

**IN THE SUPREME COURT OF BRITISH COLUMBIA**

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

**AND**

**IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT 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")**

**MONITOR'S TWELFTH REPORT TO COURT  
[Prepared for the April 22, 2008 Court Hearing]**

**APRIL 21, 2008**

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MONITOR'S TWELFTH REPORT TO COURT**

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**1 INTRODUCTION**

- 1.1 This is the Monitor's Twelfth Report to this Court with respect to the Company's filing under the *Companies' Creditors Arrangement Act* (the "CCAA"). This report is prepared in anticipation of the scheduled April 22, 2008 hearing to inform this Court of the following:
- 1.1.1 An update on the current operations of P&T, including the actual receipts and disbursements of the Company for the period from March 15, 2008 to April 11, 2008 (the "Period");
  - 1.1.2 An update on the status of the asset sales transactions;
  - 1.1.3 The Company's request for an order approving a claims process to solicit and quantify claims against current and former directors and/or officers of the Company;
  - 1.1.4 The Company's request for the various orders considered necessary by the Company to close the Interfor, Pulp, and Fort St. James asset sales; and
  - 1.1.5 The Company's request for an extension of the Stay of Proceedings to June 10, 2008.

**2 BACKGROUND**

- 2.1 On October 29, 2007, P&T made an application under 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. The proceedings commenced by the Company under the CCAA are referred to herein as the "CCAA Proceedings".

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- 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 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 January 15, 2008, this Court made an order extending the stay of proceedings until February 15, 2008.
- 2.5 On February 12, 2008, this Court made an order extending the stay of proceedings until April 4, 2008.
- 2.6 On March 28, 2008, this Court made an order extending the stay of proceedings until April 25, 2008.
- 2.7 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.
- 2.8 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.
- 2.9 The Monitor has previously filed eleven reports with respect to these CCAA proceedings. The most recent report was dated March 28, 2008.
- 2.10 Capitalized terms not defined in this Twelfth Report are as defined in the Initial Order and the Monitor’s previous reports.
- 2.11 The Monitor has established a website at [www.pwc.com/car-poptal](http://www.pwc.com/car-poptal) where all materials filed with this Court by P&T and the Monitor, as well as any Orders granted by this Court, are made available in electronic form to creditors and other interested parties.

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- 2.12 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>.

**3 COMPANY OPERATIONS**

- 3.1 The Company continues to operate its three Pulp mills. The Spearfish sawmill has been temporarily closed but continues to ship finished goods. The Company's remaining sawmills in Castlegar, Grand Forks, and Fort St. James continue to remain temporarily closed due to market conditions.
- 3.2 While the Company remained within the limits of the Borrowing Base as at April 11, 2008, as at April 18, 2008 the Company was no longer within its borrowing base restrictions as a result of accelerated accounts receivable collections and reducing inventories. The Monitor has been advised by the Company that it was back within the Borrowing Base limits on April 21, 2008.
- 3.3 The current DIP Credit Agreement expires on April 25, 2008 and the Company has advised the Monitor that it is in the process of negotiating an extension and that no additional amounts are expected to be advanced.
- 3.4 Post-filing accounts payable balances are currently estimated by the Company to be approximately US\$7 million and are likely to increase over the coming weeks.
- 3.5 As reported in the Monitor's Tenth Court Report, the DIP Credit Agreement now places a cap of US\$2 million on the portion of post-filing trade and utility payments which forms part of the Agreed Administrative Expense Priorities that would be paid in priority to the Secured Creditor position. Any amounts above the US\$2 million in post-filing trade accounts payable are at risk in the event that the asset sales do not close and/or the subsequent realizations are insufficient to pay all priority claims.

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3.6 Cash Receipts & Disbursements to April 11, 2008

3.6.1 The following is a summary of the actual cash flow and the variance to the Revised Forecast. The Monitor's detailed comments of the variances are set out in Appendix A.

