

**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 SIXTH REPORT TO COURT  
[Prepared for the January 7, 2008 Court Hearing  
re: Approval of the Sale to Interfor]**

**January 4, 2008**

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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 Monitor. The proceedings commenced by the Company under the CCAA are 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 (this "Court" or where appropriate the "Canadian Court") to have the CCAA Proceedings transferred from the Ontario Court and for this Court to assume primary jurisdiction of the CCAA Proceedings. This Court granted such order.
- 1.3 Also, on November 21, 2007, this Court made an order amending, restating, and confirming the Initial Order. Pursuant to this order, the stay of proceedings was extended to January 16, 2008.
- 1.4 On November 19, 2007, P&T together with its U.S. Parent company and several U.S. affiliates filed a voluntary petition in the United States Bankruptcy Court (the "U.S. Court") for relief under Chapter 11 of the U.S. Bankruptcy code.
- 1.5 As a result of the cross-border nature of this restructuring, on December 14, 2007, this Court and the U.S. Court each approved a Cross-Border Insolvency Protocol that was intended to assist with the administration.
- 1.6 The Monitor has previously filed five reports with respect to the CCAA Proceedings. The most recent report was dated December 13, 2007 and was prepared for the December 14, 2007 Court Hearing on the Protocol.

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- 1.7 This is the Monitor's Sixth Report. This report is prepared in anticipation of the scheduled January 7, 2008 joint hearing of this Court and the U.S. Court related to the Company's application for approval of the sale of certain Wood Products Division assets to International Forest Products Ltd. ("Interfor"). Specifically, this report is prepared in order to inform this Court of the following:
- 1.7.1 The Company's request for Court approval of the sale to Interfor;
  - 1.7.2 An update on the Company's operations, including the receipts and disbursements for the period from November 10 to December 21, 2007; and
  - 1.7.3 An update on the various sales processes which were previously approved by this Court.
- 1.8 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 this Court by P&T and the Monitor, as well as any Orders granted by this Court, are made available in electronic form to creditors and other interested parties.

**2 THE SALE TO INTERFOR**

- 2.1 Background
- 2.1.1 The Company's proposed sale process for its Wood Products Division was set out in the Monitor's Third Report to Court. The sales process was approved by this Court on November 29, 2007. The sales process was also approved by the U.S. Court.
  - 2.1.2 This sales process provided for an Asset Purchase Agreement with Interfor (the "Interfor APA") to serve as a "stalking horse", with an auction taking place amongst qualifying bidders on December 19, 2007.

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- 2.1.3 The Interfor APA provided for the purchase and sale of certain of P&T's Wood Products Division, consisting of its 3 sawmills in Castlegar, BC; Grand Forks, BC; and Spearfish, South Dakota, together with the related timber tenure. The Interfor APA excluded P&T's sawmills in Fort St. James, BC and Midway, BC. Initially, the targeted date for the completion of the sale was January 31, 2008.
- 2.1.4 The date for qualifying bidders to register with the Company in order to participate in the auction of the Wood Products Division was December 14, 2007. Leading up to this date, the Company and its financial advisers, Rothschild Inc. ("Rothschild"), attempted to secure additional bidders to generate a competitive bidding process; however, no bids were received. As a result, there was no auction and Interfor was confirmed as the successful bidder.

2.2 The Company's Request for Approval

- 2.2.1 The Monitor has been advised by the Company and Rothschild that neither is aware of any prospective bidders who were reluctant to participate in the sales process because of the process including the tight timelines. Accordingly, the Company and Rothschild are confident that the Interfor APA represents the best available option for a sale of the 3 sawmills and related timber tenure. In this regard, the Company is now seeking this Court's approval of the Interfor APA. The Company is also seeking concurrent approval through the joint hearing of the U.S. Court.
- 2.2.2 As part of the approval process, the Company is requesting that certain disclosure schedules or exhibits within the Interfor APA that it believes are trade secrets, be sealed by this Court and provided only to the Court, the DIP Lenders, and the Monitor. The following is a summary of the exhibits/schedules that P&T wants to keep confidential:
- Exhibit 1.01(f) - Principles and Procedures for Inventory Valuation
  - Exhibit 1.01(g) - Formula for Determining Target Inventory Adjustment

