

## SCHEDULE "B"

### CROSS-BORDER INSOLVENCY PROTOCOL

This cross-border insolvency protocol (this "Protocol") shall govern the conduct of all parties in interest in the Insolvency Proceedings (as defined below).

The Guidelines Applicable to Court-to-Court Communications in Cross-Border cases (the "Guidelines"), attached as Schedule A hereto, shall be incorporated by reference and form part of this Protocol. Where there is any discrepancy between the Protocol and the Guidelines, this Protocol shall prevail.

#### **Background**

1. Pope & Talbot Inc. ("Pope & Talbot") and certain of its direct and indirect subsidiaries and affiliates (collectively, the "Canadian Debtors") commenced reorganization proceedings (collectively, the "Canadian Proceedings") by filing an application under the *Canadian Companies' Creditors Arrangement Act* (the "CCAA") with the Ontario Superior Court in Toronto, Ontario, and Orders (the "Initial Order") have been granted under which (a) the Canadian Debtors have been determined to be entitled to relief under the CCAA, and (b) PricewaterhouseCoopers Inc. was appointed as monitor (the "Monitor") of the Canadian Debtors, with the rights, powers, duties and limitations upon liabilities set forth in the CCAA, and the Initial Order. The Canadian Proceedings subsequently were transferred to the Supreme Court of British Columbia in Vancouver, British Columbia (the "Canadian Court") and the Initial Order was amended, restated and confirmed (the "CCAA Order").

2. The Canadian Debtors and certain of their direct and indirect subsidiaries and affiliates (collectively, the "U.S. Debtors") have commenced reorganization cases

(collectively, the "Chapter 11 Cases") under chapter 11 of the United States Bankruptcy Code, 11 U.S.C. §§ 101 *et seq.* (the "Bankruptcy Code"), in the United States Bankruptcy Court for the District of Delaware (the "U.S. Court"), and such cases have been consolidated (for procedural purposes only) under Case No. 07-11738. The Debtors continue to operate their business and manage their properties as debtors in possession pursuant to sections 1107 and 1108 of the Bankruptcy Code. No trustee or examiner has been appointed in the Chapter 11 Cases. An official committee of unsecured creditors (the "Committee") was appointed in the Chapter 11 Cases on November 28, 2007.

3. For convenience, (a) the U.S. Debtors and the Canadian Debtors shall be referred to herein collectively as the "Debtors", (b) the Chapter 11 Cases and the Canadian Proceedings shall be referred to herein collectively as the "Insolvency Proceedings" and (c) the U.S. Court and the Canadian Court shall be referred to herein collectively as the "Courts".

4. Pope & Talbot, which was founded in 1849, is the direct or indirect corporate parent of all of the other Debtors and their non-debtor affiliates (collectively, the "Company"). The Company is headquartered in Portland, Oregon, and currently conducts business in two operating segments: (i) pulp, the principal raw material used in the manufacture of paper products, which the Company produces in three of its mills (two in British Columbia and one in Oregon) and (ii) wood products (i.e., lumber), which the Company produces in four of its mills (three in British Columbia and one in South Dakota).

### **Purpose and Goals**

5. While the Insolvency Proceedings are pending in the United States and Canada, the implementation of basic administrative procedures is necessary to coordinate

certain activities therein, to ensure the maintenance of the Courts' respective independent jurisdiction and to give effect to the doctrines of comity. Accordingly, this Protocol has been developed to promote the following mutually desirable goals and objectives in the Insolvency Proceedings:

- (i) harmonize and coordinate activities between the Courts in the Insolvency Proceedings;
- (ii) promote and facilitate the fair, open, orderly and efficient administration of the Insolvency Proceedings to, among other things, maximize the efficiency of same, reduce the costs associated therewith and avoid duplication of efforts, for the benefit of all of the Debtors' creditors and other interested parties, wherever located;
- (iii) honor the respective independence and integrity of the Courts and other courts and tribunals of Canada and the United States;
- (iv) promote international co-operation and respect for comity among the Courts, the Debtors, the Committee, the Representatives (as defined below) and other creditors and interested parties in the Insolvency Proceedings; and
- (v) implement a framework of general principles to address basic administrative issues arising out of the cross-border nature of the Insolvency Proceedings.

### **Comity and Independence of the Courts**

6. The approval and implementation of this Protocol shall not divest or diminish the U.S. Court's and the Canadian Court's respective independent jurisdiction over the subject matter of the Chapter 11 Cases and Canadian Proceedings, respectively. By approving and implementing this Protocol, neither the U.S. Court, the Canadian Court, the Debtors nor any creditor or any other interested party shall be deemed to have approved or engaged in any infringement on the sovereignty of the United States or Canada.

