

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 THIRD REPORT TO COURT
[Prepared for the November 29, 2007,
Court Hearing re: Sale Process (Wood Products Business) and Land Sale Transactions]**

November 28, 2007

**POPE & TALBOT LTD. et al
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NOVEMBER 28, 2007

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1 INTRODUCTION

- 1.1 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 as Monitor. The proceedings commenced by the Company under the CCAA will be referred to herein as the "CCAA Proceedings".
- 1.2 On November 21, 2007, an application was made by the Company to the Supreme Court of British Columbia (the "Court") to have the CCAA Proceedings transferred from the Ontario Court and to assume primary jurisdiction of the CCAA Proceedings. The Court granted such order.
- 1.3 Also, on November 21, 2007, the 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.
- 1.4 The Monitor has previously filed two reports with respect to these CCAA proceedings. The most recent report was dated November 20, 2007.
- 1.5 This is the Monitor's Third Report to the Court. This report is prepared in order to inform the Court of the following:
 - 1.5.1 The status of the Company's restructuring;
 - 1.5.2 The assets and liabilities generally of the Company;
 - 1.5.3 The Company's request for the approval of a sales process for certain assets of the Wood Products Division (as defined below);
 - 1.5.4 The Company's request for the approval of 4 surplus land sales; and
 - 1.5.5 The review by the Monitor's counsel of certain personal property security granted by the Company to their existing secured lenders in Ontario and British Columbia (the "Lenders").

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1.6 The Monitor has established a website at www.pwc.com/car-poptal where all materials filed with the Court by P&T and the Monitor, as well as any Orders granted by the Court, are made available in electronic form to creditors and other interested parties.

2 OVERVIEW OF COMPANY ASSETS AND OPERATIONS

2.1 The Company's principal assets consist of 8 mills located in British Columbia (6), Oregon (1) and South Dakota (1).

2.2 P&T conducts its business in two operating segments, the Wood Products Division (5 sawmills) and the Pulp Products Division (3 pulp mills). The Company produces two primary products; lumber and pulp. Lumber is primarily sold in Canada and the United States while pulp is sold globally.

2.3 The following table summarize the current operations of the Company:

Mill	Location	Products Produced	Production Capacity mfb / mt	Revenue 2006 \$(000s)	Number of Employees
Castlegar	Castlegar, BC	Lumber	264,000	110,538	362
Fort St. James	Fort St. James, BC	Lumber	288,000	105,714	272
Grand Forks	Grand Forks, BC	Lumber	197,000	76,434	288
Midway	Midway, BC	Lumber	90,000	29,795	currently closed
Spearfish	Spearfish, SD	Lumber and pellets	122,000 36,500 ¹	US\$46,971	291
Harmac Pulp	Nanaimo, BC	NBSK pulp	399,000	236,231	535
Halsey Pulp	Halsey, OR	NBSK and UBK pulp	185,000	US\$98,380	186
Mackenzie Pulp	Mackenzie, BC	NBSK pulp	235,000	122,288	251

1 Wood pellet capacity is reported as the 2006 production.

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2.4 Wood Products Division:

- 2.4.1 The Wood Products Division has a current estimated annual capacity of 961 million board feet, representing total revenue of US\$374 million in 2006.
- 2.4.2 The sawmills in Castlegar, Grand Forks, and Spearfish are currently operating.
- 2.4.3 The sawmill in Fort St. James is temporarily closed pending resolution of certain potential lien claims.
- 2.4.4 The sawmill in Midway is a rough lumber mill with no planing capacity and has been closed since May 2007. There are no short term plans to restart this mill.
- 2.4.5 The Wood Products Division has timber tenure rights in BC under both tree farm licences and timber licenses as issued by the *Forest Act (BC)*. The annual allowable cut under these tenures is approximately 1.6 million cubic meters.

2.5 Pulp Products Division:

- 2.5.1 The Pulp Products Division has a current estimated annual capacity of 819,000 metric tons, representing revenue of US\$466 million.
- 2.5.2 The 3 pulp mills in Nanaimo (Harmac), Mackenzie, and Halsey, Oregon continue to operate and there are no plans to curtail operations. The strong market conditions for pulp make this Division EBITDA positive.
- 2.5.3 As at October 31, 2007, the working capital assets comprised accounts receivable totalling US\$88.1 million and inventories totalling US\$108.9 million.

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- 2.6 The Company owns private lands in the southern interior of British Columbia, a portion of which P&T has determined to be redundant properties, which it no longer requires for operations (see Appendix C for full details of the 36 properties). These properties are currently listed for sale with an aggregate asking price of Cdn\$50 million. These properties are discussed later in this report.
- 2.7 P&T owns the following other assets that are not operationally tied to any of the individual mills:
- 2.7.1 A former operational site located in Oakridge, Oregon. This site is not currently in use by P&T and is listed for sale with Century 21; and
- 2.7.2 Agricultural land located near Spearfish, South Dakota, which is also listed for sale with Century 21.
- 2.8 There are no operating linkages between the fibre supply generated by the timber tenures for the Wood Products Division and the fibre needs of the Pulp Products Division. Accordingly, each of the 8 mills represents a defined and unique operating unit, although the timber tenure in the BC interior supplies all 3 of the interior mills (i.e. Midway, Grand Forks and Castlegar).

