

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 SEVENTH REPORT TO COURT
[Prepared for the January 15, 2008 Court Hearing]**

January 14, 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 six reports with respect to these CCAA proceedings. The most recent report was dated January 4, 2008.
- 1.7 This is the Monitor's Seventh Report to this Court. This report is prepared in order to inform this Court of the following:
 - 1.7.1 The Company's request for approval of the Stalking Horse Agreement for the Pulp Products Division;

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- 1.7.2 An update on the various sales processes which were previously approved by this Court;
 - 1.7.3 The Company's receipts and disbursements for the period from November 10, 2007 to January 4, 2008; and
 - 1.7.4 The Company's request for an extension of the Stay Period to February 15, 2008.
- 1.8 As previously reported, the Monitor has established a website at 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 The sales process for the Company's Wood Products Division was approved by this Court on November 29, 2007. The Company followed this approved sales process, which resulted in a definitive agreement with International Forest Products Ltd. ("Interfor") for the purchase of P&T's sawmills located in Castlegar, BC; Grand Forks, BC; and Spearfish, South Dakota, together with the related forest tenure. On January 7, 2008, this Court as well as the U.S. Court approved the sale to Interfor in a joint hearing.
- 2.2 The Interfor sale requires various approvals of the B.C. Government for the transfer of certain licenses, permits, leases and freehold lands. The process for obtaining these approvals is underway and is expected to take until at least mid-April to be completed. A significant period of the time for obtaining approvals is needed to allow the Government to consult with the First Nations. The Monitor will continue to review the progress being made in respect of obtaining these approvals and updates will be provided to this Court.

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- 2.3 With respect to the timing for the completion of the Interfor sale, the Monitor previously reported that there is a narrow window of time between the anticipated date of receiving all Government approvals (i.e. mid-April 2008) and the date upon which the Interfor agreement becomes null and void by virtue of the sunset date in the agreement (i.e. April 23, 2008). The Monitor will continue to track with the Company the progress being made towards the Government approvals and will report to the Court thereon.
- 2.4 The Interfor purchase transaction includes the Spearfish mill, although it was understood from the outset that this mill was not of core interest to Interfor. In this regard, the Company believed that Interfor would re-sell this mill in a subsequent transaction. On January 8, 2008, Interfor announced that it had agreed to sell the mill to Neiman Enterprises. This does not impact the agreement between P&T and Interfor.

3 UPDATE ON THE PULP PRODUCTS DIVISION SALES PROCESS

- 3.1 The Pulp Products Division consists of 3 pulp mills located in Nanaimo, BC, Mackenzie, BC and Halsey, Oregon. Details regarding each of these mills are set out in the Monitor's Third Report.
- 3.2 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.
- 3.3 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 2007, 2 parties submitted EOI's for the pulp assets.
- 3.4 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 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.

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- 3.5 On December 6, 2007, the Court approved the current sales process for the Pulp Products Division. The approved sales process is summarized as follows:
- January 8, 2008 - Stalking horse agreement signed;
 - January 15, 2008 - Court approval of the stalking horse;
 - February 1, 2008 - Submission of qualifying bids;
 - February 5, 2008 - Conduct the auction if additional bids are received;
 - February 12, 2008 - Court approval of the sale; and
 - February 15, 2008 - Transaction closing.
- 3.6 Following the Court approval of the Pulp Products Division sales process, the Company and Rothschild continued to pursue the various interested parties. After further exploration of interested parties, the Company, on advice from Rothschild, determined that the due diligence and preliminary negotiations that had taken place with PT Pindo Deli Pulp and Paper Mills ("Pindo Deli") represented the best opportunity for P&T to successfully complete a transaction.
- 3.7 In this regard, on January 8, 2008, the Company entered into an asset purchase agreement with Pindo Deli (the "Pindo Deli APA"). The Pindo Deli APA is structured such that Pindo Deli is to serve as the stalking horse bid in the auction that is scheduled to take place on February 5, 2008. The Company now seeks approval of this Court and the U.S. Court of Pindo Deli as the stalking horse bid.
- 3.8 As a result of the Company entering into the Pindo Deli APA, the Company is also seeking approval of this Court and the U.S Court for administrative amendments to the Court approved bidding procedures for the Pulp Products Division. The Monitor has reviewed these changes and considers each to be minor administrative amendments.