	Period From	Period From			Period From
	10/29/2007 - 3/14/2008	3/15/2008 - 4/11/2008			10/29/2007 - 4/11/2008
	Actual US\$ 000's	Actual US\$ 000's	Forecast US\$ 000's	Variance US\$ 000's	Total US\$ 000's
<b>Total Receipts</b>	249,147	57,086	46,375	10,711	306,233
Total Bankruptcy Related Disbursements	(12,892)	(4,356)	(7,910)	3,554	(17,248)
Total Operating Disbursements	(259,594)	(49,160)	(50,219)	1,059	(308,754)
<b>Total Disbursements</b>	<b>(272,486)</b>	<b>(53,516)</b>	<b>(58,129)</b>	<b>4,613</b>	<b>(326,002)</b>
<b>Net Cash Flow <sup>1</sup></b>	<b>(23,339)</b>	<b>3,570</b>	<b>(11,754)</b>	<b>15,324</b>	<b>(19,769)</b>

<sup>1</sup> Excludes accruals and post-filing payables which are estimated at US\$7 million as at April 11, 2008

3.6.2 As previously reported, the actual negative cash flow for the period October 29, 2007 to March 14, 2008 totalled US\$23.3 million.

3.6.3 During the four week period from March 14, 2008 to April 11, 2008, the Company recorded positive cash flow of US\$3.6 million. This was US\$15.3 million better than the forecast and was a result of a combination of the Company receiving accounts receivable collections ahead of forecast and the Company minimizing payments for trade accounts payable.

3.6.4 For the period total CCAA period of October 29, 2007 to April 11, 2008 the Company has had negative cash flow of US\$19.8 million.

3.6.5 In the period subsequent to April 11, 2008, the Company has continued to conserve as much cash as possible; however, delays in the closing of the asset sales continue to negatively impact the Company's financial position.

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3.7 Reporting Under the DIP Credit Agreement

- 3.7.1 The Company continues to report its cash flows weekly to its DIP Lenders and continues to trigger Material Adverse Deviations in its cash flow reporting.
- 3.7.2 The Company has obtained the necessary waivers in respect of the Material Adverse Deviations incurred and reported to April 11, 2008; however, as at the date of this report the Monitor has been unable to confirm that a waiver has been obtained for the week ending April 18, 2008.
- 3.7.3 As at April 11, 2008 the total amount outstanding under the operating portion of the DIP Credit Agreement was US\$61.5 million. This includes outstanding revolver borrowings of US\$48.9 million and DIP Term Borrowings of US\$12.6 million. The Monitor notes that the non-operating portion of the DIP Credit Agreement totals US\$189 million, resulting in total borrowings under the DIP Credit Agreement of US\$251 million.
- 3.7.4 The Company has excess borrowing availability under the operating portion of the DIP Credit Agreement as at April 11, 2008 as follows:

<b>Revolver Balance as at April 10, 2008</b>	
	<b>Actual US\$ 000's</b>
Borrowing Base	59,142
Less: Letter of Credit Reserve	(7,044)
Net Availability	52,098
Revolver Balance	48,983
<b>Excess of Availability</b>	<b>3,115</b>

**4 UPDATED CASH FLOW FORECAST TO JUNE 10, 2008**

- 4.1 The Monitor has not received an updated cash flow forecast for the requested stay extension period to June 10, 2008; however, the Monitor understands that the Company is currently preparing an updated cash flow forecast to May 2, 2008 which will cover the anticipated closing dates of the asset sale transactions.

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4.2 The Monitor will report to this Court once an updated cash flow forecast is received.

**5 UPDATE TO THE VARIOUS SALES PROCESSES**

5.1 As noted in the Monitor's previous reports, the Company has signed Asset Purchase Agreements (the "Agreements") for each of its operating assets.

