

**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 FOURTH REPORT TO COURT  
[Prepared for the December 6, 2007 Court Hearing]**

**December 5, 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 three reports with respect to these CCAA proceedings. The most recent report was dated November 28, 2007.
- 1.5 This is the Monitor's Fourth 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 status of the three sales processes;
  - 1.5.3 The Company's request for the approval of a sales process for the Pulp Products Division;
  - 1.5.4 The Company's request for the approval of a sales process for the Remaining Wood Products Division; and
  - 1.5.5 The Company's receipts and disbursements for the period from November 10, 2007 to November 23, 2007.

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1.6 As previously reported, the Monitor has established a website at [www.pwc.com/car-poptal](http://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 SALES PROCESSES**

2.1 As detailed in the Monitor's Third Report to Court, P&T opted to separate the sales process of the Company's assets into three distinct sales processes.

<b>Sales Process</b>	<b>Mill and related timber tenure</b>
Wood Products Division (Interfor APA)	Castlegar, BC; Grand Forks, BC; Spearfish, SD
Pulp Products Division	Halsey, OR; Nanaimo (Harmac Mill), BC; Mackenzie, BC
Remaining Wood Products Division	Fort St. James, BC; Midway, BC

2.2 Each of these 3 sale processes is being administered by the Company's financial advisers, Rothschild Inc. ("Rothschild").

**3 UPDATE ON THE ASSET PURCHASE AGREEMENT WITH INTERFOR**

3.1 The Company's proposed sale process for the Castlegar, Grand Forks and Spearfish sawmills and related timber tenure was set out in the Monitor's Third Report. This sales process provided for an Asset Purchase Agreement with International Forest Products Limited ("Interfor") (the "Interfor APA") to serve as a "stalking horse" bidder, with an auction taking place amongst qualifying bidders on December 19<sup>th</sup>. The sales process and the Interfor APA were approved by the Court on November 29<sup>th</sup>.

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- 3.2 On November 30<sup>th</sup>, the US Court also approved the sales process and the Interfor APA, subject to a reduction in the break-fee and expense reimbursement as was originally negotiated between Interfor and P&T. The Interfor APA originally provided for a combined break-fee and expense reimbursement of US\$3.9 million, which was reduced by the US Court to US\$3 million. Accordingly, if there is a topping bid at the auction, then Interfor will be entitled to a maximum payment of US\$3 million.
- 3.3 A summary of the timelines for this sales process is set out in Appendix A.
- 3.4 In the event that a topping bid is not received, then the Company will attempt to complete the Interfor transaction by January 31, 2008. While the Interfor APA provides the option of extending the closing to April 23<sup>rd</sup>, the Monitor notes that the cash flow projections that have been prepared for the DIP financing provides for the Wood Products Division (i.e. the sawmills) to be sold by January 31<sup>st</sup>. If the sale does not close by January 31<sup>st</sup>, then there may be adverse cash flow consequences relative to the terms of the DIP financing.
- 3.5 One of the conditions to close the Interfor APA is the approval under the *Forest Act* (BC) of the transfer of the timber tenure. In order to grant this approval, the Ministry of Forest and Range requires that the Company have an arrangement in place for the payment of stumpage that may be due after the close of the transaction, for any arrears related to the period prior to the Closing Date. This may require a three-way arrangement between the Ministry, the purchaser, and P&T. Accordingly, the Monitor has requested that the Company begin to explore the requirements for this arrangement so that it does not delay the closing of the transaction.
- 3.6 Another approval that P&T will require from the Ministry of Forest and Range will be the transfer of one small parcel of private land within Tree Farm License (“TFL”) #23. Once transferred, the private land will remain within the TFL; however, approval of this transfer may require certain consultation with the local First Nations. The Monitor has also requested that the Company begin to explore the requirements for this consultation in order that it does not delay the closing of the transaction.

