

Court File No. 07-CL-7245

POPE & TALBOT LTD. et al

MONITOR'S SECOND REPORT TO THE COURT
November 20, 2007

Court File No. 07-CL-7245

**ONTARIO SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)**

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, P&T FINANCE THREE LLC

**SECOND REPORT TO THE COURT SUBMITTED BY
PRICEWATERHOUSECOOPERS INC.
IN ITS CAPACITY AS MONITOR**

INTRODUCTION

1. On October 29, 2007, Pope & Talbot Ltd. ("Ltd") and its affiliates, Pope & Talbot, Inc. ("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, P&T Finance Three LLC (Ltd, Inc and the other affiliates being referred to collectively herein as "P&T" or the "Applicants") made an application under the *Companies' Creditors Arrangement Act* (the "CCAA") and an initial order (the "Initial Order") was granted by the Honourable Mr. Justice Morawetz of the Ontario Superior Court of Justice (Commercial List) (the "Ontario Court") granting, *inter alia*, a stay of proceedings against the Applicants until November 23, 2007 (the "Stay Period") and appointing PricewaterhouseCoopers Inc. as monitor (the "Monitor"). The proceedings commenced by the Applicants under the CCAA will be referred to herein as the "CCAA Proceedings".

2. The purpose of this, the Monitor's second report (the "Second Report"), is to inform the Court of the following:
 - (i) The transfer of the within proceedings to the British Columbia Supreme Court (the "Court");
 - (ii) The commencement by the Applicants of proceedings under Chapter 11 of the United States Bankruptcy Code ("Chapter 11 Proceedings");
 - (iii) The Applicants' request for the approval of the agreement dated as of November 19, 2007, for a debtor-in-possession financing facility (the "DIP Credit Agreement");
 - (iv) The review being conducted by the Monitor's counsel of the validity and enforceability of the security granted by the Applicants' to their existing lenders (the "Lenders");
 - (v) The Applicants' receipts and disbursements for the period October 29 to November 9, 2007;
 - (vi) The Applicants' revised cash flow forecast for the period November 10, 2007, to February 29, 2008;
 - (vii) The Applicant's request for an extension of the Stay Period to January 15, 2008;
 - (viii) The resignation of the directors of Ltd;
 - (ix) The commencement of lien claims by three suppliers to the Applicants; and
 - (x) The execution by the Applicants of an asset purchase agreement on November 19, 2007, with International Forest Products Limited ("Interfor") as a "stalking-horse" (the "Interfor APA").

3. Unless otherwise stated, all monetary amounts contained herein are expressed in United States Dollars, the Applicants' reporting currency. Capitalized terms used herein not otherwise defined are as defined in the Initial Order.

TRANSFER OF PROCEEDINGS

4. The Applicants have been in discussions for several weeks to finalize a financing arrangement that will permit them to complete the restructuring process undertaken under the CCAA. As further discussed below, those negotiations have resulted in the entering into of an agreement dated as of November 18, 2007, for a debtor-in-possession financing facility (the "DIP Credit Agreement").
5. Pursuant to the DIP Credit Agreement, the DIP Lender (as defined below) required that the CCAA Proceedings be transferred to the Court.
6. Accordingly, on November 19, 2007, on the Applicants' motion and with the consent of all parties, an order was granted by the Honourable Mr. Justice Morawetz that, *inter alia*, transferred the CCAA Proceedings to the Court and requested that the Court accept the transfer and continuation of the CCAA Proceedings and recognize the Orders in the CCAA Proceedings made by the Ontario Court to date.

THE COMMENCEMENT OF CHAPTER 11 PROCEEDINGS

7. The commencement of Chapter 11 Proceedings was also a condition of the DIP Credit Agreement.
8. Accordingly, the Monitor has been informed by the Applicants that the Chapter 11 Proceedings were commenced on Monday, November 19, 2007, in the State of Delaware. Judge Sontchi has been seized with the case.

