

IN THE SUPREME COURT OF BRITISH COLUMBIA

**IN THE MATTER OF THE *COMPANIES' CREDITORS ARRANGEMENT ACT*
R.S.C. 1985, c. C-36**

AND

**IN THE MATTER OF THE RECEIVERSHIP OF
POPE & TALBOT LTD., POPE & TALBOT, INC.,
MACKENZIE PULP LAND LTD., P&T FUNDING LTD., PENN TIMBER, INC.
POPE & TALBOT LUMBER SALES, INC., POPE & TALBOT PULP SALES U.S., INC.
POPE & TALBOT RELOCATION SERVICES, INC., P&T POWER COMPANY, AND
P&T FINANCE THREE LLC
(Collectively referred to as "P&T" or the "Company")**

**INTERIM RECEIVER'S FIRST REPORT TO COURT
[Prepared for the July 7, 2008 Court Hearing]**

JULY 6, 2008

**POPE & TALBOT LTD. et al
INTERIM RECEIVER’S FIRST REPORT TO COURT**

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1 INTRODUCTION

- 1.1 By Order of Chief Justice Brenner made May 10, 2008 (the "Order") in British Columbia Supreme Court Action No. S077839, Vancouver Registry (the "CCAA Proceedings"), PricewaterhouseCoopers Inc. ("PwC") was appointed Interim Receiver and Receiver of the Company (in such capacities, the "Interim Receiver" or the "Receiver"). Details relating to the Company and the filing are set out in the Petition filed in these proceedings.
- 1.2 PwC has established a website at www.pwc.com/car-poptal where all materials filed with this Court by P&T and PwC, as well as any Orders granted by this Court, including the Petition and the Order, are available in electronic form to creditors and other interested parties.
- 1.3 Materials filed and Orders granted by the U.S. Court in respect of the Chapter 11 proceedings are maintained on the website of Kurtzman Carson Consultants ("KCC") at <http://www.kccllc.net/popetalbot>.
- 1.4 This is the Receiver's First Report to this Court since its appointment on May 10, 2008. This report is prepared in anticipation of the scheduled July 7, 2008 hearing to inform this Court of the following:
 - 1.4.1 An update on the status of the various sales processes which are managed by the Receiver; and;
 - 1.4.2 The Company's request for an extension of the Stay of Proceedings.

2 BACKGROUND

- 2.1 On October 29, 2007, P&T made an application under the *Companies' Creditors Arrangement Act* (the "CCAA") and an initial order (the "Initial Order") was granted by the Ontario Superior Court of Justice (Commercial List). Under the Initial Order, PricewaterhouseCoopers Inc. was appointed Monitor of the Company.
- 2.2 On November 21, 2007, an application was made by the Company to the Supreme Court of British Columbia (this "Court" or where appropriate the "Canadian

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Court”) to have the CCAA Proceedings transferred from the Ontario Court and for this Court to assume primary jurisdiction of the CCAA Proceedings. This Court granted such order.

- 2.3 On November 21, 2007, this Court made an order amending, restating, and confirming the Initial Order. Pursuant to this order, the stay of proceedings was extended to January 16, 2008.
- 2.4 On November 19, 2007, P&T together with its U.S. Parent company and several U.S. affiliates filed a voluntary petition in the United States Bankruptcy Court (the “U.S. Court”) for relief under Chapter 11 of the U.S. Bankruptcy code.
- 2.5 As a result of the cross-border nature of this restructuring, on December 14, 2007, this Court and the U.S. Court each approved a Cross-Border Insolvency Protocol that was intended to assist with the administration.
- 2.6 On January 15, 2008, this Court made an order extending the stay of proceedings until February 15, 2008.
- 2.7 On February 12, 2008, this Court made an order extending the stay of proceedings until April 4, 2008.
- 2.8 On March 28, 2008, this Court made an order extending the stay of proceedings until April 25, 2008.
- 2.9 On April 22, 2008, this Court made an order extending the stay of proceedings until April 28, 2008.
- 2.10 On April 28, 2008, this Court made an order extending the stay of proceedings until May 5, 2008.
- 2.11 On May 5, 2008, this Court made an order extending the stay of proceedings until May 12, 2008.
- 2.12 On May 10, 2008, this Court appointed PricewaterhouseCoopers Inc. as Interim Receiver and Receiver of certain assets of the Petitioners, as defined in the

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Amended and Restated and Confirmed Initial Order. On the same day, this Court made an order extending the stay of proceedings until May 15, 2008.

