its interests in these entities or otherwise alter its business plan.

h) Acquisitions have been, and are expected to continue to be, a substantial part of the Corporation's growth strategy, which could expose the Corporation to difficulties in integrating the acquired operation, diversion of management time and resources, and unforeseen liabilities, among other business risks.

Acquisitions have been a significant part of the Corporation's growth strategy. Cascades expects to continue to selectively seek strategic acquisitions in the future. The Corporation's ability to consummate and to effectively integrate any future acquisitions on terms that are favourable to it may be limited by the number of attractive acquisition targets, internal demands on its resources and, to the extent necessary, its ability to obtain financing on satisfactory terms, if at all. Acquisitions may expose the Corporation to additional risks, including:

- difficulty in integrating and managing newly acquired operations, and in improving their operating efficiency
- difficulty in maintaining uniform standards, controls, procedures and policies across all of the Corporation's businesses
- entry into markets in which Cascades has little or no direct prior experience
- the Corporation's ability to retain key employees of the acquired corporation
- disruptions to the Corporation's ongoing business, and
- diversion of management time and resources.

In addition, future acquisitions could result in Cascades' incurring additional debt to finance the acquisition or possibly assuming additional debt as part of it, as well as costs, contingent liabilities and amortization expenses. The Corporation may also incur costs and divert Management's attention for potential acquisitions that are never consummated. For acquisitions Cascades does consummate, expected synergies may not materialize. The Corporation's failure to effectively address any of these issues could adversely affect its operating results, financial condition and ability to service debt, including its outstanding senior notes.

Although Cascades generally performs a due diligence investigation of the businesses or assets that it acquires, and anticipates continuing to do so for future acquisitions, the acquired business or assets may have liabilities that Cascades fails or is unable to uncover during its due diligence investigation and for which the Corporation, as a successor owner, may be responsible. When feasible, the Corporation seeks to minimize the impact of these types of potential liabilities by obtaining indemnities and warranties from the seller, which may in some instances be supported by deferring payment of a portion of the purchase price. However, these indemnities and warranties, if obtained, may not fully cover the liabilities because of their limited scope, amount or duration, or the financial resources of the indemnitor or warrantor, or for other reasons.

i) The Corporation undertakes impairment tests, which could result in a write-down of the value of assets and, as a result, have a material adverse effect.

IFRS requires that Cascades regularly undertake impairment tests of long-lived assets and goodwill to determine whether a write-down of such assets is required. A write-down of asset value as a result of impairment tests would result in a non-cash charge that reduces the Corporation's reported earnings. Furthermore, a reduction in the Corporation's asset value could have a material adverse effect on the Corporation's compliance with total debt-to-capitalization tests under its current credit facilities and, as a result, limit its ability to access further debt capital.

j) Certain Cascades insiders collectively own a substantial percentage of the Corporation's common shares.

Messrs. Bernard, Laurent and Alain Lemaire ("the Lemaires") collectively own 29.8% of the common shares as at December 31, 2016, and there may be situations in which their interests and the interests of other holders of common shares do not align. Because the Corporation's remaining common shares are widely held, the Lemaires may be effectively able to:

- elect all of the Corporation's directors and, as a result, control matters requiring Board approval
- control matters submitted to a Shareholder vote, including mergers, acquisitions and consolidations with third parties, and the sale of all or substantially all of the Corporation's assets, and
- otherwise control or influence the Corporation's business direction and policies.

In addition, the Lemaires may have an interest in pursuing acquisitions, divestitures or other transactions that, in their judgment, could enhance the value of their equity investment, even though the transactions might involve increased risk to the holders of the common shares.

k) If Cascades is not successful in retaining or replacing its key personnel, particularly if the Lemaires do not stay active in the Corporation's business, its business, financial condition or operating results could be adversely affected.

Although Cascades believes that the Lemaires will remain active in the business and that Cascades will continue to be able to attract and retain other talented personnel and replace key personnel should the need arise, competition in recruiting replacement personnel could be significant. Cascades does not carry key-man insurance on the Lemaires or on any other members of its senior management.

l) Risks relating to the Corporation's indebtedness and liquidity.

The significant amount of the Corporation's debt could adversely affect its financial health and prevent it from fulfilling its obligations under its outstanding indebtedness. The Corporation has a significant amount of debt. As at December 31, 2016, it had $1,532 million in outstanding total net debt on a consolidated basis, including capital-lease obligations. The Corporation also had $647 million available under its revolving credit facility. On the same basis, its consolidated ratio of net debt to total equity as of December 31, 2016 was 58.8%. The Corporation's actual financing expense, including interest on employees' future benefits, was $93 million. Cascades also has significant obligations under operating leases, as described in its audited consolidated financial statements that are incorporated by reference herein.

On July 7, 2015, the Corporation entered into an agreement with its lenders to extend and amend its existing $750 million credit facility. The amendment provides that the term of the facility is extended to July 2019, and that the applicable pricing grid is slightly lowered to better reflect market conditions. The other existing financial conditions were essentially unchanged.

On May 19, 2015, the Corporation issued US$250 million ($305 million) in aggregate principal amount 5.75% senior notes due in 2023. The Corporation used the proceeds from this offering of notes to repurchase a total of US$250 million aggregate principal amount of 7.875% senior notes due in 2020 for a total consideration of US$250 million ($305 million). The Corporation also paid premiums of US$11 million ($13 million) to repurchase the 2020 notes as well as fees and expenses in connection with the offering and the tender offer totaling $5 million. The refinancing of these notes reduces future interest expense by approximately US$6 million annually.

The Corporation has outstanding senior notes rated by Moody's Investor Service ("Moody's") and Standard & Poor's ("S&P").

The following table reflects the Corporation's secured debt rating/corporate rating/unsecured debt rating as at the date on which this MD&A was approved by the Board of Directors, and the evolution of these ratings compared to past years:

Credit rating (outlook)	MOODY'S	STANDARD & POOR'S
2004	Ba1/Ba2/Ba3 (stable)	BBB-/BB+/BB+ (negative)
2005 - 2006	Ba1/Ba2/Ba3 (stable)	BB+/BB/BB- (negative)
2007	Baa3/Ba2/Ba3 (stable)	BBB-/BB/BB- (stable)
2008	Baa3/Ba2/Ba3 (negative)	BB+/BB-/B+ (negative)
2009 - 2010	Baa3/Ba2/Ba3 (stable)	BB+/BB-/B+ (stable)
2011	Baa3/Ba2/Ba3 (stable)	BB+/BB-/B+ (positive)
2012	Baa3/Ba2/Ba3 (stable)	BB+/BB-/B+ (negative)
2013	Baa3/Ba2/Ba3 (stable)	BB/B+/B (stable)
2014	Baa3/Ba2/Ba3 (stable)	BB/B+/B+ (stable)
2015	Baa3/Ba2/Ba3 (stable)	BB/B+/B+ (stable)
2016	**Baa3/Ba2/Ba3 (stable)**	**BB+/BB-/BB- (stable)**

This facility is in place with a core group of highly rated international banks. The Corporation may decide to enter into certain derivative instruments to reduce interest rates and foreign exchange exposure.

The Corporation's leverage could have major consequences for holders of its common shares. For example, it could:

- make it more difficult for the Corporation to satisfy its obligations with respect to its indebtedness
- increase the Corporation's vulnerability to competitive pressures and to general adverse economic or market conditions, and require it to dedicate a substantial portion of its cash flow from operations to servicing debt, reducing the availability of its cash flow to fund working capital, capital expenditures, acquisitions and other general corporate purposes
- limit its flexibility in planning for, or reacting to, changes in its business and industry, and
- limit its ability to obtain additional sources of financing.

Cascades may incur additional debt in the future, which would intensify the risks it now faces as a result of its leverage as described above. Even though we are substantially leveraged, we and our subsidiaries will be able to incur substantial additional indebtedness in the future. Although our credit facility and the indentures governing the notes restrict us and our restricted subsidiaries from incurring additional debt, these restrictions are subject to important exceptions and qualifications. If we or our subsidiaries incur additional debt, the risks that we and they now face as a result of our leverage could intensify.

The Corporation's operations are substantially restricted by the terms of its debt, which could limit its ability to plan for or react to market conditions, or to meet its capital needs. The Corporation's credit facilities and the indenture governing its senior notes include a number of significant restrictive covenants. These covenants restrict, among other things, the Corporation's ability to:

- borrow money
- pay dividends on stock or redeem stock or subordinated debt
- make investments
- sell assets, including capital stock in subsidiaries
- guarantee other indebtedness
- enter into agreements that restrict dividends or other distributions from restricted subsidiaries
- enter into transactions with affiliates
- create or assume liens
- enter into sale and leaseback transactions
- engage in mergers or consolidations, and
- enter into a sale of all or substantially all of our assets.

These covenants could limit the Corporation's ability to plan for or react to market conditions, or to meet its capital needs. The Corporation's current credit facility contains other, more restrictive covenants, including financial covenants that require it to achieve certain financial and operating results, and maintain compliance with specified financial ratios. The Corporation's ability to comply with these covenants and requirements may be affected by events beyond its control, and it may have to curtail some of its operations and growth plans to maintain compliance.

The restrictive covenants contained in the Corporation's senior note indenture, along with the Corporation's credit facility, do not apply to its subsidiaries with non-controlling interests.

The Corporation's failure to comply with the covenants contained in its credit facility or its senior note indenture, including as a result of events beyond its control or due to other factors, could result in an event of default that could cause accelerated repayment of the debt. If Cascades is not able to comply with the covenants and other requirements contained in the indenture, its credit facility or its other debt instruments, an event of default under the relevant debt instrument could occur. If an event of default does occur, it could trigger a default under its other debt instruments, Cascades could be prohibited from accessing additional borrowings and the holders of the defaulted debt could declare amounts outstanding with respect to that debt, which would then be immediately due and payable. The Corporation's assets and cash flow may not be sufficient to fully repay borrowings under its outstanding debt instruments. In addition, the Corporation may not be able to re-finance or re-structure the payments on the applicable debt. Even if the Corporation were able to secure additional financing, it may not be available on favourable terms. A significant or prolonged downtime in general business and difficult economic conditions may affect the Corporation's ability to comply with its covenants, and could require it to take actions to reduce its debt or to act in a manner contrary to its current business objectives.

m) Cascades is a holding corporation and depends on its subsidiaries to generate sufficient cash flow to meet its debt service obligations.

Cascades is structured as a holding corporation, and its only significant assets are the capital stock or other equity interests in its subsidiaries, joint ventures and minority investments. As a holding corporation, Cascades conducts substantially all of its business through these entities. Consequently, the Corporation's cash flow and ability to service its debt obligations are dependent on the earnings of its subsidiaries, joint ventures and minority investments, and the distribution of those earnings to Cascades, or on loans, advances or other payments made by these entities to Cascades. The ability of these entities to pay dividends or make other payments or advances to Cascades will depend on their operating results and will be subject to applicable laws and contractual restrictions contained in the instruments governing their debt. In the case of the Corporation's joint ventures, associates and minority investments, Cascades may not exercise sufficient control to cause distributions to itself. Although its credit facility and the indenture, respectively, limit the ability of its restricted subsidiaries to enter into consensual restrictions on their ability to pay dividends and make other payments to the Corporation, these limitations do not apply to its joint ventures, associates or minority investments. The limitations are also subject to important exceptions and qualifications. The ability of the Corporation's subsidiaries to generate cash flow from operations that is sufficient to allow the Corporation to make scheduled payments on its debt obligations will depend on their future financial performance, which will be affected by a range of economic, competitive and business factors, many of which are outside of the Corporation's control. If the Corporation's subsidiaries do not generate sufficient cash flow from operations to satisfy the Corporation's debt obligations, Cascades may have to undertake alternative financing plans, such as re-financing or re-structuring its debt, selling assets, reducing or delaying capital investments, or seeking to raise additional capital. Re-financing may not be possible, and assets may not be able to be sold, or, if they are sold, Cascades may not realize sufficient amounts from those sales. Additional financing may not be available on acceptable terms, if at all, or the Corporation may be prohibited from incurring it, if available, under the terms of its various debt instruments in effect at the time. The Corporation's inability to generate sufficient cash flow to satisfy its debt obligations, or to re-finance its obligations on commercially reasonable terms, would have an adverse effect on its business, financial condition and operating results. The earnings of the Corporation's operating subsidiaries and the amount that they are able to distribute to the Corporation as dividends or otherwise may not be adequate for the Corporation to service its debt obligations.

n) Risks related to the common shares.

The market price of the common shares may fluctuate, and purchasers may not be able to re-sell the common shares at or above the purchase price. The market price of the common shares may fluctuate due to a variety of factors relative to the Corporation's business, including announcements of new developments, fluctuations in the Corporation's operating results, sales of the common shares in the marketplace, failure to meet analysts' expectations, general conditions in all of our segments or the worldwide economy. In recent years, the common shares, the stock of other companies operating in the same sectors and the stock market in general have experienced significant price fluctuations, which have been unrelated to the operating performance of the affected companies. There can be no assurance that the market price of the common shares will not continue to experience significant fluctuations in the future, including fluctuations that are unrelated to the Corporation's performance.

o) Cash-flow and fair-value interest rate risks.

As the Corporation has no significant interest-bearing assets, its earnings and operating cash flows are substantially independent of changes in market interest rates.

The Corporation's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Corporation to a cash-flow interest rate risk. Borrowings issued at a fixed rate expose the Corporation to a fair-value interest rate risk.

p) Credit risk.

Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions. The Corporation reduces this risk by dealing with creditworthy financial institutions.

The Corporation is exposed to credit risk on accounts receivable from its customers. In order to reduce this risk, the Corporation's credit policies include the analysis of a customer's financial position and a regular review of its credit limits. The Corporation also believes that no particular concentration of credit risks exists due to the geographic diversity of its customers and the procedures in place for managing commercial risks. Derivative financial instruments include an element of credit risk, should the counterparty be unable to meet its obligations.

q) Cyber Security

The Corporation relies on information technology to process, transmit and store electronic data in its daily business activities. Any potential information technology security incident as a result of malicious misbehavior or involuntary in nature could have negative repercussions on business activities, intellectual property, operating results and financial position of the Corporation. Cyber security represents a Company-wide challenge and the related risks are part of the corporate risk management program that is presented to the Audit and Finance committee of the Corporation. To limit Corporation exposure to incidents that may affect confidentiality, integrity and availability of information, the Corporation has put in place control measures that are based on industry best practices.

MANAGEMENT'S REPORT
TO THE SHAREHOLDERS OF CASCADES INC.

March 1, 2017

The accompanying consolidated financial statements are the responsibility of the management of Cascades Inc., and have been reviewed by the Audit and Finance Committee, and approved by the Board of Directors.

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board and include certain estimates that reflect Management's best judgment.

The Management of the Corporation is also responsible for all other information included in this Annual Report and for ensuring that this information is consistent with the Corporation's consolidated financial statements and business activities.

The Management of the Corporation is responsible for the design, establishment and maintenance of appropriate internal controls and procedures for financial reporting, to ensure that financial statements for external purposes are fairly presented in conformity with IFRS. Such internal control systems are designed to provide reasonable assurance on the reliability of the financial information and the safeguarding of assets.

Independent auditor and internal auditors have free and independent access to the Audit and Finance Committee, which comprises outside independent directors. The Audit and Finance Committee, which meets regularly throughout the year with members of management and the external and internal auditors, reviews the consolidated financial statements and recommends their approval to the Board of Directors.

The consolidated financial statements have been audited by PricewaterhouseCoopers LLP, whose report is provided below.

Mario Plourde
President and Chief Executive Officer - Kingsey Falls, Canada

Allan Hogg
Vice-President and Chief Financial Officer - Kingsey Falls, Canada

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF CASCADES INC.

March 1, 2017

We have audited the accompanying consolidated financial statements of Cascades Inc. and its subsidiaries, which comprise the consolidated balance sheets as at December 31, 2016 and 2015 and the consolidated statement of earnings (loss), comprehensive income (loss), equity and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS"), and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Cascades Inc. and its subsidiaries as at December 31, 2016 and 2015 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP[1]

Montréal, Canada

[1] *CPA auditor, CA, public accountancy permit No. A126402*

CONSOLIDATED BALANCE SHEETS

(in millions of Canadian dollars)	NOTE	**December 31, 2016**	December 31, 2015
Assets			
Current assets			
Cash and cash equivalents		**62**	60
Accounts receivable	7 and 15	**524**	540
Current income tax assets		**12**	30
Inventories	8 and 15	**477**	494
Financial assets	27	**3**	1
		1,078	1,125
Long-term assets			
Investments in associates and joint ventures	9	**335**	322
Property, plant and equipment	10 and 15	**1,618**	1,608
Intangible assets with finite useful life	11	**171**	174
Financial assets	27	**10**	12
Other assets	12 and 27	**72**	80
Deferred income tax assets	18	**179**	181
Goodwill and other intangible assets with indefinite useful life	11	**350**	346
		3,813	3,848
Liabilities and Equity			
Current liabilities			
Bank loans and advances		**28**	37
Trade and other payables	13	**661**	613
Current income tax liabilities		**1**	1
Current portion of long-term debt	15	**36**	34
Current portion of provisions for contingencies and charges	14	**9**	5
Current portion of financial liabilities and other liabilities	16 and 27	**27**	37
		762	727
Long-term liabilities			
Long-term debt	15	**1,530**	1,710
Provisions for contingencies and charges	14	**34**	34
Financial liabilities	27	**16**	47
Other liabilities	16	**178**	178
Deferred income tax liabilities	18	**219**	189
		2,739	2,885
Equity attributable to Shareholders			
Capital stock	19	**487**	490
Contributed surplus	20	**16**	17
Retained earnings		**512**	387
Accumulated other comprehensive loss	21	**(31)**	(27)
		984	867
Non-controlling interests		**90**	96
Total equity		**1,074**	963
		3,813	3,848

The accompanying notes are an integral part of these consolidated financial statements.

Approved by the Board of Directors

Alain Lemaire
DIRECTOR

Georges Kobrynsky
DIRECTOR

CONSOLIDATED STATEMENTS OF EARNINGS (LOSS)

For the years ended December 31 (in millions of Canadian dollars, except per common share amounts and number of common shares)	NOTE	2016	2015
Sales		**4,001**	3,861
Cost of sales and expenses			
Cost of sales (including depreciation and amortization of $192 million; 2015 — $190 million)	22	**3,380**	3,261
Selling and administrative expenses	22	**402**	360
Gain on acquisitions, disposals and others	24	**(4)**	(1)
Impairment charges and restructuring costs	25	**12**	66
Foreign exchange gain		**(4)**	(6)
Loss (gain) on derivative financial instruments	27	**(6)**	28
		3,780	3,708
Operating income		**221**	153
Financing expense	26	**88**	91
Interest expense on employee future benefits	26	**5**	6
Loss on refinancing of long-term debt	15	**—**	19
Foreign exchange loss (gain) on long-term debt and financial instruments		**(22)**	91
Share of results of associates and joint ventures	9	**(32)**	(37)
Earnings (loss) before income taxes		**182**	(17)
Provision for income taxes	18	**45**	40
Net earnings (loss) from continuing operations including non-controlling interests for the year		**137**	(57)
Net earnings from discontinued operations	5	**—**	1
Net earnings (loss) including non-controlling interests for the year		**137**	(56)
Net earnings attributable to non-controlling interests		**2**	9
Net earnings (loss) attributable to Shareholders for the year		**135**	(65)
Net earnings (loss) from continuing operations per common share			
Basic		**$ 1.42**	$ (0.70)
Diluted		**$ 1.39**	$ (0.70)
Net earnings (loss) per common share			
Basic		**$ 1.42**	$ (0.69)
Diluted		**$ 1.39**	$ (0.69)
Weighted average basic number of common shares outstanding		**94,709,048**	94,384,308
Weighted average number of diluted common shares		**96,877,848**	96,261,484
Net earnings (loss) attributable to Shareholders:			
Continuing operations		**135**	(66)
Discontinued operations	5	**—**	1
Net earnings (loss)		**135**	(65)

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

For the years ended December 31 (in millions of Canadian dollars)	NOTE	2016	2015
Net earnings (loss) including non-controlling interests for the year		**137**	(56)
Other comprehensive income (loss)			
Items that may be reclassified subsequently to earnings			
Translation adjustments	21		
Change in foreign currency translation of foreign subsidiaries		**(33)**	115
Change in foreign currency translation related to net investment hedging activities		**21**	(101)
Cash flow hedges	21		
Change in fair value of foreign exchange forward contracts		**—**	2
Change in fair value of commodity derivative financial instruments		**10**	2
Available-for-sale financial assets		**(2)**	2
Share of other comprehensive income of associates		**—**	14
Provision for (recovery of) income taxes	18	**(6)**	8
		(10)	42
Items that are reclassified to retained earnings			
Actuarial gain on post-employment benefit obligations	17	**11**	25
Income taxes	18	**(3)**	(7)
		8	18
Other comprehensive income (loss)		**(2)**	60
Comprehensive income including non-controlling interests for the year		**135**	4
Comprehensive income (loss) attributable to non-controlling interests for the year		**(4)**	16
Comprehensive income (loss) attributable to Shareholders for the year		**139**	(12)
Comprehensive income (loss) attributable to Shareholders:			
Continuing operations		**139**	(13)
Discontinued operations		**—**	1
Comprehensive income (loss)		**139**	(12)

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF EQUITY

For the year ended December 31, 2016

(in millions of Canadian dollars)	CAPITAL STOCK	CONTRIBUTED SURPLUS	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE LOSS	TOTAL EQUITY ATTRIBUTABLE TO SHAREHOLDERS	NON-CONTROLLING INTERESTS	TOTAL EQUITY
Balance - Beginning of year	**490**	**17**	**387**	**(27)**	**867**	**96**	**963**
Comprehensive income (loss)							
Net earnings	**—**	**—**	**135**	**—**	**135**	**2**	**137**
Other comprehensive income (loss)	**—**	**—**	**8**	**(4)**	**4**	**(6)**	**(2)**
	—	**—**	**143**	**(4)**	**139**	**(4)**	**135**
Dividends	**—**	**—**	**(15)**	**—**	**(15)**	**—**	**(15)**
Stock options	**1**	**—**	**—**	**—**	**1**	**—**	**1**
Issuance of common shares	**1**	**—**	**—**	**—**	**1**	**—**	**1**
Redemption of common shares	**(5)**	**(1)**	**(3)**	**—**	**(9)**	**—**	**(9)**
Dividends paid to non-controlling interests and acquisition of non-controlling interests	**—**	**—**	**—**	**—**	**—**	**(2)**	**(2)**
Balance - End of year	**487**	**16**	**512**	**(31)**	**984**	**90**	**1,074**

For the year ended December 31, 2015

(in millions of Canadian dollars)	CAPITAL STOCK	CONTRIBUTED SURPLUS	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE LOSS	TOTAL EQUITY ATTRIBUTABLE TO SHAREHOLDERS	NON-CONTROLLING INTERESTS	TOTAL EQUITY
Balance - Beginning of year	483	18	454	(62)	893	110	1,003
Comprehensive income (loss)							
Net earnings (loss)	—	—	(65)	—	(65)	9	(56)
Other comprehensive income	—	—	18	35	53	7	60
	—	—	(47)	35	(12)	16	4
Dividends	—	—	(15)	—	(15)	—	(15)
Stock options	2	(1)	—	—	1	—	1
Issuance of common shares	5	—	—	—	5	—	5
Acquisition of non-controlling interests	—	—	(5)	—	(5)	(30)	(35)
Balance - End of year	490	17	387	(27)	867	96	963

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31 (in millions of Canadian dollars)	NOTE	2016	2015
Operating activities from continuing operations			
Net earnings (loss) attributable to Shareholders for the year		**135**	(65)
Net earnings from discontinued operations	5	**—**	(1)
Net earnings (loss) from continuing operations		**135**	(66)
Adjustments for:			
Financing expense and interest expense on employee future benefits	26	**93**	97
Loss on refinancing of long-term debt		**—**	19
Depreciation and amortization		**192**	190
Gain on acquisitions, disposals and others	24	**(4)**	(1)
Impairment charges and restructuring costs	25	**4**	64
Unrealized loss (gain) on derivative financial instruments		**(18)**	18
Foreign exchange loss (gain) on long-term debt and financial instruments		**(22)**	91
Provision for income taxes	18	**45**	40
Share of results of associates and joint ventures	9	**(32)**	(37)
Net earnings attributable to non-controlling interests		**2**	9
Net financing expense paid		**(89)**	(89)
Premium paid on long-term debt refinancing	15	**—**	(13)
Net income taxes received (paid)		**10**	(14)
Dividend received	9	**18**	17
Employee future benefits and others		**(18)**	(3)
		316	322
Changes in non-cash working capital components	26	**56**	(38)
		372	284
Investing activities from continuing operations			
Investments in associates and joint ventures		**(6)**	(2)
Payments for property, plant and equipment		**(182)**	(163)
Proceeds on disposals of property, plant and equipment		**5**	4
Change in intangible and other assets		**14**	8
Business acquisition	6	**(16)**	—
		(185)	(153)
Financing activities from continuing operations			
Bank loans and advances		**(8)**	(14)
Change in revolving credit facilities		**(146)**	(120)
Issuance of senior notes, net of related expenses	15	**—**	300
Repayment of senior notes	15	**—**	(305)
Increase in other long-term debt		**40**	73
Payments of other long-term debt		**(47)**	(48)
Settlement of derivative financial instruments		**3**	—
Issuance of common shares	19	**1**	5
Redemption of common shares	19	**(9)**	—
Dividends paid to non-controlling interests and acquisition of non-controlling interests	9	**(1)**	(5)
Dividends paid to the Corporation's Shareholders	19	**(15)**	(15)
		(182)	(129)
Change in cash and cash equivalents during the year from continuing operations		**5**	2
Change in cash and cash equivalents during the year from discontinued operations	5	**—**	30
Net change in cash and cash equivalents during the year		**5**	32
Currency translation on cash and cash equivalents		**(3)**	(1)
Cash and cash equivalents - Beginning of year		**60**	29
Cash and cash equivalents - End of year		**62**	60

The accompanying notes are an integral part of these consolidated financial statements.