3 OVERVIEW OF THE COMPANY LIABILITIES

- 3.1 The financial reporting systems of the Company are decentralized such that each of the mills tracks its own operating liabilities, while the corporate head office tracks operating liabilities not tied to specific operations and handles certain centralized functions such as payments. There are 14 vendor systems, which makes reporting of liabilities a challenge for the Company.
- 3.2 As at the initial filing date of October 29th, the Company took specific and deliberate steps to cut-off its payable systems in order that pre-filing amounts were frozen and post-filing liabilities could be tracked and paid in the ordinary course. These procedures are still being performed in order to finalize the pre-filing liabilities of the Company.

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3.3 The following table sets out an estimate of the pre-filing liabilities of the Company. Some amounts have been adjusted post-filing and a footnote has been included to reflect these adjustments. The DIP loan amount has been shown at its expected balance at the end of February 2008 in order to properly show the advances that are expected to be made during the period.

	Note	Pope & Talbot Ltd. Canadian Operations (\$US 000's)	Pope & Talbot Inc. U.S. Operations (\$US 000's)	Total (\$US 000's)
DIP Lenders	2	250,000	-	250,000
Accounts Payable				
Fort St. James		2,720	-	2,720
Castlegar		230	-	230
Grand Forks	3	3,930	-	3,930
Midway		90	-	90
Spearfish	4	-	1,240	1,240
Harmac		5,480	-	5,480
Mackenzie		5,170	-	5,170
Halsey	4	-	2,860	2,860
Corporate	5	21,440	7,580	29,020
Employee Related				
Vacation obligation		13,050	2,960	16,010
Severance	6	6,000	-	6,000
Pension and retirement related obligations		68,080	29,600	97,680
Silviculture Obligation		4,690	-	4,690
Environmental Accrued Liability		20,990	205	21,195
Unsecured Bonds		-	133,110	133,110
Total		401,870	177,555	579,425

Notes:

- 1 All of the balances listed in this schedule are from the Company's books and records as of October 31, 2007, except were noted otherwise.
- 2 Reflects the estimated pre-filing amount of debt plus the full amount of the DIP Facility. Therefore, this is an approximation of the amount which will be owing to the Lenders as at the end of February 2008, excluding any pay-down from the sale of assets and letters of credit.
- 3 All Canadian timber payments are processed through Grand Forks.
- 4 This asset is located in the U.S., but is owned by the Canadian Company.
- 5 Corporate payables includes unclassified payable balances that relate to operations but are recorded at the Corporate level.
- 6 Severance owing to employees terminated post-filing at Grand Forks, Castlegar and Fort St. James.

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4 PRE-FILING SALES EFFORTS OF THE COMPANY

4.1 Company's decision to sell and prior sales processes:

- 4.1.1 In 2006, P&T made a strategic decision that it would devote its efforts to the Wood Products Division and divest of its Pulp Products Division. The Company retained BMO Capital Markets ("BMO") as its financial advisor to assist with the sale of its Pulp Products Division. The sales process resulted in two expressions of interest ("EOI") that were received by the Company in August 2006, but no binding offers to purchase.
- 4.1.2 Subsequently, BMO recommenced the sales process for the Pulp Products Division with an expanded target list that was more global in its orientation. This process resulted in two expressions of interest, one of which became a formal non-binding offer.
- 4.1.3 The Company pursued the non-binding offer; however, the party subsequently determined that it wished to expand the scope of its offer and modify the form from an asset purchase to a share purchase. While discussions continued, a binding offer was not received by the Company.
- 4.1.4 By the end of May 2007, the Company began to face a deteriorating financial position as a result of sharply declining lumber markets and a strengthening Canadian dollar. The impact resulted in a liquidity issue for P&T and it chose to consider the sale of all or substantially all of its operations.
- 4.1.5 In June 2007, the Company retained Rothschild Inc. ("Rothschild") to advise it on alternative restructuring options involving a re-financing as well as the sale of all or substantially all of its assets.

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- 4.1.6 During July, it became apparent that the Company would be in breach certain of the covenant provisions contained in its secured loan agreements, thereby changing the strategic direction that it had planned to pursue with Rothschild. As a result, Rothschild assisted the Company to negotiate a forbearance agreement with its secured lenders that provided for, among other things, the sale of the Company's assets.
- 4.1.7 In mid-August 2007, Rothschild commenced the Company's third sales process, this time offering for sale all of the Company's assets.
- 4.2 Implementation of the current sales process
 - 4.2.1 Between August and October 2007, Rothschild contacted 84 potentially interested parties, which included both financial investors and strategic purchasers. In addition to new contacts, Rothschild also contacted the interested parties from the prior two sales processes managed by BMO.
 - 4.2.2 In early October 2007, the Company received EOI's from four prospective purchasers. Two offers were for a significant portion of the Wood Products Division, one for the Pulp Products Division, and one for the entire business.
 - 4.2.3 Rothschild and the Company determined that the EOIs for the Pulp Products Division and the entire Business were not adequately advanced in order for the Company to accept their bids. Both parties were urged to further their due diligence and submit more definitive bids. Rothschild believes that both parties remain interested, but to date no further EOI's have been received.
 - 4.2.4 Rothschild and the Company determined that the EOI's for the Wood Products Division were sufficiently advanced to be able to move to a definitive agreement. The Company, on advice from Rothschild, accepted the EOI that it considered most favourable, International Forest Products Limited ("Interfor").