- 2.13 On May 15, 2008, this Court made an order extending the stay of proceedings until May 20, 2008.
- 2.14 On May 20, 2008, this Court made an order extending the stay of proceedings until June 13, 2008.
- 2.15 On June 13, 2008, this Court made an order extending the stay of proceedings until July 7, 2008.
- 2.16 PwC, in its capacity as Monitor, has filed fourteen reports to the Court with respect to the CCAA proceedings. The most recent report was dated May 4, 2008.
- 2.17 Capitalized terms not defined in this Report are as defined in the Initial Order and Monitor's previous reports.

3 OVERVIEW OF REMAINING COMPANY ASSETS

- 3.1 At the time of the Receiver's appointment on May 10, 2008, there remained three mills in Canada as summarized in the following table:

Mill	Location	Products Produced	Operational Status
Fort St. James	Fort St. James, BC	Lumber	Temporary shutdown
Harmac	Nanaimo, BC	NBSK pulp	"Soft" shut down
Mackenzie	Mackenzie, BC	NBSK pulp	"Soft" shut down

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4 PRE-RECEIVER SALES EFFORTS OF THE COMPANIES' ASSETS

- 4.1 As documented in the Monitor's Third Report to Court, the three remaining Canadian mills have been subject to previous sales processes each of which have failed to result in a completed transaction:
- 4.1.1 Beginning in 2006, P&T began the first sales process to sell its various mill assets in Canada and the US, including the Harmac pulp mill ("Harmac") and the Mackenzie pulp mill ("Mackenzie").
 - 4.1.2 Subsequently a new sales process was developed and the second sales process for the pulp mills began.
 - 4.1.3 In mid-August 2007, Rothschild Inc. ("Rothschild") was retained by the Company to begin a third sales process for the pulp mill assets, which this time included the Fort St. James sawmill ("FSJ").
 - 4.1.4 The sales process continued after the commencement of the CCAA and Chapter 11 Proceedings. Ultimately, the Company entered into a purchase and sale agreement (the "Pulpmills APA") with PT Pindo Deli Pulp and Paper Mills ("PT Pindo Deli"), pursuant to which PT Pindo Deli was to acquire the pulp mills (including Harmac and Mackenzie). Concurrently, the Company entered into another agreement of purchase and sale with PT Pindo Deli (the "Sawmill APA") pursuant to which PT Pindo Deli was to acquire the Fort St. James sawmill ("FSJ") for US\$6.0 million.
 - 4.1.5 The Pulpmills APA and the Sawmill APA were approved by this Court and both were to complete by no later than April 30, 2008.
 - 4.1.6 Neither the Pulpmills APA nor the Sawmill APA completed by April 30, 2008 as required by the terms of those agreements. Though PT Pindo Deli subsequently took the position that the Receiver was compelled to complete the Sawmill APA, on May 29, 2008, this Court ordered that the Receiver was under no obligation to complete the Sawmill APA and was at liberty to market and sell FSJ free and clear of any interest of PT Pindo Deli in and to FSJ.

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- 4.1.7 As discussed below in greater detail, subsequent to its appointment, the Receiver initiated its own process for the sales of Harmac, Mackenzie and FSJ.

5 HARMAC PULP MILL

5.1 Sales Process

- 5.1.1 Upon its appointment on May 10, 2008, the Receiver initiated the fourth sales process in two years for Harmac.
- 5.1.2 Between May 10 and June 10, 2008, the Receiver indentified 33 entities that might have an interest in purchasing Harmac. The Receiver communicated the sales process via email and through telephone discussions with the entities.
- 5.1.3 The Receiver maintained a virtual data room which contained information regarding Harmac. In order to obtain access to the data room information, an interested party had to sign a Confidentiality Agreement ("CA"). 19 entities signed the CA and were granted access to the mill information.
- 5.1.4 The Receiver drafted a form of agreement for the purchase and sale of Harmac and requested interested entities return a completed agreement by June 10, 2008.

5.2 Sales Process Results

- 5.2.1 Eight entities submitted the form of agreement or a letter of intent for the purchase of Harmac (collectively, the "Harmac Offers"). The uses for Harmac in the submitted agreements included keeping it as a going concern, converting it to a bioenergy facility and decommissioning the site.
- 5.2.2 None of the Harmac Offers were in a form that the Receiver was able to recommend to the Court for approval.