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**4 SALES PROCESS FOR THE PULP PRODUCTS DIVISION**

- 4.1 The Pulp Products Division consists of 3 pulp mills located in Nanaimo, BC (Harmac mill), Mackenzie, BC and Halsey, Oregon. Details regarding each of these mills are set out in the Monitor's Third Report.
- 4.2 The Monitor's Third Report also outlines the 3 sales processes that have been run over the past 2 years for the Company's Pulp Products Division. Each of these sales processes produced expressions of interest ("EOI") from *bona fide* potential purchasers; however, none resulted in a sale transaction.
- 4.3 During the most recent sales process that was run by Rothschild commencing in August 2007, 84 potential purchasers were contacted. Several parties performed due diligence and in early October, 2 parties submitted EOI's for the pulp assets.
- 4.4 Since the date the EOI's were received, Rothschild has continued to discuss with each party the nature of a potential transaction. In addition, Rothschild has contacted an additional 7 parties since the CCAA proceedings commenced, and 1 of these parties has executed a confidentiality agreement, which has granted them access to the electronic data room.
- 4.5 The DIP loan agreement requires that the Company complete a sale of its Pulp Products Division by February 15, 2008. The Company has proposed the following sales process, for which it will seek approval of the Court:
- 4.5.1 Offers will be accepted for individual pulp mills or the Division as a whole.
- 4.5.2 The following timelines are contemplated (see Appendix A for further details):
- January 4, 2008 – Stalking Horse Agreement signed;
  - January 11, 2008 – Court approval for the Stalking Horse Agreement;
  - January 18, 2008 – Submission of qualifying bids;

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- January 22, 2008 – Conduct the auction if additional bids are received;
- January 28, 2008 – Court approval of the sale; and
- February 15, 2008 – Transaction closing.

4.6 The Company and Rothschild acknowledge that the timelines are very tight, but believe that they are achievable. The decision to incorporate such a tight timeline was influenced by the following factors:

- 4.6.1 The Pulp Products Division has been marketed in 3 successive sales processes over the past 18 months. The search for buyers has consisted of both strategic and financial interests and has been conducted on a global basis. Rothschild is not aware of any unexplored markets for these assets;
- 4.6.2 Potential purchasers who have recently expressed an interest in the Pulp Products Division have not expressed that the timelines are a barrier to participate in the process. Rothschild do not believe that the tight timelines will prevent any *bona fide* offers;
- 4.6.3 There are several operational influences that suggest a tight timeline is required. The influences include the following:
  - 4.6.3.1 Working capital constraints have restricted the ability to purchase fibre supply at the mills, which has increased the risk of operational disruptions caused by uncontrollable circumstances such as poor weather or supply chain failures;
  - 4.6.3.2 Recently, two key fiber suppliers to the Mackenzie mill have announced shutdown / curtailments in their operations, thereby restricting the availability of fiber. This has lead the Company to explore the addition of an experimental hardwood mix pulp product at the mill; and

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- 4.6.3.3 Working capital constraints over the past few months, and particularly post CCAA filing, have resulted in the Company undertaking only essential capital expenditures and maintenance procedures. The Company believes that only discretionary capital expenditures are being deferred, however, this is not a sustainable model. As time passes, the chances for an unexpected essential major capital expenditure will increase. Neither the Company nor the Monitor will necessarily have any advance warning of such a requirement.
- 4.6.4 The DIP Funding Agreement requires these timelines as additional time will require further funding to the Company.
- 4.7 Monitor's comments on the Pulp Products Division sale process:
  - 4.7.1 The Monitor has reviewed the sales procedures with regards to the Pulp Products Division. The Monitor accepts that the timelines are very tight, however, there is no evidence to suggest that an extended timeline would attract any additional potential purchasers or produce higher sales values.
  - 4.7.2 In addition, the Monitor is concerned that extending the timelines may result in undue risks from operational difficulties which could result in the temporary interruption of operations. Such interruptions could adversely affect the sale process.
  - 4.7.3 Based on the above, the Monitor supports the timelines and sales process as outlined herein.