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- 4.2.5 Over the period from mid-October to mid-November, 2007, the Company negotiated the EOI from Interfor, which resulted in a definitive asset purchase agreement dated November 19, 2007 (the “APA”).
- 4.2.6 The APA is structured in a manner that sets Interfor as the Stalking Horse bidder and an ensuing auction allows interested parties to participate in a bidding competition aimed at increasing the purchase price above that offered in the APA.
- 4.3 Sale process going forward
- 4.3.1 The DIP loan agreement that has recently been negotiated between the Company and its secured lenders, and approved by the Court, requires that certain timelines be followed in offering for sale the Company assets. These timelines were detailed in the Monitor’s Second Report.
- 4.3.2 Through the DIP negotiations, P&T determined that it would offer for sale the Company assets in 3 groups, as follows:
- the assets subject to the APA, namely 3 of the sawmills (Castlegar, Grand Forks, and Spearfish) and certain related timber tenure;
 - the Wood Products Division assets not subject to the APA; and
 - the Pulp Products Division.
- 4.3.3 With respect to the assets subject to the APA, the Company is seeking Court approval of a sales process consisting of the following timelines:
- December 14th - submission of qualifying bids;
 - December 19th - conduct the auction if additional bids are received;
 - January 4th – Court approval of the sale; and
 - January 31st – transaction closing.

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5 ASSET PURCHASE AGREEMENT WITH INTERFOR

5.1 The APA has not been reproduced in this Report; however, it is contained on the Monitor's website and also contained as an exhibit to the affidavit of Neil Stuart sworn November 27, 2007, as contained in the Company's motion materials to approve the APA.

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

5.2.1 Purchase Price:

- US\$69 million, subject to adjustments.

5.2.2 Net Transaction Value:

- Rothschild estimates the Net Purchase Price to be US\$81 million, after taking into account the purchase adjustments and the net realizations from working capital items not included in the APA.

5.2.3 Assets Included:

- The Castlegar, Grand Forks and Spearfish sawmills.
- The associated Timber Tenures and private lands related to the fibre supply for the three sawmills.
- The Castlegar Landfill site.
- The Company's 50% share in the Grand Forks Railway Company ("GFRC").
- Inventory at the Closing Date.
- The Company's leases related to the three sawmills and the other assets being purchased.

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5.2.4 Excluded assets:

- The Fort St. James sawmill.
- The Midway sawmill.
- The Company's Pulp Products Division.
- Former operational sites at Oakridge, Oregon.
- Vendor managed inventory and inventory situated at reload facilities.
- The Company's 20% stake in Lignum Forest Products Ltd.
- Certain Surplus Lands (see section 6 of this report).
- Tax refunds (none known).
- Accounts Receivable.

5.2.5 Liabilities Assumed:

- Interfor agrees to assume the following liabilities and the purchase price is reduced accordingly.
 - The Forestry Services including silviculture, reforestation, road deactivation and other post-harvest obligations.
 - GFRC liabilities.
 - Employee pension liabilities.
 - Environmental liabilities for land related to the purchased assets.

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5.2.6 Excluded Liabilities:

- All active employees until the employees agree to work for Interfor, all inactive employees, and all former employees.

5.2.7 Required Approvals:

- The Court and the US Bankruptcy Court seized of the Company's Chapter 11 proceedings.
- The *Hart-Scott-Rodino Antitrust Improvements Act of 1976* (the "HSR Act") and the *Competition Act (Canada)*.

5.2.8 Break-up Fee and Expense Reimbursement:

- Interfor will be paid a break-up fee of US\$3.2 million and a maximum expense reimbursement of US\$0.7 million.
- Both the break-up fee and expense reimbursement are only payable if the Bankruptcy Court and the Court approve a Qualified Overbid other than from Interfor and the transaction is completed.

5.2.9 Closing Date:

- The Closing Date is three days after the required approvals – the Company has estimated that this will occur on January 31, 2008.

5.3 Monitor's comments on the sale process:

- 5.3.1 The Monitor has reviewed the bidding procedures with regards to the sale of the Wood Products Business. Overall, the procedures support a sales process that should maximize realizations.

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- 5.3.2 As a result of the prior marketing and solicitation performed, the restricted bidding timeline is considered acceptable by the Monitor in that the Monitor believes that the market in both Canada and the U.S. for the Wood Products Business has been adequately canvassed, with any interested parties having had sufficient opportunity to participate and to conduct due diligence such that it can reasonably be expected to comply with the timeframes established by the Company.
- 5.3.3 The APA provides for a break-up fee that equates to \$3.2 million or approximately 4% of the transaction value. However, in light of the other offers available to the Company, the Monitor is satisfied that, on balance and in the circumstances, the APA was the best offer available to the Company and appropriate as a stalking horse bid.

6 SURPLUS LANDS

- 6.1 Company process to identify surplus lands:
- 6.1.1 In early 2007, P&T commenced a process to identify private lands owned by it, that could be sold without impacting their existing woodland operations in the Arrow and Boundary regions of B.C.
- 6.1.2 For some of the properties, the Company requires limited access to the log dump or for the removal of gravel for road building or maintenance.
- 6.1.3 The Company has identified these attributes in certain properties and has marketed the properties in a manner that allows for P&T to have continued use post sale.
- 6.1.4 The lands which were identified by the Company totalled 123 titles, representing approximately 16,000 acres (6,480 hectares) which have been grouped into 36 properties. These properties have been listed for sale with an asking price of Cdn \$50.7 million. A full listing of these properties is attached as Appendix C.

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6.2 Timber Valuations:

6.2.1 P&T calculated the amount of merchantable timber volume on each of the properties by using timber cruise information. P&T then applied a fair market value to determine the timber valuations for each property. This valuation was added to the otherwise estimated value of the properties.