5.2 The Company's closing dates for the operating assets are listed in the table below:

<b>Sale Process</b>	<b>Expected Closing Date</b>	<b>APA Termination Date</b>
Sale to Fox Lumber (Midway Sawmill)	April 22, 2008	N/A
Sale to Interfor (Wood Division)	April 30, 2008	April 30, 2008
Sale to PT Pindo Deli (Pulp Division)	April 30, 2008	April 30, 2008
Sale to PT Pindo Deli (FSJ Sawmill)	April 30, 2008	April 30, 2008

5.3 While there is considerable work to do in order to complete these transactions, the Monitor believes that all parties involved are using reasonable efforts to close these transactions in a timely fashion.

5.4 Sale to PT Pindo Deli (Pulp Division)

5.4.1 The APA for the sale to PT Pindo Deli has a termination date of April 30, 2008.

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5.4.2 Both the Company and PT Pindo Deli are working towards this closing date; however, there remain several issues to resolve as documented below:

5.4.2.1 Transfer of Permits and Licences

- BC government consent is required for the transfer of various licences and permits for the Mackenzie and Harmac pulp mills from the Company to PT Pindo Deli. We understand that this consent has not yet been obtained. The Monitor is advised that approval process is underway. The Company believes that this consent can be obtained before April 30, 2008.
- Several meetings between the government, various First Nations groups and PT Pindo Deli have been scheduled for the week of April 21, 2008. The outcomes of these meetings are not known at this time.

5.4.2.2 Business Related

- There are various other business related issues that arise in the normal course of a transaction of this nature between the Company and PT Pindo Deli that we understand still need to be resolved. The Company and PT Pindo Deli are in discussions over these issues and they have advised us that they both believe that these issues can be resolved by April 30, 2008.

5.5 Sale to Interfor (Lumber Division)

5.5.1 The APA for the sale to Interfor has a termination date of April 30, 2008.

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- 5.5.2 Both the Company and Interfor are working towards closing on this date; however, we understand that the granting of a foreshore license for an existing log dump and its transfer to Interfor are not expected to be completed prior to April 30, 2008 as a result of ongoing consultations between several First Nations groups and the BC government. Both the Company and Interfor are aware of this expected delay and are amending the APA to deal with this issue.
- 5.5.3 An Amended APA has not been finalized but we understand that a preliminary draft has been circulated to the Lenders, the Official Committee of Unsecured Creditors and the Monitor for review.
- 5.6 Sale to PT Pindo Deli (Fort St. James Sawmill)
- 5.6.1 The APA for the sale to PT Pindo Deli has a termination date of April 30, 2008.
- 5.6.2 Both the Company and PT Pindo Deli are working towards this closing date; however, there remain several issues to be resolved as documented below:
- 5.6.2.1 Transfer of Permits, Licenses and Tenure
- BC government consent for transfer of various licences and permits from the Company to PT Pindo Deli has not yet been received. The Monitor understands that the process is underway and the Company believes this consent can be obtained before April 30, 2008.
  - We understand that several meetings with between the BC government, the various First Nations groups and PT Pindo Deli have been scheduled for the week of April 21, 2008.

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5.6.2.2 Business Related

- As indicated above with the sale of the Pulp assets, the Company and PT Pindo Deli are working to resolve all of the business related issues by April 30, 2008.

5.6.3 Sale to Fox Lumber (Midway)

5.6.3.1 The transaction to sell the Midway sawmill to Fox Lumber has not closed but is expected to be closed prior to April 30, 2008.

5.6.4 The Monitor continues to work closely with the Company and communicates daily with the various parties involved in these transactions including the purchasers and the BC government to track the status of each transaction. The Monitor is also communicating regularly with the Lenders to advise them of the status of the transactions. While there are several issues that remain outstanding, all of the parties including the Company and the purchasers appear to be focused on the completion of these transactions by April 30, 2008.

