

The Depository Trust Company  
**IMPORTANT**

**B#:** 2945-08  
**DATE:** February 4, 2008  
**TO:** All Participants  
**CATEGORY:** Dividends  
**FROM:** Specialist, Stock Dividend Department  
**ATTENTION:** Dividend Managers, Cashiers, and Reorganization Managers  
**SUBJECT:** Rights: Tembec Inc.  
Type of Right: Shareholder Rights Plan

\*\*\*\*\***POISON PILL NOTICE**\*\*\*\*\*

Tembec Inc. (the “Company”) has declared a Shareholder Rights Plan Agreement (the “Rights Plan”) to shareholders. The Rights Plan is designed to prevent the use of coercive and/or abusive takeover techniques and to encourage any potential acquirer to negotiate directly with the Board of Directors for the benefit of all shareholders.

For more information see the attached letters provided by the company.

If participants have any questions in regarding this Important Notice, please contact DTC’s Customer Service Helpline at (888) 360-3822.

After the occurrence of a Flip-In Event, each Right (other than those that are void) will permit the holder to purchase New Common Shares with a total market value of \$200.00 on payment of \$100.00.

#### ***Permitted Bid Requirements***

The requirements of a Permitted Bid include the following:

- (a) the take-over bid must be made by way of a take-over bid circular;
- (b) the take-over bid must be made to all holders of New Common Shares (other than New Common Shares held by the Offeror (as defined in the Rights Plan)) on the same terms and for the same consideration;
- (c) the take-over bid must contain, and the take-up and payment for securities tendered or deposited thereunder is subject to, irrevocable and unqualified provisions that (A) no New Common Shares shall be taken up or paid for pursuant to the take-over bid prior to the close of business on the date which is not less than 60 days following the date of the take-over bid and (B) no New Common Shares shall be taken up or paid for pursuant to the take-over bid unless, at the date referred to in (A) above, not less than fifty percent (50%) of the aggregate outstanding New Common Shares held by Independent Shareholders (as defined in the Rights Plan) shall have been deposited or tendered pursuant to the take-over bid and not withdrawn;
- (d) the take-over bid must contain an irrevocable and unqualified provision that New Common Shares may be deposited pursuant to such take-over bid at any time prior to the close of business on the date of first take-up or payment for New Common Shares and that any New Common Shares deposited pursuant to the take-over bid may be withdrawn at any time prior to the close of business on such date; and
- (e) the take-over bid must contain an irrevocable and unqualified provision that if, on the date on which New Common Shares may be taken up or paid for, not less than fifty percent (50%) of the aggregate outstanding New Common Shares held by Independent Shareholders shall have been deposited or tendered pursuant to the take-over bid and not withdrawn, the Offeror will make a public announcement of that fact and the take-over bid will be extended on the same terms for deposits and tenders of New Common Shares for a period of not less than ten Business Days from the date of such public announcement.

The usual provisions regarding "permitted lock-up agreements" are included in the Rights Plan.

The Rights Plan allows a competing Permitted Bid (a "**Competing Bid**") to be made while a Permitted Bid is in existence. A Competing Bid must satisfy all the requirements of a Permitted Bid.

#### ***Waiver and Redemption***

The Board of Directors may, at any time prior to a Flip-In Event, waive the dilutive effects of the Rights Plan in respect of a particular Flip-In Event in respect of a take-over bid to all holders of New Common Shares. At any time prior to the occurrence of a Flip-In Event, the Board of Directors may redeem all, but not less than all, of the then outstanding Rights at a price of \$0.00001 each.

#### ***Court Approval and Completion of the Arrangement***

The Arrangement requires approval by the Court. Prior to the mailing of this Circular, New Tembec, Tembec Industries and TEI obtained the Interim Order providing for the calling and holding of the Noteholder Meeting and other procedural matters. A copy of the Interim Order is attached hereto as Appendix "C". The Notice of Application applying for the Final Order also appears in Appendix "C" and forms part of this Circular.