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5.2.3 The Receiver held several discussions with the entities who submitted Harmac Offers to ensure the Receiver had a complete understand of those parties' offers and the proposed changes to the agreement.

5.3 Next Steps

5.3.1 After careful consideration of the Harmac Offers, and in consultation with the secured creditors, the Receiver has determined that none of the Harmac Offers are of sufficient value to be recommended for approval. Instead, the Receiver, with the approval of the secured creditors, has determined that it will likely realize more from the shut-down and liquidation of Harmac.

5.3.2 While it is presently uncertain what the net proceeds of the sale of the pulp mill equipment, inventory and underlying lands will be, there is significant potential that they will greatly exceed the anticipated recovery from any of the Harmac Offers, all of which contemplate an en bloc sale, or pursuant to the previous three sales processes. The environmental condition of the underlying lands is unknown; however, the mill site consists of approximately 375 acres of land, and depending on the degree of contamination of those lands, they may have significant value once the pulp mill equipment is removed.

5.3.3 Accordingly, the Receiver will immediately take steps to permanently shut down Harmac. The Receiver will explore the various options for the sale of the inventory, the pulp mill equipment and the underlying land. The shut-down of Harmac will result in immediate savings because the monthly costs to the Receiver during shut-down mode will be significantly less than in the current "soft" shut-down mode.

5.3.4 The secured creditors have been consulted throughout this process and are supportive of the Receiver's decision.

5.3.5 It may still be possible for an interested party to make an offer to purchase Harmac en bloc during the shut-down and liquidation process, however, any such offer would have to be substantial and unconditional, and would have to complete in very short order.

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5.3.6 The Receiver will work closely with the Provincial and local governments throughout this process to minimize environmental and community concerns.

6 MACKENZIE PULP MILL

6.1 Sales Process

6.1.1 Upon its appointment on May 10, 2008, the Receiver initiated the fourth sales process in two years for Mackenzie.

6.1.2 Between May 10 and June 10, 2008, the Receiver indentified 38 entities that might have an interest in purchasing Mackenzie. The Receiver communicated the sales process via email and through telephone discussions with the entities.

6.1.3 The Receiver maintained a virtual data room which contained information regarding Mackenzie. In order to obtain access to the data room information, an interested party had to sign a Confidentiality Agreement ("CA"). 18 entities signed the CA and were granted access to the mill information.

6.1.4 The Receiver drafted a form of agreement for the purchase and sale of Mackenzie and requested interested entities return a completed agreement by June 10, 2008.

6.2 Sales Process Results

6.2.1 Three entities submitted forms of agreement for Mackenzie (the "Mackenzie Offers"). Each of the Mackenzie Offers contemplated operated Mackenzie as a going concern. All of the Mackenzie Offers also included an offer to purchase FSJ.

6.2.2 All of the Mackenzie Offers were conditional upon the assignment of the fibre supply agreements between Canadian Forest Products Ltd. ("Canfor") and P&T (the "Canfor Fibre Supply Agreements"). For the

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following reasons, there was some doubt as to the Receiver's ability to assign the Canfor Fibre Supply Agreements in good standing.

- 6.2.2.1 On June 10, 2008, the deadline established by the Receiver for the submission of forms of agreement to purchase Mackenzie, Canfor announced the immediate shut-down of its Mackenzie sawmill. Canfor also delivered to P&T notice of its intention to rely on the force majeure provisions of the Chip Supply Agreement between Canfor and P&T (the "Chip Supply Agreement"), meaning that Canfor purported to be under no further obligation to deliver wood chips and/or pulp logs to P&T under that agreement.
- 6.2.2.2 Canfor's actions created uncertainty regarding the Canfor Fibre Supply Agreements, a concern raised by a number of entities that had expressed an interest in acquiring Mackenzie, including those that submitted the Mackenzie Offers. In the Receiver's view, Canfor's actions had a negative impact on the Receiver's ability to sell Mackenzie.
- 6.2.2.3 At least in part due to potential purchasers' concerns regarding the Canfor Fibre Supply Agreements, the Receiver has not concluded an agreement for the purchase and sale of Mackenzie. While several parties remain interested in acquiring Mackenzie, without any certainty as to the Receiver's ability to assign the Canfor Fibre Supply Agreements in good standing, it is doubtful that any agreement resulting in a meaningful recovery can be concluded with any of those parties.