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4 ASSET PURCHASE AGREEMENT WITH PINDO DELI

- 4.1 The Pindo Deli APA has not been reproduced in this Report; however, it is contained in the application materials of the Company as Exhibit B to the January 9, 2008 affidavit of Harold Stanton. The document is also available on the Monitor's website.
- 4.2 The Company has provided the Pindo Deli APA without the Exhibits or the Disclosure Schedule. The Exhibits/Schedules have not yet been finalized and may contain confidential information (e.g. employee information). Should Pindo Deli prevail as the successful bidder in the auction, then the Company will determine the appropriateness of providing the Exhibits/Schedules.
- 4.3 The Pindo Deli APA is structured as a purchase of assets (i.e. all three of the pulp mills and the assumption of certain liabilities from the Pulp Products Division).
- 4.4 The following represents a summary of the business terms of the Pindo Deli APA:
 - 4.4.1 The Purchase Price:
 - 4.4.1.1 US\$105.3 million, which includes US\$39.0 million in non-finished goods inventory (i.e. raw materials and work-in-process). The purchase price is subject to adjustments based on the inventory at the date of closing.
 - 4.4.2 Net Proceeds:
 - 4.4.2.1 The Company and Rothschild have provided the Monitor with an estimate of the value of this proposed transaction. Based on this analysis, the net proceeds from a combination of the transaction completion and the liquidation of the remaining assets (i.e. accounts receivable and finished goods inventory), are estimated to total approximately US\$205 million. In addition, assumed liabilities in the amount of US\$15 million will increase the effective transaction value to US\$220 million.

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4.4.2.2 In additional to the US\$220 million value noted above, there is the potential realizations from the sale of certain refundable tax credits, which the Company estimates will total US\$5 million. If these are sold, the total overall transaction value will increase to US\$225 million.

4.4.3 Assets included:

4.4.3.1 The Halsey, Harmac and Mackenzie pulp mills.

4.4.3.2 The real property and leases on which the pulp mills operate.

4.4.3.3 The contributions made and not otherwise distributed to employees in respect of the Pulp Price Trigger Bonus arising under any Collective Agreement.

4.4.3.4 Non-finished goods inventory (i.e. raw materials and work-in-process) at the Closing Date.

4.4.3.5 Office equipment and assets related to the Pulp Products Division, which are located at the Company's head office in the Portland Premises.

4.4.3.6 Contracts that the purchaser elects to assume.

4.4.4 Excluded assets:

4.4.4.1 Accounts receivable.

4.4.4.2 Finished goods inventory.

4.4.4.3 The storage / reload facility at Northport, Washington.

4.4.4.4 Tax refunds (Pindo Deli has an option, but no obligation, to purchase the pollution control facility tax credits associated with the Halsey ClO₂ Plant).

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4.4.4.5 Certain inter-company agreements as documented in the Disclosure Schedule.

4.4.5 Assumed Liabilities:

4.4.5.1 Liabilities under the Assigned Contracts. The Company is liable to cure the costs through a purchase price reduction and Pindo Deli will then pay the vendors directly.

4.4.5.2 Liabilities to Transferred Employees with respect to accrued vacation and banked overtime.

4.4.5.3 Liabilities to Union Employees who have become Transferred Employees under an Employee Plan.

4.4.5.4 Liabilities to Transferred Employees in respect of retiree welfare benefits.

4.4.6 Excluded Liabilities:

4.4.6.1 Any environmental liability in respect of the owned real property or leased property relating to the business, or hazardous or environmental conditions that exist prior to the Closing Date.

4.4.6.2 Any liabilities relating to the Halsey ClO₂ Plant prior to the Closing Date, including any obligation to maintain a letter of credit or provide indemnity pursuant to that certain Inducement Agreement between the Company and Goldenrod Asset Management, Inc.

4.4.6.3 Any liabilities to Transferred Employees arising under the severance agreements disclosed in the Pindo Deli APA or for the payment of a "parachute payment".

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4.4.7 Required Approvals:

4.4.7.1 This Court and the U.S. Court.

4.4.7.2 Requirements under the *Hart-Scott-Rodino Antitrust Improvements Act of 1976* (the "HSR Act") and the *Competition Act (Canada)*.