6.3 Land Valuation Process:

6.3.1 In April 2007, Colliers International ("Colliers") was engaged by P&T to assess the value of the properties and subsequently to market and sell the 36 properties.

6.3.2 During the spring of 2007, Colliers valued each property based on its detailed assessment of each property's location, physical properties, potential use, and timber value.

6.3.3 The aggregate value of all properties totalled Cdn\$50.7 million, which was eventually set as the property asking price.

6.4 Marketing Process:

6.4.1 Colliers began their formal marketing of the properties on September 13, 2007. The time over the summer was used as an informal marketing period whereby interest and demand for the properties was managed by Colliers to maximize the interest once the formal marketing began.

6.4.2 These marketing efforts included a brochure, a detailed information package, a web link portal with electronic data room, an internet site, direct contact with potential purchasers and the placement of advertisements in local newspapers.

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6.5 Land Removal from TFL:

6.5.1 13 of the 36 properties are currently included in the Tree Farm Licence ("TFL") #23, which is covered by the *Forest Act* (BC). The Sale of these properties will be contingent on the lands being removed from the TFL.

6.5.2 In October 2007, the Company submitted to the Minister of Forest and Range ("MoFR") a formal request to remove the private lands from the TFL. Under the *Forest Act* (BC), the approval from the MoFR must be obtained for the disposition of private land if the private land is subject to a TFL. The MoFR has not indicated to the Company a timeline for a decision on the potential removal of these properties.

6.6 The listing of properties in Appendix C denotes which properties are included in the TFL and the requirement to have it removed prior to the sale.

6.7 Results of Sales Efforts to Date:

6.7.1 On October 15, 2007, Colliers began to accept letters of intent ("LOI") on the properties.

6.7.2 As of November 2007, Colliers has received over 100 LOI's on one or more of the 36 properties. Many of these LOI are for the same property and Colliers is organizing each of the bids in a manner that attempts to maximize the overall value.

6.7.3 With respect to the offers received, the Company has obtained 4 executed purchase and sale agreements representing 13 properties for aggregate gross sale proceeds totalling Cdn\$8.2 million. 4 of the properties are part of the TFL and accordingly, the closings will take place in escrow pending the approval of the MoFR.

6.7.4 Each of the agreements is subject only to Court approval. The 4 transactions are summarized as follows:

- Beaverdell South (property #36) - Cdn\$550,000 to Kelowna Family Golf Centre Ltd.;

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- Deer Park (property # 22) – Cdn\$751,000 to Don Norn, James Norn and Byron Norn;
- Shields Creek (property #20) – Cdn\$1,350,000 to Paterson Pole Ltd. and Jones Ties & Poles (1978) Ltd.; and
- 10 properties (properties #1, 3, 4, 5, 6, 7, 23, 27, 29, 30) – Cdn\$5,563,627 to RJR Investments (Lethbridge) Ltd.

6.8 The Monitor's comments on the Surplus Lands Sales Process

- 6.8.1 Based on the Monitor's review and discussion with the various parties involved in the Surplus Lands sales process, the Monitor is satisfied with the marketing process and that the resulting purchase prices are, on balance and in the circumstances, commercially reasonable.
- 6.8.2 The Monitor understands that the Lenders support the sale transactions in principal, subject to working out ancillary details such as the distribution of the sale proceeds.
- 6.8.3 The Monitor supports the Company's intentions to sell the 13 properties in the 4 contemplated transactions. The Monitor has previously provided the Company with its written approval of these 4 sale transactions, acknowledging that certain of the sales are subject to approval from the MoFR for the removal from the TFL.

7 RECEIPTS AND DISBURSEMENTS AND CASH FLOWS FORECAST

- 7.1 The Company has not prepared a variance analysis of its cash flows subsequent to November 9th. While the Monitor has requested that this information be provided on a weekly basis, the Company has not yet delivered such an analysis for the week ending November 16th.
- 7.2 The first cash flow reporting requirement under the DIP loan agreement is not due until the week of December 3rd and, accordingly, there is no default provided by the failure to deliver such reporting to the Monitor.

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8 LIEN CLAIMS

- 8.1 The Company and its counsel are in the process of assessing the validity of the following lien claims, which have been asserted by six suppliers against the Company in BC in respect of pre-filing amounts owing:
- 8.1.1 K&D Logging Ltd., in the amount of Cdn \$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)*;
 - 8.1.2 Newland Enterprises Ltd., in the amount of Cdn \$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)*;
 - 8.1.3 A-1 Universal Terminal Ltd. (“A-1”) in the amount of Cdn \$137,000 against the Company’s inventories stored in the A-1 warehouse, pursuant to the *Warehouse Lien Act (R.S.B.C. 1996)* (the “A-1 Lien Claim”);
 - 8.1.4 Jones Marine Services Ltd. (“Jones”) in the amount of Cdn \$108,114 against 5,000 m³ of logs belonging to the Company, but held by Jones pursuant to the *Tugboat Worker Lien Act, (R.S.B.C 1996)* (the “Jones Lien Claim”);
 - 8.1.5 The Monitor has become aware of, but has not seen the documentation in respect to liens filed by Viking Construction Ltd. (“Viking”) in the amount of Cdn \$56,000 under the *Builders Lien Act, (R.S.B.C 1997)* for work performed at the Mackenzie Mill.
 - 8.1.6 The Monitor has also become aware of, but has not seen the documentation in respect to liens filed by Cascade Mechanical Ltd. (“Cascade”) in the amount of Cdn \$144,000 under the *Builders Lien Act, (R.S.B.C 1997)* for work performed at the Mackenzie Mill.
- 8.2 As the Fort St. James sawmill is still not operating, the K&D Lien Claim and the Newland Lien claim are not currently impacting operations.