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- Exhibit 1.01(i) - Formula for Determining Standing Timber Inventory Adjustment
- Exhibit 2.10 - Principles and Procedures for Determining Forestry Services
- Exhibit 3.12 - Timber Tenures
- Exhibit 5.05 - Mill Log Inventories
- Exhibit 6.01 - Salaried Employees
- Disclosure Schedule, Section 3.13 - Employee Benefit Matters

2.2.3 The Monitor has been provided with copies of these confidential exhibits/schedules. Certain of these items are clearly confidential in nature and given that each of P&T and Interfor are publicly traded entities, the Monitor is respectful of the desire to keep some out of the public domain. Others of the above items seem not to be strictly confidential, although the Company has expressed various reasons for wishing to keep these confidential. The Monitor has reviewed each of the exhibits/schedules and is satisfied that the withholding of such items does not prejudice the interests of any of the stakeholders in the process. Accordingly, the Monitor does not object to the Company's request to have these items sealed.

2.3 The Purchase Price and Overall Realization Value

2.3.1 The overall realization value of the assets that are subjected to the business operations being sold consist of the assets that are subjected to the Interfor APA, plus the net realizations from the related assets not required by Interfor (e.g. accounts receivable), less the costs not assumed by Interfor (e.g. employee vacation accrued).

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2.3.2 Rothschild and the Company have estimated the net purchase price and other asset net realizations from assets of the operations being sold to Interfor to total US\$65.1 million. The following is a summary of the overall realizations:

APA Purchase Price	US\$ millions
Purchase Price	69.0
Add: Estimated Price Adjustment	13.5
Less: Other Contractual Adjustments	9.7
Net Purchase Price re: APA	72.8
Add: Other Assets Realizations	5.2
Less: Other Estimated Disbursements	12.9
<b>Total cash proceeds to P&amp;T</b>	<b>65.1</b>

2.3.3 As part of estimating the net purchase price, the Company has provided for a potential purchase price reduction in the amount of US\$9.7 million for other contractual adjustments, including an estimated amount of US\$4.1 million related to the costs of curing certain contracts (the "Cure Costs"). The Cure Costs relate to pre-filing amounts owing to suppliers who have contracts with P&T for which the Company may assign/transfer to Interfor. The Company is not yet certain as to which contracts Interfor will assume and therefore, the US\$4.1 million represents the Company's conservative estimate as to the total of this adjustment. Interfor continues to proceed with due diligence on these particular contracts.

2.3.4 The US\$4.1 million of Cure Costs is represented by US\$3.3 million of Canadian creditors (i.e. creditors based in Canada supplying goods and services to Canadian operations) and US\$800,000 of United States creditors (i.e. creditors based in the U.S. supplying goods and services to U.S. operations).

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- 2.3.5 Differences in U.S. and Canadian law in relation to contracts to be assigned suggest different treatment of them in insolvency proceedings. It is arguable that under Canadian law, a CCAA court has a greater power to compel the assignment of contracts and subsequently enjoin any ability of a counterparty to terminate the contracts by reason of the prior uncured defaults compromised under the CCAA or by reason of the financial condition of the assignee purchaser (See: Re: Playdium, Re: Skeena Forest Products, Re: Doman). Historically under the CCAA there is little basis for unequal treatment of creditors within a class of creditors. It might be argued that the ultimate effect of the APA may see some creditors paid pre-filing debt by reason of the selection by Interfor to continue their contract.
- 2.3.6 The Monitor understands the motivation for Interfor's desire to have these Cure Costs paid, however, the effect of such payments may be inconsistent with Canadian insolvency law. The payment of these Cure Costs serve to select certain pre-filing creditor amounts that will be paid, while leaving unpaid other creditors of equal legal status. In effect, it would serve to re-order creditor priorities based on the Interfor APA.
- 2.3.7 Assuming that creditors in a US insolvency proceeding would enjoy the protection of the requirement of cure provisions, the counterweight to any concern in a Canadian proceeding in relation to the Cure Costs provisions of the APA would include the overall effect of any differentiation on the efficacy and integrity of the APA as a whole, the need that the transaction complete, and the requirement for the harmonization of joint proceedings.
- 2.4 Timelines
- 2.4.1 The Company initially targeted to complete the Interfor transaction by January 31, 2008. This timing is a specific requirement of DIP loan agreement. However, it seems clear to the Monitor that the transaction will not be completed by January 31, 2008.