SEGMENTED INFORMATION

The Corporation analyzes the performance of its operating segments based on their operating income before depreciation and amortization, which is not a measure of performance under International Financial Reporting Standards (IFRS); however, the chief operating decision-maker ("CODM") uses this performance measure to assess the operating performance of each reportable segment. Earnings for each segment are prepared on the same basis as those of the Corporation. Intersegment operations are recorded on the same basis as are sales to third parties, which are at fair market value. The accounting policies of the reportable segments are the same as the Corporation's accounting policies described in Note 2.

The Corporation's operating segments are reported in a manner consistent with the internal reporting provided to the CODM. The Chief Executive Officer has authority for resource allocation and management of the Corporation's performance, and is therefore the CODM.

The Corporation's operations are managed in four segments: Containerboard, Boxboard Europe, Specialty Products (which constitutes the Corporation's Packaging Products) and Tissue Papers.

	SALES	
For the years ended December 31 (in millions of Canadian dollars)	**2016**	2015
Packaging Products		
Containerboard	**1,370**	1,301
Boxboard Europe	**796**	825
Specialty Products	**620**	579
Intersegment sales	**(61)**	(55)
	2,725	2,650
Tissue Papers	**1,305**	1,236
Intersegment sales and Corporate activities	**(29)**	(25)
	4,001	3,861

	OPERATING INCOME (LOSS) BEFORE DEPRECIATION AND AMORTIZATION (OIBD)	
For the years ended December 31 (in millions of Canadian dollars)	**2016**	2015
Packaging Products		
Containerboard	**214**	233
Boxboard Europe	**51**	6
Specialty Products	**71**	52
	336	291
Tissue Papers	**139**	119
Corporate	**(62)**	(67)
Operating income before depreciation and amortization	**413**	343
Depreciation and amortization	**(192)**	(190)
Financing expense and interest expense on employee future benefits	**(93)**	(97)
Loss on refinancing of long-term debt	**—**	(19)
Foreign exchange gain (loss) on long-term debt and financial instruments	**22**	(91)
Share of results of associates and joint ventures	**32**	37
Earnings (loss) before income taxes	**182**	(17)

For the years ended December 31 (in millions of Canadian dollars)	PAYMENTS FOR PROPERTY, PLANT AND EQUIPMENT 2016	2015
Packaging Products		
Containerboard	**51**	64
Boxboard Europe	**26**	23
Specialty Products	**26**	14
	103	101
Tissue Papers	**77**	57
Corporate	**26**	7
Total acquisitions	**206**	165
Proceeds on disposals of property, plant and equipment	**(5)**	(4)
Capital-lease acquisitions and included in other debts	**(18)**	(3)
	183	158
Acquisitions of property, plant and equipment included in “Trade and other payables”		
Beginning of year	**19**	20
End of year	**(25)**	(19)
Payments for property, plant and equipment net of proceeds on disposals	**177**	159

(in millions of Canadian dollars)	TOTAL ASSETS December 31, 2016	December 31, 2015
Packaging Products		
Containerboard	**1,285**	1,277
Boxboard Europe	**567**	620
Specialty Products	**336**	330
	2,188	2,227
Tissue Papers	**922**	940
Corporate	**400**	381
Intersegment eliminations	**(37)**	(29)
	3,473	3,519
Investments in associates and joint ventures	**335**	322
Other investments	**5**	7
	3,813	3,848

Information by geographic segment is as follows:

For the years ended December 31 (in millions of Canadian dollars)	**2016**	2015
Sales		
Operations located in Canada		
Within Canada	**1,511**	1,376
To the United States	**505**	542
Offshore	**14**	21
	2,030	1,939
Operations located in the United States		
Within the United States	**1,065**	976
To Canada	**45**	62
Offshore	**2**	6
	1,112	1,044
Operations located in Italy		
Within Italy	**241**	234
Other countries	**140**	149
	381	383
Operations located in other countries		
Within Europe	**399**	426
Other countries	**79**	69
	478	495
	4,001	3,861

(in millions of Canadian dollars)	**December 31, 2016**	December 31, 2015
Property, plant and equipment		
Canada	**830**	838
United States	**505**	464
Italy	**179**	199
Other countries	**104**	107
	1,618	1,608

(in millions of Canadian dollars)	**December 31, 2016**	December 31, 2015
Goodwill, customer relationships and client lists, and other finite and indefinite useful life intangible assets		
Canada	**441**	447
United States	**71**	64
Italy	**9**	9
	521	520

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Tabular amounts in millions of Canadian dollars, except per common share and option amounts and number of common shares and options)

NOTE 1
GENERAL INFORMATION

Cascades Inc. and its subsidiaries (together "Cascades" or the "Corporation") produce, convert and market packaging and tissue products composed mainly of recycled fibres. Cascades Inc. is incorporated and domiciled in Québec, Canada. The address of its registered office is 404, Marie-Victorin Boulevard, Kingsey Falls. Its shares are listed on the Toronto Stock Exchange.

The Board of Directors approved the consolidated financial statements on March 1, 2017.

NOTE 2
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

The Corporation prepares its financial statements in accordance with Canadian generally accepted accounting principles ("GAAP") as set forth in Part 1 of the Chartered Professional Accountants of Canada ("CPA Canada") Handbook – Accounting which incorporates IFRS as issued by the International Accounting Standards Board. The key accounting policies applied in the preparation of these consolidated financial statements are described below. These policies have been consistently applied to all years presented, unless otherwise stated.

BASIS OF MEASUREMENT

The consolidated financial statements have been prepared under the historical cost convention, except for the revaluation of certain financial assets and liabilities, including derivative instruments, which are measured at fair value.

BASIS OF CONSOLIDATION

These consolidated financial statements include the accounts of the Corporation, which include:

A. SUBSIDIARIES

Subsidiaries are all entities over which the Corporation has control, where control is defined as the power to direct decisions about relevant activities. The Corporation does not have any interest in a structured entity. The existence and effect of potential voting rights that are exercisable or convertible are considered when assessing whether the Corporation controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Corporation. They are deconsolidated from the date on which control ceases. Accounting policies of subsidiaries have been changed, where necessary, to ensure consistency with the policies adopted by the Corporation. The purchase method of accounting is used to account for the acquisition of subsidiaries by the Corporation. Results of operations are consolidated commencing on the date of acquisition. The purchase consideration is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. The transaction costs directly attributable to the acquisition are expensed. Identifiable assets acquired, as well as liabilities and contingent liabilities assumed in a business combination, are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interests. The excess of the purchase consideration over the fair value of the Corporation's share of the identifiable net assets acquired is recorded as goodwill. If the purchase consideration is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the consolidated statement of earnings. Intercompany transactions, balances and unrealized gains on transactions between subsidiaries are eliminated.

The following are the principal subsidiaries of the Corporation:

	PERCENTAGE OWNED (%)	JURISDICTION
Cascades Canada ULC	100	Canada
Cascades Recovery Inc.	100	Canada
Cascades USA Inc.	100	Delaware
Cascades Europe S.A.S.	100	France
Reno de Medici S.p.A.	57.7	Italy

B. TRANSACTIONS AND CHANGE IN OWNERSHIP

Acquisitions or disposals of equity interests that do not result in the Corporation obtaining or losing control are treated as equity transactions. When the Corporation obtains or loses control, the revaluation of the previously held interest or the non-controlling interests that results in gains or losses for the Corporation is recognized in the consolidated statement of earnings.

C. ASSOCIATES

Associates are all entities over which the Corporation has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method and are initially recognized at cost. The Corporation's investment from associates includes goodwill identified on acquisition, net of any accumulated impairment loss.

Unrealized gains on transactions between the Corporation and its associates are eliminated to the extent of the Corporation's interest in the associates. Accounting policies of associates have been adjusted where necessary to ensure consistency with the policies adopted by the Corporation. Dilution gains and losses arising in investments in associates are recognized in the consolidated statement of earnings.

The Corporation assesses, at each year-end, whether there is any objective evidence that its interest in associates is impaired. If impaired, the carrying value of the Corporation's share of the underlying assets of associates is written down to its estimated recoverable amount (being the higher of fair value less cost of disposal or value in use) and charged to the consolidated statement of earnings.

D. JOINT VENTURES

A joint venture is an entity in which the Corporation holds a long-term interest and for which it shares joint control over decisions regarding relevant activities. The Corporation reports its interests in joint ventures using the equity method. Accounting policies of joint ventures have been adjusted where necessary to ensure consistency with the policies adopted by the Corporation.

REVENUE RECOGNITION

The Corporation recognizes its sales, which consist of product sales, when it is probable that the economic benefits will flow to the Corporation, the goods are shipped and the significant risks and benefits of ownership are transferred, the amount of revenue can be measured reliably, and collection of the resulting receivable is reasonably assured.

Revenue is measured based on the price specified in the sales contract, net of discounts and estimated returns at the time of sale. Historical experience is used to estimate and provide for discounts and returns. Volume discounts are assessed based on anticipated annual sales.

FINANCIAL INSTRUMENTS AND HEDGING RELATIONSHIPS

Financial assets and financial liabilities are recognized when the Corporation becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Corporation has transferred substantially all risks and rewards of ownership. Financial assets and financial liabilities are offset and the net amount is reported in the consolidated balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

CLASSIFICATION

The Corporation classifies its financial instruments in the following categories: at fair value through profit or loss, held to maturity (“HTM”), loans and receivables, available for sale (“AFS”) and other liabilities. The classification depends on the purpose for which the financial instruments were acquired or issued. Management determines the classification of its financial assets and financial liabilities at initial recognition. Settlement date accounting is used by the Corporation for all financial assets.

A. FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

A financial asset or financial liability is classified in this category if it is acquired principally for the purpose of selling or repurchasing in the short term. Derivatives are also included in this category unless they are designated as hedges. Financial instruments in this category are recognized initially and subsequently at fair value. Transaction costs are expensed in the consolidated statement of earnings. Gains and losses arising from changes in fair value are presented in the consolidated statement of earnings in loss (gain) on acquisition, disposal and others in the period in which they arise. Financial assets and financial liabilities at fair value through profit or loss are classified as current, except for the portion expected to be realized or paid beyond 12 months of the consolidated balance sheet date, which is classified as long-term.

B. HELD TO MATURITY

HTM financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturities, other than loans and receivables, AFS or fair value through profit or loss that the entity has the positive intention and ability to hold to maturity. These financial assets are measured at amortized cost. The Corporation had no HTM financial assets as at December 31, 2016 and 2015.

C. AVAILABLE-FOR-SALE FINANCIAL ASSETS

AFS investments are non-derivative financial assets that are either designated in this category or not classified in any of the other categories. AFS investments are recognized initially at fair value plus transaction costs, and are subsequently carried at fair value. Gains or losses arising from changes in fair value are recognized in the statement of other comprehensive income (loss). AFS investments are classified as long-term, unless the investment matures within 12 months, or Management expects to dispose of them within 12 months.

Interest on AFS investments, calculated using the effective interest method, is recognized in the consolidated statement of earnings as part of financing expense. Dividends on AFS equity instruments are recognized in the consolidated statement of earnings as part of loss (gain) on derivative financial instruments when the Corporation's right to receive payment is established. When an AFS investment is sold or impaired, the accumulated gains or losses are moved from Accumulated other comprehensive income (loss) to the consolidated statement of earnings and included in loss (gain) on derivative financial instruments.

D. LOANS AND RECEIVABLES

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Corporation's loans and receivables comprise accounts receivable, notes receivable from business disposals and cash and cash equivalents. Loans and receivables are initially recognized at fair value. Subsequently, loans and receivables are measured at amortized cost using the effective interest method less a provision for impairment.

E. FINANCIAL LIABILITIES AT AMORTIZED COST

Financial liabilities at amortized cost include bank loans and advances, trade and other payables, and long-term debt. Financial liabilities at amortized cost are initially recognized at the amount required to be paid, less, when material, a discount to reduce the payables to fair value. Subsequently, they are measured at amortized cost using the effective interest method. They are classified as current liabilities if payment is due within 12 months. Otherwise, they are presented as long-term liabilities.

IMPAIRMENT OF FINANCIAL ASSETS

At each report date, the Corporation assesses whether there is objective evidence that a financial asset is impaired. If such evidence exists, the Corporation recognizes an impairment loss, as follows:

i) Financial assets carried at amortized cost: The impairment loss is the difference between the amortized cost of the loan or receivable and the present value of the estimated future cash flows, discounted using the instrument's original effective interest rate. The carrying amount of the asset is reduced by this amount either directly or indirectly through the use of an allowance account.
ii) AFS financial assets: The impairment loss is the difference between the original cost of the asset and its permanent fair value decrease at the measurement date, less any impairment losses previously recognized in the consolidated statement of earnings. This amount represents the cumulative loss in “Accumulated other comprehensive income (loss)” that is reclassified to net earnings (loss).

Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized. Impairment losses on AFS equity instruments are not reversed.

DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

Derivative financial instruments are initially recognized at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and, if so, the nature of the item being hedged. The Corporation designates certain derivative financial instruments as either:

i) hedges of the fair value of recognized assets or liabilities or a firm commitment (fair value hedge);
ii) hedges of a particular risk associated with a recognized asset or liability or a highly probable forecast transaction (cash flow hedge); or
iii) hedges of a net investment in a foreign operation (net investment hedge).

The Corporation formally documents, at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Corporation also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The full fair value of a hedging derivative is classified as a long-term asset or liability when the remaining maturity of the hedged item is more than 12 months and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as current assets or liabilities.

A. FAIR VALUE HEDGE

The periodic change in fair value of the hedging derivative is recorded in net income. The periodic change in the cumulative gain or loss on the hedged item is recorded as an adjustment to its carrying amount on the balance sheet and is also recorded in net income. Hedging ineffectiveness is automatically recorded to net income as the difference between the above amounts recorded in net income. Realized gains and losses on the hedging item, resulting from the difference between the interest payments on the receive leg and the pay leg of the hedging derivative, are recorded on an accrual basis in net income as interest income or expense.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortized to profit or loss over the period to maturity using a recalculated effective interest rate.

B. CASH FLOW HEDGE

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in the statement of other comprehensive income (loss). The gain or loss relating to the ineffective portion is recognized immediately in the consolidated statement of earnings.

Amounts accumulated in equity are reclassified to profit or loss in the period when the hedged item affects profit or loss (for example, when the forecast sale that is hedged takes place). The gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognized in the consolidated statement of earnings on the same line as the hedged item. The gain or loss relating to the ineffective portion is recognized in the consolidated statement of earnings as part of loss (gain) on derivative financial instruments. However, when the forecasted transaction that is hedged results in the recognition of a non-financial asset (for example, inventory or property, plant and equipment), the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset. The deferred amounts are ultimately recognized in Cost of goods sold in the case of inventory or in Depreciation in the case of property, plant and equipment.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognized when the forecast transaction is ultimately recognized in the consolidated statement of earnings. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the consolidated statement of earnings.

C. NET INVESTMENT HEDGE

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognized in the statement of other comprehensive income (loss). The gain or loss relating to the ineffective portion is recognized immediately in the consolidated statement of earnings. Gains and losses accumulated in equity are included in the consolidated statement of earnings when the foreign operation is partially disposed of or sold.

The Corporation also uses cross-currency interest rate swaps to manage the currency fluctuations risk associated with forecasted cash flows in foreign currency. These cross-currency interest rate swaps are designated as foreign exchange hedge of its net investment in foreign operations. The portion of the gains and losses arising from the translation of those derivatives that are determined to be an effective hedge are recognized in Other Comprehensive Income, counterbalancing gains and losses arising from the translation of the Corporation's net investment in its foreign operations.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash on hand, bank balances and short-term liquid investments with original maturities of three months or less.

ACCOUNTS RECEIVABLE

Accounts receivable are initially recognized at fair value and subsequently measured at amortized cost using the effective interest method, less a provision for doubtful accounts that is based on expected collectability.

INVENTORIES

Inventories of finished goods are valued at the lower of cost, determined by either average production cost or retail method, or net realizable value. Inventories of raw material and supplies are valued at the lower of cost or replacement value, which is the best available measure of their net realizable value. Cost of raw material and supplies is determined using the average cost and first-in, first-out methods respectively. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

PROPERTY, PLANT AND EQUIPMENT AND DEPRECIATION

Property, plant and equipment are recorded at cost less accumulated depreciation and net impairment losses, including interest incurred during the construction period of qualifying property, plant and equipment. Repairs and maintenance costs are charged to the consolidated statement of earnings during the period in which they are incurred. Residual values, method of depreciation and useful lives of the assets are reviewed annually and adjusted if appropriate.

Depreciation is calculated on a straight-line basis as follows:

Buildings	Between 10 and 33 years
Machinery and equipment	Between 7 and 30 years
Automotive equipment	Between 5 and 10 years
Other property, plant and equipment	Between 3 and 10 years

GRANTS AND INVESTMENT TAX CREDITS

Grants and investment tax credits for property, plant and equipment are accounted for using the cost reduction method and are amortized to earnings as a reduction of depreciation, using the same basis as that used to depreciate the related property, plant and equipment.

BORROWING COSTS

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use, are added to the cost of those assets, until all the activities necessary to prepare the asset for its intended use are complete. All other borrowing costs are recognized in the consolidated statement of earnings in the period in which they are incurred.

INTANGIBLE ASSETS

Intangible assets consist primarily of customer relationships and client lists, application software and favourable leases. They are recorded at cost less accumulated amortization and impairment losses and amortized on a straight-line basis over the estimated useful lives as follows:

Customer relationships and client lists	Between 2 and 20 years
Other finite-life intangible assets	Between 2 and 20 years
Application software	Between 3 and 10 years
Enterprise Resource Planning (“ERP”)	7 years
Favourable leases	Term of the lease

Expenditure on research activities is recognized as an expense in the period in which it is incurred.

IMPAIRMENT

A. PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS WITH FINITE USEFUL LIFE

At the end of each reporting period, the Corporation assesses whether there is an indicator that the carrying amount of an asset or a group of assets may be higher than its recoverable amount which is described in section C hereunder. For that purpose, assets are grouped at the lowest levels for which there are separately identifiable cash inflows (cash generating units (“CGUs”)).

When the recoverable amount is lower than the carrying amount, the carrying amount is reduced to the recoverable amount. Impairment losses are recorded immediately in the consolidated statement of earnings in the line item Impairment charges and restructuring costs. Impairment losses are evaluated for potential reversals when events or changes in circumstances warrant such consideration. The revalued carrying value is the lower of the estimated recoverable amount and the carrying amount that would have been determined had no impairment loss been recognized and depreciation had been taken previously on the asset or CGU. A reversal of impairment loss is recorded directly in the consolidated statement of earnings in the line item Impairment charges and restructuring costs.

B. GOODWILL AND OTHER INTANGIBLE ASSETS WITH INDEFINITE USEFUL LIFE

Goodwill and other intangible assets with an indefinite useful life are recognized at cost less any accumulated impairment losses. They have an indefinite useful life due to their permanent nature since they are acquired rights or not subject to wear and tear. They are reviewed for impairment annually on December 31 or when an event or a circumstance occurs and indicates that the value could be permanently impaired. Goodwill is allocated to CGUs for the purpose of impairment testing based on the level at which Management monitors it, which is not higher than an operating segment. The allocation is made to CGUs that are expected to benefit from the business combination in which the goodwill and other intangible assets with an indefinite useful life arose. Impairment loss on goodwill is not reversed.

C. RECOVERABLE AMOUNTS

A recoverable amount is the higher of fair value less cost of disposal or value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessment of the time value of money and the risks specific to the asset or CGU. When determining fair value less cost of disposal, the Corporation considers if there is a market price for the asset being evaluated. Otherwise, the Corporation uses the income approach.

LEASES

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the consolidated statement of earnings on a straight-line basis over the term of the lease.

The Corporation leases certain property, plant and equipment. Leases of property, plant and equipment for which the Corporation has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalized at the lease's commencement at the lower of the fair value of the leased property or the present value of the minimum lease payments. Property, plant and equipment acquired under a finance lease are depreciated over the shorter of the estimated useful life of the asset or the lease term using the straight-line method. Each lease payment is allocated between the liability and the financing expense so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of financing expense, are included in long-term debt.

PROVISIONS FOR CONTINGENCIES AND CHARGES

Provisions for contingencies include mainly legal and other claims. A provision is recognized when the Corporation has a legal or constructive obligation as a result of a past event and it is probable that settlement of the obligation will require a financial payment or cause a financial loss, and a reliable estimate of the amount of the obligation can be made.

If some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recorded in the consolidated balance sheet as a separate asset, but only if it is virtually certain that the reimbursement will be received.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognized as a financing expense.

ENVIRONMENTAL RESTORATION OBLIGATIONS AND ENVIRONMENTAL COSTS

An obligation to incur restoration and environmental costs arises when environmental disturbance is caused by the development or ongoing production of a plant or landfill site. Such costs arising from the installation of a plant and other site preparation work are provided for and capitalized at the start of each project, or as soon as the obligation to incur such costs arises. Decommissioning costs are recorded at the estimated amount at which the obligation could be settled at the consolidated balance sheet date, and are charged against profit over the life of the operation, through the depreciation of the asset and the unwinding of the discount on the provision. The discount rate is the pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. Costs for restoring subsequent site damage which is created on an ongoing basis during production are provided for at their present values and charged against profit as the obligation arises.

Changes in the measurement of a liability relating to the decommissioning of a plant or other site preparation work which result from changes in the estimated timing or amount of the cash flow, or a change in the discount rate, are added to, or deducted from, the cost of the related asset in the current year. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognized immediately in the consolidated statement of earnings. If the asset value is increased and there is an indication that the revised carrying value is not recoverable, an impairment test is performed in accordance with the accounting policy for impairment testing.

LONG-TERM DEBT

Long-term debt is recognized initially at fair value, net of financing costs incurred. Long-term debt is subsequently carried at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the consolidated statement of earnings over the period of the term of the debt using the effective interest method.