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- 8.3 The Company has approximately \$4 million of inventory in the A-1 warehouse and is taking steps to ensure that customer shipments will not be impacted by the A-1 Lien Claim.
- 8.4 Jones currently holds approximately \$225,000 of logs which are expected to be delivered to and consumed by the Harmac Mill. Harmac's fibre supply is at low levels and accordingly, this inventory is required over the next few days.
- 8.5 Both Viking and Cascade provide maintenance services to the Company's Mackenzie Pulp Mill. As the majority of these services were provided during the Company's maintenance shut down in October of 2007, management does not anticipate any immediate impact on operations. Should unplanned maintenance issues arise, Viking and Cascade may be required for service.

9 REVIEW OF THE SECURED LENDER'S SECURITY

- 9.1 As previously reported, the Monitor requested its counsel to provide an independent opinion concerning certain personal property security and security interest granted by the Company to the Lenders. In the Monitor's Second Report dated November 20, 2007, the Monitor indicated that its counsel had completed a preliminary review of the security in question and was in the process of reducing to written its views.
- 9.2 The review of security has now been completed and the Monitor has been provided with written opinions by its counsel in Ontario and British Columbia. The opinions provided to the Monitor confirm the validity and enforceability of the security, and the creation and perfection of the security interests, subject to the assumptions and qualifications that are typical for such opinions.
- 9.3 As noted previously, the Monitor has not been requested at this time to commence a review of the real property security or other security granted by the Company to the Lenders.

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10 OTHER MATTERS

10.1 Application by certain unions to create a trust fund:

10.1.1 The Pulp, Paper and Woodworkers of Canada, Local 8 and the Communications, Energy and Paperworkers' of Canada, Local 1092 (collectively, the "Unions") have brought an application in the CCAA Proceedings as follows:

- to have a trust fund created to secure the payment of wages of employees working under their collective agreements;
- to have the Order varied to allow pre-filing grievances to be dealt with without regard to the stay of proceedings.

10.1.2 With respect to the creation of the trust fund, this would require additional cash funding which was not contemplated in the DIP funding.

10.1.3 With respect to the pre-filing grievances, the Monitor supports grievances being dealt with by the Company that relate to health and safety matters. For grievances that relate to minority issues, it may be appropriate for such grievances to be deferred and dealt with later in the CCAA proceedings.

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This report is respectfully submitted this 28th day of November 2007.

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



**Greg Watson
President**



**Michael J. Vermette
Senior Vice President**

APPENDIX A

Wood Products Division (5 sawmills)

WOOD PRODUCTS OVERVIEW

POPE & TALBOT



Fort St. James Mill

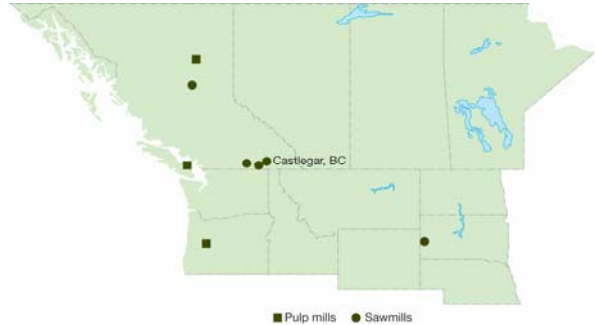
- Description:**
- Produces 100% SPF lumber on 3 saw-lines.
- Location:**
- Fort St. James, BC
 - Population 1,355.
- Year acquired:**
- 2005 from Canfor for US\$37.6MM.
- Operations:**
- Logs are transported to the mill via truck.
 - Mill has 3 saw-lines, 6 dry kilns, and 2 planer lines.
 - Lumber is shipped via rail spur (80%) and truck (20%).
- Production:**
- Capacity 288,000 MBF.
 - 2006 production 272,000 MBF.
- Financial Results:**
- 2006 revenue Cdn \$106MM.
- Fibre Supply:**
- 640,000 cubic meters of Annual Allowable Cut.
- Additional Assets:**
- Log inventory
 - Lumber inventory
 - Forest Licence A77955
- Employees and Labour Unions:**
- 272 full-time employees - 224 hourly, 48 salaried.
 - Employees are unionized with the United Steel Workers. The 6 year term of the contract expires June 30, 2009.
- Forest Licences:**
- Forest Licence A77955.
 - Road and cutting permits associated with the above licence.
- Operational Status:**
- Closed since October 15, 2007 P&T had planned to reopen November 15, 2007 but start-up postponed.



Castlegar Mill

Description:

- Produces SPF, fir/larch, hemlock, cedar standard lumber including mechanical stressed rated (MSR).



Location:

- Castlegar, BC.
- Population of 7,300.

Year Acquired:

- 1992.

Year Built:

- Prior to 1967.

Operations:

- Logs are transported to the mill via water. Most log inventory is kept in the Arrow Lakes.
- Mill has 3 saw-lines, a kiln and planer line.
- Lumber is shipped via rail spur. Reloading is primarily done at the Grand Forks sawmill.
- Chips are transported by belt to the adjacent pulp mill Celgar (Mercer International).
- Kiln energy sourced from hog fuel based energy plant.

Production:

- Capacity 264,000 MBF.
- 2006 production 251,600 MBF.
- Produces premium priced MSR, Long Lengths, J-Grade, and other value added products.