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- 2.4.2 There remain certain government approvals for transferring licenses and freehold land that were described in the Monitor's Fourth Report to Court. The Monitor understands that the government will require First Nation consultation which could take at least 90 days to complete (i.e. 60 days notice plus 30 days for consultation/resolution). Accordingly, it is unlikely that the Company will be in a position to complete the transaction until mid April 2008.
- 2.4.3 Based on the Interfor APA, the sale transaction must be completed by April 23, 2008 or the Agreement is null and void. Therefore, the timelines for resolution of these issues are tight. It would be advisable that the Interfor APA deadline for closing be extended to allow additional time for the approvals, however, the Monitor understands this would need to be negotiated between Interfor and the Company.
- 2.4.4 The current DIP loan Agreement expires on February 15, 2008 and accordingly, it will need to extend if time is to be permitted to complete the Interfor transaction.
- 2.5 Monitor's Comments on the Sale to Interfor
- 2.5.1 The Monitor has reviewed the sales procedures which resulted in the Interfor APA. The Monitor is satisfied that this sale represents the most favourable value that is currently available to the Company. Furthermore, the Monitor is of the view that had any further time been provided to the bidding process, it would not have created a financially superior transaction. Accordingly, the Monitor generally supports the sale to Interfor.
- 2.5.2 The Monitor reiterates its comments in relation to the Cure Cost provisions set out above.

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2.5.3 The Monitor continues to recommend that the Company work closely with the B.C. government to ensure the various processes for approval are enacted to ensure that the timelines in the Interfor APA are not missed.

2.5.4 The Monitor has reviewed the portions of the exhibits/schedules that the Company wishes to have sealed. The Monitor believes that there will be no prejudice to the CCAA stakeholders by sealing such portions of the Agreement.

**3 UPDATE ON OTHER SALES PROCESSES**

3.1 On December 6, 2007, the Court approved the sales processes for the Pulp Products Division and the Remaining Wood Products Division. These sales processes are documented in the Monitor's Fourth Report to Court.

3.2 The next milestone date is January 15, 2008 at which time the Company is expected to bring an application to this Court for the approval of a "stalking horse" bid for both sales processes.

3.3 The Monitor has received an update from the Company and Rothschild that the sales process for both groups of assets is on track and they believe the timelines as approved by this Court will be met.

**4 UPDATE ON SURPLUS LAND SALES**

4.1 The Monitor's Third Report to Court listed 36 properties located in British Columbia that P&T had identified to be surplus lands and which it intended to offer for sale. 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.

4.2 On December 21, 2007, the subjects were removed, including obtaining DIP Lender approval, for the 4 transactions. Three of these transactions are anticipated to close January 8, 2008 (Beaverdell South – property #36; Deer Park – property #22; Shields Creek – property #20). The fourth transaction is anticipated to close January 11, 2008 (RJR Investments (Lethbridge) Ltd. – properties #1, 3, 4, 5, 6, 7, 23, 27, 29, and 30).

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- 4.3 The sales efforts for the remaining 23 properties, with a total asking price of Cdn\$43.8 million was put on hold until the DIP Lender approval process was finalized and the Cross-Border Insolvency Protocol was approved. These two issues have now been resolved and accordingly, the Company will resume the sales efforts in mid-January 2008.
- 4.4 As approved by this Court, the Official Committee of Unsecured Creditors in the U.S. Court proceedings will have 5 days to conduct their due diligence on the 23 remaining property sales processes. The Monitor has communicated with this Committee to establish a process whereby their due diligence can be facilitated. The Monitor will cooperate with the Committee to provide them access to any reasonable information that they may require to perform such due diligence.

**5 COMPANY OPERATIONS**

5.1 General operations

5.1.1 The operational status of each of the Company's mills is listed below:

Mill	Location	Products Produced	Operational Status
Castlegar	Castlegar, BC	Lumber	Holiday break shut-down. Start-up planned for January 7, 2008
Grand Forks	Grand Forks, BC	Lumber	Holiday break shut-down. Start-up planned for January 7, 2008
Spearfish	Spearfish, SD	Lumber and pellets	Operational
Fort St. James	Fort St. James, BC	Lumber	Temporary shutdown
Midway	Midway, BC	Lumber	Permanent shutdown
Harmac Pulp	Nanaimo, BC	Pulp	Operational
Halsey Pulp	Halsey, OR	Pulp	Encountered several mechanical related issues over the holiday period. All issues have since been resolved.
Mackenzie Pulp	Mackenzie, BC	Pulp	Operational

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5.2 Receipts & Disbursements for the period to December 21, 2007

5.2.1 For the three week period from December 1, 2007 to December 21, 2007 (the "Period") the Company incurred negative cash flow of US\$14.5 million, US\$11.0 million worse than the November 14 forecast. For the six-week period from November 10, 2007 to December 21, 2007 (the "Cumulative Period"), the cumulative negative cash flow was US\$12.2 million, US\$4.0 million better than the November 14 Forecast.