REQUEST FOR APPROVAL OF THE DIP CREDIT AGREEMENT

THE DIP CREDIT AGREEMENT

9. As previously disclosed to the Ontario Court by the Applicants, additional financing is required by the Applicants in order to provide stability to operations and cash flow during the CCAA Proceedings. The Applicants have also informed the Ontario Court that it was in negotiations with the Agents in respect of DIP finance to be provided by the DIP Lender (as each of those terms is defined below).

10. Since the start of the CCAA Proceedings, the Applicants have directed substantially all of their efforts with respect to obtaining DIP financing to the negotiation of terms with the Lenders. The Applicants have now entered into the DIP Credit Agreement, subject to the approval of the Court and the U.S. Bankruptcy Court seized of the Chapter 11 Proceedings. The DIP Credit Agreement is dated as of November 18, 2007, and is among:
 - (i) Inc and Ltd as the Borrower;
 - (ii) the remaining Applicants and the Partnerships, as guarantors;
 - (iii) Wells Fargo Financial Corporation Canada, as Administrative Agent;
 - (iv) Ableco Finance LLC, as Collateral Agent;
 - (v) Ableco Finance LLC, as Term Loan B Agent; and
 - (vi) such other Lenders as may be party to such agreement from time to time

((iii) through (v) collectively referred to herein as the “Agents”, and (iii) through (vi) being collectively referred to herein as the “DIP Lender”).

11. A copy of the DIP Credit Agreement is attached as Exhibit “B” to the Affidavit of Mr. Harold Stanton sworn November 20, 2007 (the “Stanton Affidavit”), and a summary of the DIP Credit Agreement is set out in paragraphs 37 *et seq* of the Stanton Affidavit.
12. Capitalized terms used in this Section but not otherwise defined herein have the respective meanings given to such terms in the DIP Credit Agreement.
13. The DIP Credit Agreement was approved by the Board of Directors of Inc on the evening of Sunday, November 18, 2007. There were no other financing alternatives before the Board for approval.
14. The financial advisors to the Applicants have informed the Monitor that they have estimated that the DIP Credit Agreement provides an additional \$17 million of financing for use by the Applicants as compared to their pre-filing facilities with the Lenders.
15. The DIP Credit Agreement provides for, *inter alia*, the following credit facilities:
 - (i) A revolving credit facility (the “Revolving Credit Facility”) in the aggregate principal amount not to exceed the lesser of:
 - (a) in any week, the principal amount of the of the Revolving Credit Loans projected to be outstanding during such week as set forth in the Initial Budget for such week plus the Budget Carryover Amount; and
 - (b) \$54 million, with the potential to be increased to an amount not to exceed \$71.351 million;
 - (ii) A multi-draw term loan B credit facility in the aggregate principal amount of \$18 million (the “Term Loan B Credit Facility”).
16. The Revolving Credit Facility includes:

- (i) a letter of credit sub-facility for the issuance of letters of credit (effectively in an aggregate amount not to exceed \$17 million); and
 - (ii) swing line loans to a maximum of the Swing Line Commitment (i.e. the aggregate principal amount of \$10 million, or such greater amount as the Swing Line Lender may, in its sole discretion, agree to advance as Swing Line Loans);
17. The proceeds of the Revolving Credit Loans are to be used to:
- (i) repay in full all Pre-Petition Revolving Loan Obligations (which includes principal, pre- and post- CCAA / Chapter 11 interest, fees, expenses, indemnities and reimbursement obligations), estimated to be approximately \$61.8 million;
 - (ii) pay all accrued and unpaid interest and letter of credit fees in respect of the Revolving Credit Facility; and
 - (iii) fund working capital needs and general corporate purposes of the Borrower and the Guarantors (and such other purposes as are consistent with the Initial Budget);
18. The Letters of Credit will be used for general corporate and working capital purposes, and essentially replace the Pre-Petition Letters of Credit;
19. The proceeds of the Term Loan B Credit Facility are to be used to pay the fees and expenses in respect of the DIP Credit Agreement and the Pre-Petition Term Loan Facilities in accordance with the Initial Budget. The balance of such proceeds may be used to fund working capital needs and general corporate purposes of the Borrower and the Guarantors (and such other purposes as are consistent with the Initial Budget).
20. Certain key provisions of the DIP Credit Agreement are as follows:

- (i) The Loans under the DIP Credit Agreement are due and payable upon the Final Maturity Date, which is not later than February 15, 2008;
- (ii) Availability under the DIP Credit Agreement is subject to, among other things, borrowing base calculations and to the establishment by the DIP Lender of various reserves from time to time;
- (iii) Provision for the mandatory restoration of "lock box" and zero balancing of accounts;
- (iv) Mandatory pre-payments are required in the event of, *inter alia*, an Asset Sale or Recovery Event or Extraordinary Receipt or receipt of any Duty Refunds or Disposition(s) of all or substantially all of the Collateral, or the issuance of any Capital Stock, or upon receipt of Net Cash Proceeds of any Revolving Priority Borrowing Base Collateral; or upon the aggregate principal amount of all Loans exceeding the maximum principal amount of Loans projected to be outstanding at such time as set forth in the Initial Budget, plus the Budget Carryover Amount. Effectively, all cash proceeds generated by the Applicants, whether in the ordinary course or otherwise, are utilized to repay the Loans;
- (v) The requirement that the Applicants must conform to the Initial Budget, which itself must be in form and substance satisfactory to the Agents;
- (vi) Restrictions and Events of Default in respect of the seeking or granting of various orders in the CCAA Proceedings or U.S. Chapter 11 proceedings, which orders and, for motions brought by the Applicants, motion materials are not satisfactory to the DIP Lender. Without limitation, this includes the Bankruptcy Orders, the Initial Order, the Canadian DIP Order and orders of the Bankruptcy Courts approving the Sale Procedure; and

- (vii) Events of default if certain timelines for the marketing and sale of the business and assets of the Applicants, as set out in the DIP Credit Agreement and discussed later in this section of this Report, are not met.

21. The DIP Credit Agreement provides for payment of:

- (i) a commitment fee computed at the Commitment Fee Rate of 0.5% per annum on the average daily amount of the Available Revolving Credit Commitment;
- (ii) a Closing Fee of \$600,000;
- (iii) the fees set forth in the Fee Letter, being \$125,000 per annum, payable in advance in quarterly instalments of \$31,250 beginning on the Interim Facility Effective Date and on the first day of December, March, June and September thereafter;
- (iv) a monthly Letter of Credit fee computed at a rate per annum equal to the Applicable Revolver Margin in effect on the first day of such month with respect to Eurodollar loans times the average daily amount of the Letter of Credit Usage during the preceding month;
- (v) any and all issuance charges, commissions, fees and costs of the Issuing Lender relating to Underlying Letters of Credit;
- (vi) the reasonable fees, disbursements and other charges of counsel to each of the Agents in connection with the DIP Credit Agreement, the CCAA Proceedings and the Chapter 11 Cases; and
- (vii) other related fees, expenses and interest payments.

22. As noted above, the Pre-Petition Revolving Loan Obligations are in excess of \$67 million. The DIP Credit Agreement provides that funds received by the Applicants in the ordinary course going forward (e.g. the collection of receivables) will be applied to repay and extinguish the Pre-Petition Revolving Loan Obligations. It is estimated that, pursuant to the requirements of the DIP Credit Facility, the application of the Net Cash Proceeds of Revolving Priority Borrowing Base Collateral as they are received post-filing will pay down the Pre-Petition Revolving Loan Obligations in full in approximately three to four weeks following approval of the DIP Credit Agreement by the Court.