Financial Results:

- 2006 revenue Cdn \$111MM

Additional Assets:

- Log inventory
- Lumber inventory
- Tree Farm Licence No.23
- Cutting and road permits under the above licence.

Employees and Labour Unions:

- 362 full-time mill and woodland employees - 318 hourly, 44 salaried.
- Employees are unionized with the United Steel Workers. The 6 year term expires June 30, 2009.
- Approximately 28 hourly employees are members of the Canadian Maritime Seamen's Guild. The 6 year term expires September 30, 2011.


Forest Licences:

- 503,000 cubic meters of AAC.
- The remaining log supply comes from the open market.

Operational Status:

- Production reduced to one shift per day as of November 5, 2007.

Grand Forks Mill

Description:	<ul style="list-style-type: none"> ▪ Produces SPF and fir/larch standard lumber on 2 saw-lines. 	
Location:	<ul style="list-style-type: none"> ▪ Grand Forks, BC ▪ Population 4,100. 	
Year Acquired:	<ul style="list-style-type: none"> ▪ 1969. 	
Year Built:	<ul style="list-style-type: none"> ▪ Prior to 1967. 	
Operations:	<ul style="list-style-type: none"> ▪ Logs are transported to the mill via truck. ▪ Mill has 2 saw-lines, 5 dry kilns and a planer line. ▪ Lumber is shipped via rail spur (77%) and truck (23%). ▪ Kiln energy sourced from hog fuel based energy plant. 	
Production:	<ul style="list-style-type: none"> ▪ Capacity 197,000 MBF. ▪ 2006 production 175,100 MBF. 	
Financial Results:	<ul style="list-style-type: none"> ▪ 2006 revenue Cdn \$76MM 	
Additional Assets:	<ul style="list-style-type: none"> ▪ Log inventory ▪ Lumber inventory ▪ Forest Licences: Tree Farm Licence No. 8, Forest Licence A18969, Forestry Licence to Cut A81250 ▪ Cutting and road permits associated with the above forest licences. ▪ Rights to harvest and deliver logs under Timber Sale Licence A60812 under cutting permit 001. ▪ 50% ownership in Grand Forks Railway Company. 	
Employees and Labour Unions:	<ul style="list-style-type: none"> ▪ 288 full-time employees - 246 hourly, 42 salaried. 	
Forest Licences:	<ul style="list-style-type: none"> ▪ 503,860 cubic meters of AAC. ▪ The remaining log supply comes from the open market. 	
Operational Status:	<ul style="list-style-type: none"> ▪ Production reduced to one shift per day. 	

Spearfish Mill

- Description:**
- Produces pine boards, dimension lumber on 2 saw-lines.
 - Produces wood pellets.

- Location:**
- Spearfish, SD
 - Population 9,700.



- Year Built:**
- 1981 by Pope & Talbot.

- Operations:**
- Mill has 2 saw-lines, 7 kilns, and 2 planer lines.
 - Lumber is shipped via truck (86%) and rail (14%).

- Production:**
- Lumber: Capacity 122,000 MBF.
 - Lumber: 2006 production 115,600 MBF.
 - Pellets: 2006 production 36,500 tons.

- Financial Results:**
- 2006 revenue US \$47MM

- Additional Assets:**
- Log inventory
 - Lumber inventory
 - Pellet inventory
 - Heartland Wood Pellet plant (3 pellet machines on sawmill site)

- Employees and Labour Unions:**
- 291 full-time employees - 257 hourly, 34 salaried.
 - Employees are not unionized.

- Forest Licences:**
- Spearfish obtains its timber from the US Forest Service and private sources under timber harvesting contracts as well as logs purchased on the open market.

- Operational Status:**
- Operating on a two shift basis.

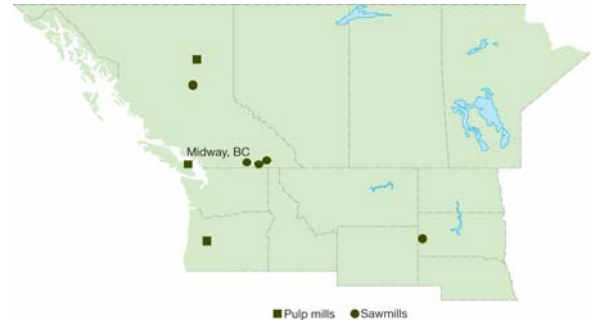
Midway

Description:

- Operations are presently curtailed.

Location:

- Midway, BC
- Population of 650.



Production:

- Capacity 90,000 MFB
- 2006 Production 69,100 MFB.

Financial Results:

- 2006 revenue Cdn \$30MM

APPENDIX B

Pulp Products Division (3 pulp mills)

PULP PRODUCTS OVERVIEW

POPE & TALBOT



Halsey Mill

Description:

- Manufactures NBSK pulp and unbleached market pulp.
- Access to overseas markets via the Columbia River.
- Direct access to rail lines.



Location:

- Halsey, OR.
- Population 750.

Year acquired:

- Purchased a 50% interest in 1978 from American Can Corp. and the remaining interest in 1983.

Year built:

- 1968.

Operations:

- Produces NBSK, UBK and a grade of White Gold that is made from a blend of sawdust fibre.
- Species consumed are primarily douglas fir and western hemlock.
- Fibre is supplied to the mill as chips and sawdust.

Production:

- Annual capacity 185,000 mt.
- 2006 production 190,000 mt.