4.4.7.3 Requirements under the *Investment Canada Act (Canada)*.

4.4.7.4 Federal, provincial and state government consent and approvals for the transfer of permits and licenses.

4.4.8 Break-up Fee:

4.4.8.1 Pindo Deli will be paid a break-up fee of US\$3.8 million. There is no additional expense reimbursement component.

4.4.8.2 The break-up fee is only payable if the Court and the U.S. Court approve a Qualified Overbid other than from Pindo Deli and the transaction is completed.

4.4.9 Closing Date:

4.4.9.1 The Closing Date is three days after the required approvals have been obtained. While the Court approved process provides for a closing of February 15, 2008, the Company believes that a closing in mid March 2008 is more realistic.

4.4.9.2 The Closing Date cannot be later than April 30, 2008.

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4.5 Monitor's comments on the sale process:

4.5.1 Specific comments

4.5.1.1 The Monitor has reviewed the sales process which resulted in the Pindo Deli APA. The Monitor has also reviewed the Pindo Deli APA. The Monitor has the following comments:

4.5.1.2 Approvals

- There are numerous permits and licenses that will require corresponding government consents and approvals. The Monitor is working with the Company to fully understand the timelines required for the necessary consents and approvals.

4.5.1.3 Cure Costs

- As part of estimating the net purchase price, the Company still has to determine the amounts related to the costs of curing certain contracts (the "Cure Costs"). The Monitor will work with the Company and its counsel to review the contracts, in light of the Canadian and US process, the Cross-Border Insolvency Protocol, and the cross border nature of this process.
- Based upon a preliminary review by the Monitor, it appears that the amount of Cure Costs would be less than US\$10 million.

4.5.1.4 Break-up Fee

- The break-up fee of US\$3.8 million represents 3.6% of the purchase price, including the non-finished goods inventory. This fee is higher than is customarily provided for in stalking horse situations, including the Interfor sale. However, the Monitor notes that Pindo Deli has not

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additionally requested a reimbursement of due diligence costs. The due diligence requirements for a pulp mill can be substantial compared to other type of asset.

- The Interfor sale transaction provided for a combined break-up fee and expense reimbursement of US\$3.0 million. Given the increased complexities of the Pulp Products Division assets, the Monitor considers the fee provided for herein (i.e. US\$3.8 million) to be reasonable.

4.5.1.5 Environmental Liabilities

- The Monitor recommends that the Company and Pindo Deli review the purported exclusion of environmental liabilities and consider the efficacy of such a provision.

4.5.2 Overall Comments

4.5.2.1 The Court approved sales process for the Pulp Products Division was followed by the Company and it resulted in the Pindo Deli APA.

4.5.2.2 As a result of the prior marketing and solicitation performed, the restricted bidding timeline is acceptable to the Monitor. The Monitor believes the potential markets for the Pulp 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 time frames established by the Company.

4.5.2.3 The Monitor is satisfied that, on balance and in the circumstances, the Pindo Deli APA is the best offer currently available to the Company and appropriate as a Stalking Horse bid.

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5 UPDATE ON REMAINING WOOD PRODUCTS DIVISION

- 5.1 The Company did not reach a stalking horse agreement for the Fort St. James or Midway sawmills. The timeline for the sale process as approved by this Court required a stalking horse agreement to be reached by January 8, 2008. To-date, Rothschild has remained optimistic that a stalking horse agreement would be reached, however, the combination of the holiday season, the weak lumber market conditions, and the current shut-down state of both mills, may have reduced the urgency for interested parties to participate.
- 5.2 Rothschild has advised the Monitor that given the above circumstances together with the workload and relative importance to the process of the Pindo Deli APA, their efforts would be better utilized on reaching an agreement on the Pulp Products Division.
- 5.3 The Company and Rothschild will continue to work with a variety of interested parties in the remaining assets and expect to receive bids by the February 1, 2008 deadline.