Tembec has advised the Court that securities issued pursuant to the Plan of Arrangement will be issued in reliance upon the exemption from registration under the 1933 Act provided by Section 3(a)(10) thereunder, upon the Court's approval of the Arrangement.

Subject to the approval of the Arrangement by the Securityholders, the hearing in respect of the Final Order is scheduled to take place on February 27, 2008 at 10:00 a.m. (Toronto time) at the courthouse at 330 University Avenue, Toronto, Ontario, Canada. Any Securityholder who wishes to appear or be represented and to present evidence or arguments at the hearing must serve and file with the Court a Notice of Appearance as set out in the Notice of Application for the Final Order and serve such Notice of Appearance on the solicitors for New Tembec, Tembec Industries and TEI and satisfy any other requirements of the Court as provided in the Interim Order or otherwise. The Court will consider, among other things, the fairness and reasonableness of the Arrangement and the approval of the Noteholders' Arrangement Resolution at the Noteholders' Meeting.

## Description of Rights Plan

### *General*

The objective of the proposed shareholders' rights plan for New Tembec (the "**Rights Plan**") is to ensure, to the extent possible, that all shareholders will be treated equally and fairly in connection with any take-over offer for New Tembec.

The Rights Plan is designed to prevent the use of coercive and/or abusive takeover techniques and to encourage any potential acquiror to negotiate directly with the Board of Directors for the benefit of all shareholders. In addition, the Rights Plan is intended to provide increased assurance that a potential acquiror would pay an appropriate control premium in connection with any acquisition of New Tembec. Nevertheless, the Rights Plan could be utilized, under certain circumstances, as a method of discouraging, delaying or preventing a change of control. The Rights Plan could make it more difficult for a third party to acquire control of New Tembec, even if such change in control would be beneficial to shareholders.

The Rights Plan utilizes the mechanism of Permitted Bid (as hereinafter described) to attempt to ensure that a person seeking to acquire beneficial ownership of 20% or more of the New Common Shares (including New Common Shares received on the Effective Date pursuant to the Recapitalization), gives shareholders and the Board of Directors sufficient time to evaluate the transaction, negotiate with the proposed acquiror, encourage competing bids to emerge, and ensure that all alternatives to the transaction designed to maximize shareholder value have been considered.

The purpose of the Rights Plan is to provide the Board of Directors with time to review any unsolicited take-over bid that may be made and to take action, if appropriate, to enhance shareholder value. The Rights Plan attempts to protect shareholders by requiring all potential bidders to comply with the conditions specified in the Permitted Bid provisions, failing which such bidders are subject to the dilutive features of the Rights Plan. By creating the potential for substantial dilution of a bidder's position, the Rights Plan encourages an offeror to proceed by way of a Permitted Bid or to approach the Board of Directors with a view to a negotiation.

The Rights Plan will be implemented on the Effective Date if the Combined Rights Plan Resolution is passed at the Meetings. The term of the Rights Plan is until the termination of New Tembec's 2013 annual shareholders meeting.

The following description of the Rights Plan is qualified in its entirety by the terms of the Shareholder Rights Plan Agreement (the "**Rights Agreement**") between New Tembec and Computershare Trust Company of Canada.

### *Operation of the Rights Plan*

Pursuant to the Rights Agreement, one right (the "**Right**") will be issued in respect of each New Common Share outstanding as of the Effective Date, immediately following the implementation of the Recapitalization. In addition, one Right will be issued for each additional New Common Share issued thereafter and prior to the earlier of the Separation Time (as defined below) and the time at which the right to exercise Rights terminates under the Rights Agreement. Each Right initially entitles the registered holder thereof to purchase from New Tembec one New Common Share at a price of \$100.00, subject to certain anti-dilution adjustments. The Rights are not exercisable until the Separation Time.

