

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 SEVENTH REPORT TO COURT
[Prepared for the August 27, 2008 Court Hearing]**

AUGUST 26, 2008

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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 at <http://www.kccllc.net/popetalbot>.
- 1.4 The Receiver's First Report to Court dated July 6, 2008, addressed the Company's application for an extension of the stay of proceedings, which was extended until July 17, 2008, and provided an update on the status of the various sales processes being managed by the Receiver.
- 1.5 The Receiver's Second Report to Court dated July 16, 2008, was prepared to inform this Court on the status of the D&O and Post-Filing Creditors Claim processes, the surplus cash on hand as of July 4, 2008, assets outside of Canada and certain matters between P&T and International Forest Products Ltd. ("Interfor").
- 1.6 The Receiver's Third Report to Court dated July 23, 2008, was prepared to inform this Court on the status of the offers for the Harmac pulp mill, the surplus cash available to fund certain priorities and payout Wells Fargo Financial Canada Corporation.

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- 1.7 The Receiver's Fourth Report to Court dated July 29, 2008, was prepared to inform this Court on the status of the offers received for the Harmac pulp mill and the status the Receiver's negotiations with Interfor. At that Court hearing on July 30, 2008, this Court approved the asset purchase agreement presented by Nanaimo Forest Products Ltd. ("NFP").
- 1.8 The Receiver's Fifth Report to Court dated August 11, 2008, was prepared to inform this Court on the status of the NFP asset purchase agreement, the receipt by the Receiver of a backup offer for the Harmac pulp mill, an amendment to the Fort St. James sawmill Vesting order, and the status of the claim of the Province of British Columbia with respect to the post-filing trade creditors claims process.
- 1.9 The Receiver's Sixth Report to Court dated August 15, 2008, was prepared to inform this Court on the status of the sales process for the Mackenzie pulp mill and to request Court approval of the 0832498 APA for the purchase of the Mackenzie pulp mill.
- 1.10 This is the Receiver's Seventh Report to Court since its appointment on May 10, 2008. This report is prepared to inform this Court of the status of the Fort St. James sawmill sales process, Surplus Land Sales, an Interfor APA update, and a stay extension request.

2 BACKGROUND OF THE CCAA AND THE RECEIVERSHIP

- 2.1 This administration began in October 2007 with P&T making an application under the *Companies' Creditors Arrangement Act* (the "CCAA"). The CCAA continues with PwC acting as Monitor. On May 10, 2008, PwC was appointed Interim Receiver and Receiver and PwC continues in this capacity.
- 2.2 Full details of the proceedings are set out in Appendix A.

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3 SALES UPDATE – FORT ST. JAMES

- 3.1 Under the terms of the Conifex APA, the closing of the sale of the Fort St. James sawmill (“Fort St. James”) to Conifex Inc. (“Conifex”) was conditional on the notification from the Ministry of Forests and Range (“MoFR”) that the disposition of Forest Licence A77955 could proceed.
- 3.2 On August 15, 2008 this disposition notice was provided to Conifex and the Receiver.
- 3.3 Therefore, as contemplated in the Conifex APA the transaction closed on August 22 which was five days after the notice was received.
- 3.4 The Receiver understands from Conifex that they still intend to start-up Fort St. James which will benefit the many stakeholders in the area.

4 SURPLUS LAND SALES

- 4.1 Schedule A TFL 23
 - 4.1.1 14 of the 35 parcels of Surplus Lands (see Appendix B – Surplus Land Sales) are private lands under Tree Farm Licence 23 (“TFL 23”) in the Arrow Forest District. The sale of all 14 parcels private lands under TFL 23 are subject to the removal of those lands from TFL 23, which requires the consent of the MoFR.
 - 4.1.2 The sales process for the 14 parcels of TFL 23 lands was initiated in the summer of 2007 by P&T as part of its restructuring. On June 5, 2007, as part of the sales process, P&T requested consent from the Honourable Rich Coleman to withdraw private lands from TFL 23.

