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Headnote

Mutual Reliance Review System for Exemptive Relief Applications – relief granted from registration and prospectus requirements to permit an issuer to distribute options and rights under a long-term incentive plan to employees and directors of 50% affiliates and to issue shares underlying options to employees and directors of 50% affiliates - first trade in shares deemed a distribution unless conditions of Multilateral Instrument 45-102 are met.

Applicable British Columbia Provisions

Securities Act, R.S.B.C. 1996, c. 418, ss. 34(1)(a), 48, 61 and 76
Multilateral Instrument 45-102 Resale of Securities

**IN THE MATTER OF THE SECURITIES LEGISLATION OF BRITISH
COLUMBIA, ALBERTA, ONTARIO AND NEW BRUNSWICK,**

AND

**IN THE MATTER OF THE MUTUAL RELIANCE REVIEW SYSTEM
FOR EXEMPTIVE RELIEF APPLICATIONS**

AND

IN THE MATTER OF TEMBEC INC.

MRRS DECISION DOCUMENT

WHEREAS the local securities regulatory authority or regulator (the “Decision Maker”) in each of British Columbia, Alberta, Ontario and New Brunswick (the “Jurisdictions”) has received an application from Tembec Inc. (“Tembec”) for a decision pursuant to the securities legislation of the Jurisdictions (the “Legislation”) that the dealer registration requirements and the prospectus requirements contained in the Legislation shall not apply to trades to employees or directors of certain 50% Affiliates (as defined below) of Tembec or its subsidiaries under Tembec’s Long-Term Incentive Plan, as amended from time to time (the “Plan”);

AND WHEREAS under the Mutual Reliance Review System for Exemptive Relief Applications (the “System”), the Ontario Securities Commission is the principal regulator for this application;

AND WHEREAS unless otherwise defined, the terms herein have the meaning set out in National Instrument 14-101 *Definitions*;

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AND WHEREAS Tembec has represented to the Decision Makers as follows:

1. Tembec is incorporated under the laws of the Province of Québec and is an integrated Canadian forest products company principally involved in the production of wood products, market pulp and papers. Its head office is located in Montreal, Québec.
2. Tembec's authorized share capital consists of: an unlimited number of common voting shares (the "Shares"); an unlimited number of non-voting Class B preferred shares, issuable in series; an unlimited number of Series 2 Class B shares; 1,250,000 Series 3 Class B shares; 9,103,710 Series 4 Class B shares; and 250,000 non-voting Class C shares.

As of June 30, 2002, 86,410,732 common shares, 16,627,500 Series 2 Class B shares, 1,250,000 Series 3 Class B shares, 9,103,710 Series 4 Class B shares and no Class C shares were outstanding. The Shares are listed on the Toronto Stock Exchange.

3. Tembec is a reporting issuer in every jurisdiction in Canada. It is not in default of any requirement of the securities legislation of any jurisdiction in Canada.
4. Tembec owns 100% of the shares of Tembec Investments Inc. which, in turn, owns 100% of the shares of Tembec Industries Inc. ("Industries"). Industries own securities of certain other entities, including the 50% Affiliates (defined below).
5. Industries own 50% of the issued and outstanding voting shares of each of 791615 Ontario Limited (o/a Excel Forest Products Limited) ("Excel"), AV Cell Inc. ("AV Cell"), Marathon Pulp Inc. ("Marathon") and Temlam Inc. ("Temlam"). Temlam owns 100% of Jager Building Systems Inc. ("Jager") (Temlam, Jager, Excel, AV Cell and Marathon are hereinafter collectively referred to as the "50% Affiliates").
6. Excel is a producer of softwood lumber and is part of Tembec's forest product group. The majority of the wood processed in Excel's operations originates from the allocations of Spruce Falls Inc., a wholly-owned subsidiary of Industries. Excel's operations are geographically proximate to Kapuskasing and Timmins, locations at which Industries has operations and considerable wood supply. Industries currently owns 50% of the outstanding voting shares of Excel. In addition, it has an option to purchase the remaining 50% interest of Excel. Pursuant to a unanimous shareholders' agreement dated March 16, 2001, until March 15, 2006, the board of directors of Excel is to be composed

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of one director only, designated by Industries. Industries also has the right to appoint two members of the four-person management committee responsible for the day-to-day operations of Excel. The senior management of Excel are supervised by and report to a member of the senior management of Industries.