7. The U.S. Court shall have sole and exclusive jurisdiction and power over the conduct and hearing of the Chapter 11 Cases. The Canadian Court shall have sole and

exclusive jurisdiction and power over the conduct and hearing of the Canadian Proceedings.

In accordance with the principles of comity and independence recognized herein, nothing contained herein shall be construed to:

- (i) increase, decrease or otherwise modify the independence, sovereignty or jurisdiction of the U.S. Court, the Canadian Court or any other court or tribunal in the United States or Canada, including the ability of any such court or tribunal to provide appropriate relief under applicable law on an *ex parte* or "limited notice" basis;
- (ii) require the U.S. Court to take any action that is inconsistent with its obligations under the laws of the United States;
- (iii) require the Canadian Court to take any action that is inconsistent with its obligations under the laws of Canada;
- (iv) require the Debtors, the Monitor, the Committee or the Representatives to take any action or refrain from taking any action that would result in a breach of any duty imposed on them by any applicable law;
- (v) authorize any action that requires the specific approval of one or both of the Courts under the Bankruptcy Code or the CCAA after appropriate notice and a hearing (except to the extent that such action specifically is described in this Protocol); or
- (vi) preclude the Debtors, the Committee, the Monitor, the Office of the United States Trustee (the "U.S. Trustee"), any creditor or any other interested party from asserting such party's substantive rights under the applicable laws of the United States, Canada or any other jurisdiction including, without limitation, the rights of interested parties or affected persons to appeal from the decisions taken by one or both of the Courts.

8. The Debtors, the Representatives and their respective employees, members, agents and professionals shall respect and comply with the independent, nondelegable duties imposed upon them by the Bankruptcy Code, the CCAA, the CCAA Order and other applicable laws.

## Cooperation

9. To assist in the efficient administration of the Insolvency Proceedings and in recognizing that any of the Debtors may be creditors of any of the others' estates, the Debtors shall, where appropriate: (i) cooperate with each other in connection with actions taken in both the U.S. Court and the Canadian Court; and (ii) take any other appropriate steps to coordinate the administration of the Insolvency Proceedings for the benefit of the Debtors' respective estates and stakeholders.

10. To harmonize and coordinate the administration of the Insolvency Proceedings, the U.S. Court and the Canadian Court each may coordinate activities and consider whether it is appropriate to defer to the judgment of the other Court.

- (i) The U.S. Court and the Canadian Court may communicate with one another, with or without counsel present, with respect to any matter relating to the Insolvency Proceeding.
- (ii) If the issue of the proper jurisdiction or Court to determine an issue is raised by any interested party in either of the Insolvency Proceedings with respect to a motion or application filed in either Court, the Court before which such motion or application was initially filed may contact the other Court to determine an appropriate process by which the issue of jurisdiction will be determined; which process shall be subject to submissions by the Debtors, the U.S. Trustee, the Committee, the Monitor and any interested party prior to any determination on the issue of jurisdiction being made by either Court.
- (iii) The Courts may, but are not obligated to, coordinate activities in the Insolvency Proceedings such that the subject matter of any particular action, suit, request, application, contested matter or other proceeding is determined in a single Court.
- (iv) The U.S. Court and Canadian Court may conduct joint hearings (each, a "Joint Hearing") with respect to any matter in which both Courts consider such a Joint Hearing to be necessary or advisable and, in particular, to facilitate or coordinate proper and efficient conduct of the Insolvency Proceedings. With respect to any such Joint Hearing, unless otherwise ordered by both Courts, the following procedures will be followed:

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- (a) a telephone or video link shall be established so that each Court will be able to simultaneously hear the proceedings in the other Court;
- (b) submissions or applications (collectively, the “Pleadings”) by any party that are or become the subject of a Joint Hearing shall be made or filed initially only with the Court in which such party is appearing and seeking relief. Promptly after the scheduling of any Joint Hearing, the party submitting such Pleadings to one Court will file courtesy copies with the other Court. In any event, Pleadings seeking relief from both Courts shall be filed with both Courts;
- (c) any party intending to rely on written evidentiary materials (collectively, the “Evidentiary Materials”) in support of a submission to either Court in connection with any Joint Hearing will submit such Evidentiary Materials in identical form to each Court;
- (d) if a party that has not previously appeared in or attorned to the jurisdiction of either Court, it shall be entitled to submit Pleadings or Evidentiary Materials in connection with the Joint Hearing without, by the act of such filing alone, being deemed to have appeared in or attorned to the jurisdiction of such Court, so long as such party does not request any affirmative relief from such Court;
- (e) the Judge of the U.S. Court and Justice of the Canadian Court who will hear the Joint Hearing may communicate with each other in advance of such Joint Hearing, with or without counsel being present, to: (1) establish guidelines for the orderly submission of Pleadings, Evidentiary Materials and any other papers, and for the rendering of decisions; and (2) address any related procedural, administrative or preliminary matters; and
- (f) the Judge of the U.S. Court and Justice of the Canadian Court who will hear the Joint Hearing may communicate with each other after such Joint Hearing, with or without counsel being present, for the purposes of: (1) determining whether consistent rulings can be made by both Courts; (2) coordinating the terms of the Courts’ respective rulings; and (3) addressing any related procedural or administrative matters.

11. Notwithstanding the terms of paragraph 10 above, this Protocol recognizes that the U.S. Court and Canadian Court are independent courts. Accordingly, although the

Courts will seek to cooperate and coordinate with each other in good faith, either of the Courts may at any time exercise its independent jurisdiction and authority with respect to: (i) matters presented to and properly before such Court; and (ii) the conduct of the parties appearing in such matters.

12. If one Court has jurisdiction over a matter the determination of which requires the application of the law of the jurisdiction of the other Court, such Court may, without limitation, hear expert evidence of such law or seek the written advice of the other Court, which advice will be made available to all parties in interest.

### **Recognition of Stays of Proceedings**

13. The Canadian Court hereby recognizes the validity of the stay of proceedings and actions against the Debtors and their property under section 362 of the Bankruptcy Code (the "U.S. Stay"). In implementing the terms of this paragraph, the Canadian Court may consult with the U.S. Court regarding: (i) the interpretation and application of the U.S. Stay and any orders of the U.S. Court modifying or granting relief from the U.S. Stay; and (ii) the enforcement of the U.S. Stay in Canada.

14. The U.S. Court hereby recognizes the validity of the stay of proceedings and actions against the Canadian Debtors and their property under the CCAA and Initial Order (the "Canadian Stay"). In implementing the terms of this paragraph, the U.S. Court may consult with the Canadian Court regarding: (i) the interpretation and applicability of the Canadian Stay and any orders of the Canadian Court modifying or granting relief from the Canadian Stay; and (ii) the enforcement of the Canadian Stay in the United States.

15. Nothing contained herein shall affect or limit the Debtors' or other parties' rights to assert the applicability or nonapplicability of the U.S. Stay or the Canadian Stay to

any particular proceeding, property, asset, activity or other matter, wherever pending or located. Motions brought respecting the application of the stay of proceedings with respect to assets or operations located in Canada shall be heard and determined by the Canadian Court. Motions brought respecting the application of the stay of proceedings with respect to assets or operations located in the United States shall be heard and determined by the U.S. Court.

### **Rights to Appear and Be Heard**

16. The Debtors, their creditors and other interested parties in the Insolvency Proceedings, including, without limitation, the Committee, the Representatives or any other committee that may be appointed by the U.S. Trustee, shall have the right and standing: (i) to appear and to be heard in either the U.S. Court or Canadian Court in the Chapter 11 Cases or Canadian Proceedings, respectively, to the same extent as creditors and other interested parties domiciled in the forum country, subject to any local rules or regulations generally applicable to all parties appearing in the forum; and (ii) to file notices of appearance or other papers with the clerk of the U.S. Court or the Canadian Court in respect of the Chapter 11 Cases or Canadian Proceedings, respectively; provided, however, that any appearance or filing may subject a creditor or interested party to the jurisdiction of the Court in which the appearance or filing occurs; provided further, that an appearance by the Committee in the Canadian Proceedings shall not form a basis for personal jurisdiction in Canada over the members of the Committee. Notwithstanding the foregoing, and in accordance with the policies set forth above, including, *inter alia*, paragraph 11 above: (a) the Canadian Court shall have jurisdiction over the U.S. Representatives (as defined below) solely with respect to the particular matters as to which the U.S. Representatives appear before the Canadian Court;

and (b) the U.S. Court shall have jurisdiction over the Canadian Representatives (as defined below) solely with respect to the particular matters as to which the Canadian Representatives appear before the U.S. Court.