**5 SALES PROCESS FOR THE REMAINING WOOD PRODUCTS DIVISION**

- 5.1 DIP Agreement requires that the Company obtain Court approval for the sales process for all or substantially all of the assets of the Wood Products Division prior to November 30, 2007.
- 5.2 On November 28, 2007, Court approval was obtained for the sales process for 3 of the 5 sawmills in the Wood Products Division.

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- 5.3 The Remaining Wood Products Division consists of 2 sawmills and related timber tenure located in Fort St. James, BC and Midway, BC. Details regarding each of these mills are set out in the Monitor's Third Report.
- 5.4 The Monitor's Third Report also outlines the sales process that the Company and Rothschild underwent for the Wood Products Division. This process resulted in an agreement to sell 3 of the 5 sawmills, but excluded the remaining 2 sawmills.
- 5.5 During the most recent sales process that commenced in August 2007, a few parties expressed interest in selected sawmills. It was the Company's desire to sell the Division as a whole and accordingly, one-off interests were not actively pursued.
- 5.6 Since executing the Interfor APA, Rothschild has reconnected with the parties who had expressed interest in either of the 2 remaining sawmills as well as all parties who expressed interest in the broader Wood Products Division but who were unsuccessful.
- 5.7 Rothschild has continued to discuss with each identified party their potential interest in either of the 2 sawmills. In addition, Rothschild has contacted an additional 9 parties since the CCAA proceedings commenced and 3 of these have executed confidentiality agreements, which have granted them access to the electronic data room.
- 5.8 At the time of preparing this report, the Company had not served its motion materials, however, the Monitor was advised that the timelines will coincide with the pulp division sales process.
- 5.8.1 Offers will be accepted for either sawmill individually or together.
- 5.8.2 The following timelines are contemplated (see Appendix A for further details):
- January 4, 2008 – Target date for binding Asset Purchase Agreement (“APA”);
  - January 11, 2008 – Court approval of APA;

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- January 18, 2008 – Submission of qualifying bids;
- January 22, 2008 – Conduct an auction if a Stalking Horse bidder is chosen on January 4<sup>th</sup>;
- January 28, 2008 – Target date for Court approval of the sale; and
- February 15, 2008 – Transaction closing.

5.9 As with the pulp assets, the Company and Rothschild acknowledge that the timelines are very tight, but believe that they are achievable. The decision to incorporate such a tight timeline was influenced by the following factors:

5.9.1 The Remaining Wood Products Division has been marketed since August 2007, although as part of the entire Wood Products Division. The parties who expressed interest in individual sawmill have been re-contacted by Rothschild;

5.9.2 Both sawmills are currently shut-down – Fort St. James since late October and Midway since May. The operations are cash flow negative in their shut-down state and accordingly, an extended timeline will require further cash funding;

5.9.3 The operations of each sawmill are stand-alone and the logical buyers appear to be fully aware that the asset is for sale and none of these parties has suggested such a timeline is unreasonable; and

5.9.4 The DIP Funding Agreement requires these timelines be met as additional time will require further funding to the Company.

5.10 Monitor's comments on the Remaining Wood Products Division sale process:

5.10.1 The Monitor has reviewed the sales procedures with regards to the Remaining Wood Products Division. The Monitor accepts that the timelines are very tight, however, there is no evidence to suggest that an extended timeline would attract any additional potential purchasers or produce higher sales values.

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5.10.2 The Monitor therefore, supports the Company's proposed sale process and timelines.