Financial Results:

- 2006 revenue US \$98MM

Fibre Supply:

- Fibre is supplied to the mill through established supplier relationships with from sawmills and veneer plants operating in the Pacific Northwest :
 1. Long term chip and sawdust arrangements.
 2. Purchases from third parties.

Additional Assets:

- Chips and sawdust inventory
- Pulp inventory

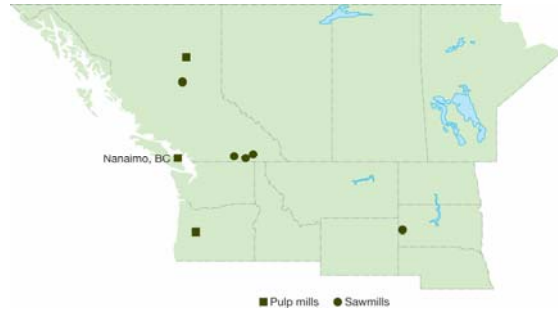
Employees and Labour Unions:

- 186 full-time employees - 139 hourly, 47 salaried.
- The majority of hourly employees are represented by the United Steelworkers of America with the remainder belonging to the International Brotherhood of Electrical Workers. The three year collective agreement expires May 31, 2008.

Harmac Mill

Description:

- Manufactures high quality NBSK market pulp from custom blends of wood chips.



- Access to overseas markets from the on site deep-sea dock.
- Barge facilities receive fibre and supplies and link shipments to North American rail networks.

Location:

- Nanaimo, BC.
- Population 80,000.

Year acquired:

- 60% ownership interest in Harmac Pacific acquired in 1997 and 1998 through a number of purchases.
- Remaining minority interest acquired in November 1999.

Year built:

- Built in three phases between 1950 and 1963.

Operations:

- Produces NBSK pulp from douglas fir, western hemlock, balsam, and western red cedar chips.
- Three separate production lines.
- Chips are transported to the mill by truck and barge.

Production:

- Annual long fibre capacity 399,000 mt from three production lines or 330,000 mt from two production lines.
- 2006 production 382,500 mt.

Financial Results:

- 2006 revenue Cdn \$236MM.

Fibre Supply:

- Long term fibre supply agreement with Western Forest Products (WFP).

Additional Assets:

- Chips and sawdust inventory
- Log inventory
- Pulp inventory

Employees and Labour Unions:

- 535 full-time employees - 437 hourly, 90 salaried.
- Hourly employees are represented by the Pulp, Paper & Woodworkers of Canada Union Local 8. The five year collective agreement expires on April 30, 2008.

Operational Status:

Two of three production lines are operational.

Mackenzie Mill

Description:

- Manufactures a fine grade of NBSK chip and sawdust market pulp.



Location:

- Mackenzie, BC.
- Population 4,600.

Year acquired:

- 2001 from Norske Skog.

Year built:

- 1972.

Last rebuild and what was done:

- Modernized in 1996 with the addition of short fibre softwood digesting production capabilities.

Operation:

- Produces NBSK and sawdust pulp from white spruce, lodgepole pine, and alpine fir chips and sawdust supplied from the BC Interior.
- Single line production.
- Fibre is delivered to the mill by truck and conveyor from an adjacent Canfor sawmill.

Production:

- Annual capacity 235,000 mt.
- 2006 production 228,200 mt.

Financial Results:

- 2006 revenue Cdn \$122MM

Fibre Supply:

- Evergreen contracts with sawmills owned by Canfor Corporation.
- Balance of the fibre requirements is sourced through arrangements with independent suppliers.

Additional Assets:

- Chips and sawdust inventory
- Log inventory
- Pulp inventory

Employees and Labour Unions:

- 251 full-time employees -198 hourly, 53 salaried.
- Hourly employees are represented by the Communication Energy and Paperworkers Union of Canada Local 1092. The five year collective agreement expires April 30, 2008.

APPENDIX C

Surplus Lands (36 properties)

Surplus Lands (36 properties)

<i>Property Number</i>	<i>Name</i>	<i>Location</i>	<i>Number of Titles</i>	<i>Area (Hectares)</i>	<i>Water Frontage</i>	<i>Gross Timber Volume (m3)</i>	<i>Net Operable Timber Volume (m3)</i>	<i>Asking Price (Cdn \$)</i>	<i>Tree Farm Licence</i>
1	<i>Blanket Creek</i>	<i>28 km South of Revelstoke</i>	1	16.6	Yes	-	-	224,500	No
2	<i>Cambourne</i>	<i>70 km North of Nakusp</i>	2	35.8	No	3,000	-	149,000	No
3	<i>Beaton Complex</i>	<i>67 km North of Nakusp</i>	19	13.3	Yes	-	-	595,000	No
4	<i>Beaton Schedule A</i>	<i>67 km North of Nakusp</i>	1	103.2	Yes	10,000	5,000	495,000	Yes
5	<i>Galena Bay Thumb</i>	<i>60 km North of Nakusp</i>	2	60.7	Yes	6,200	6,200	624,500	Yes
6	<i>Arrowhead</i>	<i>Northeast arm of Upper Arrow Lake</i>	3	82.2	Yes	6,000	-	99,500	Yes
7	<i>Galena Bay</i>	<i>55 km North of Nakusp</i>	1	38	Yes	7,500	7,500	595,000	Yes
8	<i>Trout Lake</i>	<i>70 km from Nakusp</i>	2	129.5	No	8,000	8,000	595,000	Yes
9	<i>Shelter Bay</i>	<i>40 km south of Revelstoke</i>	1	2,239	Yes	154,000	118,150	9,950,000	Yes
10	<i>Eagle Bay</i>	<i>55 km South of Revelstoke</i>	1	991	Yes	250,000	210,540	9,950,000	Yes
11	<i>Fosthall</i>	<i>60 km from Nakusp</i>	1	30.6	No	4,500	4,500	395,000	Yes