5.2.2 As at December 21, 2007, the total amount outstanding under the DIP agreement was US\$52.6 million, US\$1.0 better than the November 14 Forecast.

5.2.3 The following is a summary of the actual cash flow and the variance to the November 14 Forecast.

	Period From 12/1/2007 - 12/21/2007				Cumulative Period From 11/10/2007 - 12/21/2007			
	Actual US\$ 000's	Forecast US\$ 000's	Variance US\$ 000's	Variance %	Actual US\$ 000's	Forecast US\$ 000's	Variance US\$ 000's	Variance %
<b>Total Receipts</b>	<b>36,632</b>	<b>38,251</b>	<b>(1,619)</b>	<b>(4%)</b>	<b>76,407</b>	<b>80,448</b>	<b>(4,041)</b>	<b>(5%)</b>
Bankruptcy Related Disbursements	(1,211)	(1,550)	339	22%	(4,967)	(9,650)	4,683	49%
Operating Disbursements	(49,924)	(40,187)	(9,737)	(24%)	(83,657)	(87,023)	3,366	4%
<b>Total Disbursements</b>	<b>(51,135)</b>	<b>(41,737)</b>	<b>(9,398)</b>	<b>(23%)</b>	<b>(88,624)</b>	<b>(96,673)</b>	<b>8,049</b>	<b>8%</b>
<b>Net Cash Flow</b>	<b>(14,503)</b>	<b>(3,486)</b>	<b>(11,017)</b>	<b>(316%)</b>	<b>(12,217)</b>	<b>(16,226)</b>	<b>4,009</b>	<b>25%</b>

5.2.4 The Monitor's detailed comments on the variances are set out in Appendix A.

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5.3 DIP Loan Agreement

5.3.1 During the week ending December 14, 2007, the Company had a Material Adverse Deviation, as defined in the DIP Loan Agreement. The deviation related to Professional Fees, Utilities/Energy, and the Chemicals line items. During the week of December 21, 2007, the Company had a further Material Adverse Deviation in several additional line items including Cash Receipts and Payroll Taxes & Benefits. Discussion as to the reason for these Material Adverse Deviations is attached hereto as part of Appendix A.

5.3.2 On December 20, 2007, the Company obtained a waiver from the DIP Lenders in respect of the Material Adverse Deviations identified in the week ended December 14, 2007.

5.3.3 The Company has requested, but not yet obtained, a waiver for the Material Adverse Deviations in the week ended December 21, 2007. The Company is currently in discussions with its DIP Lenders and does not anticipate any problems in obtaining a second waiver.

**6 OTHER MATTERS**

6.1 Stay of Proceedings

6.1.1 The current stay expires on January 16, 2007 and an extension will clearly be required if the Company is to continue with its efforts to complete the Interfor APA and the sale of the remaining assets.

6.2 Updated Cash Flow Forecast

6.2.1 The Company's current cash flow forecast covers the period to the end of February. If the Court is to consider an extension of the stay of proceedings, then the Company will need to prepare an updated cash flow forecast extending to at least the end of April 2008.

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6.3 DIP Loan Agreement

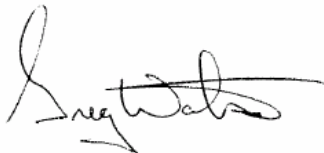
6.3.1 The DIP Loan Agreement expires on February 15, 2008 and will need to be extended if the Company is to continue pursuing the sales efforts. The requirement for any additional DIP financing will not be determinable until the updated cash flow forecast has been completed.

6.4 Future reporting of the Monitor

6.4.1 The Monitor understands that the next Court application in the Company's CCAA Proceedings will be on January 15, 2008, at which time the Company anticipates bringing forward Stalking Horse Agreements for the Pulp Products Division and Other Wood Products Division assets. This Court application has been structured as a joint hearing of this Court and the U.S. Court. The Monitor intends to file its next report on or about January 11, 2008, prior to this Court application date.