Financing costs paid on establishment of the revolving credit facility are recognized as deferred financing costs and amortized on a straight-line basis over the anticipated period of the credit facility.

EMPLOYEE BENEFITS

The Corporation offers funded and unfunded defined benefit pension plans, defined contribution pension plans and group registered retirement savings plans ("RRSP") that provide retirement benefit payments for most of its employees. The defined benefit pension plans are usually contributory and are based on the number of years of service and, in most cases, the average salaries or compensation at the end of a career. Retirement benefits are not adjusted based on inflation. The Corporation also offers its employees some post-employment benefit plans, such as a retirement allowance, group life insurance and medical and dental plans. However, these benefits, other than pension plans, are not funded. Furthermore, the medical and dental plans upon retirement are being phased out and are no longer offered to the majority of new retirees, and the retirement allowance is not offered to those who do not meet certain criteria.

The liability recognized in the consolidated balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated at least every three years by independent actuaries using the projected unit credit method, and updated regularly by management for any material transactions and changes in circumstances, including changes in market prices and interest rates up to the end of the reporting period.

As well, when an asset is recorded for a pension plan, its carrying value cannot be greater than the future economic benefit that the Corporation will get from the asset. The future economic benefit includes the suspension of contribution if the pension plan provisions allow for it under the minimum funding requirements. When there is a minimum funding requirement, it can increase the liability recorded. All special contributions legally required to fund a plan deficit are considered. For plans for which an actuarial evaluation is required as at December 31, 2016, a schedule of contributions is estimated to establish the minimum funding requirement. For other plans, we have used contributions from the most recent actuarial report.

Actuarial gains and losses that arise in calculating the present value of the defined benefit obligation and the fair value of plan assets are recorded in the statement of other comprehensive income (loss) and recognized immediately in retained earnings without recycling to the consolidated statement of earnings. Past service costs are recognized immediately in the consolidated statement of earnings.

When restructuring a plan results in a curtailment and settlement occurring at the same time, the curtailment is accounted for before the settlement.

Interest costs on pension and other post-employment benefits are recognized in the consolidated statement of earnings as Interest expense on employee future benefits. The measurement date of employee future benefit plans is December 31 of each year. An actuarial evaluation is performed at least every three years. Based on their balances as at December 31, 2016, 18% of the plans were evaluated on December 31, 2015 (17% in 2014).

INCOME TAXES

The Corporation uses the liability method to recognize deferred income taxes. According to this method, deferred income taxes are determined using the difference between the accounting and tax bases of assets and liabilities. Deferred income tax assets and liabilities are measured using enacted or substantively enacted tax rates at the consolidated balance sheet date that are expected to apply when the deferred income taxes are expected to be recovered or settled. Deferred income tax assets are recognized when it is probable that the asset will be realized.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

FOREIGN CURRENCY TRANSLATION

Items included in the financial statements of each of the Corporation's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Canadian dollars, which is Cascades' functional currency.

A. FOREIGN CURRENCY TRANSACTIONS

Transactions denominated in currencies other than the business unit's functional currency are recorded at the rate of exchange prevailing at the transaction date. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange prevailing at the consolidated balance sheet date. Unrealized gains and losses on translation of monetary assets and liabilities are reflected in the consolidated statement of earnings for the year.

B. FOREIGN OPERATIONS

The assets and liabilities of foreign operations are translated into Canadian dollars at the exchange rate prevailing at the consolidated balance sheet date. Revenues and expenses are translated at the average monthly exchange rate. Translation gains or losses are deferred and included in Accumulated other comprehensive income.

SHARE-BASED PAYMENTS

The Corporation uses the fair value method of accounting for stock-based compensation awards granted to officers and key employees. This method consists in recording expenses to earnings based on the vesting period of each tranche of options granted. The fair value of each tranche is calculated based on the Black-Scholes option pricing model. This model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. When stock options are exercised, any considerations paid by employees, as well as the related stock-based compensation, are credited to capital stock.

DIVIDEND DISTRIBUTION

Dividend distribution to the Corporation's Shareholders is recognized as a liability in the consolidated financial statements in the period in which the dividends are approved by the Corporation's Board of Directors.

EARNINGS PER COMMON SHARE

Basic earnings per common share are determined using the weighted average number of common shares outstanding during the period. Diluted earnings per common share are determined by adjusting the weighted average number of common shares outstanding for dilutive instruments, which are primarily stock options, using the treasury stock method to evaluate the dilutive effect of stock options. Under this method, instruments with a dilutive effect, which is when the average market price of a share for the period exceeds the exercise price, are considered to have been exercised at the beginning of the period and the proceeds received are considered to have been used to redeem common shares of the Corporation at the average market price for the period.

NOTE 3
CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

A) NEW IFRS ADOPTED

IAS 1 - PRESENTATION OF FINANCIAL STATEMENTS

In December 2014, the IASB issued amendments to IAS 1, Presentation of Financial Statements (IAS 1 amendments). The IAS 1 amendments provide guidance on the application of judgment in the preparation of financial statements and disclosures. The IAS 1 amendments are effective for annual periods beginning on or after January 1, 2016. The application of the standard did not result in significant changes.

B) RECENT IFRS PRONOUNCEMENTS NOT YET ADOPTED

IFRS 15 — REVENUE RECOGNITION

In May 2014, the International Accounting Standards Board (IASB) issued IFRS 15 - Revenue from Contracts with Customers. IFRS 15 replaces all previous revenue recognition standards, including IAS 18 - Revenue, and related interpretations such as IFRIC 13 - Customer Loyalty Programs. The standard sets out the requirements for recognizing revenue. Specifically, the new standard introduces a comprehensive framework with the general principle being that an entity recognizes revenue to depict the transfer of promised goods and services in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard introduces more prescriptive guidance than was included in previous standards and may result in changes in classification and disclosure in addition to changes in the timing of recognition for certain types of revenues. The new standard is effective for annual periods beginning on or after January 1, 2018 with early adoption permitted. At this time, the Corporation is reviewing the impact that this standard will have on its consolidated financial statements.

IFRS 9 — FINANCIAL INSTRUMENTS

In July 2014, the IASB released the final version of IFRS 9, Financial Instruments. This standard addresses classification and measurement of financial assets and replaces the multiple category and measurement models for debt instruments in IAS 39, Financial Instruments: Recognition and Measurement, with a new mixed measurement model having only two categories: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments, and such instruments are recognized either at fair value through profit or loss or at fair value through other comprehensive income. Where such equity instruments are measured at fair value through other comprehensive income, dividends are recognized in profit or loss insofar as they do not clearly represent a return on investment; however, other gains and losses (including impairments) associated with such instruments remain in accumulated comprehensive income indefinitely. Requirements for financial liabilities carry forward existing requirements in IAS 39, except that fair value changes due to credit risk for liabilities designated at fair value through profit and loss would generally be recorded in the statement of other comprehensive income. It also includes guidance on hedge accounting. The standard is effective for annual periods beginning on or after January 1, 2018, with earlier application permitted. The Corporation is currently evaluating the impact of the standard on its consolidated financial statements.

IFRS 16 — LEASES

In January 2016, the IASB released IFRS 16, Leases, which supersedes IAS 17, Leases, and the related interpretations on leases: IFRIC 4, Determining whether an arrangement contains a lease, SIC 15, Operating Leases - Incentives and SIC 27, Evaluating the substance of transactions in the legal form of a lease. The standard is effective for annual periods beginning on or after January 1, 2019, with earlier application permitted for companies that also apply IFRS 15, Revenue from Contracts with Customers. The Corporation is currently evaluating the impact of the standard on its consolidated financial statements. As at December 31, 2016, the Corporation has $65 million of operating lease commitments.

IAS 7 - STATEMENT OF CASH FLOWS

In January 2016, the IASB published amendments to IAS 7, Statement of Cash Flows. The amendments are intended to clarify IAS 7 to improve information provided to users of financial statements about an entity's financing activities. They are effective for annual periods beginning on or after January 1, 2017, with earlier application being permitted. The Corporation is currently evaluating the impact of IAS 7 on its consolidated financial statements.

IAS 12 - INCOME TAXES

In February 2016, the IASB issued amendments to IAS 12, Income Taxes regarding the recognition of deferred tax assets for unrealized losses, effective for annual periods beginning on or after January 1, 2017. The amendments clarify how to account for deferred tax assets related to debt instruments measured at fair value. The Corporation is currently evaluating the impact of these amendments on its consolidated financial statements.

NOTE 4
CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities in the financial statements and disclosure of contingencies at the balance sheet date, and the reported amounts of revenues and expenses during the reporting period. On a regular basis and with the information available, Management reviews its estimates, including those related to environmental costs, employee future benefits, collectability of accounts receivable, financial instruments, contingencies, income taxes, useful life and residual value of property, plant and equipment and impairment of property, plant and equipment and intangible assets. Actual results could differ from those estimates. When adjustments become necessary, they are reported in earnings in the period in which they occur.

A. IMPAIRMENT OF LONG-LIVED ASSETS, INTANGIBLE ASSETS AND GOODWILL

In determining the recoverable amount of an asset or a "CGU", the Corporation uses several key assumptions, based on external information on the industry when available, and including estimated production levels, selling prices, volume, raw material costs, foreign exchange rates, growth rates, discounting rates and capital spending.

The Corporation believes its assumptions are reasonable. Based on available information at the assessment date, however these assumptions involve a high degree of judgment and complexity. Management believes that the following assumptions are the most susceptible to change and therefore could impact the valuation of the assets in the next year.

DESCRIPTION OF SIGNIFICANT IMPAIRMENT TESTING ASSUMPTIONS (see Notes 5 and 25 of consolidated financial statements)

GROWTH RATES

The assumptions used were based on the Corporation's internal budget. Revenues, operating margins and cash flows were projected for a period of five years, and a perpetual long-term growth rate was applied thereafter. In arriving at its forecasts, the Corporation considers past experience, economic trends such as gross domestic product growth and inflation, as well as industry and market trends.

DISCOUNT RATES

The Corporation assumed a discount rate in order to calculate the present value of its projected cash flows. The discount rate represents a weighted average cost of capital ("WACC") for comparable companies operating in similar industries of the applicable "CGU," group of "CGUs" or reportable segment, based on publicly available information.

FOREIGN EXCHANGE RATES

When estimating the fair value less cost of disposal, foreign exchange rates are determined using the financial institutions' average forecast for the first two years of forecasting. For the following three years, the Corporation uses the last five years' historical average of the foreign exchange rate. Terminal rate is based on historical data of the last 20 years and adjusted to reflect management's best estimate.

Considering the sensitivity of the key assumptions used, there is measurement uncertainty, since adverse changes in one or a combination of the Corporation's key assumptions could cause a significant change in the carrying amounts of these assets.

B. INCOME TAXES

The Corporation is required to estimate the income taxes in each jurisdiction in which it operates. This includes estimating a value for existing tax losses based on the Corporation's assessment of its ability to use them against future taxable income before they expire. If the Corporation's assessment of its ability to use the tax losses proves inaccurate in the future, more or less of the tax losses might be recognized as assets, which would increase or decrease the income tax expense and, consequently, affect the Corporation's results in the relevant year.

C. EMPLOYEE BENEFITS

The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

The cost of pensions and other retirement benefits earned by employees is actuarially determined using the projected benefit method pro-rated on years of service and Management's best estimate of expected plan investment performance, salary escalations, retirement ages of employees and expected healthcare costs. The accrued benefit obligation is evaluated using the market interest rate at the evaluation date. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty. All assumptions are reviewed annually.

CRITICAL JUDGMENTS IN APPLYING THE CORPORATION'S ACCOUNTING POLICIES

SUBSIDIARIES AND EQUITY ACCOUNTED INVESTMENTS

Significant judgment is applied in assessing whether certain investment structures result in control, joint control or significant influence over the operations of the investment. Management's assessment of control, joint control or significant influence over an investment will determine the accounting treatment for the investment. The Corporation has a 59.7% interest in an associate ("Greenpac"). Greenpac's Shareholders agreement requires a majority of 80% for all decision-making related to relevant activities. Consequently, the Corporation does not have power over relevant activities of Greenpac and its participation is accounted for as an associate.

NOTE 5
DISCONTINUED OPERATIONS AND DISPOSALS

CONSOLIDATED NET EARNINGS FROM DISCONTINUED OPERATIONS

(in millions of Canadian dollars)	2016	2015
Condensed net earnings from discontinued operations	—	1
Condensed net earnings from discontinued operations per common share		
Basic and diluted	—	$ 0.01

CONSOLIDATED CASH FLOW FROM DISCONTINUED OPERATIONS

(in millions of Canadian dollars)	2016	2015
Consolidated cash flow from discontinued operations		
Cash flow from (used for):		
Operating activities	—	(14)
Investing activities	—	45
Financing activities	—	(1)
	—	30

Containerboard Packaging Group

On December 11, 2014, the Containerboard Packaging Group announced that it had reached an agreement for the sale of its boxboard activities in North America to Graphic Packaging Holding Company. The sale was completed on February 4, 2015, and the Corporation received $46 million in the first quarter. A selling price adjustment of $8 million was agreed on, of which $6 million was paid in 2015. The Corporation recorded a loss of $4 million 2015.

The Containerboard Packaging Group also recorded a $4 million gain in the first quarter of 2015 on the reversal of a post-employment benefit liability, which was not part of the boxboard activities transaction, but settled as a consequence of the sale.

Assets and liabilities of the North American Boxboard activities at the time of disposal were as follows:

BUSINESS SEGMENT	CONTAINERBOARD PACKAGING
	North American Boxboard Activities
(in millions of Canadian dollars)	
Accounts receivable	27
Inventories	27
Property, plant and equipment	19
Other assets	3
Total assets	76
Trade and other payables	28
Other liabilities	6
Total liabilities	34
	42
Loss on disposal before tax	(4)
Selling price adjustment liability as at December 31, 2015	2
Total consideration received	40

The operating results and cash flow from these activities are presented as discontinued operations.

(in millions of Canadian dollars)	**2016**	2015
Results of the discontinued operations of North American boxboard activities		
Sales, net of intercompany transactions	—	24
Cost of sales and expenses (excluding depreciation and amortization), net of intercompany transactions	—	22
Selling and administrative expenses	—	3
Loss on acquisitions, disposals and others	—	4
Impairment charges and restructuring gain	—	(4)
Foreign exchange gain	—	(1)
Net earnings from discontinued operations	—	—

(in millions of Canadian dollars)	**2016**	2015
Net cash flow of discontinued operations of North American boxboard activities		
Cash flow from :		
Investing activities	—	40

Boxboard Europe Group

On June 15, 2014, following the announcement made in 2013, the Corporation definitively ceased the operation of its virgin boxboard mill located in Sweden.

The operating results from this activity are nil while cash flows are presented as discontinued operations.

(in millions of Canadian dollars)	**2016**	2015
Net cash flow of the discontinued operations of Swedish virgin boxboard activities		
Cash flow from (used for):		
Operating activities	—	(4)
Investing activities	—	1
	—	(3)

Specialty Products Group

On June 30, 2014, we sold our fine papers activities of the Specialty Products Group to Les Entreprises Rolland, a subsidiary of H.I.G. Capital.

The Corporation finalized the working capital selling price adjustment related to this transaction and recorded a $1 million gain in 2015 by reducing its final selling price adjustment provision to $2 million. In 2015, the Corporation also sold a piece of land that was not part of the transaction and recorded a $1 million reversal of impairment.

On September 26, 2014, we ceased the operation of our kraft papers manufacturing activities of the Specialty Products Group located in East Angus, Québec. In 2015, the Group paid $6 million for the settlement of the pension plan.

The operating results and cash flows from these activities, which constituted the specialty papers sectors, are presented as discontinued operations.

(in millions of Canadian dollars)	**2016**	2015
Results of the discontinued operations of specialty papers sector		
Selling and administrative expenses	—	2
Gain on acquisitions, disposals and others	—	(1)
Impairment reversal	—	(1)
Operating income	—	—
Recovery of income tax	—	(1)
Net earnings from discontinued operations	—	1

(in millions of Canadian dollars)	2016	2015
Net cash flow of discontinued operations of specialty papers sector		
Cash flow from (used for):		
Operating activities	—	(10)
Investing activities	—	4
Financing activities	—	(1)
	—	(7)

NOTE 6
BUSINESS ACQUISITION

On May 31, 2016, the Containerboard Packaging Group purchased from Rand-Whitney Container LLC its corrugated products plant located in Newtown, Connecticut. A total consideration of $18 million was paid by the Corporation and consisted of $15 million (US$12 million) in cash and certain assets of our corrugated containerboard plant located in Thompson, Connecticut, valued at $3 million. The excess of the consideration paid over the net fair value of the assets acquired resulted in a tax deductible goodwill of $7 million and has been allocated to Containerboard Packaging Group CGU. This acquisition is expected to create synergies. The purchase price was finalized on September 30, 2016.

Assets acquired were as follows:

		2016
	BUSINESS SEGMENT:	CONTAINERBOARD PACKAGING
(in millions of Canadian dollars)	ACQUIRED COMPANY:	Rand-Whitney Newtown Plant
Fair values of identifiable assets acquired:		
Property, plant and equipment		**10**
Client list		**1**
Goodwill		**7**
		18
Cash paid		**15**
Fair market value of assets exchanged		**3**
Total consideration		**18**

In addition to the purchase price paid to Rand-Whitney, the Corporation also incurred transaction fees amounting to $1 million.

On a stand-alone basis, Newtown, since the date of acquisition, represents sales amounting to $35 million and the contribution to net earnings attributable to Shareholders is nil. Had the acquisition occurred on January 1, 2016, consolidated sales would have been $60 million higher and consolidated net earnings attributable to Shareholders would have remained unchanged for the year ended December 31, 2016. These estimates are based on the assumption that fair value adjustments made as at the acquisition date would have been the same had the acquisition occurred on January 1, 2016.

NOTE 7
ACCOUNTS RECEIVABLE

(in millions of Canadian dollars)	NOTE	2016	2015
Accounts receivable - Trade		**465**	494
Receivables from related parties	29	**39**	30
Less: provision for doubtful accounts		**(6)**	(12)
Trade receivables - net		**498**	512
Provisions for volume rebates		**(35)**	(35)
Other		**61**	63
		524	540

As at December 31, 2016, trade receivables of $118 million (December 31, 2015 - $164 million) were past due but not impaired.

The aging of these trade receivables at each reporting date is as follows:

(in millions of Canadian dollars)	2016	2015
Past due 1-30 days	**69**	114
Past due 31-60 days	**22**	27
Past due 61-90 days	**8**	13
Past due 91 days and over	**19**	10
	118	164

Movements in the Corporation's allowance for doubtful accounts are as follows:

(in millions of Canadian dollars)	2016	2015
Balance at beginning of year	**12**	12
Provision for doubtful accounts, net of unused beginning balance	**(3)**	4
Receivables written off during the year as uncollectable	**(3)**	(4)
Balance at end of year	**6**	12

The change in the provision for doubtful accounts has been included in Selling and administrative expenses in the consolidated statement of earnings.

The maximum exposure to credit risk at the reporting date approximates the carrying value of each class of receivable mentioned above.

NOTE 8
INVENTORIES

(in millions of Canadian dollars)	2016	2015
Finished goods	**219**	230
Raw material	**107**	113
Supplies and spare parts	**151**	151
	477	494

As at December 31, 2016, finished goods, raw material and supplies and spare parts were adjusted to net realizable value ("NRV") by $7 million, nil and nil, respectively (December 31, 2015 - $7 million, nil, and nil). As at December 31, 2016, the carrying amount of inventory carried at net realizable value consisted of $9 million in finished goods inventory, nil in raw material inventory and nil in supplies and spare parts (December 31, 2015 - $15 million, nil and nil).

The Corporation has sold all the goods that were written down in 2015. No reversal of previously written-down inventory occurred in 2016 or 2015. The cost of raw material and supplies and spare parts included in Cost of sales amounted to $1,612 million (2015 - $1,532 million).

NOTE 9
INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

A. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES ARE DETAILED AS FOLLOWS:

(in millions of Canadian dollars)	2016	2015
Investments in associates	**281**	275
Investments in joint ventures	**54**	47
	335	322

Investments in associates and joint ventures as at December 31, 2016, include goodwill of $28 million (December 31, 2015 - $29 million).

B. INVESTMENTS IN ASSOCIATES

The following are the principal associates of the Corporation:

	PERCENTAGE OF EQUITY OWNED (%)	PRINCIPAL ESTABLISHMENT
Boralex Inc.[1]	20.12	Kingsey Falls, Québec, Canada
Greenpac Holding LLC[2]	59.7	Niagara Falls, New York, United States

1 Boralex Inc., is a Canadian public corporation and a major electricity producer whose core business is the development and operation of power stations that generate renewable energy, with operations in Canada, the Northeastern United States and France. On January 18, 2017, Boralex issued common shares to partly finance the acquisition of the interest of Enercon Canada Inc in Niagara Region Wind Farm. Following this transaction, the Corporation's participation stands at 17.37%.

2 Greenpac Holding LLC is an American corporation that manufactures a light-weight linerboard made with 100% recycled fibres.

The Corporation's financial information from its principal associates (100%), and translated in millions of Canadian dollars if required, is as follows:

	2016		2015	
(in millions of Canadian dollars)	BORALEX INC.	GREENPAC HOLDING LLC	BORALEX INC.	GREENPAC HOLDING LLC
Balance sheet				
Cash and cash equivalents	**100**	**28**	100	69
Current assets (other than cash and cash equivalents and current financial assets)	**288**	**103**	100	71
Current financial assets	**1**	**1**	1	1
Long-term assets (other than long-term financial assets)	**2,311**	**513**	2,241	554
Long-term financial assets	**2**	**11**	—	11
Current liabilities (other than current financial liabilities)	**131**	**41**	94	53
Current financial liabilities	**321**	**19**	187	49
Long-term liabilities (other than long-term financial liabilities)	**131**	**—**	163	—
Long-term financial liabilities	**1,605**	**251**	1,446	275
Statements of earnings (loss)				
Sales	**299**	**340**	266	314
Depreciation and amortization	**116**	**28**	97	26
Financing expense	**76**	**27**	74	30
Recovery of income taxes	**(9)**	**—**	(1)	—
Net earnings (loss)	**2**	**22**	(8)	32
Other comprehensive income (loss)				
Translation adjustment	**(12)**	**—**	14	(2)
Cash flow hedges	**—**	**4**	(2)	(1)
	(12)	**4**	12	(3)
Total comprehensive income (loss)	**(10)**	**26**	4	29
Cash flow				
Dividend received from associates	**7**	**—**	7	—

Investment in Boralex Inc. has a fair value of $252 million as at December 31, 2016 (December 31, 2015 - $190 million).

On May 6, 2016, the Corporation announced that its associate company Greenpac, located in Niagara Falls, NY, successfully refinanced its debt. The debt package included a term loan and a revolving credit facility. The five-year agreement allows the mill to reduce its financing costs by approximately 225 basis points, increasing its flexibility to successfully address future market fluctuations.

In September 2015, Boralex redeemed or converted all of its 6.75% convertible unsecured subordinated debentures. As a result, the Corporation's participation in Boralex decreased to 20.29% from 27.43%, which resulted in a dilution gain of $15 million for the Corporation.

In February 2015, Boralex acquired the non-controlling interests in Boralex Europe and became its sole shareholder. The $51 million amount paid over carrying value was accounted for by Boralex as a decrease in net assets and retained earnings. Our $14 million share of the decrease is recorded as a loss under share of results of associates and joint ventures in the consolidated statement of earnings.

In January 2015, Boralex proceeded with a public offering of common shares in order to fully repay a bridge loan in connection with its acquisition of Enel Green Power France SAS in December 2014. The Corporation's participation in Boralex decreased to 27.44%, compared to 34.23% as at December 31, 2014, which resulted in a dilution gain of $9 million for the Corporation.