### *Trading and Exercise of Rights*

Until the Separation Time, the Rights trade together with the New Common Shares and are represented by the New Common Share certificates or Rights certificates. After the Separation Time, the Rights are exercisable, and are transferable separately from the Shares. "**Separation Time**" means the close of business on the tenth (10th) trading day after the earlier of (i) the first date of public announcement by New Tembec or an offeror or an Acquiring Person (as defined below) of facts indicating that a person has become an Acquiring Person, (ii) the date of the commencement of, or first public announcement of, the intent of any person to commence a take-over bid (other than a Permitted Bid), and (iii) the date on which a Permitted Bid or Competing Bid (as defined below) ceases to qualify as such, or (iv) such later date as may be determined by the Board of Directors or any committee designated by the Board.

### *Flip-In Event*

The acquisition by a person (an "**Acquiring Person**"), including others acting jointly or in concert, of beneficial ownership of 20% of the New Common Shares (including New Common Shares received on the Effective Date pursuant to the Recapitalization) other than by way of a Permitted Bid is referred to as a "**Flip-In Event**". Any Rights beneficially owned by an Acquiring Person upon the occurrence of any Flip-In Event will be void, as will any Rights beneficially owned by associates, affiliates or persons acting jointly or in concert with an Acquiring Person, and transferees thereof.



January 25, 2008

To the holders of: 8.625% Senior Unsecured Notes due 2009;  
8.50% Senior Unsecured Notes due 2011; and  
7.75% Senior Unsecured Notes due 2012;  
of Tembec Industries Inc.

And to the holders of: Common Shares of Tembec Inc.

As stated in our most recent Annual Report, Tembec Inc. (the "**Company**") has been proactively exploring strategic alternatives to improve its capital structure and enhance liquidity for some time. We are pleased to report that we have made substantial progress in this regard and, in the accompanying management proxy circular (the "**Circular**"), we propose a series of transactions (the "**Recapitalization**") that we believe will achieve these objectives.

During the second half of 2007, Tembec participated in periodic discussions with a number of holders of the senior unsecured notes with a view to structuring a recapitalization transaction. The proposed Recapitalization has evolved from those discussions as a means by which the Company can substantially reduce its debt and associated interest costs while improving its available liquidity in a consensual process.

The Recapitalization contemplates the following key elements:

- Conversion of US\$1.2 billion of Tembec's debt into equity of a new entity referred to in the Circular as "New Tembec";
- Noteholders will receive 88% of the equity of New Tembec in full settlement of their notes;
- An additional 7% of the equity of New Tembec will be allocated to Noteholders who backstop the new loan described below;
- Existing shareholders will receive 5% of the equity of New Tembec. Existing shareholders will also receive "cashless" warrants to acquire additional shares;
- Implementation of a new four year term loan of US\$300 million to provide additional liquidity; and
- Business as usual for employees, trade creditors and customers. They will not be affected by the Recapitalization.

The management and Board of Directors of Tembec believes that the proposed Recapitalization will benefit the Company by:

- Normalizing its capital structure by reducing net debt by US\$1.2 billion;
- Reducing annual interest costs by approximately Cdn.\$67 million; and
- Improving liquidity with the implementation of a new four year term loan of US\$300 million to fund the ongoing implementation of Tembec's business plan.

The management of Tembec and Tembec's Board of Directors believes that, in view of the challenges posed by the existing capital structure, the Recapitalization is the best alternative available to all classes of securityholders. The Board of Directors has received an opinion (the "**Fairness Opinion**") from BMO Capital Markets, financial advisor to the Company, that the Recapitalization is fair from a financial point of view to the Company. The Company's stakeholders are encouraged to read the Fairness Opinion carefully in its entirety, which is appended as Appendix "E" to the accompanying Circular.

As of December 31, 2007, noteholders have executed support agreements whereby they have agreed to vote approximately US\$774 million of notes in favour of and to support the Recapitalization.

You will be asked to approve the Recapitalization at the meetings scheduled to be held on February 22, 2008.

Management of the Company and the Board of Directors believe that it is extremely important that the Recapitalization be approved and implemented. We urge you to give serious attention to the Recapitalization and to support it in person or by proxy at the appropriate meeting on February 22, 2008. The current proposal is integral to our objective of normalizing Tembec's capital structure, enhancing liquidity, and positioning Tembec for future growth and