6 SURPLUS LANDS

- 6.1 The Monitor's Third Report to Court listed 36 properties located in British Columbia that the Company had identified to be surplus lands and which it intended to offer for sale or was already in the process of selling. On November 28, 2007, the Court approved the sale of 13 properties in four transactions for a total sales price of Cdn\$8.2 million.
- 6.2 Three of the four transactions closed successfully on January 8, 2008, as per the Purchase and Sale Agreement. The fourth transaction is scheduled and expected to close on January 14, 2008.
- 6.3 The net proceeds received from these three completed transactions totalled Cdn\$2.5 million. A schedule summarizing the details of each of the completed transactions is attached as Appendix C. The net proceeds will be paid to P&T's term lenders pursuant to their first ranking security over the these assets.

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- 6.4 The process to achieve all required approvals was complicated since these were the first asset sales in this administration. The various protocols now appear to be in place to seek the required approvals and accordingly, future offers are expected to be dealt with more quickly. During the week of January 14, 2008, the Company intends to resume the sales efforts for the remaining 23 properties, with a total asking price of Cdn\$43.8 million.
- 6.5 The Monitor, its counsel and counsel for the Official Committee of Unsecured Creditors have discussed mechanisms to assist the Committee to perform its due diligence analysis of the sale of the remaining 23 properties.

7 COMPANY OPERATIONS

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

Mill	Location	Products Produced	Operational Status
Castlegar	Castlegar, BC	Lumber	Started up on January 8, 2008 as planned after the holiday break shut-down.
Grand Forks	Grand Forks, BC	Lumber	Started up on January 8, 2008 as planned after the holiday break shut-down.
Fort St. James	Fort St. James, BC	Lumber	Temporary shutdown - market condition
Midway	Midway, BC	Lumber	Permanent shutdown
Spearfish	Spearfish, SD	Lumber and pellets	Operational
Harmac Pulp	Nanaimo, BC	Pulp	Operational
Halsey	Halsey, OR	Pulp	Operational
Mackenzie	Mackenzie, BC	Pulp	Operational

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7.2 Cash Receipts & Disbursements to January 4, 2008

7.2.1 The following is a summary for the actual cash flow and the variance to the November 14 Forecast. The Monitor's detailed comments on the variances are set out in Appendix B.

	Period From 12/22/2007 - 1/4/2008				Cumulative Period From 11/10/2007 - 1/4/2008			
	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 %
Total Receipts	21,429	34,357	(12,928)	(38%)	97,836	114,805	(16,969)	(15%)
Total Bankruptcy Related Disbursements	-	(2,594)	2,594	100%	(4,967)	(12,244)	7,277	59%
Total Operating Disbursements	(20,544)	(25,440)	4,896	19%	(104,201)	(112,464)	8,263	7%
Total Disbursements	(20,544)	(28,034)	7,490	27%	(109,168)	(124,708)	15,540	12%
Net Cash Flow	885	6,323	(5,438)	(86%)	(11,332)	(9,903)	(1,429)	(14%)

7.2.2 For the two week period from December 22, 2007 to January 4, 2008 (the "Period") the Company incurred positive cash flow of US\$885,000. This was US\$5.4 million lower than the corresponding period in the November 14 Forecast.

7.2.3 For the eight week period from November 10, 2007 to January 4, 2007 (the "Cumulative Period"), the cumulative negative cash flow was US\$11.3 million, US\$1.4 million worse than the corresponding period in the November 14 Forecast.

7.2.4 The Company has attempted to pay all vendors on a "cash basis" as to minimize accrued liabilities. Given the administrative complexities associated with this, the Company has in practice run general accounts payable payments once or twice per week. Therefore, the Company does continually have a post-filing trade accounts payable balance of between US\$2 million and US\$8 million.

7.2.5 The Company is also limited by US Bankruptcy Law as to the timing of payment to the US-based professionals. These professionals include the Company's financial advisors, the Company's legal counsel, the Company's claim's agent, and the advisors to the Official Committee of Unsecured Creditors.

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- 7.2.6 As outlined in the U.S. Court's "Order Establishing Procedures For Interim Compensation And Reimbursement of Expenses For Professionals", US-based professional are required to submit no earlier than the 7th day of each month following the month for which the services were rendered a fee application to the U.S. Court. The fee applications are open to objection for 20 days after submission, and should no objections take place, payment of 80% of the fees and 100% of the expenses may be made.
- 7.2.7 The Company has yet to make a disbursement to its US-based professional. Therefore, the Company could be subjected to an accrued professional fee liability of between US\$2.5 million and US\$3.5 million, net of retainers paid.