C. INVESTMENT IN JOINT VENTURES

The following are the principal joint ventures of the Corporation and the Corporation's percentage of equity owned:

	PERCENTAGE EQUITY OWNED (%)	PRINCIPAL ESTABLISHMENT
Cascades Sonoco US Inc.[1]	50	Birmingham, Alabama and Tacoma, Washington, United States
Cascades Sonoco inc.[1]	50	Kingsey Falls and Berthierville, Québec, Canada
Maritime Paper Products Limited Partnership (MPPLP)[2]	40	Dartmouth, Nova Scotia, Canada

1 Joint ventures producing specialty paper packaging products such as headers, rolls and wrappers.
2 MPPLP is a Canadian corporation converting containerboard.

The Corporation's joint ventures information (100%), translated in millions of Canadian dollar if required, is as follows:

			2016
(in millions of Canadian dollars)	CASCADES SONOCO US INC. (Formerly Cascades Sonoco Inc.)	CASCADES SONOCO INC. (Formerly Cascades Conversion Inc. and Converdis Inc.)	MARITIME PAPER PRODUCTS LIMITED PARTNERSHIP
Balance sheet			
Cash and cash equivalents	5	3	3
Current assets (other than cash and cash equivalents and current financial assets)	26	23	20
Long-term assets (other than long-term financial assets)	16	18	28
Current liabilities (other than current financial liabilities)	9	9	6
Current financial liabilities	1	—	1
Long-term liabilities (other than long-term financial liabilities)	4	3	—
Long-term financial liabilities	1	1	5
Statement of earnings			
Sales	119	88	96
Depreciation and amortization	2	2	2
Financing expense	1	—	1
Provision for income taxes	4	2	—
Net earnings	9	6	8
Other comprehensive income (loss)			
Translation adjustment	(1)	—	—
Total comprehensive income	8	6	8
Cash flow			
Dividend received from joint ventures	4	4	—

(in millions of Canadian dollars)	CASCADES SONOCO INC.	CASCADES CONVERSION INC.	CONVERDIS INC.	MARITIME PAPER PRODUCTS LIMITED PARTNERSHIP
	2015			
Balance sheet				
Cash and cash equivalents	2	2	1	—
Current assets (other than cash and cash equivalents and current financial assets)	26	14	7	18
Long-term assets (other than long-term financial assets)	15	21	5	32
Current liabilities (other than current financial liabilities)	5	3	2	5
Current financial liabilities	1	1	2	3
Long-term liabilities (other than long-term financial liabilities)	4	2	1	—
Long-term financial liabilities	1	—	—	12
Statement of earnings (loss)				
Sales	120	64	25	96
Depreciation and amortization	1	1	—	2
Financing expense	1	—	—	1
Provision for income taxes	4	2	—	—
Net earnings (loss)	9	7	1	(1)
Other comprehensive income (loss)				
Translation adjustment	5	—	—	—
Total comprehensive income (loss)	14	7	1	(1)
Cash flow				
Dividend received from joint ventures	4	3	—	—

There are no contingent liabilities relating to the Corporation's interest in the joint ventures, and no contingent liabilities of the ventures themselves.

D. SUBSIDIARIES WITH NON-CONTROLLING INTERESTS

The Corporation's information for its subsidiaries with significant non-controlling interests is as follows:

	As at December 31, 2016	As at December 31, 2015		
(in millions of Canadian dollars, unless otherwise noted)	RENO DE MEDICI S.p.A.	RENO DE MEDICI S.p.A.	NORCAN FLEXIBLE PACKAGING	CASCADES RECOVERY INC.
Principal establishment	Milan, Italy	Milan, Italy	Mississauga, Ontario, Canada	Toronto, Ontario, Canada
% of shares held by non-controlling interests	**42.30%**	42.39%	—%	—%
Net earnings attributable to non-controlling interests	**2**	6	1	2
Non-controlling interests accumulated at the end of the year	**90**	96	N/A	N/A
Dividends paid to non-controlling interests	**1**	—	—	—
Balance sheet				
Cash and cash equivalents	**41**	35	N/A	N/A
Current assets (other than cash and cash equivalents and current financial assets)	**231**	214	N/A	N/A
Long-term assets (other than long-term financial assets)	**299**	305	N/A	N/A
Current liabilities (other than current financial liabilities)	**178**	159	N/A	N/A
Current financial liabilities	**23**	24	N/A	N/A
Long-term liabilities (other than long-term financial liabilities)	**68**	61	N/A	N/A
Long-term financial liabilities	**82**	81	N/A	N/A
Statement of earnings				
Sales	**702**	655	16	222
Depreciation and amortization	**32**	32	1	8
Provision for income taxes	**5**	5	—	3
Net earnings	**5**	13	4	8
Cash flow				
Cash flows from operating activities	**56**	41	1	12
Cash flows used for investing activities	**(39)**	(24)	—	(6)
Cash flows from (used for) financing activities	**(9)**	12	—	(7)

In the third quarter of 2015, the Specialty Products Group proceeded with the legal restructuring of its Norcan Flexible Packaging subsidiary, which was owned at 62.1%. As a result of the restructuring, the Corporation now owns 100% of the net assets of this business through its Cascades Flexible Packaging subsidiary. The Corporation recorded a gain of $5 million on the extinguishment of some liabilities following the transaction (including $2 million attributable to non-controlling interests). The Corporation paid $2 million for the purchase of the non-controlling interests and is attributed to retained earnings.

On November 27, 2015, the Corporation entered into an agreement for the acquisition of the 27% minority interest of Cascades Recovery for a cash consideration of $32 million, payable over a 10-year period, and a $1 million contingent consideration. The $3 million excess of the consideration over the carrying value of the non-controlling interests was attributed to retained earnings.This transaction consolidates our leading position in recovery and recycling activities in Canada.

E. NON-SIGNIFICANT ASSOCIATES AND JOINT VENTURES

The carrying value of investments in associates and joint ventures that are not significant for the Corporation is as follows:

(in millions of Canadian dollars)	**2016**	2015
Non-significant associates	**16**	14
Non-significant joint ventures	**14**	10
	30	24

The shares of results of non-significant associates and joint ventures for the Corporation are as follows:

(in millions of Canadian dollars)	**2016**	2015
Non-significant associates	**2**	1
Non-significant joint ventures	**4**	4
	6	5

The Corporation received dividends of $3 million from these associates and joint ventures as at December 31, 2016 (December 31, 2015 - $3 million).

In 2015, the Corporation reviewed the recoverable amount of some of its other investments and recorded impairment charges of $2 million in the share of results of associates and joint ventures in the consolidated statement of earnings.

NOTE 10
PROPERTY, PLANT AND EQUIPMENT

(in millions of Canadian dollars)	NOTE	LAND	BUILDINGS	MACHINERY AND EQUIPMENT	AUTOMOTIVE EQUIPMENT	OTHER	TOTAL
As at January 1, 2015							
Cost		110	681	2,554	93	195	3,633
Accumulated depreciation and impairment		3	313	1,587	60	97	2,060
Net book amount		107	368	967	33	98	1,573
Year ended December 31, 2015							
Opening net book amount		107	368	967	33	98	1,573
Additions		—	4	32	11	118	165
Disposals		—	(1)	(2)	—	(2)	(5)
Depreciation		—	(25)	(130)	(9)	(8)	(172)
Impairment charges	25	—	(9)	(43)	—	(3)	(55)
Other		—	11	66	1	(74)	4
Exchange differences		4	18	63	1	12	98
Closing net book amount		111	366	953	37	141	1,608
As at December 31, 2015							
Cost		113	717	2,675	104	272	3,881
Accumulated depreciation and impairment		2	351	1,722	67	131	2,273
Net book amount		111	366	953	37	141	1,608
Year ended December 31, 2016							
Opening net book amount		**111**	**366**	**953**	**37**	**141**	**1,608**
Additions		**—**	**5**	**45**	**25**	**131**	**206**
Disposals		**(1)**	**—**	**(1)**	**—**	**(3)**	**(5)**
Depreciation		**—**	**(28)**	**(116)**	**(13)**	**(13)**	**(170)**
Business acquisition, net of assets transferred	6	**1**	**7**	**—**	**—**	**—**	**8**
Reversal of impairment (charges)	25	**—**	**2**	**(3)**	**—**	**(2)**	**(3)**
Other		**1**	**39**	**55**	**6**	**(98)**	**3**
Exchange differences		**(2)**	**(4)**	**(22)**	**—**	**(1)**	**(29)**
Closing net book amount		**110**	**387**	**911**	**55**	**155**	**1,618**
As at December 31, 2016							
Cost		**110**	**740**	**2,553**	**126**	**282**	**3,811**
Accumulated depreciation and impairment		**—**	**353**	**1,642**	**71**	**127**	**2,193**
Net book amount		**110**	**387**	**911**	**55**	**155**	**1,618**

Other property, plant and equipment include buildings and machinery and equipment in the process of construction or installation with a book value of $90 million (December 31, 2015 - $94 million) and deposits on purchases of equipment amounting to $7 million (December 31, 2015 - $5 million). The carrying value of finance-lease assets is $24 million (December 31, 2015 - $22 million).

In 2016, $2 million (2015 - $1 million) of interest incurred on qualifying assets was capitalized. The weighted average capitalization rate on funds borrowed in 2016 was 5.56% (2015 - 5.84%).

NOTE 11
GOODWILL AND OTHER INTANGIBLE ASSETS WITH FINITE AND INDEFINITE USEFUL LIFE

(in millions of Canadian dollars)	NOTE	APPLICATION SOFTWARE AND ERP	CUSTOMER RELATIONSHIPS AND CLIENT LISTS	OTHER INTANGIBLE ASSETS WITH FINITE USEFUL LIFE	TOTAL INTANGIBLE ASSETS WITH FINITE USEFUL LIFE	GOODWILL	OTHER INTANGIBLE ASSETS WITH INDEFINITE USEFUL LIFE	TOTAL INTANGIBLE ASSETS WITH INDEFINITE USEFUL LIFE
As at January 1, 2015								
Cost		102	170	35	307	332	8	340
Accumulated amortization and impairment		28	68	28	124	4	1	5
Net book amount		74	102	7	183	328	7	335
Year ended December 31, 2015								
Opening net book amount		74	102	7	183	328	7	335
Additions		9	—	—	9	—	—	—
Amortization		(7)	(10)	(1)	(18)	—	—	—
Exchange differences		—	—	—	—	11	—	11
Closing net book amount		76	92	6	174	339	7	346
As at December 31, 2015								
Cost		110	170	35	315	343	8	351
Accumulated amortization and impairment		34	78	29	141	4	1	5
Net book amount		76	92	6	174	339	7	346
Year ended December 31, 2016								
Opening net book amount		**76**	**92**	**6**	**174**	**339**	**7**	**346**
Additions		**17**	**—**	**—**	**17**	**—**	**—**	**—**
Business acquisition	6	**—**	**1**	**—**	**1**	**7**	**—**	**7**
Amortization		**(10)**	**(9)**	**(3)**	**(22)**	**—**	**—**	**—**
Other		**—**	**—**	**1**	**1**	**—**	**(1)**	**(1)**
Exchange differences		**—**	**—**	**—**	**—**	**(2)**	**—**	**(2)**
Closing net book amount		**83**	**84**	**4**	**171**	**344**	**6**	**350**
As at December 31, 2016								
Cost		**126**	**171**	**35**	**332**	**349**	**7**	**356**
Accumulated amortization and impairment		**43**	**87**	**31**	**161**	**5**	**1**	**6**
Net book amount		**83**	**84**	**4**	**171**	**344**	**6**	**350**

NOTE 12
OTHER ASSETS

(in millions of Canadian dollars)	NOTE	**2016**	2015
Notes receivable from business disposals		**9**	12
Other investments		**5**	7
Other assets		**27**	43
Employee future benefits	17	**46**	33
		87	95
Less: Current portion, included in accounts receivables		**(15)**	(15)
		72	80

In 2012, the Corporation granted a US$15 million ($15 million) bridge loan to Greenpac Holding LLC (Greenpac) bearing interest ranging from 7.5% to 9.5% depending on the mill debt/OIBD ratio. In May 2016, following the refinancing of its debt, Greenpac repaid the entire bridge loan and accrued interest. As at December 31, 2015 the balance of the bridge loan was $8 million including accrued interest and was included in Other assets. Deferred revenue for the supervision of Greenpac Mill, recorded in Other assets, stands at $12 million as at December 31, 2016 (December 31, 2015 - $17 million). These costs are repayable to the Corporation by Greenpac Mill over a five-year period.

NOTE 13
TRADE AND OTHER PAYABLES

(in millions of Canadian dollars)	NOTE	2016	2015
Trade payables		472	440
Payables to related parties	29	44	31
Accrued expenses		145	142
		661	613

NOTE 14
PROVISIONS FOR CONTINGENCIES AND CHARGES

(in millions of Canadian dollars)	ENVIRONMENTAL RESTORATION OBLIGATIONS	ENVIRONMENTAL COSTS	LEGAL CLAIMS	SEVERANCES	ONEROUS CONTRACT	OTHER	TOTAL PROVISIONS
As at January 1, 2015	8	14	3	5	7	7	44
Additional provision	—	1	—	2	—	4	7
Reversal of provision	—	—	—	—	(1)	(1)	(2)
Payments	(1)	(1)	(1)	(6)	(1)	(4)	(14)
Revaluation	2	—	—	1	—	—	3
Exchange differences	—	—	1	—	—	—	1
As at December 31, 2015	9	14	3	2	5	6	39
Additional provision	—	5	1	7	3	4	20
Reversal of provision	—	(1)	—	—	(1)	—	(2)
Payments	(3)	(2)	(1)	(6)	(1)	(3)	(16)
Revaluation	2	—	—	—	—	—	2
As at December 31, 2016	8	16	3	3	6	7	43

Analysis of total provisions:

(in millions of Canadian dollars)	2016	2015
Long-term	34	34
Current	9	5
	43	39

ENVIRONMENTAL RESTORATION
The Corporation uses some landfill sites. A provision has been recognized at fair value for the costs to be incurred for the restoration of these sites.

ENVIRONMENTAL COSTS
An environmental provision is recorded when the Corporation has an obligation caused by its ongoing or abandoned operations.

LEGAL CLAIMS
In the normal course of operations, the Corporation is party to various legal actions and contingencies related to contract disputes and labour issues.

In the normal course of operations, the Corporation is party to various legal actions and contingencies, mostly related to contract disputes, environmental and product warranty claims, and labour issues. While the final outcome with respect to legal actions outstanding or pending as at December 31, 2016, cannot be predicted with certainty, it is Management's opinion that the outcome will not have a material adverse effect on the Corporation's consolidated financial position, the results of its operations or its cash flows.

The Corporation is currently working with representatives of the Ontario Ministry of the Environment (MOE) - Northern Region and Environment Canada - Great Lakes Sustainability Fund in Toronto, regarding its potential responsibility for an environmental impact identified at its former Thunder Bay facility ("Thunder Bay"). Both authorities have requested that the Corporation look into a site management plan relating to the sediment quality adjacent to Thunder Bay's lagoon. Several meetings have been held during the last years with the MOE and Environment Canada and a management plan based on sediment dredging has been proposed by a third party consultant. Both governments are looking at this proposal with stakeholders to agree on this remediation action plan that would likely be implemented in the coming years.

The Corporation is also in discussions with representatives of the MOE, regarding its potential responsibility for an environmental impact identified at Thunder Bay. This facility was sold to Thunder Bay Fine Papers Inc. ("Fine Papers") in 2007. Fine Papers has since sold the facility to Superior Fine Papers Inc. ("Superior"). The MOE has requested that the Corporation, together with the former owner Fine Papers and the current owner Superior, submit a closure plan for the Waste Disposal Site and a decommissioning plan for the closure and long-term monitoring for the Sewage Works (the "Plans"). Although the Corporation recognizes that, where as a result of past events, there may be an outflow of resources embodying future economic benefits in settlement of a possible obligation, it is not possible at this time to estimate the Corporation's obligation, since Superior has not submitted all of the Plans and related costs to allow the Corporation to perform an evaluation nor does the Corporation have access to the site. Moreover, the Corporation is unable to ascertain the value of the assets remaining on its former site which may be available to fund this potential obligation. The Corporation is pursuing all available legal remedies to resolve the situation. In any event, Management does not consider the Corporation's potential obligation to be material.

The Corporation has recorded an environmental reserve to address its estimated exposure for these matters.

NOTE 15
LONG-TERM DEBT

(in millions of Canadian dollars)	MATURITY	**2016**	2015
Revolving credit facility, weighted average interest rate of 2.30% as at December 31, 2016, consists of $(19) million; US$82 million and €(1) million (December 31, 2015 - $(11) million; US$151 million and €27 million)	2019	**90**	238
5.50% Unsecured senior notes of $250 million	2021	**250**	250
5.50% Unsecured senior notes of US$550 million	2022	**738**	761
5.75% Unsecured senior notes of US$250 million	2023	**336**	346
Other debts of subsidiaries		**62**	61
Other debts without recourse to the Corporation		**105**	106
		1,581	1,762
Less: Unamortized financing costs		**15**	18
Total long-term debt		**1,566**	1,744
Less:			
Current portion of debts of subsidiaries		**13**	10
Current portion of debts without recourse to the Corporation		**23**	24
		36	34
		1,530	1,710

a. On May 19, 2015, the Corporation issued US$250 million ($305 million) aggregate principal amount of 5.75% senior notes due in 2023. The Corporation used the proceeds from this offering of notes to repurchase a total of US$250 million aggregate principal amount of 7.875% senior notes due in 2020 for a total consideration of US$250 million ($305 million). The Corporation also paid premiums of US$11 million ($13 million) to repurchase the 2020 notes, as well as fees and expenses in connection with the offering and the tender offer totalling $5 million.

Issuance proceeds and credit facility were used as follows:

(in millions of Canadian dollars)	2015
Debt issuance	305
Offering and tender offer fees	(5)
Refinanced debt repurchase	(305)
Premium paid on refinanced debt	(13)
Increase of credit facility	18

b. On July 7, 2015, the Corporation entered into an agreement with its lenders to extend and amend its existing $750 million credit facility. The amendment provides that the term of the facility is extended to July 2019, and that the applicable pricing grid is slightly lowered to better reflect market conditions. The other existing financial conditions are essentially unchanged.

c. As at December 31, 2016, accounts receivable and inventories totaling approximately $715 million (December 31, 2015 - $672 million) as well as property, plant and equipment totaling approximately $250 million (December 31, 2015 - $265 million) were pledged as collateral for the Corporation's revolving credit facility.

d. The Corporation has finance leases for various items of property, plant and equipment. Renewals and purchase options are specific to the entity that holds the lease. Lease liabilities are effectively secured as the rights to the leased asset revert to the lessor in the event of default.

Future minimum lease payments under finance leases together with the present value of the net minimum lease payments are as follows:

	2016		2015	
(in millions of Canadian dollars)	MINIMUM PAYMENTS	PRESENT VALUE OF PAYMENTS	MINIMUM PAYMENTS	PRESENT VALUE OF PAYMENTS
Within one year	**8**	**7**	5	4
Later than 1 year but no later than 5 years	**19**	**15**	16	13
More than 5 years	**7**	**6**	8	6
Total minimum lease payments	**34**	**28**	29	23
Less: amounts representing finance charges	**6**	**—**	6	—
Present value of minimum lease payments	**28**	**28**	23	23

NOTE 16
OTHER LIABILITIES

(in millions of Canadian dollars)	NOTE	**2016**	2015
Employee future benefits	17	**174**	174
Other		**8**	9
		182	183
Less: Current portion, included in Trade and other payables		**(4)**	(5)
		178	178

NOTE 17
EMPLOYEE FUTURE BENEFITS

The Corporation operates various post-employment plans, including both defined benefit and defined contribution pension plans and post-employment benefit plans, such as retirement allowance, group life insurance and medical and dental plans. The table below outlines where the Corporation's post-employment amounts and activity are included in the financial statements.

(in millions of Canadian dollars)	NOTE	2016	2015
Balance sheet obligations for			
Defined pension benefits	17(a)	**22**	36
Post-employment benefits other than defined benefit pension plans	17(b)	**106**	105
Net long-term liabilities on balance sheet		**128**	141
Income statement charge for			
Defined pension benefits		**7**	9
Defined contribution benefits		**20**	20
Post-employment benefits other than defined benefit pension plans		**5**	8
		32	37
Remeasurements for			
Defined pension benefits	17(a)	**(13)**	(22)
Post-employment benefits other than defined benefit pension plans	17(b)	**2**	(3)
		(11)	(25)

A. DEFINED BENEFIT PENSION PLANS

The Corporation offers funded and unfunded defined benefit pension plans, defined contribution pension plans and group RRSPs that provide retirement benefit payments for most of its employees. The defined benefit pension plans are usually contributory and are based on the number of years of service and, in most cases, the average salaries or compensation at the end of a career. Retirement benefits are not partially adjusted based on inflation.

The majority of benefit payments are payable from trustee administered funds; however, for the unfunded plans, the Corporation meets the benefit payment obligation as it falls due. Plan assets held in trusts are governed by local regulations and practices in each country. Responsibility for governance of the plans - overseeing all aspects of the plans including investment decisions and contribution schedules - lies with the Corporation. The Corporation has established Investment Committees to assist in the management of the plans and has also appointed experienced, independent professional experts such as investments managers, investment consultants, actuaries and custodians.