**6 SALES PROCESS FOR THE SURPLUS LANDS**

- 6.1 The Monitor's Third Report to Court listed 36 properties located in BC that P&T had identified to be surplus lands and which it intended to offer for sale. These lands are currently listed for sale with an aggregate asking price of Cdn \$50.7 million.
- 6.2 On November 28, 2007, the Court approved the sale of 13 properties in 4 transactions for a total sales price of Cdn \$8.2 million. Although these sales were approved by the Court, the Monitor has been advised by the Company's counsel that the Cross-Border Insolvency Protocol between the Court and the United States Court must be finalized before the sale can be completed. This Protocol is expected to be brought to the Canadian and US Courts for approval on December 14<sup>th</sup>.
- 6.3 In addition, the Monitor has been advised that approval of the lenders for the sales must be obtained before the sales can be completed. This approval has not yet been provided as the lenders are waiting on the Monitor's review of the validity and enforceability of the real property security held by the lenders. The Monitor's report on this matter is set out later in this report.
- 6.4 The scheduled closing date for the 4 transactions already approved by the Court was December 7, 2007. The Company is currently trying to negotiate an extension on the closing date to December 14, 2007. At this time, the Company believes it will obtain an extension from all four purchasers; however, extensions beyond that date are questionable.
- 6.5 The Monitor has urged the Company and the lenders to expedite the processes of obtaining the remaining approvals to minimize the potential that the pending transactions become frustrated.

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6.6 In addition, the complications surrounding the approvals process that have surfaced over the past 30 days has caused the real estate broker to suspend any active discussions with interested parties related to the remaining 23 properties. The broker is awaiting an explanation of the required approvals in order that he can effectively communicate with interested parties. The active sales efforts for the remaining 23 properties, with a total asking price of Cdn\$43.8 million, has stopped until the two approval processes noted above are resolved.

**7 RECEIPTS & DISBURSEMENTS FOR THE PERIOD TO NOVEMBER 23, 2007**

7.1 Under the terms of the DIP loan agreement, the Company is required to report its actual cash flow results compared to the budget that was approved as part of the DIP financing. The DIP cash flow is attached as Appendix B to the Monitor's Second Report and has been referred to as the November 14 Forecast.

7.2 The actual cash flow for the 2 week period from November 10, 2007 to November 23, 2007 (the "Period") was US\$8.1 million, US\$18.8 million better than the November 14 Forecast. The following is a summary of the cash flow variance.

	Actual US\$ 000's	Forecast US\$ 000's	Variance US\$ 000's	Variance %
<b>Total Receipts</b>	27,847	27,509	338	1%
Bankruptcy Related Disbursements	(1,105)	(7,500)	6,395	85%
Operating Disbursements	(18,688)	(30,788)	12,100	39%
<b>Total Disbursements</b>	<b>(19,793)</b>	<b>(38,288)</b>	<b>18,495</b>	<b>48%</b>
<b>Net Cash Flow</b>	<b>8,054</b>	<b>(10,779)</b>	<b>18,833</b>	<b>175%</b>
<b>Balance Brought Forward</b>	<b>13,809</b>			
<b>Closing Balance</b>	<b>21,863</b>			

Note: TD Bank is no longer holding cheques for 5-days. All funds are available immediately.

7.3 The Monitor's detailed comments on Variances between the November 14 Forecast and the Actual Receipts and Disbursements are provided in Appendix B.

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**8 OTHER MATTERS**

8.1 Monitor's Review of the Real Property Security Held by the Lenders

8.1.1 The Monitor has requested its counsel to review the British Columbia real property security granted by the Company to its lenders.

8.1.2 The Monitor's counsel has completed a preliminary review of the security. Subject to the usual qualification and verifying that the security was actually registered against the more than 300 titles, counsel has verbally informed the Monitor that it will issue a clean opinion. A written opinion will be provided to the Monitor shortly.

8.2 Operating status of the Company's mills

8.2.1 On December 1<sup>st</sup>, the Harmac pulp mill took an unscheduled shutdown due to operational complications. The Company has informed the Monitor that the mill is anticipated to be operational by December 6, 2007.

8.2.2 The Mackenzie pulp mill is expected to experience a future softwood fibre supply shortfall due to recently announced production curtailments at certain of its main suppliers. The Company is currently assessing the situation and is exploring its available options, including modifying its production by including hardwood fibre.

8.2.3 The 3 sawmills that are subject to the Interfor APA continue to operate at volumes that are driven by market demand.