### **Retention and Compensation of Representatives and Professionals**

17. The Monitor Parties (as defined below) and any other estate representatives appointed in the Canadian Proceedings (collectively, the "Canadian Representatives") shall (subject to paragraph 16) be subject to the sole and exclusive jurisdiction of the Canadian Court with respect to all matters including: (i) such Canadian Representatives' tenure in office; (ii) the retention and compensation of such Canadian Representatives; (iii) such Canadian Representatives' liability, if any, to any person or entity, including the Canadian Debtors and any third parties, in connection with the Insolvency Proceedings; and (iv) the hearing and determination of any other matters relating to the Canadian Representatives arising in the Canadian Proceedings under the CCAA or other applicable Canadian law. The Canadian Representatives, their counsel and any other professionals retained therefor shall not be required to seek approval of their retention in the U.S. Court. Additionally, the Canadian Representatives, their counsel and such other Canadian professionals: (a) shall be compensated for their services solely in accordance with the CCAA, the CCAA Order and other applicable laws of Canada or orders of the Canadian Court; and (b) shall not be required to seek approval of their compensation in the U.S. Court.

18. The Monitor and its respective officers, directors, employees, counsel and agents, wherever located (collectively, the "Monitor Parties"), shall be entitled to the same protections and immunities in the United States as those granted to them under the CCAA and the CCAA Order. In particular, except as otherwise provided in any subsequent order

entered in the Canadian Proceedings, the Monitor Parties shall incur no liability or obligations as a result of the CCAA Order, the appointment of the Monitor, the carrying out of its duties or the provisions of the CCAA and the CCAA Order by the Monitor Parties, except any such liability arising from actions of the Monitor Parties constituting gross negligence or willful misconduct.

19. Any estate representative appointed in the Chapter 11 Cases, including any official committee appointed pursuant to section 1102 of the Bankruptcy Code, or any examiner or trustee appointed pursuant to section 1104 of the Bankruptcy Code (collectively, "U.S. Representatives," and together with the Canadian Representatives, the "Representatives") shall (subject to paragraph 16) be subject to the sole and exclusive jurisdiction of the U.S. Court with respect to all matters, including: (i) such U.S. Representative's appointment and tenure in office; (ii) the compensation and reimbursement of out-of-pocket costs of such U.S. Representative; (iii) such U.S. Representative's liability, if any, to any person or entity, including the Debtors and any third parties, in connection with the Insolvency Proceedings; and (iv) the hearing and determination of any other matters relating to the U.S. Representatives arising in the Chapter 11 Cases under the Bankruptcy Code or other applicable laws of the United States. The U.S. Representatives, their counsel and any other professionals retained therefor shall not be required to seek approval of their retention in the Canadian Court. Additionally, the U.S. Representatives, their counsel and such other professionals: (i) shall be compensated for their services solely in accordance with the Bankruptcy Code and other applicable laws of the United States or orders of the U.S. Court; and (ii) shall not be required to seek approval of their compensation in the Canadian Court.

20. Any Canadian professionals, including, without limitation, counsel, retained by the Debtors (collectively, the "Canadian Professionals") shall be subject to the sole and exclusive jurisdiction of the Canadian Court. Accordingly, the Canadian Professionals: (i) shall be subject to the procedures and standards for the retention and compensation applicable in the Canadian Court under the CCAA, the CCAA Order and any other applicable Canadian law or orders of the Canadian Court; and (ii) shall not be required to seek approval of their retention or compensation in the U.S. Court.

21. Any U.S. professionals, including, without limitation, counsel and financial advisors, retained by the Debtors (collectively, the "U.S. Professionals") shall be subject to the sole and exclusive jurisdiction of the U.S. Court. Accordingly, the U.S. Professionals: (i) shall be subject to the procedures and standards for retention and compensation applicable in the U.S. Court under the Bankruptcy Code and any other applicable laws of the United States or orders of the U.S. Court; and (ii) shall not be required to seek approval of their retention or compensation in the Canadian Court.

## **Transactions**

22. Any transactions outside the ordinary course of business for the sale, lease or use of real property of the Canadian Debtors located in Canada, other than any of the Debtors' mills, shall be subject to the sole approval of the Canadian Court. The Debtors shall file a notice in the Chapter 11 Cases promptly upon the issuance of an order by the Canadian Court approving any such transaction. Any transactions outside the ordinary course of business for the sale, lease or use of real property of the U.S. Debtors located in the United States, other than any of the Debtors' mills, shall be subject to the sole approval of the

Bankruptcy Court. The Debtors shall file a notice in the Canadian Proceedings promptly upon the issuance of an order by the U.S. Court approving any such transaction.