7.3 DIP Loan Agreement

- 7.3.1 The DIP Loan Agreement provides for the Company to report its cash flows to the DIP Lenders weekly. Variances between actual and forecasted cash flows outside of defined thresholds (referred to as a "Material Adverse Deviation") represent defaults under this agreement.
- 7.3.2 During each of the four weeks up to and including the week ending January 4, 2008, the Company has generated a Material Adverse Deviation in its cash flow reporting. The Company has maintained ongoing communication with the DIP Lenders and has obtained all necessary waivers in respect of the Material Adverse Deviations incurred and reported to January 4, 2008.
- 7.3.3 The full amount of the credit facility provided for in the DIP Loan Agreement remains available to the Company.
- 7.3.4 As at January 4, 2008, the total amount outstanding under the DIP agreement was US\$52.1 million including both Term and Revolver commitments. This was US\$6.7 million greater than the November 14 forecast.

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- 7.3.5 The increase over the forecast balance of the DIP loan is due to the letter of credit draws by TD Commodity and Energy Trading Inc. for US\$713,000 and by Goldenrod Asset Management Inc for US\$6.4 million.
- 7.3.6 As these amounts were previously included in the Letter of Credit reserve under the DIP Loan Agreement, they have no net impact on the Company's ability to borrow. The following is a summary of the borrowings under the DIP Load Agreement:

Revolver Balance as at January 4, 2008				
	Actual US\$ 000's	Forecast US\$ 000's	Variance US\$ 000's	Variance %
Borrowing Base	67,444	60,533	6,911	11%
Less: Letter of Credit Reserve	(7,039)	(17,000)	9,961	59%
Net Availability	60,405	43,533	16,872	39%
Revolver Balance	45,570	37,942	(7,628)	(20%)
Excess of Availability	14,835	5,591	9,244	165%

- 7.3.7 The Company maintains compliance under the DIP Loan Agreement for total borrowings.

8 OTHER MATTERS

8.1 Updated Cash Flow Forecast

- 8.1.1 The current cash flow forecast under which the Company is operating has been referred to in these CCAA proceedings as the November 14 forecast. This forecast was prepared by the Company in early November and was a critical aspect of the negotiations of the DIP Loan Agreement between the DIP Lenders and the Company.
- 8.1.2 Certain of the basic assumptions under which the November 14 forecast was prepared have changed. These changes include the estimated timing for the completion of the Interfor transaction and the operational status of each of the mills. As a result, the Company has recently undertaken the complicated and time consuming task of preparing an updated forecast. This updated forecast will provide the DIP Lenders and the other

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stakeholders in these restructuring proceedings with a more current projection of the Company's anticipated future operating activities and its borrowing requirements.

8.1.3 The Company is anticipating that the Interfor transaction as well as a sale of its Pulp Division will each be completed by the end of April 2008. In this regard, the Company is preparing the updated forecast to April 30, 2008.

8.1.4 The DIP Loan Agreement currently expires on February 15, 2008. Since it is now clear that the significant asset sales are unlikely to be completed prior to the end of April, the DIP loan will need to be extended to at least April 30th. The Monitor understands that the Company and the DIP Lenders have commenced discussions regarding the nature of an extension of the DIP Loan Agreement; however, the completion of the updated forecast will be an essential element of progressing these negotiations.

8.2 Stay of proceedings

8.2.1 Pursuant to the amended, restated, and confirmed Initial Order, the stay of proceedings was extended to January 16, 2008. The Company is now seeking an extension of the stay to February 15, 2008.

8.2.2 As described later in this report, the Company continues to work closely with its DIP Lenders with respect to certain Material Adverse Deviations, and has not exceeded its anticipated borrowing requirements.

8.2.3 The DIP Loan Agreement currently expires on February 15, 2008, and the cash flows previously filed with the Court extend to the end of February 2008.

8.2.4 Additional time is required for the Company to proceed with the realization of assets and to negotiate an extension of the DIP Loan Agreement. An extension of the Stay Period is needed to provide the stability required during that time.