23. The DIP Credit Agreement provides as a condition precedent to Interim Facility Effectiveness for the commencement of Chapter 11 proceedings by each of the Borrowers and Guarantors and the filing of motion materials for the approval of the DIP Credit Agreement by the US Bankruptcy Court, with ensuing court orders (i.e. both initial / “first day” orders and DIP approval orders) in both Canada and the U.S. that are in form and substance satisfactory to the Agents. Other conditions precedent to Interim Facility Effectiveness include:
 - (i) The Loan Parties shall have filed with the US Bankruptcy Court one or more motions for approval of procedures for the sale of all or substantially all of the Loan Parties’ assets, which shall be in form and substance satisfactory to the Agents;
 - (ii) The partial repayment of the Pre-Petition Revolving Loan Obligations with the Net Cash Proceeds of Revolving Priority Borrowing Base Collateral shall have been approved by the Canadian Bankruptcy Court and the U.S. Bankruptcy Court;
 - (iii) The granting to the satisfaction of the Collateral Agent of a perfected, first priority Lien on, and security interest in, all of the Collateral subject only to the Permitted Priority Liens;

- (iv) The receipt of legal opinions from counsel to the Borrowers and Guarantors in form and substance satisfactory to the Agents and their counsel;
 - (v) The payment of all fees required to be paid under the DIP Credit Agreement; and
 - (vi) No event or development that could have a Material Adverse Effect shall have occurred and be continuing since December 31, 2006 (where, for greater certainty, the definition of “Material Adverse Effect” excludes, *inter alia*, the CCAA Proceedings and the Chapter 11 Proceedings).
24. The DIP Credit Agreement provides for conditions precedent to the Final Facility Effectiveness, including:
- (i) The payment of all applicable fees pursuant to the DIP Credit Agreement;
 - (ii) The Final Bankruptcy Court Order of the US Bankruptcy Court shall have been signed and entered, and the further “come-back” hearing date contemplated by the Canadian DIP Order shall have been held, in each case within 30 days following the Interim Bankruptcy Court Order Entry Date, with no amendments to such orders having been made;
 - (iii) The Final Bankruptcy Court Order shall authorize the repayment in full of all outstanding Pre-Petition Revolving Loan Obligations (including all accrued and unpaid interest, fees, costs and other charges) with the proceeds of the Revolving Credit Loans made on the Final Facility Date;
 - (iv) No event or development that could have a Material Adverse Effect shall have occurred and be continuing since December 31, 2006; and

- (v) The granting and continuation to the satisfaction of the Collateral Agent of a perfected, first priority Lien on, and security interest in, all of the Collateral subject only to the Permitted Priority Liens.
25. The DIP Credit Agreement contains certain representations, warranties, positive and negative covenants, disclosure, reporting and other obligations, and indemnities of and from the Borrower and Guarantors in favour of the Agents and/or the Lenders. The exercise of specified remedies upon an Event of Default is not stayed by the CCAA Proceedings or the Chapter 11 Cases, and the Agents, the Lenders and the Obligations are unaffected by such proceedings.
26. Without limitation, in the event of a Default under the DIP Credit Agreement, and without further order of, or application to, the Bankruptcy Court:
- (i) The Loans may be called and be immediately due and payable;
 - (ii) The Revolving Credit Commitments may be terminated, whereupon the Applicants would lose access to cash resources and may be unable to fund any expenditures (including any post-filing expenditures incurred but not yet paid to the extent not otherwise provided for in the Carve Out). There is no assurance of sufficient funding to permit a managed shut down of operations (with Wind-Down Costs to a maximum of U.S.\$1 million for the payment of professional fees and expenses only provided for in the DIP Credit Agreement);
 - (iii) Additional default rates of interest apply; and
 - (iv) Various rights of set off may be asserted and exercised.
27. As noted above, the timeframe in which the Applicants must complete a sale of their assets is provided for in the DIP Credit Agreement. The requirements are set out in Section 6.17 of the DIP Credit Agreement and consist of a number of milestones that must be satisfied by the Applicants, which states:

“6.17 Sale Procedure.