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- 4.1.3 Throughout its restructuring process, one of P&T's principal objectives was to minimize any adverse effects to the core forestry business, employees, the communities, and the contractors. In its initial application to the MoFR in respect of the removal of the Private Lands from TFL 23, P&T considered many factors raised by various stakeholders including protecting critical gravel sources, addressing forest management issues and providing statutory rights of ways.
- 4.1.4 The Receiver participated in public hearings arranged by the MoFR in June 2008 to offer an understanding of the background, considerations, and process that P&T followed in their application to the MoFR.
- 4.1.5 Of the 14 parcels of private lands which were for sale, P&T has signed Purchase and Sales Agreements ("PSAs") for nine of them. There are sales pending on another three parcels while Colliers International Inc. ("Colliers") continues to market the two remaining parcels.
- 4.1.6 One of the Receiver's subject conditions in the PSAs is to obtain MoFR consent for withdrawal of the lands from TFL 23. This condition has been extended numerous times pursuant to rights in favour of the Receiver in the PSAs allowing such extensions. However, under some of the PSAs, those rights of extension have expired. It is unknown if the purchasers will agree to grant further extensions, and, if so, whether that would be conditional on purchase price adjustments.

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- 4.1.7 Of the PSAs, two include a condition that the lands be removed from TFL 23 by August 28, 2008, three by August 31, 2008 and one by September 5, 2008. The total gross purchase price for the lands under those six PSAs (where the conditions for MoFR consent expire over the next nine business days) is \$21.2 million of the estimated total purchase price of \$26.8 million for all the Surplus Lands in the TFL 23. (the additional \$5.6 million being the cumulative asking price or purchase price for the remaining parcels).
- 4.1.8 Where court approval was sought in respect of the PSAs in respect of private lands under TFL 23, such applications were premised on P&T or the Receiver (as applicable) obtaining a certain purchase price for those lands. Unfortunately, if extensions continue to be required, the Receiver is not certain that the overall sales projections will be achieved, in which case, the Receiver may be before this Court requesting approval for price adjustments.
- 4.1.9 The only matter preventing the closing of the land transactions and the realization of \$21.2 million in gross proceeds is the MoFR consent to the removal of the private lands from TFL 23 as requested by P&T over one year ago.
- 4.2 Executed Surplus Land Sales
- 4.2.1 The Receiver continues to work with Colliers on the Surplus Land Sales process.

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4.2.2 The Receiver has recently executed two purchase and sale agreements for properties which fall below the threshold for sales which require Court approval. Both properties are non-TFL 23 private lands. While the need for Court approval of the two PSAs has been waived by the Receiver; the Receiver is seeking a vesting order to facilitate the closing of these two transactions:

4.2.2.1 Ingram Creek (property #31) – sale for \$295,000; and

4.2.2.2 Gilpin (property #33) – sale for \$275,000.

4.2.3 Based on the Receiver's review and discussion with the various parties involved in the Surplus Lands sales process, the Receiver is satisfied with the marketing process and that the resulting purchase prices are, on balance and in the circumstances, commercially reasonable. Accordingly, the Receiver accepted the offers on the terms set forth in the purchase and sale agreement.

4.2.4 The Receiver anticipates bringing forward two more purchase and sale agreements in respect of private lands currently under TFL 23 for Court approval during the next week.

5 INTERFOR APA – NEEDLES LOG DUMP

5.1 As reported in the Receiver's Fourth Report to Court dated July 29, 2008, the Receiver has continued its discussions and negotiations with International Forest Products Ltd. ("Interfor") regarding the disputes between the parties arising in connection with the November 19, 2007 Asset Purchase Agreement among P&T and Interfor (the "Interfor APA") and the escrow agreements entered into in connection therewith.