8.2.4 The Fort St. James sawmill remains temporarily closed. The sawmill is closed given the softwood lumber market conditions. The Company does not intend on reopening the mill at this time, however, this status is being re-evaluated on a regular basis.

8.2.5 The Midway sawmill has been closed since May 2007 and the Company does not have any short term plans to re-open the mill.

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8.3 Lien Claims

8.3.1 The Monitor previously reported on 6 potential liens that have been filed against the Company. There has been no resolution with respect to 5 of these potential liens.

8.3.2 With respect to the A-1 Universal Terminal Ltd. (i.e. the remaining lien), A-1 had claimed a lien in the amount of \$137,000 against the Company's inventories stored in the A-1 warehouse, pursuant to the Warehouse Lien Act (R.S.B.C 1996). A-1 was in possession of approximately Cdn \$4 million of Pulp inventory and had refused to continue providing inventory storage and movement. The Company, with the consent of the Monitor, has agreed to pay A-1's lien claim over seven weeks in order to ensure timely movement of finished goods inventory.

8.4 Future reporting of the Monitor

8.4.1 The Monitor understands that the next Court application will be on December 14, 2007, to hear the Cross-Border Insolvency Protocol. The Monitor will file its next report in advance of that application.

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This report is respectfully submitted this 5<sup>th</sup> day of December 2007.

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



**Greg Watson  
President**



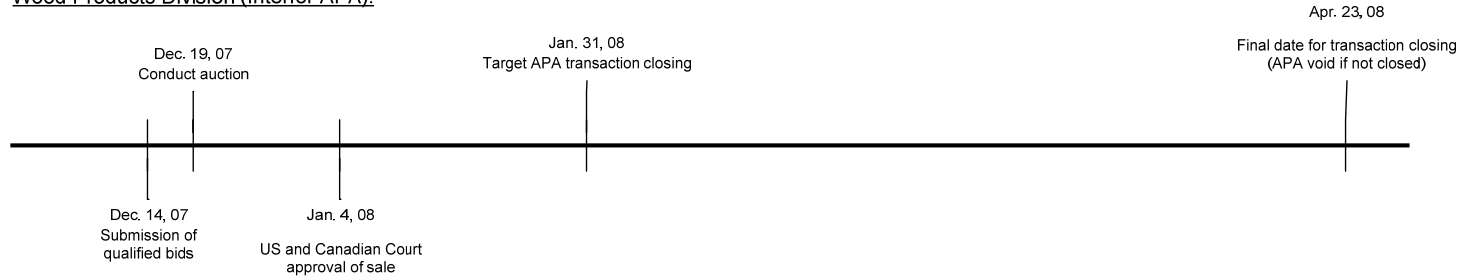
**Michael J. Vermette  
Senior Vice President**

