

**Best Practices Protocol Relating to the Debt Securities of Tembec Industries Inc.
(February 29, 2008)**

The following Best Practices Protocol (“Protocol”) sets forth the understanding of Bear, Stearns Securities Corp., Deutsche Bank Securities Inc., Goldman, Sachs & Co., Morgan Stanley & Co. Incorporated and Merrill Lynch, Pierce, Fenner & Smith Incorporated (the “Broker-Dealers”) as to the appropriate treatment of open stock loans and rehypothecations, in each case, in existence as of the close of business on January 21, 2008 (the “Record Date”), with respect to the 8.625% Senior Unsecured Notes due 2009, 8.50% Senior Unsecured Notes due 2011 and 7.75% Senior Unsecured Notes due 2012 (collectively, the “Old Notes”) of Tembec Industries Inc. (“Old Tembec”). This Protocol addresses the treatment of the USD \$300,000,000 four-year term loan (the “New Loan”) of Tembec Holdings Inc. (“New Tembec”) that a Long Holder (as defined below) would have been entitled to acquire had such Long Holder been a holder of the Old Notes as of the Record Date. This Protocol does not address the treatment of the new common shares (the “New Common Shares”) that a Long Holder would have been entitled to receive from New Tembec had such Long Holder been a holder of the Old Notes as of the Record Date.

This Protocol reflects the understanding of the Broker-Dealers that the recapitalization of Old Tembec and the distribution of the New Loan and New Common Shares constitute a “distribution” (or equivalent term that may be used) on the Old Notes under the applicable stock loan, prime brokerage or other applicable agreement.

Until any fail to deliver is closed out in accordance with any applicable regulatory requirements, the Broker-Dealers will be governed by this Protocol in addressing the fail to deliver in existence as of the Record Date, with the party failing to receive treated as a Long Holder and the party failing to deliver as the Borrower (as defined below).

Treatment of Long Holders

This Protocol applies to persons who were holders of Old Notes that had been rehypothecated or loaned out as of the Record Date and have elected to participate on an economic basis in the distribution of the New Loan and New Common Shares, including any Broker-Dealer that loaned or otherwise transferred the Old Notes to another person as of the Record Date (each, a “Long Holder”). To participate, the Long Holder must initially deposit USD \$250,000 in cash per USD \$1,000,000 of Old Notes (the “Deposit”) with the counterparty to the stock loan or the person who rehypothecated the Old Notes on or prior to the Record Date (the “Borrower”). The Deposit (the “Synthetic New Loan”) constitutes a loan to the Borrower with the same maturity and interest rate as the New Loan.

Upon making the Deposit with the Borrower, the Long Holder will be entitled to receive from the Borrower payments equal to all payments of interest, principal and other distributions on the Synthetic New Loan as, and only to the extent,

such corresponding payments or distributions are made by New Tembec on the New Loan. Likewise, the Long Holder will bear the risk of loss relating to the Synthetic New Loan, including the loss of the Deposit to the extent of a failure by New Tembec to pay principal or interest on the New Loan. The Long Holder, however, will have no direct rights against New Tembec, including voting or other consensual rights, with respect to the Synthetic New Loan. It is understood that the position of the Long Holder is only an economic or synthetic position and is not an obligation of New Tembec nor secured by any assets of New Tembec.

Treatment of Borrowers

Upon receiving the Deposit, the Borrower will be responsible for making payments to the Long Holder equal to all payments or distributions made by New Tembec to actual holders of the New Loan as promptly as reasonably practical after such payments or distributions are made. The Borrower will not be required to provide any voting or other consensual rights with respect to the New Loan to the Long Holder.

Margin or Other Collateral Arrangements

It is understood that Broker-Dealers may be both Long Holders and Borrowers and that collateral arrangements between any Broker-Dealer, on the one hand, and any Long Holder or Borrower, on the other, will be governed by the existing collateral arrangements and associated market practices, including pricing methodologies. However, it is contemplated that, in the case of margin accounts subject to Regulation T of the Board of Governors of the Federal Reserve System, the Deposit will be deposited in the Borrower's margin account against a debit equal to the face amount of the New Loan.

Close-Out of Borrowings or Rehypothecations

Upon a demand of a Long Holder to deliver to it the New Loan or a sale of the New Loan by a Long Holder (a "Recall"), the Borrower must satisfy that Recall within 12 days of the effective date of the notice. Transfer of the New Loan shall be by the assignment documentation required by the New Loan.

Record Keeping

The economic entitlement of the Long Holder and the obligation of the Borrower to the Long Holder shall be represented by CUSIP No. 87999AJY4. The rights of a Long Holder and the obligations of the Borrower may be transferred by reference to the CUSIP No. 87999AJY4.

Fractional Interests in the New Loan

Deposits and Recalls can only be made in permitted face amounts of New Loans. Long Holders can neither elect to participate in the distribution of the New Loan and New Common Shares nor effect a Recall in an amount less than a permitted face

amount of New Loan. Long Holders advised by the same investment manager may aggregate across accounts to the same extent holders of the New Loan are permitted to do so by New Tembec.

In the case of a Borrower with an obligation with respect to less than USD \$ 1,000,000 of Old Notes (a “Fractional Interest”), the Broker-Dealers shall use reasonable efforts to aggregate Borrowers with Fractional Interests in order to create a permitted face amount. To the extent a Broker-Dealer is unable to effect this aggregation, such Broker-Dealer may purchase in a commercially reasonable manner a New Loan in the smallest denomination reasonably practical and allocate liability between such Broker-Dealer and the Borrower based on the amount of New Loan purchased as compared to the Fractional Interest.