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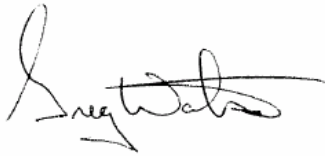
- 8.2.5 The Monitor believes that, based on the information currently available, creditors would not be materially prejudiced by an extension of the Stay Period to February 15, 2008.
- 8.2.6 The Monitor believes that the Applicants have acted and are acting in good faith and with due diligence and that circumstances exist that make an extension of the Stay Period appropriate. The Monitor therefore respectfully recommends that the Applicants' request for an extension of the Stay Period to February 15, 2008 be granted.
- 8.3 Minister of Forests and Range Motion re: August 2000 Forest Fire
- 8.3.1 In August 2000, there was a forest fire on TFL 8 which is licensed to P&T. The Ministry brought an unsuccessful action against P&T in respect of this fire. The Supreme Court of B.C. dismissed this action in a ruling dated November 1, 2007. The Ministry is seeking to have the Stay of Proceedings lifted in order to allow an appeal to proceed.
- 8.3.2 It appears to the Monitor that the motion to have the Stay of Proceedings lifted was not properly served in these CCAA Proceedings. In addition, the Monitor has not had an opportunity to review the impact of the stay being lifted and suggests to this Court that the matter may best be dealt with at a subsequent Court application date.
- 8.4 Future reporting of the Monitor
- 8.4.1 The next Court application in the Company's CCAA Proceedings is scheduled for February 12, 2008, at which time the Company anticipates that it will have completed an auction for the Pulp Products Division assets and will be in a position to bring forward for Court approval a definitive agreement of sale for these assets. This Court application is scheduled to be dealt with as a joint hearing of this Court and the U.S. Court.
- 8.4.2 The Monitor intends to file its next report with this Court on or about February 8, 2008.

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This report is respectfully submitted this 14th day of January 2008.

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



**Greg Watson
President**



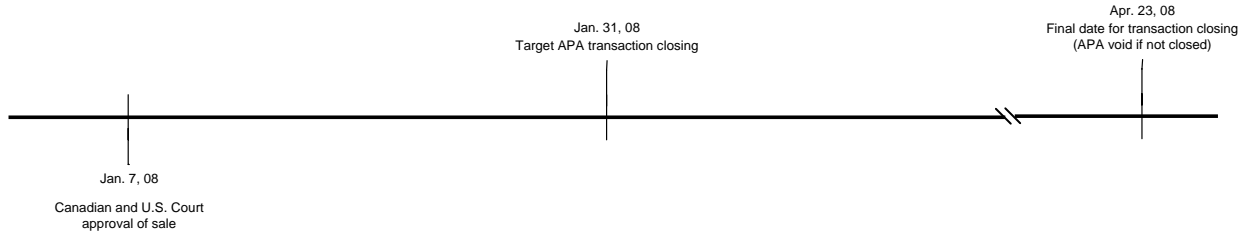
**Michael J. Vermette
Senior Vice President**

APPENDIX A

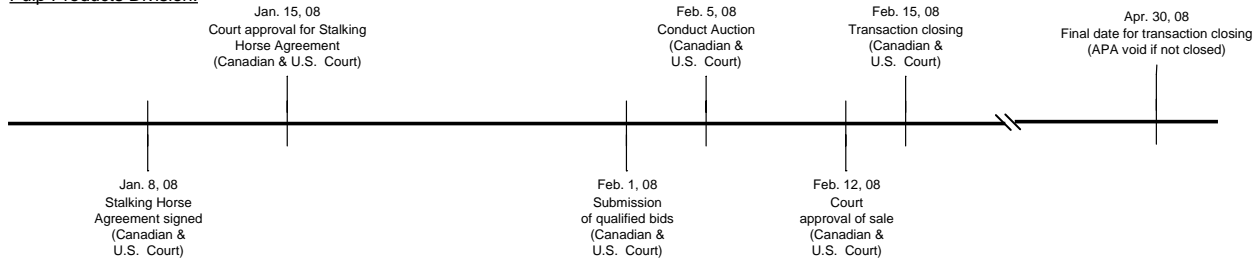
Timelines of Sales Processes (Canadian and U.S. Courts' Approval)