This report is respectfully submitted this 4<sup>th</sup> day of January 2008.

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



**Greg Watson**  
**President**



**Michael J. Vermette**  
**Senior Vice President**

## **APPENDIX A**

**Variations Analysis - November 14 Forecast vs the Actual Receipts  
and Disbursements for the Period to December 21, 2007**

## Appendix A

### Variances Analysis - November 14 Forecast vs the Actual Receipts and Disbursements for the Period to December 21, 2007

	Period From 12/1/2007 - 12/21/2007				Cumulative Period From 11/10/2007 - 12/21/2007			
	Actual US\$ 000's	Forecast US\$ 000's	Variance US\$ 000's	Variance %	Actual US\$ 000's	Forecast US\$ 000's	Variance US\$ 000's	Variance %
<b>Total Receipts</b>	<b>36,632</b>	<b>38,251</b>	<b>(1,619)</b>	<b>(4%)</b>	<b>76,407</b>	<b>80,448</b>	<b>(4,041)</b>	<b>(5%)</b>
<b>Bankruptcy Related Disbursements</b>								
Utility Deposits	(133)	-	(133)	-	(133)	(2,000)	1,867	93%
Prepetition Freight, Shippers & Warehouse	(55)	-	(55)	-	(551)	(2,700)	2,149	80%
Prepetition Critical Vendors	(389)	(750)	361	48%	(885)	(3,500)	2,615	75%
Prepetition Sales Agent	-	(100)	100	100%	-	(400)	400	100%
Professional Fees	(634)	(700)	66	9%	(3,398)	(1,050)	(2,348)	(224%)
<b>Total</b>	<b>(1,211)</b>	<b>(1,550)</b>	<b>339</b>	<b>22%</b>	<b>(4,967)</b>	<b>(9,650)</b>	<b>4,683</b>	<b>49%</b>
<b>Operating Cash Disbursements</b>								
Payroll	(4,996)	(4,034)	(962)	(24%)	(10,881)	(11,600)	719	6%
Payroll Taxes and Benefits	(3,872)	(1,962)	(1,910)	(97%)	(7,721)	(5,736)	(1,985)	(35%)
Logs & Fiber	(13,668)	(15,621)	1,953	13%	(25,016)	(31,455)	6,439	20%
Utilities / Energy	(5,038)	(3,245)	(1,793)	(55%)	(7,700)	(5,808)	(1,892)	(33%)
Freight	(5,473)	(4,499)	(974)	(22%)	(9,792)	(10,438)	646	6%
Chemicals	(4,267)	(2,681)	(1,586)	(59%)	(6,629)	(5,817)	(812)	(14%)
Operating Supplies	(1,073)	(1,308)	235	18%	(1,759)	(2,636)	877	33%
Maintenance Materials & Contract Services	(2,461)	(3,190)	729	23%	(3,492)	(7,529)	4,037	54%
Lease Payments	(581)	(441)	(140)	(32%)	(873)	(811)	(62)	(8%)
Lumber Duties	(440)	(948)	508	54%	(853)	(948)	95	10%
Taxes (Property & Other)	(75)	-	(75)	-	(361)	(181)	(180)	(99%)
Brussels Office	(19)	-	(19)	-	(19)	(92)	73	79%
Insurance	-	(225)	225	100%	(223)	(225)	2	1%
Professional Fees	(105)	(177)	72	41%	(152)	(244)	92	38%
Interest and Financing Costs on Revolver	(469)	(468)	(1)	(0%)	(469)	(468)	(1)	(0%)
Capital Expenditures	-	(572)	572	100%	(110)	(1,215)	1,105	91%
Other	(7,387)	(815)	(6,572)	(806%)	(7,607)	(1,820)	(5,787)	(318%)
<b>Total Operating Disbursements</b>	<b>(49,924)</b>	<b>(40,187)</b>	<b>(9,737)</b>	<b>(24%)</b>	<b>(83,657)</b>	<b>(87,023)</b>	<b>3,366</b>	<b>4%</b>
<b>Total Disbursements</b>	<b>(51,135)</b>	<b>(41,737)</b>	<b>(9,398)</b>	<b>(23%)</b>	<b>(88,624)</b>	<b>(96,673)</b>	<b>8,049</b>	<b>8%</b>
<b>Net Cash Flow</b>	<b>(14,503)</b>	<b>(3,486)</b>	<b>(11,017)</b>	<b>(316%)</b>	<b>(12,217)</b>	<b>(16,226)</b>	<b>4,009</b>	<b>25%</b>