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- 5.2 One of the outstanding issues relates to the Needles log dump ("Needles") and the requirement that, by December 31, 2008, Interfor be granted, or assigned from P&T, a foreshore licence for Needles to operate from the Integrated Land Management Bureau ("ILMB") and the Ministry of Transportation ("MoT"). The release of escrow funds in the amount of \$6 million, plus interest thereon, is determined by whether the licence is granted or assigned by December 31, 2008.
- 5.3 The Receiver is working closely with the ILMB, the MoT and the local First Nations to obtain the foreshore licence that will meet the terms of the APA before December 31, 2008.
- 5.4 Interfor has informed the Receiver that they have been denied access to the Needles foreshore log dump and are therefore claiming \$5,000 per day under the terms of the applicable escrow agreement until the foreshore licence is provided.
- 5.5 The Receiver will continue to work closely with the two Ministries and the First Nations in the area to ensure a foreshore licence is issued in a timely manner so that the December 31, 2008 deadline is met and that any penalty resulting from the delay in the issuance of the foreshore licence is kept to a minimum.

6 NEXT STEPS

- 6.1 The Receiver is considering filing a plan of arrangement under the CCAA which would see a modest recovery for P&T's unsecured creditors. Funding for any such plan may come from a number of sources, including from the realization of P&T's tax losses, which may have a value in the millions of dollars, and, possibly, from the realization of other assets including the Surplus Lands.
- 6.2 The feasibility of any such plan is dependent on a number of factors, including the Receiver obtaining the anticipated sales realizations from the two remaining pulp mill transactions, the timely completion of the Surplus Land Sales and the recovery of certain amounts held in escrow in connection to the Interfor transaction.

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6.3 It is anticipated that the Receiver will be in a position to advise the Court as to whether or not it is of the view that a viable plan can be presented to P&T's unsecured creditors, as well as the timing for recovery under any such plan, by mid-October 2008.

7 STAY EXTENSION

7.1 The Receiver is in the process of closing the sales of Harmac pulp mill to NFP on August 29, 2008 and of the Mackenzie pulp mill to 0832498 B.C in mid-September 2008. Until those sales actually close, the fate of those two pulp mills and their constituent stakeholders will be uncertain.

7.2 The continued litigation with Canadian Forest Products Ltd. ("Canfor"), who are seeking leave to appeal His Lordship's recent Orders, also renders the matter uncertain and if the stay is not extended it will in effect, give Canfor the relief they seek on appeal without even obtaining leave.

7.3 The Receiver is seeking an extension of the stay of proceedings under the CCAA to ensure the completion of the outstanding arrangements and flexibility with respect to the Canfor Chip Supply Agreement and the Residual Fibre Supply Agreement and to give the Receiver an opportunity to explore filing a viable plan of arrangement which would avoid bankruptcy and provide some return to the unsecured creditors.

7.4 Accordingly, the Receiver is seeking an extension of the stay of proceedings until October 17, 2008.

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This report is respectfully submitted this 26th day of August 2008.

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



**Craig G. Bushell
Senior Vice President**

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APPENDIX A

BACKGROUND OF THE CCAA AND THE RECEIVERSHIP

BACKGROUND OF THE CCAA AND THE RECEIVERSHIP

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. 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.
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.
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.
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.
6. On January 15, 2008, this Court made an order extending the stay of proceedings until February 15, 2008.
7. On February 12, 2008, this Court made an order extending the stay of proceedings until April 4, 2008.
8. On March 28, 2008, this Court made an order extending the stay of proceedings until April 25, 2008.
9. On April 22, 2008, this Court made an order extending the stay of proceedings until April 28, 2008.
10. On April 28, 2008, this Court made an order extending the stay of proceedings until May 5, 2008.

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11. On May 5, 2008, this Court made an order extending the stay of proceedings until May 12, 2008.
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 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.
13. On May 15, 2008, this Court made an order extending the stay of proceedings until May 20, 2008.
14. On May 20, 2008, this Court made an order extending the stay of proceedings until June 13, 2008.
15. On June 13, 2008, this Court made an order extending the stay of proceedings until July 7, 2008.
16. On July 7, 2008, this Court made an order extending the stay of proceedings until July 17, 2008.
17. On July 17, 2008, this Court made an order extending the stay of proceedings until September 2, 2008.
18. PwC, in its capacity as Monitor, has filed fourteen reports with this Court with respect to the CCAA proceedings. The most recent report was dated May 4, 2008.
19. PwC, in its capacity as Receiver, has filed six reports to this Court with respect to the Receivership proceedings. The last report was dated August 15, 2008.
20. Capitalized terms not defined in this Report are as defined in the Initial Order and Monitor's previous reports.