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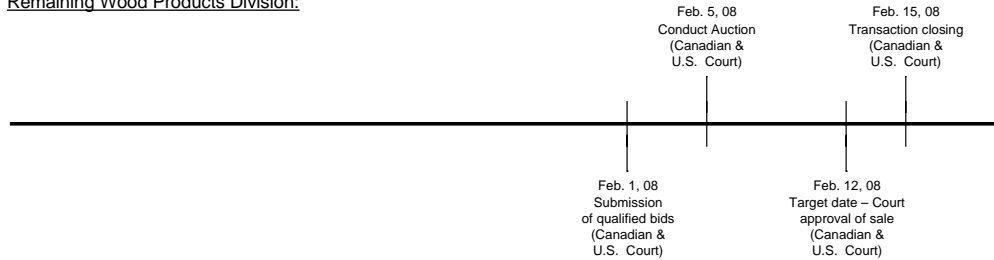
Interfor Sale:



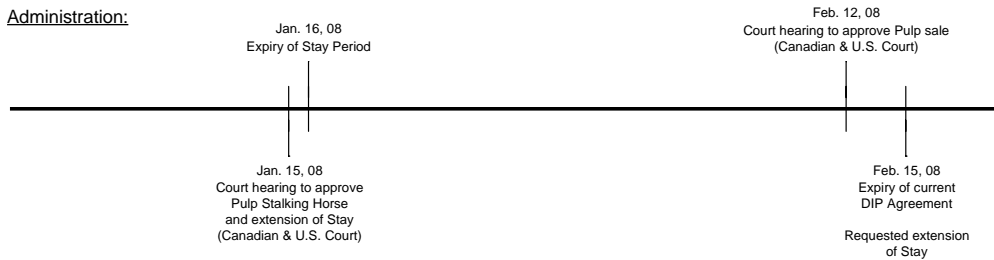
Pulp Products Division:



Remaining Wood Products Division:



Administration:



APPENDIX B

**Variations Analysis – November 14 Forecast vs.
the Actual Receipts and Disbursements
for the Period to January 4, 2008**

Appendix B

Variances Analysis – November 14 Forecast vs. the Actual Receipts and Disbursements for the Period to January 4, 2008

	Period From 12/22/2007 - 1/4/2008				Cumulative Period From 11/10/2007 - 1/4/2008			
	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 %
Total Receipts	21,429	34,357	(12,928)	(38%)	97,836	114,805	(16,969)	(15%)
Bankruptcy Related Disbursements								
Utility Deposits	-	-	-	-	(133)	(2,000)	1,867	93%
Prepetition Freight, Shippers & Warehouse	-	-	-	-	(551)	(2,700)	2,149	80%
Prepetition Critical Vendors	-	(500)	500	100%	(885)	(4,000)	3,115	78%
Prepetition Sales Agent	-	-	-	-	-	(400)	400	100%
Professional Fees	-	(2,094)	2,094	100%	(3,398)	(3,144)	(254)	(8%)
Other	-	-	-	-	-	-	-	-
Total	-	(2,594)	2,594	100%	(4,967)	(12,244)	7,277	59%
Operating Cash Disbursements								
Payroll	(1,979)	(3,787)	1,808	48%	(12,860)	(15,387)	2,527	16%
Payroll Taxes and Benefits	(3,393)	(1,911)	(1,482)	(78%)	(11,114)	(7,647)	(3,467)	(45%)
Logs & Fiber	(4,545)	(6,700)	2,155	32%	(29,561)	(38,155)	8,594	23%
Utilities / Energy	(2,310)	(2,424)	114	5%	(10,010)	(8,232)	(1,778)	(22%)
Freight	(2,490)	(3,014)	524	17%	(12,282)	(13,451)	1,169	9%
Chemicals	(2,147)	(1,804)	(343)	(19%)	(8,776)	(7,621)	(1,155)	(15%)
Operating Supplies	(703)	(918)	215	23%	(2,462)	(3,554)	1,092	31%
Maintenance Materials & Contract Services	(1,045)	(1,930)	885	46%	(4,537)	(9,459)	4,922	52%
Lease Payments	(117)	(249)	132	53%	(990)	(1,060)	70	7%
Lumber Duties	(562)	(927)	365	39%	(1,415)	(1,875)	460	25%
Taxes (Property & Other)	-	-	-	-	(361)	(181)	(180)	(99%)
Brussels Office	-	(92)	92	100%	(19)	(184)	165	90%
Insurance	(229)	(313)	84	27%	(452)	(538)	86	16%
Professional Fees	(42)	(34)	(8)	(24%)	(194)	(278)	84	30%
Interest and Financing Costs on Revolver	(420)	(501)	81	16%	(889)	(969)	80	8%
Capital Expenditures	(47)	(78)	31	40%	(157)	(1,293)	1,136	88%
Other	(515)	(759)	244	32%	(8,122)	(2,579)	(5,543)	(215%)
Total Operating Disbursements	(20,544)	(25,440)	4,896	19%	(104,201)	(112,464)	8,263	7%
Total Disbursements	(20,544)	(28,034)	7,490	27%	(109,168)	(124,708)	15,540	12%
Net Cash Flow	885	6,323	(5,438)	(86%)	(11,332)	(9,903)	(1,429)	(14%)