(a) On or before the Interim Facility Effective Date, the Agents shall be satisfied in their Permitted Discretion that the Loan Parties shall have filed with the Bankruptcy Courts one or more motions for approval of procedures for the sale of all or substantially all of the Loan Parties' assets, each of which shall be in form and substance satisfactory to the Agents.

(b) In the case of the wood products business of the Parent and its Subsidiaries:

(i) On or before November 30, 2007, obtain the entry of one or more orders of the Bankruptcy Courts in form and substance reasonably satisfactory to the Agents approving the procedures for sale of all or substantially all of the assets of the wood products business;

(ii) On or before December 20, 2007, conduct one or more auctions for the sale of all or substantially all of the assets of the wood products business;

(iii) On or before January 8, 2008, obtain the entry of one or more orders of the Bankruptcy Courts approving the sale of all or substantially all of the assets of the wood products business; and

(iv) Consummate, as soon as practicable after the conditions to closing as set forth in the relevant asset purchase agreement are satisfied and/or waived, but in any event no later than January 31, 2008, one or more sales of all or substantially all of the assets of the wood products business.

(c) In the case of the pulp business of the Parent and its Subsidiaries:

(i) On or before December 7, 2007, obtain the entry of one or more orders of the Bankruptcy Courts in form and substance reasonably satisfactory to the Agents approving the procedures for sale of all or substantially all of the assets of the pulp business;

(ii) On or before January 22, 2008, conduct one or more auctions for the sale of all or substantially all of the assets of the pulp business;

(iii) On or before January 28, 2008, obtain the entry of one or more orders of the Bankruptcy Courts approving the sale of all or substantially all of the assets of the pulp business; and

(iv) Consummate, as soon as practicable after the conditions to closing as set forth in the relevant asset purchase agreement are satisfied and/or waived, but in any event no later than the Final Maturity Date, one or more sales of all or substantially all of the assets of the pulp business.”

MONITOR’S COMMENTS IN RESPECT OF THE DIP CREDIT AGREEMENT

28. Absent additional financing, the Applicants’ will be unable to continue operations and conclude the CCAA Proceedings. At this time, the continuation of operations is generally in the best interests of all stakeholders in order to preserve going concern value and maximize realizations through the CCAA Proceedings.

29. While the Monitor notes that it has not been involved in the Applicants' efforts to seek additional financing, nor was it involved in the negotiation of the DIP Credit Agreement, the Monitor understands that the DIP Credit Agreement represents the only additional financing that is currently available to the Applicants.
30. The DIP Credit Agreement provides significant restrictions and limitations on the ability of the Applicants to operate their business and operations, as well as restrictions on the Applicants' restructuring alternatives (including a compulsory sales process and timeline). Accordingly, it is possible that the Applicants could be in default of its obligations prior to the Final Maturity Date, and the DIP Lender could exercise its enforcement rights and remedies under the DIP Credit Agreement.
31. Section 6.17 of the DIP Credit Agreement contemplates that the approval of the sales procedure will be the subject of future motions in the CCAA Proceedings and the Chapter 11 Proceedings. The Applicants have informed the Monitor that they do intend to bring such motions by the deadlines provided for in the DIP Credit Agreement. The Monitor has informed the Applicants and the DIP Lender of its preliminary observations with respect to the timing of the sales process and the need to ensure that there is sufficient time and ability for potential purchasers to fully consider and participate in the sales process so as to maximize recoveries for the Applicants' stakeholders. The Monitor intends to discuss the sales procedure and timelines with the Applicants and the Lenders and will provide its comments thereon in a report to be filed in conjunction with the Applicants motion for the approval of a sales procedure.

32. The Applicants have operated for several weeks without DIP financing and have been utilizing cash receipts from the filing date to sustain its operations. The Applicants require an ongoing credit facility and the resulting stability that one should provide in order to focus on the conduct of a sales process and the completion of the CCAA Proceedings. There is no alternative financing other than the DIP Credit Agreement currently available to the Applicants. Accordingly, the Monitor supports the Applicants' entering into of the DIP Credit Agreement and their seeking Court approval thereof.