Variance Analysis - November 14 Forecast vs the Actual Receipts and Disbursements  
for the Period to December 21, 2007

**Total Receipts**

- 1 Receipts for the Period were US\$1.6 million less than forecast. Cumulative receipts from the date of filing of the CCAA are in-line with forecast, however during the week ended December 21, 2007 the Company encountered a Material Adverse Deviation in the Total Receipts line item (US\$3.2 million or 22.7% less than the November 14 forecast). The Company believes that it is starting to experience the effects of lower than budgeted sales due to the closure of the Fort St. James sawmill as well as reduced sales from the Spearfish sawmill and pulp mills due to logistical issues encountered earlier in the CCAA Proceedings.

**Disbursements**

- 2 Total Bankruptcy Related Disbursements for the Period were US\$339,000 less than forecast, primarily due to lower than forecast payments to pre-petition Critical Vendors. For the Cumulative Period the Company had a favourable variance of US\$4.7 million. The Company remains unsure as to the quantum or the timing of these expenditures.
- 3 The unfavourable variance for both the Period and the Cumulative Period in Payroll Taxes and Benefits of US\$1.9 million is primarily related to a timing issue. Payroll Taxes and Benefit payments made during the week ended December 21, 2007, were forecast for the week ended December 28, 2007. This is a timing difference which is expected to reverse in future periods.
- 4 The favourable variance in Logs & Fiber for both the Period (US\$2.0 million) and the Cumulative Period (US\$6.4 million) is primarily due to lack of purchased logs related to the non-operation of the Fort St. James sawmill, lower than expected purchases at the other sawmills, and the overall lack of fiber availability for the pulp mills given current industry conditions. This is a permanent difference which is not expected to reverse.
- 5 The unfavourable variance of US\$1.8 million for Utilities in both the Period and the Cumulative Period is a result of the Company underestimating certain utility and energy payments, the fact that the Company is paying spot prices for energy, and colder than anticipated weather in the Mackenzie area. This is a permanent difference which is not expected to reverse.

Variance Analysis - November 14 Forecast vs the Actual Receipts and Disbursements  
for the Period to December 21, 2007

- 6 The unfavourable variance of US\$974,000 in Freight for the period is in respect to the partial reversal of prior period favourable variances. For the Cumulative Period the Company is in-line with its Freight forecast.
- 7 The unfavourable variance of US\$1.6 million for the Period in Chemicals is due to a reversal of prior period favourable variances and higher than expected chemical costs at the Mackenzie Mill. The Company is substituting hardwood fibers at the Mackenzie pulp mill requiring additional chemical usage in the cooking process. In addition, there has been increased production of bleached paper at the Halsey pulp mill due to a change in customer mix. The Cumulative Period variance of US\$812,000 is therefore a permanent variance which is not expected to reverse.
- 8 The Cumulative Period favourable variance of US\$877,000 in Operating Supplies is primarily a result of the Company's restricted cash management. The Company has continued to focus its cash resources on critical payments required to keep the mills operating and goods moving to customers. The Company expects that certain amounts of this variance will reverse in future periods.
- 9 Consistent with the Cumulative Period, the favourable variance of US\$729,000 in Maintenance Materials & Contract Services and the favourable variance of US\$572,000 in Capital Expenditures in the Period are primarily related to the Company focusing its resources on critical payments only. As noted in the Monitor's Fifth Report to Court, the Company does recognize the need to maintain the mills, and expects a certain amount of this variance to reverse in future periods.
- 10 The unfavourable variance of US\$6.6 million in Other is primarily due to the unexpected letter of credit draw by Goldenrod Asset Management ("Goldenrod") of US\$6.4 million. As noted in Appendix B of the Monitor's First Report to Court, the Company is a partner with Goldenrod in the Halsey CLO2 partnership. As part of the partnership arrangement, the Company guaranteed to Goldenrod, through a letter of credit, certain Oregon State tax credits. Due to the Company's uncertain circumstances, during the Period Goldenrod drew on its letter of credit. This is a permanent difference which was not anticipated in the November 14 Forecast. As this amount was previously included in the Letter of Credit reserve under the DIP agreement, it has no net impact on the Company's ability to borrow under the DIP agreement