**6 D&O CLAIMS PROCESS**

- 6.1 The Claims Procedure incorporates a process for claims against current or former Directors and Officers (“D&O”), which arose or arise in connection with the Director’s or Officer’s position with the Company either before or after the granting of the Initial Order.
- 6.2 The D&O Claims Process would begin seven days after the Closing Date, at which time the D&O Claims notification would be delivered to all known creditors. D&O Claims must be filed before 4:00 pm Pacific Standard Time 40 days after the Closing Date (the “D&O Claims Bar Date”).
- 6.3 The Closing Date is the date on which the last of the following transactions closes: (i) sale of wood products division to Interfor; (ii) sale of the pulp division to PT Pindo Deli; (iii) sale of the Fort St. James Mill to PT Pindo Deli; (iv) sale of the Midway Mill to Fox Lumber.

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- 6.4 In summary, the significant steps of the Claims Procedure are as follows:
- 6.4.1 A Claims Package will be mailed out to each Known Creditor on or before the day which is seven days after the Closing Date.
  - 6.4.2 A D&O Notice to Creditors will be published in the Globe and Mail, (National Edition), the National Post (National Edition) and the Vancouver Sun, USA Today, Black Hills Pioneer, Albany Democrat Herald, Corvallis Gazette Times, Eugene Register Guard, Salem Statesman Journal and the Oregonian by the date which is seven days after the Closing Date. In addition, the D&O Notice to Creditors will be placed in the Lebanon Express and the Brownsville Times by the date which is 14 days after the Closing Date.
  - 6.4.3 The Monitor will post the D&O Notice to Creditors and the Claims Package on the Monitor's website commencing seven days after the Closing Date until the D&O Claims Bar Date.
  - 6.4.4 D&O Proofs of Claim must be received before 4:00 pm Pacific Standard Time 40 days after the Closing Date (the "D&O Claims Bar Date").
  - 6.4.5 The Monitor, the Company and the applicable Director and Officer shall review each Proof of Claim received and shall accept, revise, or disallow the D&O Claim.
  - 6.4.6 If applicable, the Company, the Monitor or the applicable Director must provide the Creditor with a Notice of Revision or Disallowance to which the Creditor has 14 days to dispute.
  - 6.4.7 A Claims Officer will be appointed to resolve all D&O Claim disputes.

**7 OTHER MATTERS**

- 7.1 The Company is seeking orders to be granted by the Court for the following issues:
- 7.1.1 Approval of the assignment of the Western Forest Agreement;

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- 7.1.2 Resolution of the claim of Canadian Forest Products;
- 7.1.3 Amendments to the Pulp, Interfor, and Fort St. James Approval and Vesting Orders; and
- 7.1.4 Di minimus Land Sales procedure.
- 7.2 Assignment of the Western Agreement
  - 7.2.1 Western Forest Products Inc. is withholding its consent to the assignment of its Chip and Pulp Log Supply Agreement.
  - 7.2.2 The Monitor has been advised by Company and PT Pindo Deli that the Western Agreement is a critical contract under the Pulp APA. Accordingly, the Monitor supports the Company's motion to approve the assignment of the Western Agreement despite the objections of Western Forest Products Inc.
- 7.3 Amendment of the Interfor Approval and Vesting Order
  - 7.3.1 The Company is seeking to amend the Interfor Approval and Vesting Order to include additional material contracts and the transfer of additional parcels of land.
  - 7.3.2 The cure costs associated with the additional material contracts are approximately \$7,000.
  - 7.3.3 The additional parcels of land relate to private lands that will be transferred to Interfor along with the Company's Tree Farm Licences.
  - 7.3.4 The Monitor supports the Company's motion for an Order to amend the Interfor Approval and Vesting Order.
- 7.4 Amendment of the Pulp Approval and Vesting Order
  - 7.4.1 The Company is seeking to amend the Pulp Approval and Vesting Order to include additional material contracts.