## Notice

23. Notice of any motion, application or other Pleading or paper filed in one or both of the Insolvency Proceedings involving or relating to matters addressed by this Protocol and notice of any related hearings or other proceedings shall be given by appropriate means (including, where circumstances warrant, by courier, facsimile or other electronic forms of communication) to the following: (i) all creditors and other interested parties, in accordance with the practice of the jurisdiction where the papers are filed or the proceedings are to occur; and (ii) to the extent not otherwise entitled to receive notice under clause (i) of this paragraph 23, counsel to the Debtors, the U.S. Trustee, the Committee, the Monitor and such other parties as may be designated by either of the Courts from time to time. When any paper is filed by either the U.S. Debtors or the Canadian Debtors in the Chapter 11 Cases or the Canadian Proceedings, respectively, that has cross-border effect, the U.S. Debtors or Canadian Debtors, as applicable, shall serve such papers promptly on counsel for the other U.S. Debtors and Canadian Debtors, the U.S. Trustee, the Monitor, and such other parties as may be designated by either of the Courts from time to time. Notice in accordance with this paragraph shall be given by the party otherwise responsible for effecting notice in the jurisdiction where the underlying papers are filed or the proceedings are to occur. In addition to the foregoing, upon request, the U.S. Debtors or the Canadian Debtors shall provide the U.S. Court or the Canadian Court, as the case may be, with copies of all or any orders, decisions, opinions or similar papers issued by the other Court in the Insolvency Proceedings.

24. When any cross-border issues or matters addressed by this Protocol are to be addressed before a Court, notice shall be provided in the manner and to the parties referred to in paragraph 23 above.

### **Effectiveness; Modification**

25. This Protocol shall become effective only upon its approval by both the U.S. Court and the Canadian Court.

26. This Protocol may not be supplemented, modified, terminated or replaced in any manner except upon the approval of both the U.S. Court and the Canadian Court after notice and a hearing. Notice of any legal proceedings to supplement, modify, terminate or replace this Protocol shall be given in accordance with paragraph 23 above.

### **Procedure for Resolving Disputes under the Protocol**

27. Disputes relating to the terms, intent or application of this Protocol may be addressed by interested parties to either the U.S. Court, the Canadian Court or both Courts upon notice in accordance with paragraph 23 above. In rendering a determination in any such dispute, the Court to which the issue is addressed: (i) shall consult with the other Court; and (ii) may, in its sole and exclusive discretion, either: (a) render a binding decision after such consultation; (b) defer to the determination of the other Court by transferring the matter, in whole or in part, to such other Court; or (c) seek a joint hearing of both Courts in accordance with paragraph 10 above. Notwithstanding the foregoing, in making a determination under this paragraph, each Court shall give due consideration to the independence, comity and inherent jurisdiction of the other Court established under existing law.

28. In implementing the terms of the Protocol, the U.S. Court and the Canadian Court may, in their sole, respective discretion, provide advice or guidance to each other with respect to legal issues in accordance with the following procedures:

- (i) the U.S. Court or the Canadian Court, as applicable, may determine that such advice or guidance is appropriate under the circumstances;
- (ii) the Court issuing such advice or guidance shall provide it to the other Court in writing;
- (iii) copies of such written advice or guidance shall be served by the applicable Court in accordance with paragraph 23 above;
- (iv) the Courts may jointly decide to invite the Debtors, the Committee, the Representatives, the U.S. Trustee, the Monitor and any other affected or interested party to make submissions to the appropriate Court in response to or in connection with any written advice or guidance received from the other Court; and
- (v) for clarity, the provisions of this paragraph 28 shall not be construed to restrict the ability of either the U.S. Court or Canadian Court to confer as provided in paragraph 10 above whenever it deems it appropriate to do so.

### **Preservation of Rights**

29. Except as specifically provided herein, neither the terms of this Protocol nor any actions taken under of this Protocol shall: (i) prejudice or affect the powers, rights, claims and defenses of the Debtors and their respective estates, the Committees, the Representatives, the U.S. Trustee, the Monitor or any of the Debtors' creditors under applicable law, including, without limitation, the Bankruptcy Code, the CCAA and the orders of the Courts; or (ii) preclude or prejudice the rights of any person to assert or pursue such person's substantive rights against any other person under the applicable laws of Canada or the United States.