

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 ELEVENTH REPORT TO COURT
[Prepared for the October 29, 2008 Court Hearing]**

OCTOBER 24, 2008

**POPE & TALBOT LTD. et al
INTERIM RECEIVER'S ELEVENTH REPORT TO COURT**

OCTOBER 24, 2008

TABLE OF CONTENTS

1	INTRODUCTION.....	1
2	BACKGROUND OF THE CCAA AND THE RECEIVERSHIP	1
3	STATEMENT OF RECEIPTS AND DISBURSEMENTS	1
4	AMENDMENT TO DISTRIBUTION ORDER OF SEPTEMBER 29, 2008	3

APPENDICES

- A. Background of the CCAA and the Receivership**
- B. Receiver's Statement of Receipts and Disbursements for the period of May 10, to October 23, 2008**

POPE & TALBOT LTD. et al
INTERIM RECEIVER'S ELEVENTH REPORT TO COURT

OCTOBER 24, 2008

1 INTRODUCTION

- 1.1 By Court Order made on May 10, 2008 (the "Order"), PricewaterhouseCoopers Inc. ("PwC") was appointed Interim Receiver and Receiver of the Company (in such capacities, the "Interim Receiver" or the "Receiver").
- 1.2 The Receiver's last Report to Court was dated October 20, 2008.
- 1.3 This is the Receiver's Eleventh Report to Court since its appointment on May 10, 2008. This report is prepared to inform this Court that the Receiver now holds sufficient cash to fund the balance of this administration together with all known and potential priority claims. Accordingly, the Receiver is seeking an order of this Court to permit the Receiver, at its discretion, to pay out to the Secured Lender all surplus cash.

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").
- 2.2 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.
- 2.3 Full details of the CCAA and receivership proceedings are set out in Appendix A.

3 STATEMENT OF RECEIPTS AND DISBURSEMENTS

- 3.1 The Receiver has prepared a Statement of Receipts and Disbursements for the period May 10 to October 23, 2008. This statement is attached as Appendix B.
- 3.2 As set out in Appendix B, receipts have totalled \$152.7 million and disbursements have totalled \$30.3 million, resulting in an excess of \$122.3 million.

POPE & TALBOT LTD. et al
INTERIM RECEIVER'S ELEVENTH REPORT TO COURT

OCTOBER 24, 2008

3.3 To date, the Receiver has made court-approved distributions to secured creditors of approximately US\$88 million as follows:

Distributions to Secured Creditors	
As at October 23, 2008	
	(US\$'000)
Wells Fargo Financial Canada Corporation	37,055
Ableco Finance LLC	50,853
Total	<u>87,908</u>

3.4 The Receiver has set aside approximately \$24 million for various known and potential priority claims (the "Priority Claims"), consisting of:

- \$2 million for Post Filing Creditor claims;
- \$5 million for professional fees;
- \$13 million (the "D&O Fund") for the Directors' Charge created by the November 21, 2007 Amended and Restated Initial Order of this court;
- \$1 million, being the amount paid to the Receiver by Nanaimo Forest Products Ltd. as security for any claims against the D&O Fund by the former salaried and non-unionized hourly employees at Harmac;
- \$2.1 million for potential woodworkers' liens over logs and timber sold to the purchaser of the Fort St. James mill;
- \$832,000 in respect of Forest Investment Account restricted use funds;
- \$142,000 pursuant to the settlement of the unions' trust claims in respect of unpaid benefits;

3.4.1 The resolution of each of the Priority Claims is being dealt with by the Receiver and is (or will be) the subject of other reports.

POPE & TALBOT LTD. et al
INTERIM RECEIVER'S ELEVENTH REPORT TO COURT

OCTOBER 24, 2008

- 3.5 The Receiver currently has unrestricted cash on hand of \$10.3 million. After setting aside US\$8.1 million for estimated uninvoiced commitments and estimated costs to complete the administration, the Receiver estimates that it currently has unencumbered cash on hand of US\$2.2 million.

Receiver's Cash Position	
As at October 23, 2008	
	(US\$'000)
Cash on Hand as at October 23, 2008	34,418
Less:	
Administrative Priorities	(20,000)
Hamac Indemnity	(1,000)
Potential Fort St. James Woodworkers' Lien Claims	(2,100)
Forests For Tommow / Forest Investment Account Restricted Use Funds	(832)
Settlement Union Trust & Benefit Claims	(142)
	<u>(24,074)</u>
Unrestricted Cash on Hand as at October 23, 2008	10,344
Potential Uninvoiced Commitments	(2,583)
Estimated Costs to Complete Administration	(5,562)
Unencumbered Cash on Hand as at October 23, 2008	<u>2,199</u>

4 AMENDMENT TO DISTRIBUTION ORDER OF SEPTEMBER 29, 2008

- 4.1 On September 29, 2008, this Court approved the Receiver's motion for an order (the "Distribution Order") authorizing and directing the Receiver to distribute funds to Ableco Finance LLC ("Ableco") as follows:
- 4.1.1 \$50 million immediately; and
- 4.1.2 50% of any funds received by the Receiver after September 29, 2008 up to the maximum of \$10 million (for total distributions of no more than \$60 million).
- 4.2 At the time this Court made the Distribution Order, there were several unresolved matters that impacted on the Receiver's ability to make distributions. Accordingly, the Receiver's motion as reflected in the Distribution Order, ensure that sufficient funds were in the Receiver's possession as a contingency fund in the event the resolution of those matters required a payment by the Receiver.