6.3 Next Steps

- 6.3.1 As a result of its inability to conclude a sale of Mackenzie at this time, the Receiver is taking steps to immediately shut down Mackenzie. The shut-down of Mackenzie will result in immediate savings because the monthly cost to the Receiver during shut-down mode is significantly less than in the current "soft" shut mode.

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- 6.3.2 The shut-down of Mackenzie will undoubtedly reduce its value, given the expense of restarting the pulp mill, but it will at least preserve the Receiver's ability to complete an en bloc sale of Mackenzie should the Receiver succeed in establishing that the Canfor Fibre Supply Agreements will be in good standing should the Receiver affirm them.
- 6.3.3 Any en bloc sale of Mackenzie would have to be completed in very short order as the Receiver has limited cash flow to continue to maintain the pulp mill in shut-down mode. If an en bloc sale is not completed in the near future, then the likely result is the liquidation of Mackenzie, including the sale of the pulp mill equipment, the inventory and the underlying lands.
- 6.3.4 If, in the interim, it is determined that the Canfor Fibre Supply Agreements will not be in good standing should the Receiver affirm them (either because Canfor had a right to terminate them or because Canfor was entitled to rely on the force majeure provisions of the Chip Supply Agreement), then it is likely that a liquidation of Mackenzie will commence immediately thereafter.
- 6.3.5 The secured creditors have been consulted throughout this process and are supportive of the Receiver's decision.

7 MACKENZIE PULP MILL – CANFOR FIBRE SUPPLY AGREEMENTS

- 7.1 The Receiver is presently considering whether to affirm the Canfor Fibre Supply Agreements. If it were to do so, the Receiver would likely have to pay all arrears owing to Canfor under those agreements. While the amount of any such arrears is disputed, Canfor alleges that they exceed \$5 million.
- 7.2 Given the fact that the Receiver has been unable to conclude an agreement for the purchase and sale of Mackenzie, if the Receiver were to affirm the Canfor Fibre Supply Agreements, it would be doing so without any assurance that the "cure costs" under those agreements would be paid from the proceeds of sale of Mackenzie; rather such costs would have to be borne by the secured creditors.

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- 7.3 In addition to the foregoing, for the following reasons, there is a concern that even if the Receiver were to affirm the Canfor Fibre Supply Agreements and pay the cure costs, Canfor would take the position that the Canfor Fibre Supply Agreements were terminated or suspended:
- 7.3.1 Canfor has taken the position that it is entitled to terminate the Canfor Fibre Supply Agreements. The Receiver disputes that Canfor is entitled to do so. Alternatively, the Receiver intends to seek relief from forfeiture upon payment of any cure costs resulting from any default by P&T under the Canfor Fibre Supply Agreements.
- 7.3.2 As mentioned above, Canfor has also sought to rely on the force majeure provisions under the Chip Supply Agreement as a basis for suspending that agreement and Canfor's obligation to deliver wood chips and/or pulp logs to P&T under that agreement. The Receiver likewise disputes Canfor's entitlement to rely on the force majeure provisions of the Chip Supply Agreement.
- 7.3.3 Details concerning the Canfor Fibre Supply Agreements as well as the dispute concerning those agreements are set forth in Affidavit #1 of David Calabrigo, sworn in the CCAA Proceedings on May 13, 2008, Affidavit #1 of Michael Hovey, sworn in the CCAA Proceedings on May 14, 2008 and Affidavit #2 of Michael Armstrong, sworn in the CCAA Proceedings on June 12, 2008, all of which can be found on the Monitor's website.
- 7.3.4 Since those affidavits were sworn the Receiver has made further enquiries surrounding the circumstances of the payment arrangements referred to in Mr. Calabrigo's affidavit. Canfor has now confirmed that the "arrangement" was an oral understanding and senior management of P&T have confirmed to the Receiver that the arrangement was intended to be temporary only during the CCAA and was not intended to be a permanent change to the Canfor Fibre Supply Agreements. Basically, while the restructuring was ongoing, if Mackenzie required Chips it would pay for them in advance. If Mackenzie did not require further chips it simply would not pay.