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- 7.4.2 The cure costs associated with the additional material contracts are approximately \$606,000.
- 7.4.3 The Monitor supports the Company's motion for an Order to amend the Pulp Approval and Vesting Order.
- 7.5 Amendment of the Fort St. James Approval and Vesting Order.
  - 7.5.1 The Company is seeking to amend the Fort St. James Approval and Vesting Order to include additional material contracts.
  - 7.5.2 The cure costs associated with the additional material contracts are approximately \$36,000.
  - 7.5.3 The Monitor supports the Company's motion for an Order to amend the Fort St. James Approval and Vesting Order.
- 7.6 Resolution of the claim of Canadian Forest Products ("Canfor")
  - 7.6.1 There is a dispute between the parties with respect to the amount of the cure costs related to Pulp APA.
  - 7.6.2 The Monitor understands that the Company and Canfor have agreed to terms whereby among other things, amounts will be escrowed as security for the cure costs to be paid to Canfor until such time that the amount of the cure costs can be determined.
  - 7.6.3 The quantum of the escrow has not been agreed to but the Monitor expects that it will be agreed to by the parties prior to the closing date.
- 7.7 Procedures to Handle Surplus Sales of a De Minimus Value
  - 7.7.1 The Company is seeking an order in the US Bankruptcy Court to streamline the sales process of surplus land sales that are considered to be of a de minimus value.

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7.7.2 As noted in the Monitor's Fifth Court Report, date December 13, 2007, the Courts jointly approved a cross-border insolvency protocol (the "Protocol") that provides for among other things that asset sales with respect to real property located in the U.S. are subject to the sole jurisdiction of the U.S. Court.

**8 EXTENSION OF THE STAY OF PROCEEDINGS**

- 8.1 The current stay of proceedings expires on April 25, 2008. The Company is now seeking an extension of the Stay Period until June 10, 2008.
- 8.2 The Monitor supports an extension, however; the Monitor is concerned with the length of the extension for the following reasons:
- 8.2.1 The current DIP Credit Agreement expires on April 25, 2008 and has not yet been extended. While the Company and the DIP Lenders appear to be in the late stages of negotiating an extension, the length of the proposed extension is not known.
- 8.2.2 Post-filing trade credit continues to grow as the Company's cash flows are clearly tight and are expected to remain tight through the end of the month.
- 8.2.3 There are several outstanding issues with the asset sales transactions that may delay closing of one or more of the transactions beyond April 30, 2008; and
- 8.2.4 The Company's ability to continue to fund operations without a successful completion of all asset sales transactions by April 30, 2008 is not clear at this stage as the Monitor has not been provided with an updated cash flow forecast.

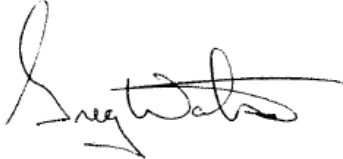
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- 8.3 The Monitor is of the view that the Company continues to act in good faith and with due diligence. The Monitor continues to believe that completing these sales transactions is in the best interest of all stakeholders. Accordingly, the Monitor supports a further extension of the stay of proceedings to the first week of May 2008 at which time the status of the asset sales will be more clear and an updated cash flow forecast will be available.

This report is respectfully submitted this 21<sup>st</sup> day of April 2008.