REVIEW OF THE LENDERS' SECURITY

33. The Monitor has commenced the process of obtaining an independent opinion concerning the security and security interests granted by the Applicants to the Lenders.
34. The Monitor has instructed its counsel to review the loan and security documentation of the Lenders and to provide a security opinion in respect of its validity, enforceability and perfection by registration. The opinion will be restricted in scope to personal property of the Applicants to which the respective *Personal Property Security Acts* of Ontario and British Columbia apply. The opinion will not address questions of priority.
35. The Applicants have also granted other security and security interests to the Lenders, including with respect to real property in British Columbia, real and personal property in the United States of America, and certain specified personal property (e.g. ships, securities and intellectual property). The Monitor is not undertaking a review of this security or security interests at this time.

36. The Monitor’s counsel has completed a preliminary review of the Lenders’ security described as above and has informed the Monitor that it has concluded that the security and security interests in question are valid and enforceable in accordance with their terms, and perfected by registration in Ontario, subject to the customary assumptions and qualifications for opinions of this scope and nature, but that it is awaiting the results necessary to confirm similar conclusions with respect to British Columbia. Written opinions will be provided shortly.

RECEIPTS & DISBURSEMENTS FOR THE PERIOD TO NOVEMBER 9, 2007

37. The Applicants’ actual net cash flow for the period October 29 to November 9, 2007, was approximately \$753,000 better than its forecast cash flows set out in Exhibit G (the “Initial Forecast”) of the affidavit of Neil Stuart sworn October 28, 2007, and filed with the Ontario Court in support of the Applicants CCAA application (the “Stuart Affidavit”), summarized as follows:

	Actual	Forecast	Variance
	\$000	\$000	\$000
Total Receipts ¹	26,526	28,297	(1,771)
Disbursements:			
Restructuring charges	(1,405)	0	(1,405)
Payroll and related	(2,902)	(2,030)	(872)
Raw materials	(8,320)	(10,015)	1,695
Freight	(3,763)	(3,399)	(364)
Capital Expenditures	0	(684)	684
Other	(4,110)	(6,896)	2,786
Total Disbursements	(20,500)	(23,024)	2,524
Surplus/(deficiency)	6,026	5,273	753

¹ Deposits of cheques made to the Applicants’ TD Bank lockboxes are subject to a five day hold for cleaning purposes (the “Hold”). At the end of the period, \$2.4 million was subject to Hold.

38. Comments on the variances between the Initial Forecast and actual receipts and disbursements are provided in Appendix A hereto.

THE APPLICANTS' REVISED CASH FLOW FORECAST

39. The Applicants' have prepared a revised and extended cash flow forecast for the period November 10, 2007, to February 29, 2008 (the "November 14 Forecast"). A copy of the November 14 Forecast is attached hereto as Appendix B.
40. The underlying operating assumptions used in the preparation of the November 14 Forecast are consistent with those used in the preparation of the Initial Forecast and the November 14 Forecast reflects the Applicants' intent to commence Chapter 11 Proceedings.
41. As noted earlier in this report, the DIP Credit Agreement contains events of default that are referenced to the Applicants' performance against the November 14 Forecast. While the Applicants believe that the November 14 Forecast is achievable, unforeseen events that might adversely impact operations or cash flow could potentially result in a breach of the DIP Credit Agreement.

THE APPLICANTS' REQUEST FOR AN EXTENSION OF THE STAY PERIOD

42. Pursuant to the Initial Order, the Stay Period expires on November 23, 2007. The Applicants are now seeking an extension of the Stay Period to January 15, 2008.
43. As described earlier in this report, the Applicants' actual cash flow since the commencement of the CCAA Proceedings has exceeded forecasts. The November 14 Forecast indicates that, if the DIP Credit Agreement is approved, the Applicants will continue to be able to fund their ongoing operations during the extension of the Stay Period, if granted.
44. Additional time is required for the Applicants to determine and implement the appropriate next steps toward the restructuring. An extension of the Stay Period is needed to provide the stability required during that time.
45. The Monitor believes that, based on the information currently available, creditors would not be materially prejudiced by an extension of the Stay Period to January 15, 2008.