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- 7.3.5 The temporary nature of this arrangement is supported by the negotiations which occurred when PT Pindo Deli's Pulpmills APA was approved and arrangements were made with Canfor to trust up any disputed amounts. At that point it appears that Canfor knew that the Canfor Fibre Supply Agreements could be assigned to a purchaser of Mackenzie.
- 7.4 In light of the foregoing, the Receiver must be in a position to know whether or not the Canfor Fibre Supply Agreements will be in good standing and afoot should it decide to affirm them. If not, then by affirming those agreements the Receiver would potentially be assuming liabilities of up to \$5 million in exchange for something of no value.
- 7.5 By letter dated July 2, 2008, counsel for the Receiver inquired of counsel for Canfor as to what Canfor's position would be should the Receiver affirm the Canfor Fibre Supply Agreements (see Appendix A). To date, there has been no response from Canfor to that letter.
- 7.6 The Receiver is of the view that it is necessary for the Court to determine whether, should the Receiver affirm the Canfor Fibre Supply Agreements, those agreements will be in good standing and that Canfor will remain obligated to supply fibre under those agreements). If these issues are determined in the Receiver's favour, then the Canfor Fibre Supply Agreements continue to have significant value and it is more likely that they will be affirmed by the Receiver. Moreover, such a result would mean that a sale of Mackenzie would remain a real possibility. If these issues are determined in Canfor's favour, then the Receiver will not affirm the Canfor Fibre Supply Agreements and will begin a liquidation of Mackenzie.
- 7.7 As a result the Receiver seeks and extension of the CCAA Stay and an Extension of the period within which the Receiver may affirm the Canfor Fibre Supply Agreements for a brief period so that these issues can be resolved by the Court. Given that Canfor has closed its Mackenzie sawmill the Receiver is of the view that there will be no prejudice to Canfor for such an extension to be granted.

8 FORT ST. JAMES SAWMILL

8.1 Sales Process

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- 8.1.1 Upon its appointment on May 10, 2008, the Receiver initiated the second sales process in a year for FSJ.
- 8.1.2 Between May 10 and June 10, 2008, the Receiver indentified 20 entities that might have an interest in purchasing FSJ. The Receiver communicated the sales process via email and through telephone discussions with the entities.
- 8.1.3 The Receiver maintained a virtual data room which contained information regarding FSJ. In order to obtain access to the data room information, an interested party had to sign a Confidentiality Agreement (“CA”). 15 entities signed the CA and were granted access to the mill information.
- 8.1.4 The Receiver drafted a form of agreement for the purchase and sale of FSJ and requested interested entities return a completed agreement by June 10, 2008.
- 8.2 Sales Process Results
 - 8.2.1 11 entities submitted forms of agreement or letters of intent for the purchase of FSJ (the “FSJ Offers”). The majority of the FSJ Offers were for both the forest license and sawmill; however, two were for the purchase of the forest license only.
 - 8.2.2 As noted above in the discussion of the Mackenzie sales process, all of the Mackenzie offers included FSJ. Therefore, to attempt to preserve the value of Mackenzie (especially given the decision by Canfor to shut down their Mackenzie sawmill) the Receiver concentrated on concluding an agreement for the sale of Mackenzie and FSJ together. Once it became apparent that Mackenzie was unlikely to be sold until the issues surrounding the Canfor Fibre Supply Agreement were resolved, the Receiver pursued a sale of FSJ only.
 - 8.2.3 After reviewing the 11 FSJ Offers and discussions with several of the interested entities, on July 4, 2008, the Receiver entered into an asset purchase agreement (the “Conifex APA”) with Conifex Inc. (“Conifex”) for the purchase and sale of FSJ.

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8.2.4 The Receiver understands that the secured creditors are supportive of the Conifex APA.

8.3 Conifex APA

8.3.1 The Conifex APA has not been reproduced in this Report, however, it is posted on the Receiver's website as an exhibit to Affidavit #2 of Suzanne Volkow sworn July 4, 2008, a copy of which was circulated as part of the Receiver's motion materials in respect of its application for Court approval of the Conifex APA.

8.3.2 The following represents a brief summary of the business terms of the Conifex APA:

8.3.2.1 Purchase price – \$12.8 million.

8.3.2.2 Assets included – FSJ sawmill and Forest License (A77955).

8.3.2.3 Liabilities assumed – environmental, forestry and employee.

8.3.2.4 Required approvals – Ministry of Forests and Range ("MOF") notice to proceed in respect of the transfer of the forest licence. The Receiver and Conifex will work closely with the MOF to assist where applicable with this process.

8.3.2.5 Break-up fee and expense reimbursement – a break-up fee of \$650,000 and a maximum expense reimbursement of \$210,000.