The movement in the net defined benefit obligation and fair value of plan assets of pension plans over the year is as follows:

(in millions of Canadian dollars)	PRESENT VALUE OF OBLIGATION	FAIR VALUE OF PLAN ASSETS	TOTAL	IMPACT OF MINIMUM FUNDING REQUIREMENT (ASSET CEILING)	TOTAL
As at January 1, 2015	512	(453)	59	—	59
Current service cost	6	—	6	—	6
Interest expense (income)	18	(15)	3	—	3
Impact on profit or loss	24	(15)	9	—	9
Remeasurements					
Return on plan assets, excluding amounts included in interest expense (income)	—	(16)	(16)	—	(16)
Gain from change in financial assumptions	(10)	—	(10)	—	(10)
Experience gains	(2)	—	(2)	—	(2)
Change in asset ceiling, excluding amounts included in interest expense	—	—	—	6	6
Impact of remeasurements on other comprehensive income	(12)	(16)	(28)	6	(22)
Exchange differences	3	(1)	2	—	2
Business disposal	—	2	2	—	2
Contributions					
Employers	—	(14)	(14)	—	(14)
Plan participants	2	(2)	—	—	—
Benefit payments	(45)	45	—	—	—
As at December 31, 2015	484	(454)	30	6	36
Current service cost	**5**	**—**	**5**	**—**	**5**
Interest expense (income)	**18**	**(16)**	**2**	**—**	**2**
Impact on profit or loss	**23**	**(16)**	**7**	**—**	**7**
Remeasurements					
Return on plan assets, excluding amounts included in interest expense (income)	**—**	**(9)**	**(9)**	**—**	**(9)**
Loss from change in financial assumptions	**11**	**—**	**11**	**—**	**11**
Experience gains	**(9)**	**—**	**(9)**	**—**	**(9)**
Change in asset ceiling, excluding amounts included in interest expense	**—**	**—**	**—**	**(6)**	**(6)**
Impact of remeasurements on other comprehensive income	**2**	**(9)**	**(7)**	**(6)**	**(13)**
Exchange differences	**(1)**	**—**	**(1)**	**—**	**(1)**
Contributions					
Employers	**—**	**(7)**	**(7)**	**—**	**(7)**
Plan participants	**2**	**(2)**	**—**	**—**	**—**
Benefit payments	**(28)**	**28**	**—**	**—**	**—**
As at December 31, 2016	**482**	**(460)**	**22**	**—**	**22**

The defined benefit obligation and plan assets are composed by country and by sector as follows:

				2016
(in millions of Canadian dollars)	CANADA	UNITED STATES	EUROPE	TOTAL
Present value of funded obligations	411	10	—	421
Fair value of plan assets	454	6	—	460
Deficit (surplus) of funded plans	(43)	4	—	(39)
Present value of unfunded obligations	37	—	24	61
Liabilities (assets) on balance sheet	(6)	4	24	22

						2016
(in millions of Canadian dollars)	CONTAINERBOARD	BOXBOARD EUROPE	SPECIALTY PRODUCTS	TISSUE PAPERS	CORPORATE	TOTAL
Present value of funded obligations	385	—	—	35	1	421
Fair value of plan assets	427	—	—	32	1	460
Deficit (surplus) of funded plans	(42)	—	—	3	—	(39)
Present value of unfunded obligations	8	24	2	2	25	61
Liabilities (assets) on balance sheet	(34)	24	2	5	25	22

				2015
(in millions of Canadian dollars)	CANADA	UNITED STATES	EUROPE	TOTAL
Present value of funded obligations	413	10	—	423
Fair value of plan assets	448	6	—	454
Deficit (surplus) of funded plans	(35)	4	—	(31)
Impact of minimum funding requirement (asset ceiling)	6	—	—	6
Present value of unfunded obligations	36	—	25	61
Liabilities on balance sheet	7	4	25	36

						2015
(in millions of Canadian dollars)	CONTAINERBOARD	BOXBOARD EUROPE	SPECIALTY PRODUCTS	TISSUE PAPERS	CORPORATE	TOTAL
Present value of funded obligations	388	—	—	34	1	423
Fair value of plan assets	422	—	—	30	2	454
Deficit (surplus) of funded plans	(34)	—	—	4	(1)	(31)
Impact of minimum funding requirement (asset ceiling)	6	—	—	—	—	6
Present value of unfunded obligations	8	25	1	2	25	61
Liabilities (assets) on balance sheet	(20)	25	1	6	24	36

Effective on January 1, 2016, the Corporation uses different discount rates to determine the obligation and the current service cost. The significant actuarial assumptions are as follows:

			2016			2015
	CANADA	UNITED STATES	EUROPE	CANADA	UNITED STATES	EUROPE
Discount rate obligation (ending period)	3.7%	3.73%	1.9%	3.9%	3.9%	2.1%
Discount rate obligation (beginning period)	3.9%	3.9%	2.1%	3.75%	3.62%	1.9%
Discount rate (current service cost)	4.1%	3.9%	2.1%	3.75%	3.62%	1.9%
Salary growth rate	Between 1.75% and 3%	N/A	—	Between 1.75% and 3%	N/A	—
Inflation rate	Between 2.25% and 2.5%	N/A	1.75%	Between 2.25% and 2.5%	N/A	1.75%

Assumptions regarding future mortality are set based on actuarial advice in accordance with published statistics and experience in each territory. For Canadian pension plans, which represent 93% of all pension plans, these assumptions translate into an average life expectancy in years for a pensioner retiring at age 65:

	2016	2015
Retiring at the end of the year		
Male	**21.6**	21.6
Female	**24.1**	24
Retiring 20 years after the end of the reporting year		
Male	**22.7**	22.7
Female	**25**	25

The sensitivity of the defined benefit obligation to changes in assumptions is set out below. The effects on each plan of a change in an assumption are weighted proportionately to the total plan obligations to determine the total impact for each assumption presented.

	IMPACT ON DEFINED BENEFIT OBLIGATION		
	CHANGE IN ASSUMPTION	INCREASE IN ASSUMPTION	DECREASE IN ASSUMPTION
Discount rate	**0.25%**	**(3.1)%**	**3.1 %**
Salary growth rate	**0.25%**	**0.4 %**	**(0.4)%**

	INCREASE / DECREASE BY 1 YEAR IN ASSUMPTION
Life expectancy	**2.8 %**

Plan assets, which are funding the Corporation's defined pension plans, are comprised as follows:

					2016
(in millions of Canadian dollars)	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL	%
Cash and short-term investments	**9**	**—**	**—**	**9**	**2.0 %**
Bonds					
Canadian bonds	**47**	**67**	**—**	**114**	**24.8 %**
Shares					
Canadian shares	**71**	**—**	**—**	**71**	
Foreign shares	**14**	**—**	**—**	**14**	
				85	**18.5 %**
Mutual funds					
Foreign bond mutual funds	**—**	**2**	**—**	**2**	
Canadian equity mutual funds	**16**	**3**	**—**	**19**	
Foreign equity mutual funds	**—**	**109**	**—**	**109**	
Alternative investments funds	**—**	**21**	**—**	**21**	
				151	**32.8 %**
Other					
Insured annuities	**—**	**94**	**—**	**94**	
Derivatives contract, net	**7**	**—**	**—**	**7**	
				101	**21.9 %**
	164	**296**	**—**	**460**	

(in millions of Canadian dollars)	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL	2015 %
Cash and short-term investments	17	—	—	17	3.8 %
Bonds					
Canadian bonds	57	72	—	129	28.4 %
Shares					
Canadian shares	65	—	—	65	
Foreign shares	15	—	—	15	
				80	17.6 %
Mutual funds					
Foreign bond mutual funds	—	2	—	2	
Canadian equity mutual funds	—	18	—	18	
Foreign equity mutual funds	—	118	—	118	
Alternative investments funds	—	20	—	20	
				158	34.8 %
Other					
Insured annuities	—	63	—	63	
Derivatives contract, net	7	—	—	7	
				70	15.4 %
	161	293	—	454	

The plan assets include shares of the Corporation for an amount of less than $1 million. These shares were bought by one of the asset managers. Annual benefit annuities of an approximate value of $94 million are pledged by insurance contracts.

B. POST-EMPLOYMENT BENEFITS OTHER THAN DEFINED BENEFIT PENSION PLANS

The Corporation also offers its employees some post-employment benefit plans, such as retirement allowance, group life insurance and medical and dental plans. However, these benefits, other than pension plans, are not funded. Furthermore, the medical and dental plans upon retirement are being phased out and are no longer offered to the majority of new retirees, and the retirement allowance is not offered to the majority of employees hired after 2002.

The amounts recognized in the balance sheet composed by country and by sector are determined as follows:

(in millions of Canadian dollars)	CANADA	UNITED STATES	EUROPE	TOTAL
				2016
Present value of unfunded obligations	**78**	**4**	**24**	**106**
Liabilities on balance sheet	**78**	**4**	**24**	**106**

(in millions of Canadian dollars)	CONTAINERBOARD	BOXBOARD EUROPE	SPECIALTY PRODUCTS	TISSUE PAPERS	CORPORATE	TOTAL
						2016
Present value of unfunded obligations	**41**	**24**	**6**	**13**	**22**	**106**
Liabilities on balance sheet	**41**	**24**	**6**	**13**	**22**	**106**

(in millions of Canadian dollars)	CANADA	UNITED STATES	EUROPE	TOTAL
				2015
Present value of unfunded obligations	77	4	24	105
Liabilities on balance sheet	77	4	24	105

(in millions of Canadian dollars)	CONTAINERBOARD	BOXBOARD EUROPE	SPECIALTY PRODUCTS	TISSUE PAPERS	CORPORATE	TOTAL
						2015
Present value of unfunded obligations	42	24	6	13	20	105
Liabilities on balance sheet	42	24	6	13	20	105

The movement in the net defined benefit obligation for post-employment benefits over the year is as follows:

(in millions of Canadian dollars)	PRESENT VALUE OF OBLIGATION	FAIR VALUE OF PLAN ASSET	TOTAL
As at January 1, 2015	109	—	109
Current service cost	2	—	2
Interest expense	4	—	4
Plan changes	3	—	3
Impact on profit or loss	9	—	9
Remeasurements			
Gain from change in financial assumptions	(1)	—	(1)
Experience gains	(2)	—	(2)
Impact of remeasurements on other comprehensive income	(3)	—	(3)
Exchange differences	2	—	2
Business disposal	(4)	—	(4)
Contributions and premiums paid by the employer	—	(8)	(8)
Benefit payments	(8)	8	—
As at December 31, 2015	105	—	105
Current service cost	**2**	**—**	**2**
Interest expense	**3**	**—**	**3**
Impact on profit or loss	**5**	**—**	**5**
Remeasurements			
Loss from change in financial assumptions	**2**	**—**	**2**
Impact of remeasurements on other comprehensive income	**2**	**—**	**2**
Exchange differences	**(1)**	**—**	**(1)**
Contributions and premiums paid by the employer	**—**	**(5)**	**(5)**
Benefit payments	**(5)**	**5**	**—**
As at December 31, 2016	**106**	**—**	**106**

The method of accounting, assumptions relating to discount rate and life expectancy, and the frequency of valuations for post-employment benefits are similar to those used for defined benefit pension plans, with the addition of actuarial assumptions relating to the long-term increase in healthcare costs of 4.50% a year (2015 - 4.50%).

The sensitivity of the defined benefit obligation to changes in assumptions is set out below. The effects on each plan of a change in an assumption are weighted proportionately to the total plan obligations to determine the total impact for each assumption presented.

	IMPACT ON OBLIGATION FOR POST-EMPLOYMENT BENEFITS		
	CHANGE IN ASSUMPTION	INCREASE IN ASSUMPTION	DECREASE IN ASSUMPTION
Discount rate	**0.25%**	**(2.4)%**	**2.5 %**
Salary growth rate	**0.25%**	**0.6 %**	**(0.6)%**
Health care cost increase	**1.0%**	**2.3 %**	**(1.9)%**

	INCREASE / DECREASE BY 1 YEAR IN ASSUMPTION
Life expectancy	**1.3 %**

C. RISKS AND OTHER CONSIDERATIONS RELATIVE TO POST-EMPLOYMENT BENEFITS

Through its defined benefit plans, the Corporation is exposed to a number of risks, the most significant of which are detailed below.

Asset volatility

The plan liabilities are calculated using a discount rate set with reference to corporate bond yields; and if plan assets underperform this yield, it will create an experience loss. Both the Canadian and U.S. plans hold a proportion of equities, which are expected to outperform corporate bonds in the long term while contributing volatility and risk in the short term.

For Canadian pension plans, which represent 98% of funded pension plans, the Corporation intends to reduce the level of investment risk by investing more in assets that better match the liabilities when the financial situation of the plans improves and/or the rate of return on bonds used for solvency valuations increases.

The first step of this process was completed in 2013 with the sale of a number of equity holdings and the purchase of a mixture of government and corporate bonds for smaller pension plans ($50 million or less); for larger pension plans, this has been done through future contracts. The government bonds represent investments in Canadian government securities only. The corporate bonds are global securities with an emphasis on Canada. As at December 31, 2016, 59% of the plan's assets are invested in bonds, in kind or through futures. The second step began in 2014 with the purchase of annuities from a life insurance company for some pensioners. In September 2016, the Corporation continues the process by purchasing annuities for other groups of retirees. As at December 31, 2016, the total value of insured annuities is $94 million.

However, the Corporation believes that due to the long-term nature of the plan liabilities and the strength of the supporting group, a level of continuing equity investment is an appropriate element of the Corporation’s long-term strategy to manage the plans efficiently. Plan assets are diversified, so the failure of an individual stock would not have a big impact on the plan assets taken as a whole. The pension plans do not face a significant currency risk.

Changes in bond yields

A decrease in corporate bond yields will increase plan liabilities, although this will be partially offset by an increase in the value of the plans’ bond holdings, particularly for plans in a good financial position that have a greater proportion of bonds.

Inflation risk

The benefits paid are not indexed. Only future benefits for active members are based on salaries. Therefore, this risk is not significant.

Life expectancy

The majority of the plans’ obligations are to provide benefits for the member's lifetime, so increases in life expectancy will result in an increase in the plans’ liabilities.

Each sensitivity analysis disclosed in this note is based on changing one assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to variations in significant actuarial assumptions, the same method (present value of the defined benefit obligation calculated using the projected unit credit method at the end of the reporting period) has been applied as for calculating the liability recognized in the statement of financial position.

As at December 31, 2016, the aggregate surplus of the Corporation’s funded pension plans (mostly in Canada) amounted to $39 million (a surplus of $31 million as at December 31, 2015). The Corporation will make special payments of $1 million for past service to fund the Canadian pension plan deficit over ten years. Current agreed expected service contributions amount to $3 million and will be made in the normal course. As for the cash flow requirement, these pension plans are expected to require a net contribution of approximately $7 million in 2017.

The weighted average duration of the defined benefit obligation is 12 years (2015 - 12 years).

Expected maturity analysis of undiscounted pension and other post-employment benefits:

(in millions of Canadian dollars)	LESS THAN A YEAR	BETWEEN 1-2 YEARS	BETWEEN 2-5 YEARS	OVER 5 YEARS	TOTAL
Pension benefits	**29**	**30**	**91**	**772**	**922**
Post-employment benefits other than defined benefit pension plans	**9**	**7**	**28**	**130**	**174**
As at December 31, 2016	**38**	**37**	**119**	**902**	**1,096**

These amounts represent all the benefits payable to current members during the following years and thereafter without limitations. The majority of benefit payments are payable from trustee administered funds. The difference will come from future investment returns expected on plan assets and future contributions that will be made by the Corporation for services rendered after December 31, 2016.

NOTE 18
INCOME TAXES

a. The provision for (recovery of) income taxes is as follows:

(in millions of Canadian dollars)	2016	2015
Current taxes	11	(1)
Deferred taxes	34	41
	45	40

b. The provision for income taxes based on the effective income tax rate differs from the provision for (recovery of) income taxes based on the combined basic rate for the following reasons:

(in millions of Canadian dollars)	2016	2015
Provision for (recovery of) income taxes based on the combined basic Canadian and provincial income tax rate	48	(4)
Adjustment of provision for (recovery of) income taxes arising from the following:		
Difference in statutory income tax rate of foreign operations	2	(4)
Reassessment	1	5
Reversal of deferred tax assets on tax losses	—	18
Permanent differences - others	(5)	7
Change in unrecognized to recognized tax asset in operating losses	(3)	—
Tax rates changes	2	—
Change in temporary differences	—	18
	(3)	44
Provision for income taxes	45	40

Weighted average income tax rate for the year ended December 31, 2016, was 26.2% (2015 - 26.8%).

c. The provision for (recovery of) income taxes relating to components of other comprehensive income is as follows:

(in millions of Canadian dollars)	2016	2015
Foreign currency translation related to hedging activities	3	(13)
Cash flow hedge	3	1
Actuarial gain on post-employment benefit obligations	3	7
	9	(5)

d. The analysis of deferred tax assets and deferred tax liabilities, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

(in millions of Canadian dollars)	2016	2015
Deferred income tax assets:		
Deferred income tax assets to be recovered after more than 12 months	279	297
Deferred income tax liabilities:		
Deferred income tax liabilities to be used after more than 12 months	319	305
	(40)	(8)

The movement of the deferred income tax account is as follows:

(in millions of Canadian dollars)	2016	2015
As at January 1	(8)	47
Through statement of earnings (loss)	(34)	(41)
Variance of income tax credit, net of related income tax	5	—
Through statement of comprehensive income (loss)	(9)	5
Included in discontinued operations	—	1
Exchange differences	6	(20)
As at December 31	(40)	(8)

The movement in deferred income tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

DEFERRED INCOME TAX ASSET

(in millions of Canadian dollars)	RECOGNIZED TAX BENEFIT ARISING FROM INCOME TAX LOSSES	EMPLOYEE FUTURE BENEFITS	EXPENSE ON RESEARCH	UNUSED TAX CREDITS	FINANCIAL INSTRUMENTS	FOREIGN EXCHANGE LOSS ON LONG-TERM DEBT	OTHERS	TOTAL
As at January 1, 2015	163	34	70	39	8	—	14	328
Through statement of earnings (loss)	(24)	(3)	(32)	(1)	7	23	1	(29)
Through statement of comprehensive income (loss)	—	(7)	—	—	—	—	—	(7)
Exchange differences	2	1	—	1	1	—	—	5
As at December 31, 2015	141	25	38	39	16	23	15	297
Through statement of earnings (loss)	**19**	**2**	**(23)**	**(3)**	**(8)**	**(2)**	**1**	**(14)**
Variance of income tax credit	**—**	**—**	**—**	**5**	**—**	**—**	**—**	**5**
Through statement of comprehensive income (loss)	**—**	**(3)**	**—**	**—**	**(3)**	**(3)**	**—**	**(9)**
Exchange differences	**(1)**	**—**	**—**	**—**	**—**	**1**	**—**	**—**
As at December 31, 2016	**159**	**24**	**15**	**41**	**5**	**19**	**16**	**279**

DEFERRED INCOME TAX LIABILITIES

(in millions of Canadian dollars)	PROPERTY, PLANT AND EQUIPMENT	FOREIGN EXCHANGE GAIN ON LONG-TERM DEBT	INTANGIBLE ASSETS	INVESTMENTS	OTHERS	TOTAL
As at January 1, 2015	134	17	51	68	11	281
Through statement of earnings (loss)	22	(5)	(1)	5	(9)	12
Through statement of comprehensive loss	—	(12)	—	—	—	(12)
Included in discontinued operations	—	—	—	—	(1)	(1)
Exchange differences	13	—	1	11	—	25
As at December 31, 2015	169	—	51	84	1	305
Through statement of earnings (loss)	**14**	**—**	**3**	**3**	**—**	**20**
Exchange differences	**(3)**	**—**	**(1)**	**(2)**	**—**	**(6)**
As at December 31, 2016	**180**	**—**	**53**	**85**	**1**	**319**

When taking into consideration the offsetting of balances within the same tax jurisdiction, the net deferred tax liability of $40 million is presented on the balance sheet as $179 million of deferred income tax asset amounts and $219 million of deferred income tax liabilities.

e. The Corporation has recognized accumulated losses for income tax purposes amounting to approximately $575 million, which may be carried forward to reduce taxable income in future years. The future tax benefit of $159 million resulting from the deferral of these losses has been recognized in the accounts as a deferred income tax asset. Deferred income tax assets are recognized for tax loss carry forward to the extent that the realization of the related tax benefits through future taxable profits is probable. Income tax losses as at December 31, 2016 are detailed as follows:

(in millions of Canadian dollars)	RECOGNIZED TAX LOSSES	MATURITY
Canada	**7**	**2026**
	14	**2027**
	2	**2029**
	16	**2030**
	69	**2031**
	135	**2032**
	82	**2033**
	123	**2034**
	16	**2035**
	60	**2036**
United States	**2**	**2020**
	2	**2029**
	2	**2031**
	3	**2032**
	2	**2033**
	1	**2034**
	13	**2035**
	1	**2036**
Europe	**25**	**Indefinitely**
	575	

NOTE 19
CAPITAL STOCK

A. CAPITAL MANAGEMENT

Capital is defined as long-term debt, bank loans and advances net of cash and cash equivalents and Shareholders' equity which includes capital stock.

(in millions of Canadian dollars)	2016	2015
Cash and cash equivalents	**(62)**	(60)
Bank loans and advances	**28**	37
Long-term debt, including current portion	**1,566**	1,744
	1,532	1,721
Total equity	**1,074**	963
Total capital	**2,606**	2,684

The Corporation's objectives when managing capital are:

- to safeguard the Corporation's ability to continue as a going concern in order to provide returns to Shareholders;
- to maintain an optimal capital structure and reduce the cost of capital;
- to make proper capital investments that are significant to ensure that the Corporation remains competitive; and
- to redeem common shares based on an annual redemption program.

The Corporation sets the amount of capital in proportion to risk. The Corporation manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Corporation may adjust the amount of dividends paid to Shareholders, return capital to Shareholders, issue new shares and acquire or sell assets to improve its financial performance and flexibility.

The Corporation monitors capital on a monthly and quarterly basis based on different financial ratios and non-financial performance indicators. Also, the Corporation must conform to certain financial ratios under its various credit agreements. These ratios are calculated on an adjusted consolidated basis of restricted subsidiaries only. These are a maximum ratio of funded debt to capitalization of 65% and a minimum interest coverage ratio of 2.25x. The Corporation must also comply with a consolidated interest coverage ratio to incur additional debt. Funded debt is defined as liabilities as per the consolidated balance sheet, including guarantees and liens granted in respect of funded debt of another person but excluding other long-term liabilities, trade accounts payable, obligations under operating leases and other accrued obligations (2016 - $1,512 million; 2015 - $1,711 million). The capitalization ratio is calculated as "Shareholders' equity" as shown in the consolidated balance sheet plus the funded debt. Shareholders' equity is adjusted to add back the effect of IFRS adjustments as at December 31, 2010, in the amount of $208 million. The interest coverage ratio is defined as OIBD to interest expense. The OIBD is defined as net earnings of the last four quarters plus interest expense, income taxes, amortization and depreciation, expense for stock options and dividends received from a person who is not a credit party (2016 - $379 million; 2015 - $364 million). Excluded from net earnings are share of results of equity investments and gains or losses from non-recurring items. Interest expense is calculated as interest and financial charges determined in accordance with IFRS plus any capitalized interest but excluding the amortization of deferred financing costs, up-front and financing costs and unrealized gains or losses arising from hedging agreements. It also excludes any gains or losses on the translation of long-term debt denominated in a foreign currency. The consolidated interest coverage ratio to incur additional debt is calculated as defined in the Senior notes indentures dated June 19, 2014 and May 19, 2015.

As at December 31, 2016, the funded debt-to-capitalization ratio stood at 55.91% and the interest coverage ratio was 4.52x. The Corporation is in compliance with the ratio requirements of its lenders.

The Corporation's credit facility is subject to terms and conditions for loans of this nature, including limits on incurring additional indebtedness and granting liens or selling assets without the consent of the lenders.

The unsecured senior notes are subject to customary covenants restricting the Corporation's ability to, among other things, incur additional debt, pay dividends and make other restricted payments as defined in the Indentures dated June 19, 2014 and May 19, 2015.

The Corporation historically invests between $100 million and $200 million annually on purchases of property, plant and equipment. These amounts are carefully reviewed during the course of the year in relation to operating results and strategic actions approved by the Board of Directors. These investments, combined with annual maintenance, enhance the stability of the Corporation's business units and improve cost competitiveness through new technology and improved process procedures.

The Corporation has an annual share redemption program in place to redeem its outstanding common shares when the market price is judged appropriate by Management. In addition to limitations on the normal course issuer bid, the Corporation's ability to redeem common shares is limited by its senior notes indenture.

B. ISSUED AND OUTSTANDING

The authorized capital stock of the Corporation consists of an unlimited number of common shares, without nominal value, and an unlimited number of Class A and B shares issuable in series without nominal value. Over the past two years, the common shares have fluctuated as follows:

		2016		2015	
	NOTE	NUMBER OF COMMON SHARES	IN MILLIONS OF CANADIAN DOLLARS	NUMBER OF COMMON SHARES	IN MILLIONS OF CANADIAN DOLLARS
Balance - beginning of year		**95,310,923**	**490**	94,186,474	483
Common shares issued on exercise of stock options	19(d)	**262,836**	**1**	1,168,349	5
Reversal of contributed surplus on exercise of stock options		**—**	**1**	—	2
Redemption of common shares	19(c)	**(1,047,243)**	**(5)**	(43,900)	—
Balance - end of year		**94,526,516**	**487**	95,310,923	490

C. REDEMPTION OF COMMON SHARES

In 2016, in the normal course of business, the Corporation renewed its redemption program of a maximum of 1,907,173 common shares with the Toronto Stock Exchange, said shares representing approximately 2% of issued and outstanding common shares. The redemption authorization is valid from March 17, 2016 to March 16, 2017. In 2016, the Corporation redeemed 1,047,243 common shares under this program for an amount of $9 million (2015 - 43,900 common shares for a non-significant consideration).

D. COMMON SHARE ISSUANCE

The Corporation issued 262,836 common shares upon the exercise of options for an amount of $1 million (2015 - $5 million for 1,168,349 common shares issued).