46. The Monitor believes that the Applicants have acted and are acting in good faith and with due diligence and that circumstances exist that make an extension of the Stay Period appropriate. The Monitor therefore respectfully recommends that the Applicants' request for an extension of the Stay Period to January 15, 2008, be granted.

RESIGNATION OF DIRECTORS

47. On November 9, 2007, each of the directors of Ltd tendered their resignation. The board of directors of Ltd's parent company, Inc (the "Board"), remains in place and governance of Ltd will be effected via shareholder resolution where necessary.

LIEN CLAIMS AGAINST THE APPLICANTS

48. The Applicants and their counsel are in the process of assessing the validity of the following lien claims, which have been asserted by three suppliers against the Applicants in British Columbia in respect of pre-filing amounts owing:
- (i) K&D Logging Ltd., in the amount of \$823,000 against log inventories at the Fort St. James sawmill (the "K&D Lien Claim"), pursuant to the *Woodworker Lien Act (R.S.B.C. 1996)*;
 - (ii) Newland Enterprises Ltd., in the amount of \$1.1 million against log inventories at the Fort St. James sawmill (the "Newland Lien Claim"), pursuant to the *Woodworker Lien Act (R.S.B.C. 1996)*; and
 - (iii) A-1 Universal Terminal Ltd. ("A-1") in the amount of \$137,000 against the Applicants' inventories stored in the A-1 warehouse, pursuant to the *Warehouse Lien Act (R.S.B.C. 1996)* (the "A-1 Lien Claim").
49. As the Fort St. James sawmill is not currently operating, the K&D Lien Claim and the Newland Lien claim are not currently impacting operations.

50. The Applicants have approximately \$2 million of inventory in the A-1 warehouse and are taking steps to ensure that customer shipments will not be impacted by the A-1 Lien Claim.

THE INTERFOR APA

51. As described at paragraphs 26 and 27 of the Stanton Affidavit, the Interfor APA was executed on November 19, 2007, subject to court approval. The Applicants intend for the Interfor APA to stand as a “stalking-horse” bid for the three sawmills located in Spearfish, South Dakota and Castlegar and Grand Forks, British Columbia, and will be seeking approval therefor as part of its motion to be brought for the approval of the sales procedures.

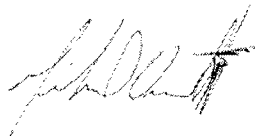
The Monitor respectfully submits this, its Second Report.

Dated this 20th day of November 2007.

PricewaterhouseCoopers Inc.
in its capacity as Monitor of
Pope & Talbot Ltd. and its affiliates



for Greg Watson
President



Michael J. Vermette
Senior Vice President

Appendix A

Variations between the Initial Forecast and the Actual Receipts and Disbursements

Appendix A

Variations between the Initial Forecast and the Actual Receipts and Disbursements

	Actual	Forecast	Variance
	\$000	\$000	\$000
Total Receipts ¹	26,526	28,297	(1,771)
Disbursements:			
Restructuring charges	(1,405)	0	(1,405)
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Raw materials	(8,320)	(10,015)	1,695
Freight	(3,763)	(3,399)	(364)
Capital Expenditures	0	(684)	684
Other	(4,110)	(6,896)	2,786
Total Disbursements	(20,500)	(23,024)	2,524
Surplus/(deficiency)	6,026	5,273	753

¹ Deposits of cheques made to the Applicants' TD Bank lockboxes are subject to a five day hold for cleaning purposes (the "Hold"). At the end of the period, \$2.4 million was subject to Hold.