## **APPENDIX A**

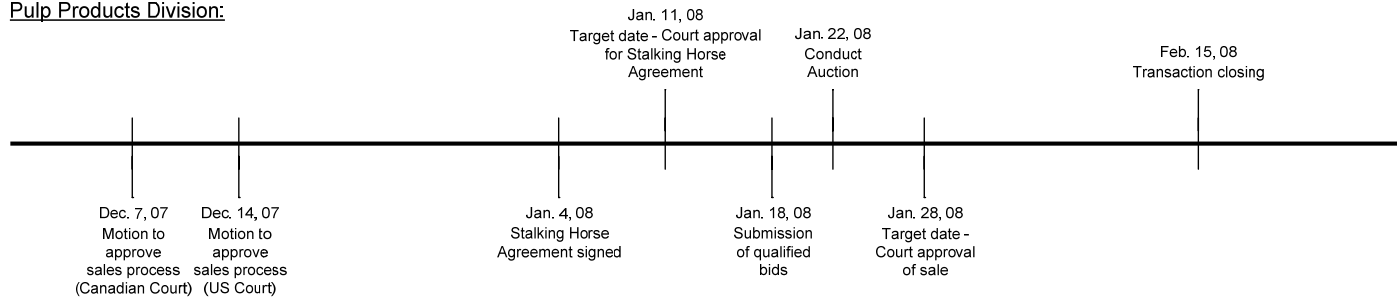
### **Timelines of Sales Processes**

**Timeline of Sales Processes**

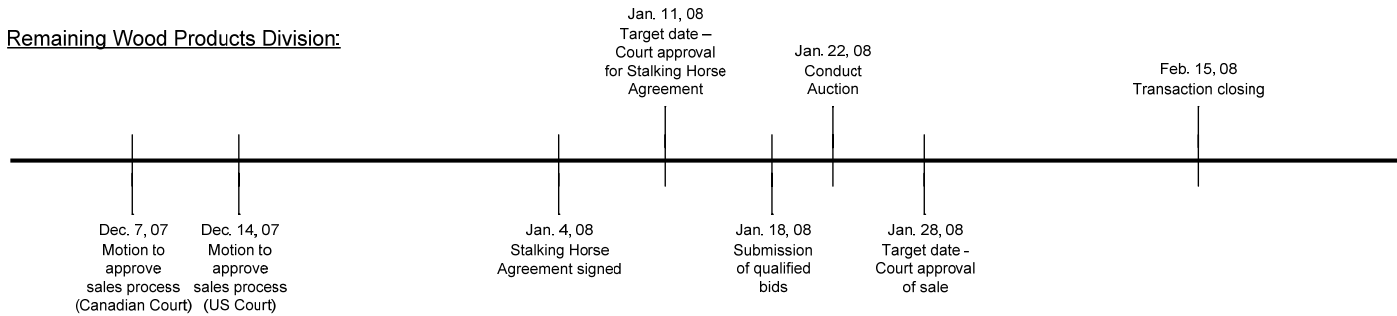
Wood Products Division (Interfor APA):



Pulp Products Division:



Remaining Wood Products Division:



## **APPENDIX B**

**Variances between the November 14 Forecast  
and the Actual Receipts and Disbursements  
for the period November 10 to November 23, 2007**

**Variations between the November 14 Forecast and the Actual Receipts and Disbursements  
for the period November 10 to November 23, 2007**

	Actual US\$ 000's	Forecast US\$ 000's	Variance US\$ 000's	Variance %
<b>Cash Receipts</b>				
<b>Total Receipts</b>	27,847	27,509	338	1%
<b>Bankruptcy Related Disbursements</b>				
Utility Deposits	-	(2,000)	2,000	100%
Prepetition Freight, Shippers & Warehouse	-	(2,700)	2,700	100%
Prepetition Critical Vendors	-	(2,250)	2,250	100%
Prepetition Lien Holders	-	-	-	0%
Prepetition Sales Agent	-	(200)	200	100%
Professional Fees	(1,105)	(350)	(755)	(216%)
Other	-	-	-	0%
<b>Total</b>	<b>(1,105)</b>	<b>(7,500)</b>	<b>6,395</b>	<b>85%</b>
<b>Operating Cash Disbursements</b>				
Payroll	(2,981)	(3,804)	823	22%
Payroll Taxes and Benefits	(1,682)	(1,859)	177	10%
Logs & Fiber	(6,778)	(11,383)	4,605	40%
Utilities / Energy	(1,425)	(1,564)	139	9%
Freight	(2,620)	(4,096)	1,476	36%
Chemicals	(1,589)	(2,232)	643	29%
Operating Supplies	(228)	(883)	655	74%
Maintenance Materials & Contract Services	(677)	(3,173)	2,496	79%
Lease Payments	(96)	(260)	164	63%
Lumber Duties	-	-	-	0%
Pension Contribution	-	-	-	0%
Taxes (Property & Other)	(286)	(181)	(105)	(58%)
Brussels Office	-	-	-	0%
Insurance	-	-	-	0%
Professional Fees	(30)	(53)	23	43%
Interest and Financing Costs on Revolver	-	-	-	0%
Capital Expenditures	(110)	(563)	453	80%
Other	(186)	(737)	551	75%
<b>Total Operating Disbursements</b>	<b>(18,688)</b>	<b>(30,788)</b>	<b>12,100</b>	<b>39%</b>
<b>Total Disbursements</b>	<b>(19,793)</b>	<b>(38,288)</b>	<b>18,495</b>	<b>48%</b>
<b>Net Cash Flow</b>	<b>8,054</b>	<b>(10,779)</b>	<b>18,833</b>	<b>175%</b>
<b>Balance Brought Forward</b>	13,809			
<b>Closing Balance</b>	<b>21,863</b>			