E. NET EARNINGS (LOSS) PER COMMON SHARE

The basic and diluted net earnings (loss) per common share is calculated as follows:

		2016		2015
Net earnings (loss) available to common shareholders (in millions of Canadian dollars)		**135**		(65)
Weighted average number of basic common shares outstanding (in millions)		**95**		94
Weighted average number of diluted common shares outstanding (in millions)		**97**		94
Basic net earnings (loss) per common share (in Canadian dollars)	**$**	**1.42**	$	(0.69)
Diluted net earnings (loss) per common share (in Canadian dollars)	**$**	**1.39**	$	(0.69)

As at December 31, 2016 and 2015, no stock option had an antidilutive effect. As of March 1, 2017, no common share had been redeemed by the Corporation since the beginning of the financial year.

F. DETAILS OF DIVIDENDS DECLARED PER COMMON SHARE ARE AS FOLLOWS

		2016		2015
Dividends declared per common share	**$**	**0.16**	$	0.16

NOTE 20
STOCK-BASED COMPENSATION

a. Under the terms of a share option plan adopted on December 15, 1998, amended on March 15, 2013, and approved by Shareholders on May 8, 2013, a remaining balance of 2,368,580 common shares has been specifically reserved for issuance for officers and key employees of the Corporation. Each option will expire at a date not to exceed 10 years following the grant date of the option. The exercise price of an option shall not be lower than the market value of the share at the date of grant, determined as the average of the closing price of the share on the Toronto Stock Exchange on the five trading days preceding the date of grant. The terms for exercising the options are 25% of the number of shares under option within 12 months after the first anniversary date of grant, and up to an additional 25% every 12 months after the second, third and fourth anniversaries of grant date. Options cannot be exercised if the market value of the share at exercise date is lower than the book value at the date of grant. Options exercised are settled in shares. The stock-based compensation cost related to these options amounted to $1 million (2015 - $1 million).

Changes in the number of options outstanding as at December 31, 2016 and 2015 are as follows:

	2016		2015	
	NUMBER OF OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE $	NUMBER OF OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE $
Beginning of year	**5,262,796**	**6.16**	6,432,328	5.96
Granted	**351,461**	**9.75**	462,644	7.66
Exercised	**(262,836)**	**5.51**	(1,168,349)	4.44
Expired	**(257,885)**	**11.49**	(258,090)	11.85
Forfeited	**—**	**—**	(205,737)	5.92
End of year	**5,093,536**	**6.17**	5,262,796	6.16
Options exercisable - end of year	**4,086,275**	**5.79**	4,027,950	6.17

The weighted average share price at the time of exercise of the options was $12.14 (2015 - $10.35).

The following options were outstanding as at December 31, 2016:

	OPTIONS OUTSTANDING		OPTIONS EXERCISABLE		
YEAR GRANTED	NUMBER OF OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE $	NUMBER OF OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE $	EXPIRATION DATE
2007	**282,383**	**11.83**	**282,383**	**11.83**	**2017**
2008	**359,236**	**7.81**	**359,236**	**7.81**	**2018**
2009	**24,298**	**2.28**	**24,298**	**2.28**	**2019**
2009	**968,333**	**3.92**	**968,333**	**3.92**	**2019**
2010	**444,124**	**6.43**	**444,124**	**6.43**	**2020**
2011	**512,622**	**6.26**	**512,622**	**6.46**	**2021**
2012	**832,726**	**4.46**	**832,726**	**4.46**	**2017 & 2022**
2013	**464,284**	**5.18**	**347,574**	**5.18**	**2017 & 2023**
2014	**453,647**	**6.10**	**221,977**	**6.10**	**2017 & 2024**
2015	**400,422**	**7.66**	**93,002**	**7.66**	**2025**
2016	**351,461**	**9.75**	**—**	**—**	**2026**
	5,093,536		**4,086,275**		

FAIR VALUE OF THE SHARE OPTIONS GRANTED

Options were priced using the Black-Scholes option pricing model. Expected volatility is based on the historical share price volatility over the past five years. The following weighted average assumptions were used to estimate the fair value of $2.75 (2015 - $2.05), as at the date of grant, of each option issued to employees:

	2016	2015
Grant date share price	**$ 10.09**	$ 7.76
Exercise price	**$ 9.75**	$ 7.66
Risk-free interest rate	**1.04%**	1.29%
Expected dividend yield	**1.58%**	2.06%
Expected life of options	**6 years**	6 years
Expected volatility	**31%**	32%

b. The Corporation offers its Canadian employees a share purchase plan for its common shares. Employees can voluntarily contribute up to a maximum of 5% of their salary and, if certain conditions are met, the Corporation will contribute 25% of the employee's contribution to the plan.

The shares are purchased on the market on a predetermined date each month. For the year ended December 31, 2016, the Corporation's contribution to the plan amounted to $1 million (2015 - $1 million).

c. The Corporation has a Deferred Share Unit Plan for the benefit of its external directors, allowing them to receive all or a portion of their annual compensation in the form of Deferred Share Units ("DSUs"). A DSU is a notional unit equivalent in value to the Corporation's common share. Upon resignation from the Board of Directors, participants are entitled to receive the payment of their cumulated DSUs in the form of cash based on the average price of the Corporation's common shares as traded on the open market during the five days before the date of the participant's resignation.

The DSU expense and the related liability are recorded at the grant date. The liability is adjusted periodically to reflect any variation in the market value of the common shares. As at December 31, 2016, the Corporation had a total of 205,773 DSUs outstanding (2015 - 185,041 DSUs), representing a long-term liability of $3 million (2015 - $3 million). On January 15, 2017, the Corporation issued 41,503 DSUs and had a total of 247,276 DSUs outstanding.

d. In 2013, the Corporation put in place a Performance Share Unit ("PSU") Plan for the benefit of officers and key employees, allowing them to receive a portion of their annual compensation in the form of PSUs. A PSU is a notional unit equivalent in value to the Corporation's common share. Periodically, the number of PSUs forming part of the award shall be adjusted depending upon the three-year average return on capital employed of the Corporation ("ROCE"). Such adjusted number shall be obtained by multiplying the number of PSUs forming part of the award by the applicable multiplier based on the ROCE level. Participants are entitled to receive the payment of their PSUs in the form of cash based on the average price of the Corporation's common shares as traded on the open market during the five days before the vesting date.

The PSUs vest over a period of two years starting on the award date. The expense and the related liability are recorded during the vesting period. The liability is adjusted periodically to reflect any variation in the market value of the common shares, the expected average ROCE and the passage of time. As at December 31, 2016, the Corporation had a total of 761,367 PSUs outstanding (2015 - 931,786 PSUs), representing a liability of $5 million (2015 - $7 million). In 2016, the Corporation made payments totaling $5 million in relation to PSUs (2015 - $2 million).

NOTE 21
ACCUMULATED OTHER COMPREHENSIVE LOSS

(in millions of Canadian dollars)	**2016**	2015
Foreign currency translation, net of hedging activities and related income tax of $16 million (December 31, 2015 - $19 million)	**(13)**	(4)
Unrealized loss arising from commodity derivative financial instruments designated as cash flow hedges, net of related income taxes of $2 million (December 31, 2015 - $5 million)	**(5)**	(12)
Unrealized gain (loss) on available-for-sale financial assets, net of related income taxes of nil (December 31, 2015 - nil)	**(1)**	1
Unrealized loss on share of other comprehensive income of associates, net of related income taxes of $9 million (December 31, 2015 - $9 million)	**(12)**	(12)
	(31)	(27)

NOTE 22
COST OF SALES BY NATURE

(in millions of Canadian dollars)	**2016**	2015
Raw material	**1,612**	1,532
Wages and employee benefits expenses	**662**	641
Energy	**248**	266
Delivery	**269**	259
Depreciation and amortization	**192**	190
Other	**397**	373
	3,380	3,261

SELLING AND ADMINISTRATIVE EXPENSES BY NATURE

(in millions of Canadian dollars)	**2016**	2015
Wages and employee benefits expenses	**271**	244
Information technology	**46**	28
Publicity and marketing	**15**	16
Other	**70**	72
	402	360

NOTE 23
EMPLOYEE BENEFITS EXPENSES

(in millions of Canadian dollars)	NOTE	2016	2015
Wages and employee benefits expenses	22	933	885
Share options granted to directors and employees	20(a)	1	1
Pension costs - defined benefit plans	17	7	9
Pension costs - defined contribution plans	17	20	20
Post-employment benefits other than defined benefit pension plans	17	5	8
		966	923

KEY MANAGEMENT COMPENSATION

Key management includes the members of the Board of Directors, Presidents and Vice Presidents of the Corporation (same as disclosed in annual information form in section 8.3). The compensation paid or payable to key management for their services is shown below:

(in millions of Canadian dollars)	2016	2015
Salaries and other short-term benefits	11	11
Share-based payments	4	4
	15	15

NOTE 24
GAIN ON ACQUISITIONS, DISPOSALS AND OTHERS

(in millions of Canadian dollars)	2016	2015
Gain on disposal of assets	(4)	(1)

2016

Fourth quarter

- The Specialty Products Group recorded a $3 million gain on the sale of pieces of land close to the former fine paper plant located in St-Jérôme, Québec. The Group also recorded a $3 million environmental provision mainly related to closed plants in Québec, closed in previous years.

Second quarter

- The Specialty Products Group recorded a $4 million gain on the sale of assets following the closure of its de-inked pulp mill located in Auburn, Maine.

2015

Third quarter

- The Containerboard Packaging Group sold a warehouse in Québec City and recorded a $1 million gain.

NOTE 25
IMPAIRMENT CHARGES AND RESTRUCTURING COSTS

A. IMPAIRMENT CHARGES (REVERSALS) ON PROPERTY, PLANT AND EQUIPMENT, INTANGIBLE ASSETS WITH FINITE USEFUL LIFE AND OTHER ASSETS

The Corporation recorded net impairment charges totaling $3 million in 2016 and net impairment charges of $69 million in 2015. The recoverable amount of CGUs was determined using a fair value less cost of disposal sell model based on the income approach, unless otherwise indicated. Level 2 inputs are used to measure fair value. Impairments are detailed as follows:

2016

	PACKAGING PRODUCTS						
(in millions of Canadian dollars)	CONTAINER-BOARD	BOXBOARD EUROPE	SPECIALTY PRODUCTS	SUB-TOTAL	TISSUE PAPERS	CORPORATE ACTIVITIES	TOTAL
Property, plant and equipment	**2**	**—**	**(3)**	**(1)**	**4**	**—**	**3**

2015

	PACKAGING PRODUCTS						
(in millions of Canadian dollars)	CONTAINER-BOARD	BOXBOARD EUROPE	SPECIALTY PRODUCTS	SUB-TOTAL	TISSUE PAPERS	CORPORATE ACTIVITIES	TOTAL
Property, plant and equipment	—	45	10	55	—	—	55
Spare parts	—	11	1	12	—	—	12
Intangible assets with finite useful life and other assets	—	—	—	—	—	2	2
	—	56	11	67	—	2	69

2016

Fourth quarter

- The Specialty Products Group sold the building of its closed de-inked pulp mill located in Auburn, Maine, and recorded a $2 million reversal of impairment.

Third quarter

- The Tissue Group incurred an additional impairment charge of $2 million related to the revaluation of some equipment following the closure of its Toronto converting plant in the second quarter.

Second quarter

- The Containerboard Packaging Group recorded a $2 million impairment charge on the assets of its converting plant in Connecticut which were not part of the disposal related to the Rand-Whitney - Newtown plant acquisition.
- The Specialty Products Group sold a piece of land related to a closed plant and recorded a $1 million reversal of impairment.
- As a result of the transfer of the converting operations of the Toronto plant to other sites, the Tissue Group recorded an impairment charge of $2 million related to the revaluation of some equipment that was not transferred. The recoverable amount was based on the selling price of assets.

2015

Fourth quarter

- The Boxboard Europe Group reviewed the recoverable value of its virgin boxboard mill located in France and allocated impairment charges of $42 million on fixed assets and $11 million on spare parts. Sustained difficult market conditions led to insufficient profitability to support the carrying value of these assets. The Group also recorded impairment charges of $2 million on fixed assets of plants that were closed over past years.
- Corporate activities reviewed the recoverable amount of a note receivable related to the sale of a plant in 2014 and recorded an impairment charge of $2 million.

Third quarter

- The Specialty Products Group reviewed the recoverable value of one of its plant and recorded impairment charges of $10 million on fixed assets and $1 million on spare parts. Sustained difficult market conditions led to insufficient profitability to support the carrying value of these assets. The recoverable amount was based on the selling price of assets.

Second quarter

- The Boxboard Europe Group recorded impairment charges of $1 million related to closed plants. The recoverable amount was based on the selling price of assets.

B. GOODWILL AND OTHER INDEFINITE USEFUL LIFE INTANGIBLE ASSETS

Allocation of goodwill and other indefinite useful life intangible assets is as follows:

- Packaging Containerboard Group goodwill of $292 million is allocated to all Containerboard CGUs;
- Specialty Products Group goodwill is allocated to all Cascades Recovery CGUs, $13 million, and the Partitioning activities CGU, $3 million;
- Tissue Group goodwill of $36 million is allocated to all Tissue CGUs;
- Water rights of $6 million are allocated to RdM's CGU.

Annually, the Corporation must test all of its goodwill for impairment, except if the following three conditions are met:

- the assets and liabilities making up the unit have not changed significantly since the most recent recoverable amount calculation;
- the most recent recoverable amount calculation resulted in an amount that exceeded the carrying amount of the unit by a substantial margin; and
- based on an analysis of events that have occurred and circumstances that have changed since the most recent recoverable amount calculation, the likelihood that a current recoverable amount determination would be less than the current carrying amount of the unit is remote.

Given all three conditions were met for all goodwill, the Corporation did not perform impairment testing in 2016.

C. RESTRUCTURING COSTS (GAINS)

Restructuring costs (gains) are detailed as follows:

(in millions of Canadian dollars)	**2016**	2015
Containerboard Packaging Group	**(1)**	—
Boxboard Europe Group	**2**	1
Specialty Products Group	**1**	(5)
Tissue Group	**7**	—
Corporate activities	**—**	1
	9	(3)

2016

Third quarter

- The Tissue Group recorded a $3 million provision for an onerous lease as a consequence of the closure of its Toronto converting plant in the second quarter.

Second quarter

- The Containerboard Packaging Group recorded a $1 million gain on the reversal of a provision for an onerous lease contract in relation to the restructuring of its Ontario converting activities in 2012.
- The Boxboard Europe Group recorded restructuring costs of $2 million in relation to the reorganization of its activities following the transfer of the virgin fibre boxboard mill located in La Rochette, France, to our Reno de Medici subsidiary.
- The Specialty Products Group recorded restructuring costs of $1 million following the closure of its de-inked pulp mill located in Auburn, Maine.
- The Tissue Group incurred $4 million of severance costs following the transfer of the converting operations of the Toronto plant to other Tissue Group sites.

2015
Third quarter

- The Specialty Products Group proceeded with the legal restructuring of its Norcan Flexible Packaging subsidiary, which was owned at 62.1%. As a result of the restructuring, the Corporation now owns 100% of the net assets of this business through its Cascades Flexible Packaging subsidiary. The Corporation recorded a gain of $5 million on the extinguishment of some liabilities following the transaction (including $2 million attributable to non-controlling interests).

Second quarter

- The Boxboard Europe Group recorded severance provision adjustments totalling $1 million related to plants closed over the past years.

The Corporate activities segment incurred $1 million of severance costs in relation to the reorganization of its activities.

NOTE 26
ADDITIONAL INFORMATION

A. CHANGES IN NON-CASH WORKING CAPITAL COMPONENTS ARE DETAILED AS FOLLOWS:

(in millions of Canadian dollars)	**2016**	2015
Accounts receivable	**(6)**	(57)
Current income tax assets	**(1)**	(3)
Inventories	**(2)**	(9)
Trade and other payables	**66**	33
Current income tax liabilities	**(1)**	(2)
	56	(38)

B. FINANCING EXPENSE AND INTEREST EXPENSE ON EMPLOYEE FUTURE BENEFITS

(in millions of Canadian dollars)	**2016**	2015
Interest on long-term debt	**83**	88
Interest income	**(1)**	(4)
Amortization of financing costs	**3**	4
Other interest and banking fees	**3**	3
Interest on employee future benefits	**5**	6
	93	97

NOTE 27
FINANCIAL INSTRUMENTS

27.1 FAIR VALUE OF FINANCIAL INSTRUMENTS

The classification of financial instruments as at December 31, 2016 and 2015, along with the respective carrying amounts and fair values, is as follows:

		2016		2015	
(in millions of Canadian dollars)	NOTE	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE
Financial assets at fair value through profit or loss					
Derivatives	27.4	**10**	**10**	13	13
Financial assets available for sale					
Other investments		**1**	**1**	2	2
Investments in shares held for trading		**1**	**1**	1	1
Financial liabilities at fair value through profit or loss					
Derivatives	27.4	**(31)**	**(31)**	(63)	(63)
Financial liabilities at amortized cost					
Long-term debt		**(1,566)**	**(1,612)**	(1,744)	(1,729)
Derivatives designated as hedge					
Asset derivatives		**2**	**2**	—	—
Liability derivatives		**(8)**	**(8)**	(16)	(16)

27.2 DETERMINING THE FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of a financial instrument is the amount of consideration that would be received upon the sale of an asset or paid to transfer a liability in an orderly transaction between market participants as at the measurement date.

(i) The fair values of cash and cash equivalents, accounts receivable, notes receivable, bank loans and advances, trade and other payables and provisions approximate their carrying amounts due to their relatively short maturities.
(ii) The fair value of investments in shares held for trading is based on observable market data and mainly represents the Corporation's investment in Junex Inc., which is quoted on the Toronto Stock Exchange.
(iii) The fair value of long-term debt is based on observable market data and on the calculation of discounted cash flows. Discount rates were determined based on local government bond yields adjusted for the risks specific to each of the borrowings and the credit market liquidity conditions.

27.3 HIERARCHY OF FINANCIAL ASSETS AND LIABILITIES MEASURED AT FAIR VALUE

The following table presents information about the Corporation's financial assets and financial liabilities measured at fair value on a recurring basis as at December 31, 2016 and 2015 and indicates the fair value hierarchy of the Corporation's valuation techniques to determine such fair value. Three levels of inputs that may be used to measure fair value are:

Level 1 - Quoted prices in active markets for identical assets or liabilities.
Level 2 - Observable inputs other than quoted prices in active markets for identical assets and liabilities, quoted prices for identical or similar assets or liabilities in inactive markets, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
Level 3 - Inputs that are generally unobservable and typically reflect Management's estimates of assumptions that market participants would use in pricing the asset or liability.

				2016
(in millions of Canadian dollars)	CARRYING AMOUNT	QUOTED PRICES IN ACTIVE MARKETS FOR IDENTICAL ASSETS (LEVEL1)	SIGNIFICANT OBSERVABLE INPUTS (LEVEL 2)	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)
Financial assets				
Other investments	**1**	**—**	**1**	**—**
Investments in shares held for trading	**1**	**1**	**—**	**—**
Derivative financial assets	**12**	**—**	**12**	**—**
	14	**1**	**13**	**—**
Financial liabilities				
Derivative financial liabilities	**(39)**	**—**	**(39)**	**—**
	(39)	**—**	**(39)**	**—**

				2015
(in millions of Canadian dollars)	CARRYING AMOUNT	QUOTED PRICES IN ACTIVE MARKETS FOR IDENTICAL ASSETS (LEVEL1)	SIGNIFICANT OBSERVABLE INPUTS (LEVEL 2)	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)
Financial assets				
Other investments	2	—	2	—
Investments in shares held for trading	1	1	—	—
Derivative financial assets	13	—	13	—
	16	1	15	—
Financial liabilities				
Derivative financial liabilities	(79)	—	(79)	—
	(79)	—	(79)	—

27.4 FINANCIAL RISK MANAGEMENT

The Corporation's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The Corporation's overall risk management program focuses on the unpredictability of the financial market and seeks to minimize potential adverse effects on the Corporation's financial performance. The Corporation uses derivative financial instruments to hedge certain risk exposures.

Risk management is carried out by a central treasury department and a management committee acting under policies approved by the Board of Directors. They identify, evaluate and hedge financial risks in close cooperation with the business units. The Board provides guidance for overall risk management, covering specific areas, such as foreign exchange risk, interest rate risk and credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

Summary

2016

(in millions of Canadian dollars)		ASSETS			LIABILITIES		
RISK	NOTE	SHORT-TERM	LONG-TERM	TOTAL	SHORT-TERM	LONG-TERM	TOTAL
Currency risk	27.4 A) (i)	**2**	**—**	**2**	**(20)**	**(13)**	**(33)**
Price risk	27.4 A) (ii)	**1**	**9**	**10**	**(3)**	**(3)**	**(6)**
		3	**9**	**12**	**(23)**	**(16)**	**(39)**

2015

(in millions of Canadian dollars)		ASSETS			LIABILITIES		
RISK	NOTE	SHORT-TERM	LONG-TERM	TOTAL	SHORT-TERM	LONG-TERM	TOTAL
Currency risk	27.4 A) (i)	—	1	1	(23)	(38)	(61)
Price risk	27.4 A) (ii)	1	11	12	(9)	(8)	(17)
Interest risk	27.4 A) (iii)	—	—	—	—	(1)	(1)
		1	12	13	(32)	(47)	(79)

A. MARKET RISK

(i) Currency risk

The Corporation operates internationally and is exposed to foreign exchange risks arising from various currencies as a result of its export of goods produced in Canada, the United States, France, Italy and Germany. Foreign exchange risk arises from future commercial transactions, recognized assets and liabilities, and net investments in foreign operations. These risks are partially covered by purchases and debt.

The Corporation manages the foreign exchange exposure by entering into various foreign exchange forward contracts and currency option instruments related to anticipated sales, purchases, interest expense and repayment of long-term debt. Management has implemented a policy for managing foreign exchange risk against its functional currency. The Corporation's risk management policy is to hedge 25% to 90% of anticipated cash flows in each major foreign currency for the next 12 months and to hedge 0% to 75% for the subsequent 24 months. The Corporation may designate these foreign exchange forward contracts as a cash flow hedge of future anticipated sales, purchases, interest expense and repayment of long-term debt denominated in foreign currencies. Gains or losses from these derivative financial instruments designated as hedges are recorded in Accumulated other comprehensive income (loss) net of related income taxes and are reclassified to earnings as adjustments to sales, cost of sales, interest expense or foreign exchange loss (gain) on long-term debt in the period in which the respective hedged item affected earnings.

In 2016, approximately 25% of sales from Canadian operations were made to the United States and 15% of sales from European operations were made in countries whose currencies were other than the euro.

The following table summarizes the Corporation's commitments to buy and sell foreign currencies as at December 31, 2016 and 2015:

				2016
	EXCHANGE RATE	MATURITY	NOTIONAL AMOUNT (IN MILLIONS)	FAIR VALUE (IN MILLIONS OF CANADIAN DOLLARS)
Repayment of long-term debt				
Derivatives at fair value through profit or loss and classified in Foreign exchange loss (gain) on long-term debt:				
Foreign exchange forward contracts to buy (US$ for CAN$)	**1.06**	**January 2020**	**US$ 50**	**13**
Currency option sold to sell US$ (US$ for CAN$)	**1.15**	**December 2017**	**US$ 75**	**(14)**
Currency option sold to sell US$ (US$ for CAN$)	**1.15**	**January 2020**	**US$ 100**	**(19)**
Currency option sold to buy US$ (US$ for CAN$)	**1.0225**	**January 2020**	**US$ 200**	**(2)**
Cross currency swap (US$ for CAN$)	**1.329**	**July 2023**	**US$ 102**	**(2)**
				(24)
Net investment hedge				
Cross currency swap (CAN$ for €)	**1.4263**	**December 2018**	**€ 95**	**1**
Forecasted sales				
Derivatives at fair value through profit or loss and classified in Loss on derivative financial instruments:				
Foreign exchange forward contracts to buy (US$ for CAN$)	**1.3543**	**0 to 12 months**	**US$ 20**	**—**
Currency option instruments to sell (US$ for CAN$)	**1.2709 to 1.2962**	**0 to 12 months**	**US$ 48 to 92**	**(6)**
Currency option instruments to sell (US$ for CAN$)	**1.3042 to 1.3461**	**13 to 24 months**	**US$ 15 to 40**	**(2)**
				(8)
				(31)

In 2016, the Corporation offset $12 million in derivative assets against $19 million in derivative liabilities as we intend to settle the derivatives on a net basis with one counterparty. During the year, the Corporation also received $3 million related to the settlement of a portion of its 2017 derivatives related to repayment of long-term debt.