8.3.2.6 Conditions on closing – Court approval and MOF notice to proceed.

8.3.2.7 Closing date – five business days after the MOF notice to proceed has been received.

8.3.3 Under the Conifex APA, Conifex is to assume only certain agreements and obligations, which can generally be categorized as licences, permits and leases. The remaining agreements between P&T and any third party

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relating to FSJ and the business conducted by P&T at or relating to FSJ will not be assigned to, or assumed by, Conifex. Accordingly, the Receiver is seeking to include a term in the order approving the Conifex APA terminating any such agreements, including any existing fibre supply agreements between P&T and any other party.

- 8.3.4 To the Receiver's knowledge, the only encumbrance registered against any of the assets that may take priority over the security interests of the secured lenders in those assets are two woodworkers liens, one asserted by K&D Logging Ltd. and the other by Newland Enterprises Ltd. (together, the "Lien Claimants"). The Receiver is of the view that neither party has a valid lien over any assets of P&T, including under the *Woodworker Lien Act* as asserted, in part on the basis that those parties each have a number of employees and are, accordingly, not entitled to rely on the protection of that legislation.
- 8.3.5 Given that the order approving the Conifex APA as sought by the Receiver contains a provision that the sale proceeds will stand in place of any assets for the purposes of existing interests in such assets, it is expected that there will be no opposition to the sale of the FSJ assets to Conifex free and clear of any existing interests in those assets. The Receiver intends to schedule a hearing as soon as possible to determine the Lien Claimants' entitlement to a claim of lien over any of the assets sold under the Conifex APA.

8.4 Recommendation

- 8.4.1 Based on its sales process and the previous sales process managed by Rothschild, as well as the Receiver's understanding as to the value of the FSJ assets, the Receiver is of the view that FSJ has been adequately marketed and that the Receiver has obtained the highest and best offer for FSJ.
- 8.4.2 The Receiver is of the view that the approval and completion of the Conifex APA is in the best interests of all stakeholders and recommends that the Conifex APA be approved by this Court.

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9 EXTENSION OF THE STAY OF PROCEEDINGS

- 9.1 The current stay of proceedings expires on July 7, 2008. The Receiver will be seeking an extension of the stay of proceedings at the July 7, 2008 Court hearing.

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This report is respectfully submitted this 6th day of July 2008.

**PricewaterhouseCoopers Inc.
Court Appointed Interim Receiver and Receiver of
Pope & Talbot Ltd. and its affiliates**



**Michael J. Vermette
Senior Vice President**



**Michael Armstrong
Director**

Appendix A

Letter to Canfor dated July 2, 2008

Fasken Martineau DuMoulin LLP *

Barristers and Solicitors
Patent and Trade-mark Agents

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July 2, 2008
File No.: 256107.00075

VIA FACSIMILE

Davis & Company
Barristers and Solicitors
2800 – 666 Burrard Street
Vancouver, BC V6C 2Z7

Attention: Shelley Fitzpatrick

Dear Sirs/Mesdames:

**Re: *In the Matter of Pope & Talbot Ltd. et al (collectively, “Pope & Talbot”)*
*S.C.B.C. Action No. S077839, Vancouver Registry***

We write as counsel for PricewaterhouseCoopers Inc. (the “Receiver”) in its capacity as court-appointed receiver of the assets and undertakings of Pope & Talbot concerning the Chip Supply Agreement and the Residual Fibre Supply Agreement (together, the “Fibre Supply Agreements”) between Canadian Forest Products Ltd. (“Canfor”) and Pope & Talbot Ltd.

As you are aware, the Receiver is currently considering whether to affirm the Fibre Supply Agreements. If it were to do so, the Receiver would pay all amounts owing to Canfor under those agreements, whatever those amounts are ultimately determined to be. However, the Receiver does not want to affirm the Fibre Supply Agreements if Canfor intends to seek to terminate those agreements on the basis of any alleged past defaults by Pope & Talbot Ltd. or to continue to assert a right to rely on the force majeure provisions of the Chip Supply Agreement in favour of Canfor. In either case, the Receiver would then be paying for Fibre Supply Agreements that are of effectively no value to it.

Accordingly, we ask that you respond as soon as practicable to advise as to Canfor’s position should the Receiver affirm the Fibre Supply Agreements.

Thank you for your attention to the foregoing.

Yours truly,

FASKEN MARTINEAU DuMOULIN LLP

Kibben Jackson

KJ/
cc: Client

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