TOTAL RECEIPTS

1. Receipts over the 2-week period were \$1.77 million lower than forecast. The Applicants have reviewed the collections and does not consider the variance to be reflective of any significant concerns on the part of customers as a result of the CCAA filing. The Applicants have been in communication with most of their customers, who have generally expressed their preparedness to continue to support the Applicants through the restructuring. Accordingly, the Applicants believe that this variance is temporary in nature and will reverse in future periods.

DISBURSEMENTS

2. The unfavourable variance of \$1.41 million in Restructuring Charges relates to professional fees that were paid on a weekly basis as required by the Initial Order, rather than monthly as provided for in the Initial Forecast. The payments that were made in the 2-week period are consistent in magnitude with the Initial Forecast and the variance is therefore expected to reverse in future periods.

Appendix A

Variances between the Initial Forecast and the Actual Receipts and Disbursements

3. The unfavourable variance of \$872,000 in Payroll and related costs comprises and unfavourable timing variance of approximately \$700,000 in respect of the payment of benefits which will reverse in future weeks. The remaining \$172,000 is a permanent variance arising from the re-issuance of cheques for employee benefit payments that had to be re-issued after the CCAA filing as they had not cleared the bank accounts before pre-filing cheques were frozen.
4. The favourable variance of \$1.69 million in Raw Materials disbursements is primarily the result of the Company deferring purchases of Chemicals (\$975,000) and Operating Supplies (\$614,000) due to a cash conservation strategy that the Applicants needed to adopt due to the delay in obtaining DIP financing. These deferred disbursements will need to be quickly caught up once DIP financing is available if a negative impact on operations is to be avoided.
5. The unfavourable variance of \$364,000 in Freight costs is comprised primarily of the following items:
 - (i) An permanent unfavourable variance of \$260,000 relating to payments to railways and cartage operators where goods were in transit at the time of the CCAA filing but were delivered post-filing;
 - (ii) An unfavourable variance of \$800,000 resulting from deposits made to various railways in respect of services to be provided subsequent to the CCAA filing. During the course of negotiating payment terms on a go-forward basis, many of the railways required a deposit be provided, against which the Applicants could draw, when services were rendered. The payment of these deposits in advance of the provision of the full service was not included in the Initial Forecast; and

Appendix A

Variances between the Initial Forecast and the Actual Receipts and Disbursements

- (iii) A favourable variance of \$690,000 in freight payments as a result of significantly reduced shipping volumes during the 2-week period. The reduced volume was caused by the failure of freight operators to provide service until the Applicants had negotiated terms of trade. This variance will reverse over the next few weeks as these delayed shipments are re-scheduled.
- 6. The favourable variance of \$684,000 in Capital Expenditures is a result of the Applicants deferring all discretionary expenditures in the absence of DIP financing. The deferred capital expenditures will likely need to be made in future periods in order to preserve the value of assets and avoid unnecessary operation downtime. Accordingly, the Applicants believe that these deferred items will be scheduled in future periods and that this variance is therefore temporary in nature and will reverse in future periods.
- 7. The favourable variance of \$2.79 million in Other Costs is comprised primarily of the following:
 - (i) Maintenance materials and contract services costs exhibited a favourable variance of \$1.85 million during the Period. In the absence of the DIP financing, the Applicants conserved cash by deferring all discretionary maintenance and service work. This work will likely need to be performed in the future and, accordingly, it is expected that this variance will reverse in future periods;
 - (ii) Lease payments of \$275,000 forecast to be paid during the 2-week period were deferred pending a complete reconciliation of the pre- and post-filing amounts due to lessors. The Applicants expect to have these reconciliations completed shortly and payments to lessors will be made shortly thereafter. Accordingly, this variance represents a temporary difference and will reverse;

Appendix A

Variances between the Initial Forecast and the Actual Receipts and Disbursements

- (iii) Insurance payments of \$225,000 included in the Initial Forecast were actually made shortly prior to the CCAA filing. As a result, this represents a permanent saving; and
- (iv) Other disbursements, not specifically itemized above, generated a temporary difference of approximately \$400,000, which are expected to reverse in future periods.

Appendix B

The November 14 Forecast