				2015
	EXCHANGE RATE	MATURITY	NOTIONAL AMOUNT (IN MILLIONS)	FAIR VALUE (IN MILLIONS OF CANADIAN DOLLARS)
Repayment of long-term debt				
Derivatives at fair value through profit or loss and classified in Foreign exchange loss (gain) on long-term debt:				
Foreign exchange forward contracts to buy (US$ for CAN$)	0.9997	December 2017	US$ 150	54
Foreign exchange forward contracts to buy (US$ for CAN$)	1.06	January 2020	US$ 50	14
Currency option sold to sell US$ (US$ for CAN$)	1.1167	December 2017	US$ 300	(75)
Currency option sold to sell US$ (US$ for CAN$)	1.15	January 2020	US$ 100	(21)
Currency option sold to buy US$ (US$ for CAN$)	1.0225	January 2020	US$ 200	(2)
Cross currency swap (€ for US$)	1.05	February 2016	€ 80	(4)
				(34)
Forecasted sales				
Derivatives designated as cash flow hedges and reclassified in Sales (effective portion):				
Foreign exchange forward contracts to sell (GBP for €)	1.3141	0 to 12 months	€ 1	—
Foreign exchange forward contracts to sell (€ for US$)	1.0892	0 to 12 months	€ 1	—
				—
Derivatives at fair value through profit or loss and classified in Loss on derivative financial instruments:				
Foreign exchange forward contracts to sell (US$ for CAN$)	1.3882	0 to 12 months	US$ 20	—
Currency option instruments to sell (US$ for CAN$)	1.1434 to 1.1701	0 to 12 months	US$ 45 to 90	(19)
Currency option instruments to sell (US$ for CAN$)	1.2675 to 1.2839	13 to 24 months	US$ 35 to 60	(6)
Currency option instruments to sell (US$ for CAN$)	1.3705 to 1.4213	25 to 36 months	US$ 5 to 20	(1)
				(26)
				(60)

In 2015, the Corporation offset $14 million in derivative assets against $22 million in derivative liabilities as we intend to settle the derivatives on a net basis with one counterparty. For the same reason, the Corporation also offset $53 million of derivative liabilities against $54 million in derivative assets with another counterparty

The fair values of foreign exchange forward contracts and currency options are determined using the discounted value of the difference between the value of the contract at expiry calculated using the contracted exchange rate and the exchange rate the financial institution would use if it renegotiated the same contract under the same conditions as at the consolidated balance sheet date. The discount rates are adjusted for the credit risk of the Corporation or of the counterparty, as applicable. When determining credit risk adjustments, the Corporation considers master netting agreements, if applicable.

In 2016, if the Canadian dollar had strengthened by $0.01 against the US dollar on average for the year with all other variables held constant, operating income before depreciation for the year would have been approximately $3 million lower. This is based on the net exposure of total US sales less US purchases of the Corporation's Canadian operations, and operating income before depreciation of the Corporation's US operations, but excludes the effect of this change on the denominated working capital components. The interest expense would have remained relatively stable.

In 2016, if the Canadian dollar had strengthened by $0.02 against the euro with all other variables held constant, operating income before depreciation for the year would have been approximately $1 million lower following the translation of operating income of the Corporation's European operations.

CURRENCY RISK ON TRANSLATION OF SELF-SUSTAINING FOREIGN SUBSIDIARIES

The Corporation has certain investments in foreign operations whose net assets are exposed to foreign currency translation risk. The Corporation may designate part of its long-term debt denominated in foreign currencies as a hedge of the net investment in self-sustaining foreign subsidiaries. Gains or losses resulting from the translation to Canadian dollars of long-term debt denominated in foreign currencies and designated as net investment hedges are recorded in Accumulated other comprehensive income (loss), net of related income taxes.

The table below shows the effect on consolidated equity of a 10% change in the value of the Canadian dollar against the US dollar and the euro as at December 31, 2016 and 2015. The calculation includes the effect of currency hedges of net investment in US foreign entities and assumes that no changes occurred other than a single currency exchange rate movement.

The exposures used in the calculations are the foreign currency-denominated equity and the hedging level as at December 31, 2016 and 2015, with the hedging instruments being the long-term debt denominated in US dollars.

Consolidated Shareholders' equity: Currency effect before tax of a 10% change:

			2016			2015
(in millions of Canadian dollars)	BEFORE HEDGES	HEDGES	NET IMPACT	BEFORE HEDGES	HEDGES	NET IMPACT
10% change in the CAN$/US$ rate	**107**	**73**	**34**	111	64	47
10% change in the CAN$/euro rate	**13**	**13**	**—**	1	—	1

(ii) Price risk

The Corporation is exposed to commodity price risk on old corrugated containers, electricity and natural gas. The Corporation uses derivative commodity contracts to help manage its production costs. The Corporation may designate these derivatives as cash flow hedges of anticipated purchases of raw material, natural gas and electricity. Gains or losses from these derivative financial instruments designated as hedges are recorded in Accumulated other comprehensive income (loss) net of related income taxes, and are reclassified to earnings as adjustments to Cost of sales in the same period, as the respective hedged item affects earnings.

The fair value of these contracts is as follows:

	2016		
	QUANTITY	MATURITY	FAIR VALUE (IN MILLIONS OF CANADIAN DOLLARS)
Forecasted purchases			
Derivatives designated as held for trading and reclassified in Cost of sales			
Electricity	**109,500 MWh**	**2017 to 2018**	**(1)**
Derivatives designated as cash flow hedges and reclassified in Cost of sales (effective portion)			
Natural gas:			
Canadian portfolio	**4,658,660 GJ**	**2017 to 2021**	**(4)**
US portfolio	**4,722,800 mmBtu**	**2017 to 2021**	**(1)**
			(6)

	2015		
	QUANTITY	MATURITY	FAIR VALUE (IN MILLIONS OF CANADIAN DOLLARS)
Forecasted purchases			
Derivatives designated as held for trading and reclassified in Cost of sales			
Electricity	127,284 MWh	2016 to 2017	(1)
Derivatives designated as cash flow hedges and reclassified in Cost of sales (effective portion)			
Natural gas:			
Canadian portfolio	7,735,000 GJ	2016 to 2019	(9)
US portfolio	4,004,100 mmBtu	2016 to 2020	(7)
			(17)

In 2013, the Corporation entered into an agreement to purchase steam. The agreement includes an embedded derivative and the fair value as at December 31, 2016 was $10 million (2015 - $11 million).

The fair value of derivative financial instruments other than options is established utilizing a discounted future expected cash flows method. Future expected cash flows are determined by reference to the forward price or rate prevailing on the assessment date of the underlying financial index (exchange or interest rate or commodity price) according to the contractual terms of the instrument. Future expected cash flows are discounted at an interest rate reflecting both the maturity of each flow and the credit risk of the party to the contract for which it represents a liability (subject to the application of relevant credit support enhancements). The fair value of derivative financial instruments that represent options is established utilizing similar methods that reflect the impact of the potential volatility of the financial index underlying the option on future expected cash flows.

The table below shows the effect of changes in the price of old corrugated containers, natural gas and electricity as at December 31, 2016 and 2015. The calculation includes the effect of price hedges of these commodities and assumes that no changes occurred other than a single change in price.

The exposures used in the calculations are the commodity consumption and the hedging level as at December 31, 2016 and 2015, with the hedging instruments being derivative commodity contracts.

Consolidated commodity consumption: Price change effect before tax:

	2016			2015		
(in millions of Canadian dollars[1])	BEFORE HEDGES	HEDGES	NET IMPACT	BEFORE HEDGES	HEDGES	NET IMPACT
US$15/s.t. change in recycled paper price	**32**	**—**	**32**	33	—	33
US$30/s.t. change in commercial pulp price	**6**	**—**	**6**	7	—	7
US$1/mmBTU. change in natural gas price	**12**	**6**	**6**	12	6	6
US$1/MWh change in electricity price	**2**	**—**	**2**	2	—	2

1 *Sensitivity calculated with an exchange rate of 1.33 CAN$/US$ for 2016 and 1.38 CAN$/US$ for 2015.*

(iii) Interest rate risk

The Corporation has no significant interest-bearing assets.

The Corporation's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Corporation to cash flow interest rate risk. Borrowings issued at fixed rates expose the Corporation to fair value interest rate risk.

When appropriate, the Corporation analyzes its interest rate risk exposure. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions, alternative financing and hedging. Based on these scenarios, the Corporation calculates the impact on earnings of a defined interest rate shift. For each simulation, the same interest rate shift is used for all currencies. The scenarios are run only for liabilities that represent the major interest-bearing positions. As at December 31, 2016, approximately 9% (2015 - 16%) of the Corporation's long-term debt was at variable rates.

Based on the outstanding long-term debt as at December 31, 2016 the impact on interest expense of a 1% change in rate would be approximately $1 million (impact on net earnings is approximately $1 million).

The Corporation holds interest rate swaps through RdM. These swaps are contracted to fix the interest rate on a notional amount of €38 million and are maturing from 2020 to 2023. Fair value of these agreements is nil as at December 31, 2016 (December 31, 2015 - nil). In 2015, the Corporation also had swaps for its North American operations (liability of $1 million).

(iv) Loss (gain) on derivative financial instruments is as follows:

(in millions of Canadian dollars)	**2016**	2015
Unrealized loss (gain) on derivative financial instruments	**(18)**	18
Realized loss on derivative financial instruments	**12**	10
	(6)	28

B. CREDIT RISK

Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions. The Corporation reduces this risk by dealing with credit worthy financial institutions.

The Corporation is exposed to credit risk on the accounts receivable from its customers. In order to reduce this risk, the Corporation's credit policies include the analysis of the financial position of its customers and the regular review of their credit limits. In addition, the Corporation believes there is no particular concentration of credit risk due to the geographic diversity of customers and the procedures for the management of commercial risks. Derivative financial instruments include an element of credit risk should the counterparty be unable to meet its obligations.

Trade receivables are recognized initially at fair value and are subsequently measured at amortized cost using the effective interest method, less provision for doubtful accounts. An allowance for doubtful accounts of trade receivables is established when there is objective evidence that the Corporation will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter into bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the trade receivable is impaired. Each trade receivable balance is evaluated separately to identify impairment. The amount of the allowance for doubtful accounts is the difference between the asset's carrying amount and the present value of estimated cash flows. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recorded in the consolidated statement of earnings in Selling and administrative expenses. When a trade receivable is not collectable, it is written off against the Provision for doubtful accounts. Subsequent recoveries of amounts previously written off are credited against Selling and administrative expenses in the consolidated statement of earnings.

Loans and notes receivables from business disposals are recognized at fair value. There is no past due amount as at December 31, 2016.

C. LIQUIDITY RISK

Liquidity risk is the risk that the Corporation will not be able to meet its obligations as they fall due. The following are the contractual maturities of financial liabilities as at December 31, 2016 and 2015:

						2016
(in millions of Canadian dollars)	CARRYING AMOUNT	CONTRACTUAL CASH FLOWS	LESS THAN ONE YEAR	BETWEEN ONE AND TWO YEARS	BETWEEN TWO AND FIVE YEARS	MORE THAN FIVE YEARS
Non-derivative financial liabilities:						
Bank loans and advances	**28**	**28**	**28**	**—**	**—**	**—**
Trade and other payables	**661**	**661**	**661**	**—**	**—**	**—**
Revolving credit facility	**90**	**95**	**2**	**2**	**91**	**—**
Unsecured senior notes	**1,324**	**1,735**	**74**	**74**	**464**	**1,123**
Other debts of subsidiaries	**62**	**71**	**14**	**13**	**25**	**19**
Other debts without recourse to the Corporation	**105**	**110**	**28**	**24**	**44**	**14**
Derivative financial liabilities	**39**	**39**	**23**	**5**	**9**	**2**
	2,309	**2,739**	**830**	**118**	**633**	**1,158**

						2015
(in millions of Canadian dollars)	CARRYING AMOUNT	CONTRACTUAL CASH FLOWS	LESS THAN ONE YEAR	BETWEEN ONE AND TWO YEARS	BETWEEN TWO AND FIVE YEARS	MORE THAN FIVE YEARS
Non-derivative financial liabilities:						
Bank loans and advances	37	37	37	—	—	—
Trade and other payables	613	613	613	—	—	—
Revolving credit facility	238	271	10	10	251	—
Unsecured senior notes	1,357	1,854	76	76	226	1,476
Other debts of subsidiaries	61	67	12	10	22	23
Other debts without recourse to the Corporation	106	106	25	24	46	11
Derivative financial liabilities	79	79	32	35	12	—
	2,491	3,027	805	155	557	1,510

As at December 31, 2016, the Corporation had unused credit facilities of $768 million (December 31, 2015 - $621 million), net of outstanding letters of credit of $26 million (December 31, 2015 - $26 million).

D. OTHER RISK

FACTORING OF ACCOUNTS RECEIVABLE

The Corporation sells its accounts receivable from one of its European subsidiaries through a factoring contract with a financial institution. The Corporation uses factoring of receivables as a source of financing by reducing its working capital requirements. When the receivables are sold, the Corporation removes them from the balance sheet, recognizes the amount received as the consideration for the transfer and records a loss on factoring which is included in Financing expense. As at December 31, 2016, the off-balance sheet impact of the factoring of receivables amounted to $31 million (€22 million). The Corporation expects to continue to sell receivables on an ongoing basis. Should it decide to discontinue this contract, its working capital and bank debt requirements would increase.

NOTE 28
COMMITMENTS

a. The Corporation leases various properties, vehicles, equipment and others under non-cancellable operating lease agreements.

Future minimum payments under operating leases are as follows:

(in millions of Canadian dollars)	**2016**	2015
No later than one year	**23**	24
Later than one year but no later than five years	**33**	39
More than five years	**9**	11

b. Capital and raw material commitments

Capital expenditures and raw material contracted at the end of the reporting date but not yet incurred are as follows:

				2016			2015
(in millions of Canadian dollars)	NOTE	PROPERTY, PLANT AND EQUIPMENT	INTANGIBLE ASSETS	RAW MATERIAL	PROPERTY, PLANT AND EQUIPMENT	INTANGIBLE ASSETS	RAW MATERIAL
No later than one year	29	**36**	**2**	**73**	24	2	75
Later than one year but no later than five years	29	**—**	**3**	**258**	1	4	301
More than five years	29	**—**	**1**	**—**	—	1	38
		36	**6**	**331**	25	7	414

NOTE 29
RELATED PARTY TRANSACTIONS

The Corporation entered into the following transactions with related parties:

(in millions of Canadian dollars)	JOINT VENTURES	ASSOCIATES
2016		
Sales to related parties	**151**	**89**
Purchases from related parties	**14**	**168**
2015		
Sales to related parties	112	77
Purchases from related parties	21	175

These transactions occurred in the normal course of operations and are measured at fair value.

In addition to related party balance presented in note 12, the following balances were outstanding at the end of the reporting period:

(in millions of Canadian dollars)	**December 31, 2016**	December 31, 2015
Receivables from related parties		
Joint ventures	**18**	17
Associates	**21**	13
Payables to related parties		
Joint ventures	**2**	9
Associates	**42**	22

The receivables from related parties arise mainly from sale transactions. The receivables are unsecured in nature and bear no interest. There are no provision held against receivables from related parties. The payables to related parties arise mainly from purchase transactions. The payables bear no interest.

Starting in June 2013, the Corporation entered into a take-or-pay agreement with its associate Greenpac. For a period of eight years, the Corporation has the obligation to purchase a minimum quantity of 340,000 short tons per year from Greenpac. If the Corporation fails to purchase the minimum quantity, it must compensate Greenpac for the lost gross margin on those short tons. Included in commitments in Note 28 is the minimum amount to be paid to Greenpac, which corresponds to the potential lost gross margin on 340,000 tons.

BOARD OF DIRECTORS

Cascades' Board of Directors (BoD) and management believe that quality corporate governance helps ensure that the Corporation is run efficiently and investor confidence is maintained. In order to stay the course in this regard, Cascades regularly reviews its governance practices to remain in compliance with applicable legislation and to improve efficiency.

The composition of the Board of Directors must be carefully determined since its responsibilities include ensuring good corporate governance, among other things. Cascades draws on the expertise of a highly experienced team of directors while recognizing the importance of independent directors. As of December 31, 2016, eight of the twelve Board members were independent. They meet at least once yearly with no non-independent directors or senior managers present. New BoD members are also offered an orientation and training program, to familiarize themselves with Cascades' activities as well as the issues and challenges it faces.

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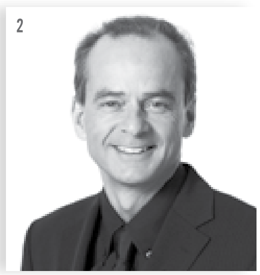

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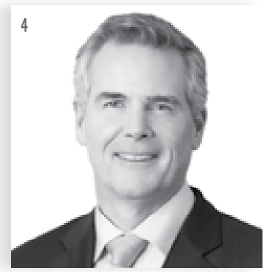

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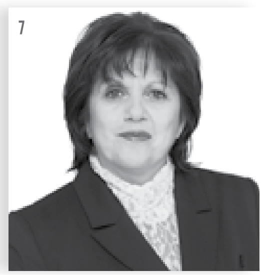

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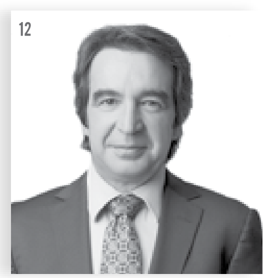


1
Alain Lemaire
Executive Chairman
of the Board
Kingsey Falls, Québec Canada
Director since 1967
Non-Independent

2
Louis Garneau
President
Louis Garneau Sports Inc.
Saint-Augustin-de-Desmaures
Québec Canada
Director since 1996
Independent

3
Sylvie Lemaire
Director of companies
Otterburn Park, Québec Canada
Director since 1999
Non-Independent

4
David McAusland
Partner
McCarthy Tétrault
Beaconsfield, Québec Canada
Director since 2003
Independent

5
Georges Kobrynsky
Director of companies
Outremont, Québec Canada
Director since 2010
Independent

6
Élise Pelletier
Director
Chambly, Québec Canada
Director since 2011
Independent

7
Sylvie Vachon
President and Chief
Executive Officer of
The Montréal Port Authority
Longueuil, Québec Canada
Director since 2013
Independent

8
Laurence G. Sellyn
Business Advisor and Consultant,
Corporate DIrector
Beaconsfield, Québec Canada
Director since 2013
Independent

9
Mario Plourde
President and Chief Executive
Officer of Cascades Inc.
Kingsey Falls, Québec Canada
Director since 2014
Non-Independent

10
Michelle Cormier
Consultant, Wynnchurch
Capital Canada
Montréal, Québec Canada
Director since 2016
Independent

11
Martin Couture
President and Chief Executive
Officer, Sanimax Inc. (Canada)
Montréal, Québec Canada
Director since 2016
Independent

12
Patrick Lemaire
President and Chief Executive
Officer, Boralex Inc.
Kingsey Falls, Québec Canada
Director since 2016
Non-Independent

HISTORICAL FINANCIAL INFORMATION - 10 YEARS

For the years ended December 31, (in millions of Canadian dollars, except per-common share amounts and ratios) (unaudited) Financial information is not adjusted to reclassify the impact of discontinued operations, if any, and IFRS for years ended prior to 2011.	IFRS **2016**	IFRS 2015
Highlights - Consolidated Results		
Sales	**4,001**	3,885
Cost of sales and expenses	**3,598**	3,462
Adjusted operating income before depreciation and amortization (OIBD adjusted)	**403**	423
Depreciation and amortization	**192**	190
Adjusted operating income	**211**	233
Financing expense and interest expense on employee future benefits	**93**	97
Foreign exchange loss (gain) on long-term debt and financial instruments	**(22)**	91
Specific items	**(10)**	99
	150	(54)
Provision for (recovery of) income taxes	**45**	39
Share of results of associates and joint ventures	**(32)**	(37)
Net earnings (loss) attributable to non-controlling interests	**2**	9
Net earnings (loss)	**135**	(65)
Net earnings (loss) per common share	**$ 1.42**	$ (0.69)
Highlights - Consolidated Cash Flow		
Cash flow generated by operating activities	**372**	270
Cash flow from operations	**316**	307
per common share	**$ 3.34**	$ 3.28
Purchases of property, plant and equipment net of proceeds on disposal	**177**	156
Business acquisitions and cash from a joint venture	**16**	—
Proceed from business disposals	**—**	(40)
Net change in long-term debt	**153**	100
Dividends on common shares	**15**	15
per common share	**$ 0.16**	$ 0.16
Dividend yield	**1.3%**	1.3 %
Highlights - Consolidated Balance Sheet (As at December 31)		
Current assets less current liabilities	**316**	398
Property, plant & equipment	**1,618**	1,608
Total assets	**3,813**	3,848
Total long-term debt	**1,566**	1,744
Non-controlling interests	**90**	96
Shareholders' equity	**984**	867
per common share	**$ 10.41**	$ 9.10
Stock Market Highlights		
Shares issued and outstanding (in millions)	**94.5**	95.3
Trading volume (in millions)	**43.5**	39.7
Market capitalization	**1,144**	1,211
Closing price	**$ 12.10**	$ 12.71
High	**$ 13.67**	$ 13.00
Low	**$ 7.72**	$ 6.49
Key Financial Ratios		
Net earnings (loss)/sales	**3.4%**	(1.7)%
Sales/total assets*	**1.0x**	1.0x
Total assets/average Shareholders' equity*	**4.1x**	4.4x
Return on Shareholder's equity*	**14.6%**	(7.4)%
Return on total assets (OIBD/average total assets)*	**10.5%**	11.2 %
OIBD/sales	**10.1%**	10.9 %
OIBD/interest	**4.3x**	4.4x
Current assets less current liabilities/sales*	**7.9%**	10.2 %
Net debt/OIBD*	**3.8x**	4.1x
Total debt/total debt + Shareholders' equity	**61.8%**	67.3 %
Price to earnings	**8.5x**	N/A
Price to book value	**1.2x**	1.4x