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<i>Property Number</i>	<i>Name</i>	<i>Location</i>	<i>Number of Titles</i>	<i>Area (Hectares)</i>	<i>Water Frontage</i>	<i>Gross Timber Volume (m3)</i>	<i>Net Operable Timber Volume (m3)</i>	<i>Asking Price (Cdn \$)</i>	<i>Tree Farm Licence</i>
12	<i>Nakusp</i>	<i>3 km Northeast of Nakusp</i>	5	216.7	No	22,000	11,200	<i>1,950,000</i>	<i>No</i>
13	<i>Mosquito Creek</i>	<i>25 km Southwest of Nakusp</i>	1	312.9	Yes	100,000	95,800	<i>7,995,000</i>	<i>Yes</i>
14	<i>Arrow Park</i>	<i>35 km South of Nakusp</i>	4	17.4	Yes	6,300	6,300	<i>695,000</i>	<i>Yes</i>
15	<i>Arrow Park (Hampton)</i>	<i>15 km South of Nakusp</i>	2	6.5	Yes	-	-	<i>295,000</i>	<i>No</i>
16	<i>Arrow Park (Stobo)</i>	<i>35 km South of Nakusp</i>	1	62.7	Yes	1,500	-	<i>395,000</i>	<i>Yes</i>
17	<i>Burton</i>	<i>36 km South of Nakusp</i>	12	67.5	No	-	-	<i>795,000</i>	<i>Yes</i>
18	<i>Oatcott</i>	<i>65 km Southwest of Nakusp</i>	1	55	Yes	10,000	10,000	<i>495,000</i>	<i>Yes</i>
19	<i>Mennonite Flats</i>	<i>60 km Southwest of Nakusp</i>	29	189.6	No	10,400	7,725	<i>1,495,000</i>	<i>Yes</i>
20	<i>Shields Creek</i>	<i>13 km West of Castlegar</i>	6	83.4	Yes	21,000	14,500	<i>1,295,000</i>	<i>No</i>
21	<i>Sub Lot 6</i>	<i>14 km from Castlegar</i>	1	114.6	No	10,000	5,000	<i>395,000</i>	<i>Yes</i>
22	<i>Deer Park</i>	<i>14 km NW of Castlegar</i>	4	15.4	Yes	-	-	<i>395,000</i>	<i>No</i>

**IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT OF
POPE TALBOT LTD. et al**

Appendix C

Surplus Lands (36 properties)

<i>Property Number</i>	<i>Name</i>	<i>Location</i>	<i>Number of Titles</i>	<i>Area (Hectares)</i>	<i>Water Frontage</i>	<i>Gross Timber Volume (m3)</i>	<i>Net Operable Timber Volume (m3)</i>	<i>Asking Price (Cdn \$)</i>	<i>Tree Farm Licence</i>
23	<i>Taite Creek</i>	<i>8 km South of Fauquier</i>	1	6.6	Yes	2,200	1,000	349,000	No
24	<i>Beaverdell North</i>	<i>77 km Southeast of Kelowna</i>	2	127.4	No	10,000	6,000	424,500	No
25	<i>Saunier Lake</i>	<i>13 km Southwest of Beaverdell</i>	2	60.6	Yes	8,300	6,400	275,000	No
26	<i>Tuzo</i>	<i>6 km South of Beaverdell</i>	1	57.3	No	3,500	3,200	249,500	No
27	<i>Tuzo Junction</i>	<i>6 km South of Beaverdell</i>	1	111.2	Yes	4,100	4,000	549,000	No
28	<i>Bull Lake</i>	<i>30 km North of Rock Creek</i>	1	124	Yes	8,000	8,000	549,000	No
29	<i>Kettle River Park North</i>	<i>8 km North of Rock Creek</i>	1	110.1	Yes	6,000	-	695,000	No
30	<i>Kettle River Park South</i>	<i>7 km North of Rock Creek</i>	1	64.3	Yes	4,000	1,500	495,000	No
31	<i>Ingram Creek</i>	<i>14 km West of Midway</i>	1	112.8	No	15,000	14,500	695,000	No
32	<i>McCaren Creek</i>	<i>14 km East of Midway</i>	1	124.2	No	9,800	9,300	374,500	No
33	<i>Gilpin</i>	<i>10 km East of Grand Forks</i>	1	128.3	No	3,500	3,200	349,000	No

Surplus Lands (36 properties)

<i>Property Number</i>	<i>Name</i>	<i>Location</i>	<i>Number of Titles</i>	<i>Area (Hectares)</i>	<i>Water Frontage</i>	<i>Gross Timber Volume (m3)</i>	<i>Net Operable Timber Volume (m3)</i>	<i>Asking Price (Cdn \$)</i>	<i>Tree Farm Licence</i>
34	<i>Santa Rosa</i>	<i>9 km East of Christina Lake</i>	8	445.8	No	58,000	58,000	4,495,000	No
35	<i>Sand Creek</i>	<i>9 km Norhteast of Grand Forks</i>	1	64.7	No	16,000	16,000	795,000	No
36	<i>Beaverdell South</i>	<i>77 km Southeast of Kelowna</i>	1	61	Yes	5,400	-	549,000	No
	<i>TOTAL</i>		123	6,480		784,200	641,515	50,716,000	