POPE & TALBOT LTD. et al
INTERIM RECEIVER'S ELEVENTH REPORT TO COURT

OCTOBER 24, 2008

- 4.3 Over the last 30 days, several significant outstanding matters have been resolved. These include:
- 4.3.1 the Receiver, the Chapter 7 Trustee and Ableco have entered into a settlement with International Forest Products Ltd. (“Interfor”) in respect of the dispute concerning the asset purchase agreement between Interfor and certain of the Petitioners and the cash escrow accounts;
 - 4.3.2 the Receiver has resolved a dispute with the unions in respect of their claims for unpaid benefit obligations;
 - 4.3.3 the Receiver has obtained US Bankruptcy Court approval in respect of an arrangement negotiated with SafeCo regarding outstanding surety bonds; and
 - 4.3.4 the Receiver has secured the removal of the private lands out of TFL 23 by obtaining the consent of the BC government to such removal.
- 4.4 As a result of the resolution of the aforementioned matters and with the benefit of additional time to flush out various claims, the Receiver is of the view that there is now clarity with respect to the quantum of claims that rank, or are alleged to rank, in priority to Ableco. Furthermore, there is greater certainty with respect to the anticipated costs to complete this administration.
- 4.5 The Receiver estimates that over the next 10 weeks it will realize between US\$30 and US\$35 million from the remaining assets.
- 4.6 In addition, the Receiver estimates that there are between US\$2 million and US\$18 million of additional realizations that may take several months or even years to complete.

POPE & TALBOT LTD. et al
INTERIM RECEIVER'S ELEVENTH REPORT TO COURT

OCTOBER 24, 2008

- 4.7 Based on the foregoing, the Receiver is of the view that there is no further need to retain unencumbered funds or funds from future realizations. The Receiver continues to monitor its cash position and has set aside (and will continue to set aside) sufficient funds to meet all outstanding commitments, future costs, and potential claims. Accordingly, the Receiver is seeking the Court's permission to amend the Distribution Order to permit the Receiver, at its discretion, to henceforth distribute to Ableco any cash in the Receiver's possession in excess of the amount required to satisfy any outstanding Priority Claims as at the date of any such distribution.

This report is respectfully submitted this 24th day of October 2008.

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



Michael J. Vermette
Senior Vice President

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.

BACKGROUND OF THE CCAA AND THE RECEIVERSHIP

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. On August 27, 2008, this Court made an order extending the stay of proceedings until October 17, 2008.
19. On October 17, 2008, the stay of extension lapsed.
20. 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.
21. PwC, in its capacity as Receiver, has filed ten reports to this Court with respect to the Receivership proceedings. The last report was dated October 20, 2008.
22. Capitalized terms not defined in this Report are as defined in the Initial Order and Monitor's previous reports.

APPENDIX B

**Receiver's Statement of Receipts and Disbursements
for the period of May 10, to October 23, 2008**

**IN THE SUPREME COURT OF BRITISH COLUMBIA
IN BANKRUPTCY AND INSOLVENCY
IN THE MATTER OF THE RECEIVERSHIP OF
POPE & TALBOT LTD., et al.
INTERIM RECEIVER'S STATEMENT OF RECEIPTS AND DISBURSEMENTS
FOR THE PERIOD MAY 10, 2008 TO OCTOBER 23, 2008**

RECEIPTS	\$US	\$US
Cash on hand		7,327,484
Accounts receivable Collections		95,969,269
Sale of Mills		37,116,576
Sale of Surplus Lands		253,944
Indemnity (Harmac)		1,000,000
Tax Refund		6,884,790
Other		3,759,145
Forest Investment Account trust funds		1,136,200
Interest		134,883
Foreign Exchange Gain / (Loss)		(915,838)
TOTAL RECEIPTS		<u>152,666,453</u>
DISBURSEMENTS		
Payroll related		8,741,447
Freight, storage & commissions		3,464,069
Chemicals		15,683
Contract services		367,324
Leases & Rentals		200,894
Licences & Permits		525,496
Property tax		2,900,195
Operating		552,965
Supplies		4,073
Utilities		2,027,488
Corporate		414,666
Insurance		450,252
Distributed from Forest Investment Account trust funds		307,511
Post receivership professional fees		
Interim Receiver	3,984,281	
Legal	1,200,956	
Other	<u>175,211</u>	
		5,360,448
Pre-receivership disbursements		
Payroll related	192,120	
Monitor fees	454,941	
Legal fees	374,373	
Western Forest Products Settlement	<u>1,031,139</u>	
		2,052,573
Funds transferred to US Chapter 7 trustee		2,955,226
TOTAL DISBURSEMENTS		<u>30,340,309</u>
EXCESS RECEIPTS OVER DISBURSEMENTS		<u><u>122,326,145</u></u>
Represented by:		
Cash on hand		
Denominated in US	6,010,359	
Denominated in Canadian	4,811,424	
Foreign exchange adjustment (conversion of Cdn to US)	<u>(477,937)</u>	
		10,343,846
Restricted Cash (Note 1)		
Administrative Priorities	20,000,000	
Indemnity (Harmac)	1,000,000	
Woodworks Lien Provision	2,100,000	
PPWC Trust Claims	142,438	
Forest Investment Account / Forests For Tomorrow - Trust	<u>831,657</u>	
		24,074,095
Distributions to Secured Creditors		
Ableco Finance LLC	50,852,983	
Wells Fargo Financial Canada Corporation	<u>37,055,221</u>	
		87,908,204
		<u><u>122,326,145</u></u>

Note

1 Restricted cash is shown in its native currency as it has been set aside in separate accounts. As a result, the will be no expected foreign exchange gain or loss as a result of future distribution payments.