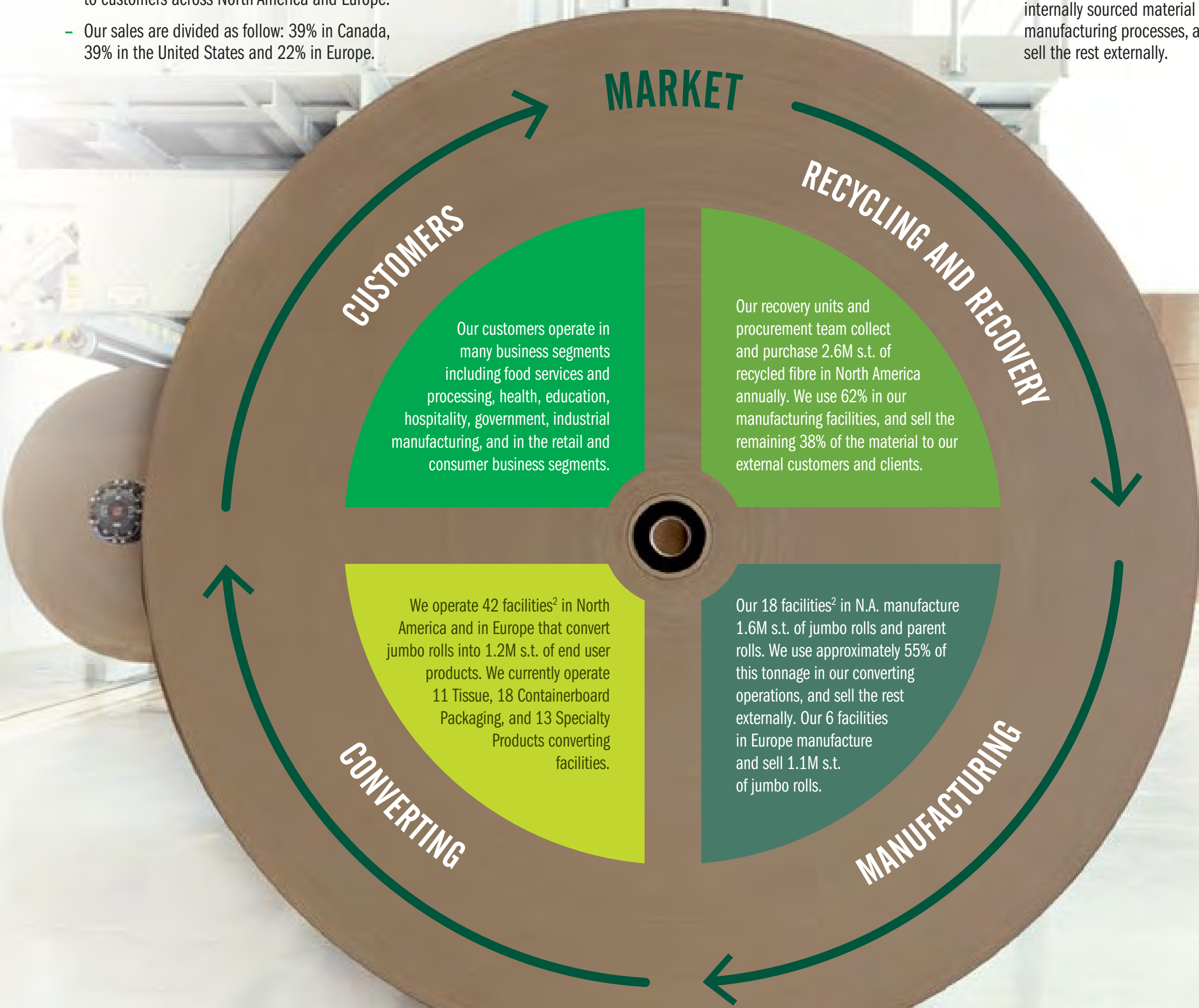
IFRS	IFRS	IFRS	IFRS				
2014	2013	2012	2011	2010	2009	2008	2007
3,953	3,849	3,645	3,760	3,959	3,877	4,025	4,033
3,595	3,497	3,341	3,517	3,561	3,412	3,720	3,693
358	352	304	243	398	465	305	340
183	182	199	186	212	218	213	208
175	170	105	57	186	247	92	132
108	115	115	100	112	118	103	106
30	(2)	(8)	(4)	4	31	24	(59)
191	28	33	(148)	65	33	54	7
(154)	29	(35)	109	5	65	(89)	78
(11)	12	(4)	27	—	23	(29)	6
—	3	(2)	(14)	(15)	(17)	(8)	(27)
4	3	(7)	(3)	3	(1)	2	3
(147)	11	(22)	99	17	60	(54)	96
$ (1.57)	$ 0.11	$ (0.23)	$ 1.03	$ 0.18	$ 0.61	$ (0.55)	$ 0.96
250	232	199	115	228	355	126	53
251	226	154	121	246	303	150	163
$ 2.67	$ 2.41	$ 1.64	$ 1.26	$ 2.54	$ 3.10	$ 1.52	$ 1.64
172	136	141	110	131	171	184	169
—	—	14	60	3	69	(5)	10
(36)	—	—	(292)	—	—	47	37
88	(30)	(54)	143	30	59	149	91
15	15	15	15	16	16	16	16
$ 0.16	$ 0.16	$ 0.16	$ 0.16	$ 0.16	$ 0.16	$ 0.16	$ 0.16
2.3 %	2.3%	3.9 %	3.6%	2.4%	1.8%	4.6 %	1.9%
308	414	295	400	479	484	522	581
1,592	1,684	1,659	1,703	1,777	1,912	2,030	1,886
3,673	3,831	3,694	3,728	3,724	3,792	4,031	3,769
1,596	1,579	1,475	1,407	1,395	1,469	1,708	1,574
110	113	116	136	24	21	22	25
893	1,081	978	1,029	1,257	1,304	1,256	1,199
$ 9.48	$ 11.52	$ 10.42	$ 10.87	$ 13.01	$ 13.41	$ 12.74	$ 12.09
94.2	93.9	93.9	94.6	96.6	97.2	98.5	99.1
45.0	25.2	20.2	33.8	57.7	79.8	39.8	63.2
661	646	385	419	647	869	339	837
$ 7.02	$ 6.88	$ 4.10	$ 4.43	$ 6.70	$ 8.94	$ 3.44	$ 8.44
$ 7.60	$ 6.92	$ 5.18	$ 7.75	$ 9.80	$ 9.10	$ 8.90	$ 15.80
$ 5.64	$ 4.07	$ 3.85	$ 3.51	$ 5.71	$ 1.70	$ 3.00	$ 7.46
(3.7)%	0.3%	(0.6)%	2.6%	0.4%	1.5%	(1.3)%	2.4%
1.1x	1.0x	1.0x	1.0x	1.1x	1.0x	1.0x	1.1x
3.7x	3.7x	3.7x	3.3x	2.9x	3.0x	3.3x	3.2x
(14.9)%	1.1%	(2.2)%	8.7%	1.3%	4.7%	(4.4)%	8.1%
9.5 %	9.4%	8.2 %	6.5%	10.6%	11.9%	7.8 %	8.9%
9.1 %	9.1%	8.3 %	6.5%	10.1%	12.0%	7.6 %	8.4%
3.3x	3.1x	2.6x	2.4x	3.6x	3.9x	3.0x	3.2x
7.8 %	10.8%	8.1 %	10.6%	12.1%	12.5%	13.0 %	14.4%
4.5x	4.6x	5.0x	6.1x	3.6x	3.3x	5.9x	4.7x
64.8 %	60.2%	61.4 %	59.3%	53.7%	54.3%	59.1 %	57.5%
N/A	62.5x	N/A	4.3x	37.2x	14.7x	N/A	8.8x
0.7x	0.6x	0.4x	0.4x	0.5x	0.7x	0.3x	0.7x

RECYCLABLE MATERIALS RECYCLED PRODUCTS

It's not enough to give recovered materials a second life; we also need to be thinking of their third, fourth, fifth lives... and so on. This is the foundation of the Cascades business model—the "closed-loop system[1]"—which, over time, has become a key strategic asset. Recovered materials are converted into product, the product is then recycled and once again becomes recovered materials. This wheel, in its never-ending cycle, is what has enabled the Corporation to establish its position as leader in the North American recovered paper industry. Just another green success by Cascades.

- Today, we manufacture and sell our wide range of products to customers across North America and Europe.
- Our sales are divided as follow: 39% in Canada, 39% in the United States and 22% in Europe.

- 1.2M s.t. of recycled material are purchased externally (68% brown, 23% white, 9% groundwood)
- We collect 1.4M s.t. of recycled material via our 19 recovery units. We use 29% of this internally sourced material in our manufacturing processes, and broker and sell the rest externally.



- Our tissue products serve both the retail and away-from-home markets.
- Our Containerboard Packaging Group makes industrial, commercial and food packaging products.
- Products made by our Specialty Products Group cater to the industrial and consumer products packaging industries.

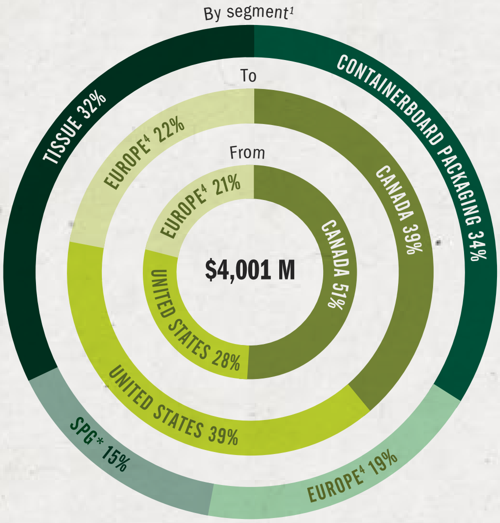
- We use 1.6 M s.t. of recycled fibre in our North American business annually as well as 0.2 M s.t. of virgin pulp.
- Our European Boxboard business uses an additional 1.0 M s.t.of recycled fibre and 0.1 M s.t. of virgin pulp.

1 2016 including 100% of Reno de Medici, a public Italian company, in which the Corporation holds a 57.7% equity interest. Excluding associates and joint ventures.
2 Including the integrated tissue paper manufacturing and converting facilities.

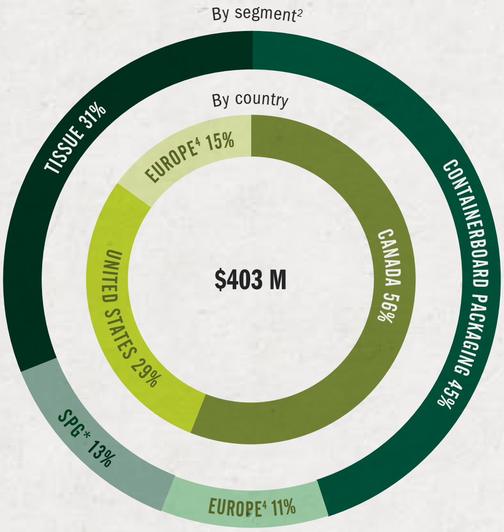
MARKET DISTRIBUTION OF OUR OPERATIONS

By concentrating our activities in two sectors with strong future prospects, we are able to weather market fluctuations with greater confidence. Our diversified portfolio gives us the latitude to invest in the most promising areas within our industries, thus strengthening our position as an important North American manufacturer and converter of corrugated board, tissue papers and specialty packaging products.

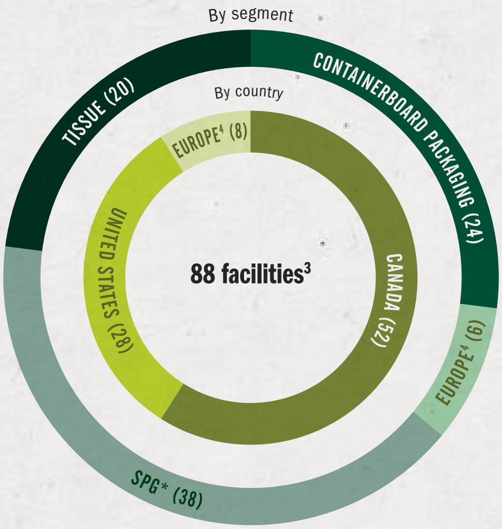
SALES



ADJUSTED OIBD

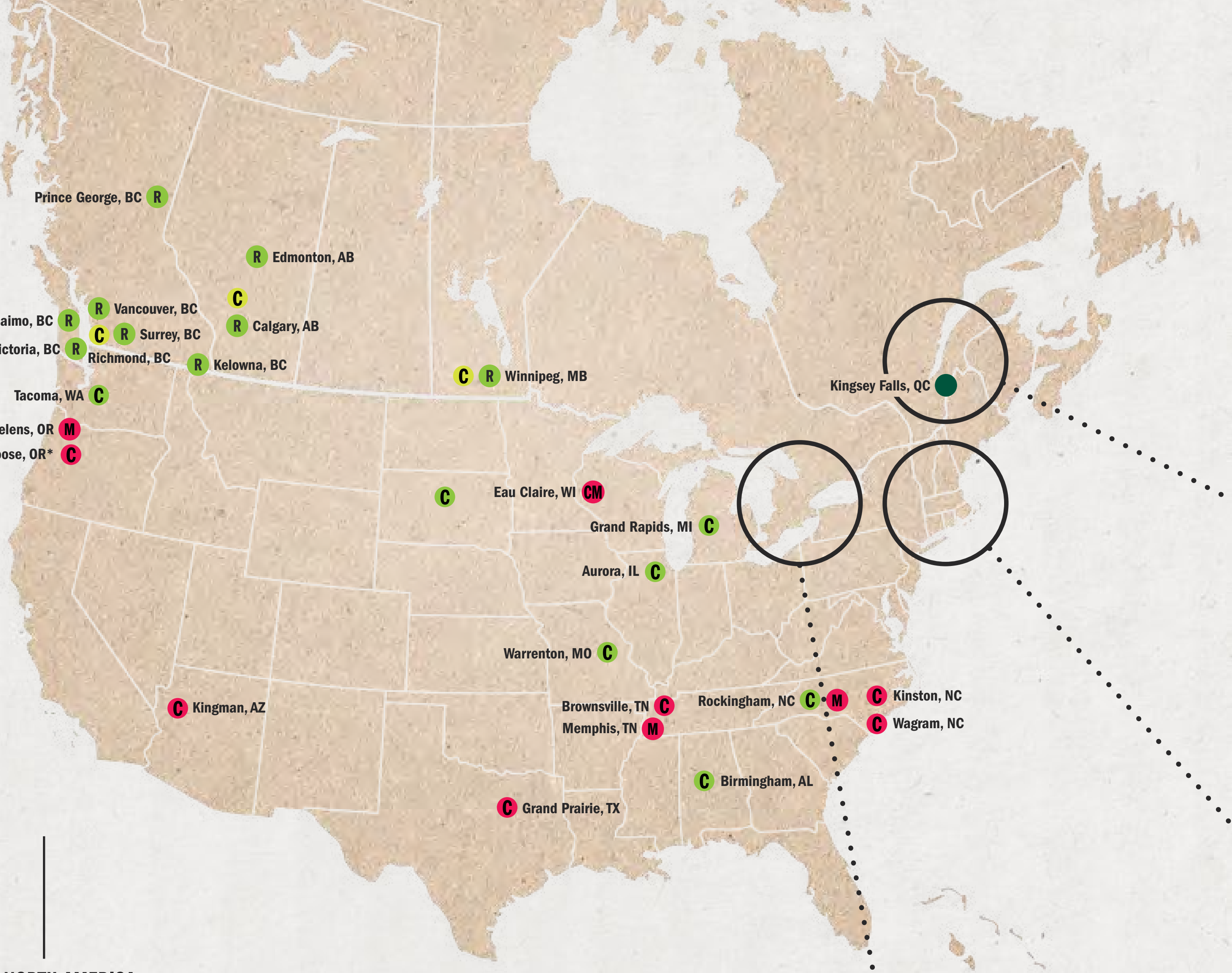


PRODUCTION FACILITIES

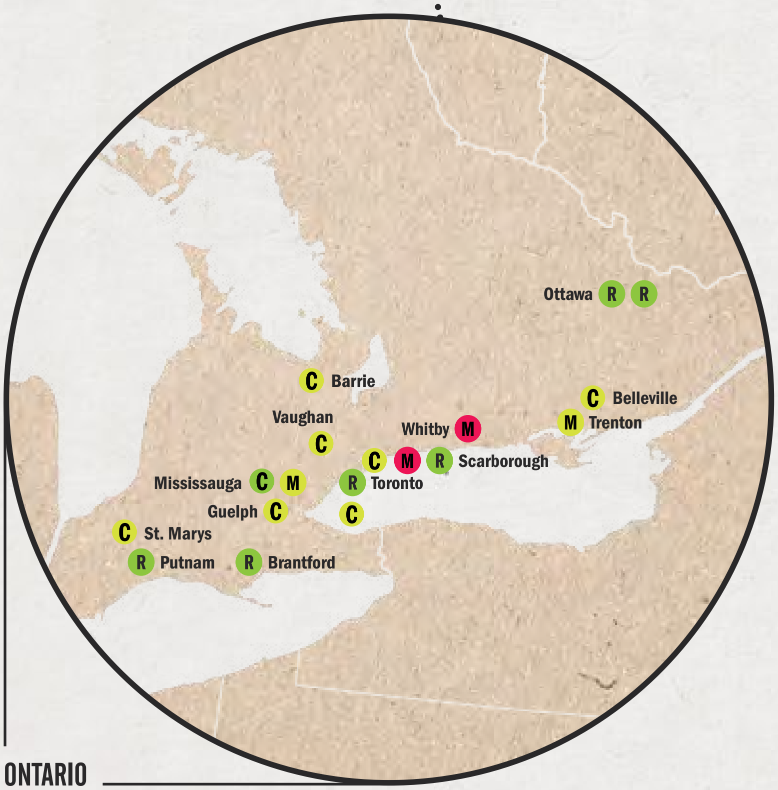


1 Before inter-segment sales and corporate activities.
2 Before corporate activities.
3 Including associates and joint ventures.
4 Via our 57.7% equity ownership in Reno de Medici S.p.A., a public Italian company traded on the Milan and Madrid stock exchanges.
* Specialty Products Group

CASCADES WORLDWIDE



NORTH AMERICA



ONTARIO

LEGEND

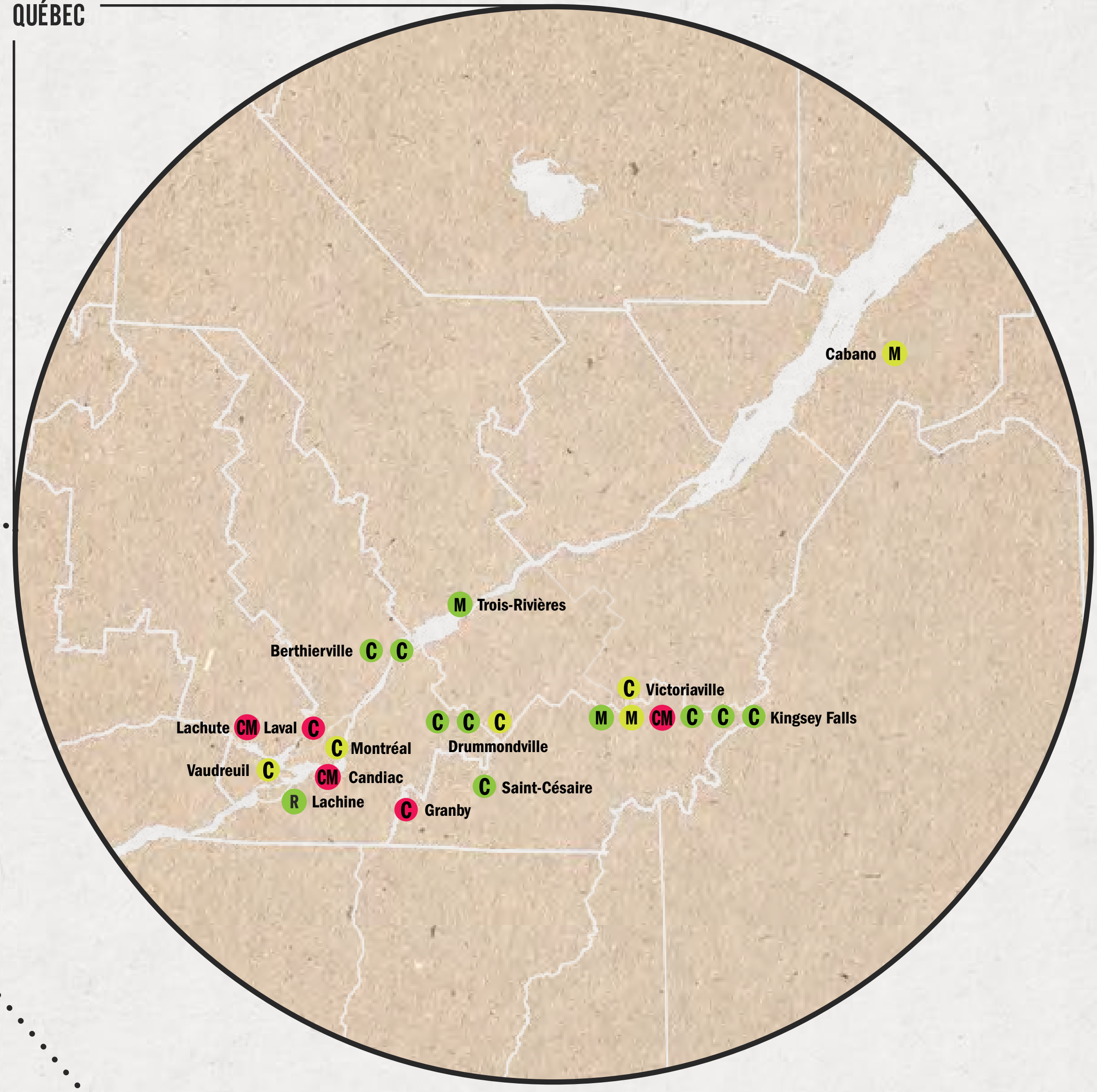
- Head Office
- Containerboard Packaging Group
- Boxboard Europe Group[1]
- Specialty Products Group
- Tissue Group

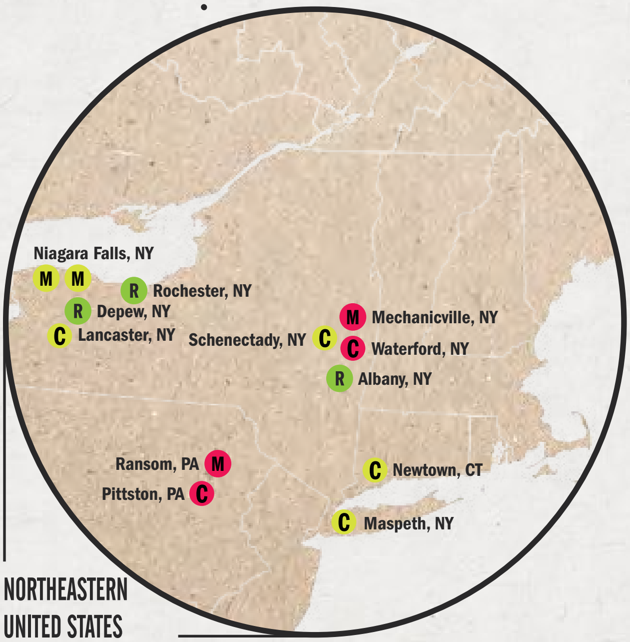
—

M Manufacturing facility
C Converting facility
CM Converting and manufacturing facility
R Recovery facility
* Startup expected in Q1-2017

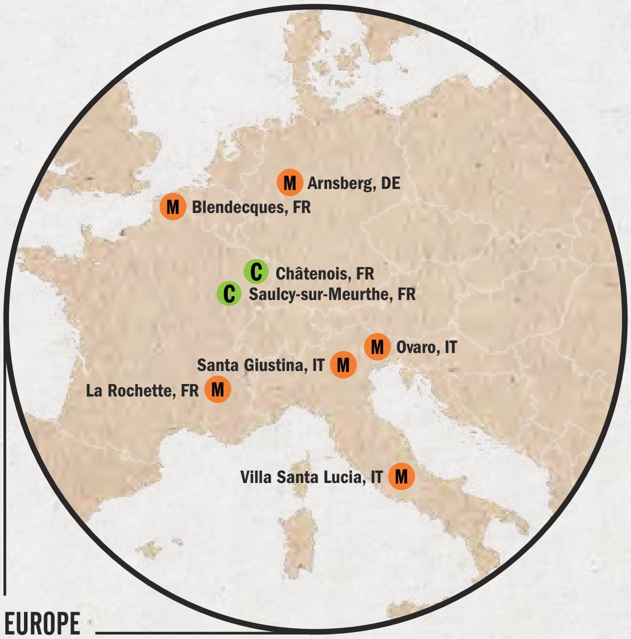
1 Via our 57.7% equity ownership in Reno de Medici S.p.A., a public Italian company traded on the Milan and Madrid stock exchanges.

QUÉBEC





NORTHEASTERN UNITED STATES



EUROPE

Cascades

CASCADES.COM

Printed on **Rolland EnviroMC Satin**, 60 lb. Text and **Rolland EnviroMC Print**, 80 lb. The cover is certified Processed Chlorine Free and is made from 100% postconsumer fibre. All papers are certified FSC® and EcoLogo and are made from renewable biogas energy.

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Photography: **Brühmüller photographe**

Printed in Canada