APPENDIX B

Surplus Land Sales

Surplus Land Sales

Property Number / Name	Status	Asking Price Cdn\$	Purchase Price Cdn\$	Less: Commissions and Taxes Cdn\$	Net Purchase Price Cdn\$	Date of Closing
Canadian Surplus Lands						
36 - Beaverdell South	Sold	295,000	550,000	28,895.62	521,104.38	January 8, 2008
22 - Irwin Ranch	Sold	395,000	751,000	39,498.60	711,501.40	January 8, 2008
20 - Shields Cr	Sold	1,295,000	1,350,000	70,987.15	1,279,012.85	January 8, 2008
01 - Blanket Cr	Sold	4,721,000	5,563,627	292,080.42	5,271,546.58	January 14, 2008 except for TFL Lands
03 - Beaton Complex	Sold					
04 - Beaton Schedule A - TFL *	Sale Pending TFL Decision					
05 - Galena Bay Thumb - TFL *	Sale Pending TFL Decision					
06 - Arrowhead - TFL *	Sale Pending TFL Decision					
07 - Galena Bay - TFL *	Sale Pending TFL Decision					
23 - Taite Cr	Sold					
27 - Tuzo Junction	Sold					
29 - Kettle River Park North	Sold					
30 - Kettle River Park South	Sold					
25 - Saunier Lake	Sold	275,000	200,000	19,987.12	180,012.88	April 16, 2008
12 - Nakusp	Sold	1,950,000	2,000,002	105,342.75	1,894,659.25	April 18, 2008
26 - Tuzo	Sold	249,500	225,000	11,852.53	213,147.47	April 21, 2008
35 - Sand Creek	Sold	795,000	500,000	26,612.43	473,387.57	April 30, 2008
02 - Cambourne	Sold	149,000	175,000	18,124.54	156,875.46	April 30, 2008
15 - Arrow Park (Hampton)	Sold	295,000	431,000	23,132.03	407,867.97	April 30, 2008
28 - Bull Lake	Sold	395,000	300,000	16,230.64	283,769.36	April 30, 2008
16 - Arrow Park (Stobo) - TFL *	Sale Pending TFL Decision	395,000	405,000	TBD	TBD	TFL Lands
14 - Arrow Park - TFL *	Sale Pending TFL Decision	695,000	675,000	TBD	TBD	TFL Lands
17 - Burton - TFL *	Sale Pending TFL Decision	795,000	795,000	TBD	TBD	TFL Lands
10 - Eagle Bay - TFL *	Sale Pending TFL Decision	7,495,000	5,900,000	TBD	TBD	TFL Lands
09 - Shelter Bay - TFL *	Sale Pending TFL Decision	9,950,000	11,300,000	TBD	TBD	TFL Lands
21 - Sub Lot 6 - TFL *	Offer Accepted	250,000				
33 - Gilpin	Offer Accepted	349,000				
31 - Ingram Creek	Offer Accepted	395,000				
19 - Mennonite Flats - TFL *	Offer Accepted	1,495,000				
11 - Fosthall - TFL *	Offer Accepted	195,000				
24 - Beaverdell North	Offer Accepted	195,000				
13 - Mosquito Creek - TFL *	Open	3,950,000				
18 - Oatscott - TFL *	Open	495,000				
32 - McCaren Creek	Open	249,000				
34 - Santa Rosa	Open	2,750,000				
08 - Trout Lake	Cancelled	595,000				
Total Cash Proceeds to P&T from Canadian Sales					\$ 11,392,885.17	

* TFL - Property is private land located within Tree Farm Licence ("TFL") 23