Note: TD Bank is no longer holding cheques for 5-days. All funds are available immediately.

### Total Receipts

1. Receipts for the Period were in line with forecast amounts.

## Disbursements

2. The favourable variance of Bankruptcy Related Disbursements, excluding Professional Fees, of US\$7.15 million relates partly to a timing variance with respect to the filing of Chapter 11 proceedings in the United States. The Company prepared the forecast on the basis that the Chapter 11 would be filed during the week of November 16<sup>th</sup> (rather than November 19<sup>th</sup>), and therefore, expected to incur a significant portion of these disbursements during the period. At this time, the Company believes that it may still be required to make the Bankruptcy Related Disbursements, but is unsure as to the quantum or the timing of these amounts.
3. The unfavourable variance of US\$755,000 in Professional Fees is a timing variance. The Variance relates to fees that were paid on a weekly basis as provided in the Initial Order to both Canadian and United States professionals, whereas the November 14 Forecast assumed bi-weekly payments for Canadian professionals and monthly for United States professionals. The payments that were made in the 2-week period are consistent with the monthly amounts provided for in the November 14 Forecast and the variance is therefore, expected to reverse in future periods.
4. The favourable variance of US\$1 million in Payroll and Payroll Taxes and Benefits was due to decreased expenditures at the following mills:
  - i. Harmac -- Favourable variance US\$200,000 was due to a lower head count at the mill and therefore less overall expenditure. This represents a permanent variance which is not expected to reverse;
  - ii. Castlegar -- Favourable variance of US\$200,000 as a result of limited operations at the Castlegar for the first week of November. Because employees are paid in arrears, the payments disbursed during the Period related partially to a time in which the mill was not operational, which resulted in a permanent variance;
  - iii. Fort St. James -- US\$200,000. The November 14 Forecast anticipated operations at Fort St. James on a 1 shift basis. The mill is currently shut down, and therefore this represents a permanent variance, although sales are lower than forecast and cash receipts will eventually be reduced accordingly;
  - iv. Spearfish -- Favourable variance of US\$100,000 is simply a reversal of a prior period unfavourable variance; and
  - v. Other favourable variances of US\$300,000.

5. The favourable variance in Logs & Fiber of US\$4.6 million is due to the following:
  - i. A favourable variance due to the timing of fiber purchases of US\$1.6 million;
  - ii. A favourable variance of US\$2.5 million due to the timing of log purchases at the Castlegar and purchases Grand Forks sawmill operations; and
  - iii. A favourable variance of US\$480,000 related to the purchase of logs for the Fort St. James saw mill. The Fort St. James saw mill was not operational during the period and therefore, this represents a permanent difference.
6. The favourable variances in Freight (US\$1.5million), Chemicals (US\$643,000), and Operating Supplies (US\$655,000) are primarily due to payments that were not issued during the week ended November 23, 2007 due to the Chapter 11 filing in the United States and the Thanksgiving Holiday. These variances are temporary in nature and will reverse in future periods.
7. The favourable variance in Maintenance Materials and Contract Services of US\$2.5 million and Capital Expenditures of US\$450,000 is a result of the Company only authorizing expenditures on critical maintenance items. During the Period, the Company did not have access to the DIP loan facility and therefore, the Company focused its cash resources on the critical payments in order to keep the mills operating. The Company recognizes the need to maintain the mills, and expects certain amounts of this variance to reverse in future periods.