7. Temlam, a joint venture between Industries and SGF Rexfor Inc. (“SGF Rexfor”), is a manufacturer of engineered wood products and is part of Tembec’s forest products group. The operating assets of Temlam were transferred to Temlam by Industries. In its operations, Temlam uses wood from the allocations of Industries. In return, Temlam supplies Industries with wood chips. Pursuant to a unanimous shareholders’ agreement entered into on July 27, 2001, Industries was granted the right to appoint three directors to the six-person board of directors of Temlam. In addition, Industries has an option to purchase the interest of SGF Rexfor in Temlam. Moreover, SGF Rexfor may require Industries to purchase its shares in Temlam. All individuals working at Temlam are currently employees of Industries, although it is contemplated that they will be transferred to Temlam. Jager, a wholly-owned subsidiary of Temlam, purchases 85-90% of the jointed wood produced by Industries, which it processes into wood beams and sells to third parties. Jager also purchases approximately 75% of the laminated veneer lumber produced by Temlam which it then sells to third parties.
8. AV Cell was created as a strategic alliance between Industries and certain members of the Aditya Birla group of companies (customers of Industries). AV Cell produces dissolving pulp and is a part of Tembec’s pulp group. Pursuant to a shareholders’ agreement entered into as of January 7, 1998, Industries has the right to appoint four directors to the eight-person board of directors of AV Cell. The Chairman of AV Cell is nominated on a rotating annual basis by Industries and Aditya. Industries also has the right to select the Chief Operating Officer of AV Cell. Three members of the management of AV Cell were formerly employees of Industries. Pursuant to a Technical and Support Services Agreement dated as of January 7, 1998, Industries provides technical and support services to AV Cell including: (i) the conversion of the Atholville, New Brunswick mill to produce suitable dissolving pulp; (ii) support relating to technical aspects including process, engineering and environment in order to maximize the quality as per customer needs and minimize costs; (iii) cost efficient procurement of wood supply; and (iv) cost effective transportation and shipping. The Aditya Birla group of companies purchase the entire output of AV Cell.
9. Marathon is a 50% joint venture between Industries and Kruger which produces north bleached softwood kraft. Marathon is also part of Tembec’s pulp group. Industries provides expertise in operation and technical support

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services to Marathon. Tembec International Sales Corporation has sole responsibility for marketing all output of Marathon which Kruger does not purchase. One member of the management of Marathon was formerly employed by Industries. Two former members of the management of Marathon are presently members of the management of Industries. A shareholders' agreement entered into as of February 2, 2000 between Industries and Kruger grants Tembec the right to appoint three directors to the six-person board of directors. The shareholders' agreement also contains a shotgun clause.

10. As part of the operations of the Tembec group, Tembec and Industries intend to transfer some of their employees to the 50% Affiliates. Employees may also be transferred from the 50% Affiliates to Tembec or Industries. Transferred employees would become employees of the transferee company.
11. The Plan currently provides for the grant of either rights ("Rights") or options ("Options") to directors and employees of Tembec and its subsidiaries. Each Right entitles a Participant to purchase Shares with or without financial assistance from Tembec or its subsidiaries within a period of 60 days from the date of the grant. Each Option entitles the Participant to purchase Shares without financial assistance from Tembec or its subsidiaries for a period of up to ten years.
12. The definition of "Company" in the current Plan includes Tembec and its subsidiaries. In consequence, Options granted under the Plan to an employee of Tembec or a subsidiary who is subsequently transferred to a 50% Affiliate would terminate ninety (90) days after such employee was transferred. Any unpaid subscription for shares by a transferred employee pursuant to the exercise of Rights would be cancelled automatically upon such transfer and the balance of any outstanding loans (including interest thereon) to such employee pursuant to the Plan would have to be repaid within thirty (30) days. In addition, the definition of "Company" in the Plan means that neither Rights nor Options can be granted under the Plan to directors and employees of the 50% Affiliates.
13. Proposed modifications to the Plan would expand the definition of the "Company" to include 50% Affiliates so as to permit employees transferred by Tembec or Industries to a 50% Affiliate to retain their Rights and/or Options, and also to permit the grant of Rights and Options under the Plan to directors and employees of 50% Affiliates. A copy of the modified Plan has been provided with the application for this relief.

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14. The modification of the Plan to include 50% Affiliates was approved by the board of directors of Tembec, subject to receipt of regulatory approval. It was also accepted by the Toronto Stock Exchange by letters dated May 23, 2002 and June 11, 2002, and approved by the Commission des valeurs mobilières du Québec on August 8, 2002.
15. Participation in the Plan is voluntary and participants will not be induced to participate in the Plan by expectation of employment or continued employment.

AND WHEREAS pursuant to the System this Decision Document evidences the decision of each Decision Maker (collectively, the “Decision”);

AND WHEREAS each Decision Maker is satisfied that the test contained in the Legislation that provides the Decision Maker with the jurisdiction to make the Decision has been met.

THE DECISION of the Decision Makers pursuant to the Legislation is that trades in Rights, Options and the underlying Shares made pursuant to the Plan to employees and directors of a 50% Affiliate who are resident in the Jurisdictions are not subject to the dealer registration requirements or the prospectus requirements contained in the Legislation, provided that the first trades of such shares is deemed to be a distribution or a primary distribution to the public unless the requirements of subsection 2.6(3), (4) or (5) of *Multilateral Instrument 45-102* have been satisfied.

DATED November 20, 2002.

Robert L. Shirriff

Harold P. Hands