**Variations Analysis – November 14 Forecast vs. the Actual Receipts and Disbursements
for the Period to January 4, 2008**

Total Receipts

- 1 Receipts for the Period were unfavourable by US\$12.9 million. A portion of this decrease in receipts is due to timing as several payments expected from large customers during the period were not received. Management is of the opinion that these payments were not received due to delays over the holiday period.
- 2 As identified in the Monitor’s Sixth Report to Court the Company experienced lower than forecast sales during the Cumulative Period 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 during the period immediately subsequent to the filing of the CCAA. These decreased sales were offset by stronger than expected Vendor Managed Inventory (“VMI”) sales in the Wood Products Division which aided in Total Receipts. As the VMI inventory is now extinguished, the Company is expected to have lower collections from the Wood Products Division and collections within forecast in the Pulp Products Division.

Disbursements

- 3 Total Bankruptcy Related Disbursements excluding Professional Fees were US\$7.5 million favourable for the Cumulative Period. As the Company is two months into its reorganization, it is unlikely that material amounts will be incurred on an ongoing basis. Therefore it is likely that this is a permanent difference.
- 4 During the Period the Company did not make and Bankruptcy Related Disbursements which caused a favourable variance of US\$2.6 million. This is primarily due to the US-based professionals as the Period was the earliest possible time in which fees could have been approved by the U.S. Court and paid as discussed earlier in this report. This is a timing difference which is expected to reverse in future periods as the US-based professional fees are approved. As noted earlier in this report, the Company continues to accrue significant professional fees.

**Variations Analysis – November 14 Forecast vs. the Actual Receipts and Disbursements
for the Period to January 4, 2008**

- 5 The positive variance in the Cumulative Period of US\$2.5 million in Payroll is due to limited operations at Fort St. James and over-budgeting at Harmac. This favourable variance is offset by an unfavourable variance in Payroll Taxes and Benefits of US\$3.5 million. The Payables Taxes and Benefits forecast were prepared using a percentage load factor for benefits. Management has not yet determined the reason for the cumulative variance but is currently investigating. It is possible that a significant portion of this variance is permanent.
- 6 As noted in the Monitor's previous Report's to Court, the Company has experienced a continued favourable variance in Logs and Fiber purchases due to less than forecast buying at the sawmills coupled with limited fiber availability at the pulp mills. Although this is likely a permanent variance, the Company is continually re-evaluating its Logs and Fiber needs.
- 7 The Company continues to experience favourable variances in Maintenance Materials and Contract Services (Cumulative Period variance of US\$4.9 million) and Capital Expenditure (Cumulative Period variance of \$US1.1 million). As noted in previous Reports to Court, the Company does expect to increase expenditures related to these line items. Both of the Lumber and the Pulp Asset Purchase Agreements require the Company to maintain the assets in good standing, therefore it will be imperative for the Company to monitor ongoing maintenance carefully.

APPENDIX C

Surplus Lands – Sales to-date

Surplus Lands – Sales to-date

Property Number / Name	Asking Price CDN\$	Purchase Price CDN\$	Less: Commissions and Taxes CDN\$	Net Purchase Price CDN\$	Date of Closing
36 – Beavertell South	549,000	550,000	28,895.62	521,104.38	January 8, 2008
22 – Deer Park	395,000	751,000	39,498.60	711,501.40	January 8, 2008
20 – Shields Creek	1,295,000	1,350,000	70,987.15	1,279,012.85	January 8, 2008
Total cash proceeds to P&T				2,511,618.63	