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



**Greg Watson  
President**



**Michael J. Vermette  
Senior Vice President**

## **APPENDIX A**

**Variations Analysis – Revised Forecast vs.  
Actual Receipts and Disbursements  
for the Period to April 11, 2008**

Appendix A

**Variations Analysis – Revised Forecast vs. Actual Receipts and Disbursements  
for the Period to April 11, 2008**

	Period From 10/29/2007 - 3/14/2008	Period From 3/15/2008 - 4/11/2008				Period From 10/29/2007 - 4/11/2008
	Actual US\$ 000's	Actual US\$ 000's	Forecast US\$ 000's	Variance US\$ 000's	Variance %	Total US\$ 000's
<b>Total Receipts</b>	<b>249,147</b>	<b>57,086</b>	<b>46,375</b>	<b>10,711</b>	<b>23%</b>	<b>306,233</b>
<b>Bankruptcy Related Disbursements</b>						
Utility Deposits	(133)	-	-	-	-	(133)
Prepetition Freight, Shippers & Warehouseurs	(1,571)	-	-	-	-	(1,571)
Prepetition Critical Vendors	(2,034)	-	(340)	340	100%	(2,034)
Professional Fees	(8,782)	(4,356)	(7,570)	3,214	42%	(13,138)
Other	(372)	-	-	-	-	(372)
<b>Total</b>	<b>(12,892)</b>	<b>(4,356)</b>	<b>(7,910)</b>	<b>3,554</b>	<b>45%</b>	<b>(17,248)</b>
<b>Operating Cash Disbursements</b>						
Payroll	(29,763)	(5,023)	(4,769)	(254)	(5%)	(34,786)
Payroll Taxes and Benefits	(29,166)	(4,516)	(4,983)	467	9%	(33,682)
Logs & Fiber	(85,059)	(16,612)	(16,276)	(336)	(2%)	(101,671)
Utilities / Energy	(24,993)	(6,720)	(6,112)	(608)	(10%)	(31,713)
Freight	(30,472)	(6,199)	(6,869)	670	10%	(36,671)
Chemicals	(19,209)	(3,074)	(3,854)	780	20%	(22,283)
Operating Supplies	(7,191)	(1,397)	(1,417)	20	1%	(8,588)
Maintenance Materials & Contract Services	(9,899)	(1,676)	(1,763)	87	5%	(11,575)
Sales Commission	(182)	(143)	(106)	(37)	(35%)	(325)
Lease Payments	(2,755)	(585)	(463)	(122)	(26%)	(3,340)
Lumber Duties	(3,143)	(377)	(400)	23	6%	(3,520)
Pension Contribution	(1,381)	-	-	-	-	(1,381)
Taxes (Property & Other)	(2,201)	(1,053)	(1,431)	378	26%	(3,254)
Brussels Office	(19)	-	-	-	-	(19)
Insurance	(1,279)	-	(25)	25	100%	(1,279)
Professional Fees	(717)	(327)	(91)	(236)	(259%)	(1,044)
Interest and Financing Costs on Revolver	(1,788)	(452)	(497)	45	9%	(2,240)
Capital Expenditures	(157)	-	(22)	22	100%	(157)
Other	(10,220)	(1,006)	(1,141)	135	12%	(11,226)
<b>Total Operating Disbursements</b>	<b>(259,594)</b>	<b>(49,160)</b>	<b>(50,219)</b>	<b>1,059</b>	<b>2%</b>	<b>(308,754)</b>
<b>Total Disbursements</b>	<b>(272,486)</b>	<b>(53,516)</b>	<b>(58,129)</b>	<b>4,613</b>	<b>8%</b>	<b>(326,002)</b>
<b>Net Cash Flow</b>	<b>(23,339)</b>	<b>3,570</b>	<b>(11,754)</b>	<b>15,324</b>	<b>(130%)</b>	<b>(19,769)</b>

**Variations Analysis – Revised Forecast vs. Actual Receipts and Disbursements  
for the Period to April 11, 2008**

**Total Receipts**

- 1 In an effort to increase its cash collections, the Company has offered some of its customers a cash discount upon early payment of their receivables. As a result, the accelerated collection of \$18.4 million of receivables was received within the Period. The cash discount offered on these receivables was \$117,000.

**Disbursements**

- 2 The unfavourable variance of US\$608,000 or 10% in Utilities and Energy is in part due to the timing of prepayments made. This difference is expected to reverse in future periods.
- 3 The unfavourable variance of US\$122,000 or 26% in Lease Payments has resulted in a cumulative Material Adverse Opinion.
- 4 The favourable variance in the Bankruptcy related Professional Fees of US\$3.2 million or 42% is a timing issue and attributed to the timing of payment of professional fees approved the by the US Bankruptcy Court. The unfavourable variance of US\$236,000 or 259% in the Non-bankruptcy related Professional fees for the Period is largely due to catch-up payments to the audit service professionals who are no longer retained by the Company.