

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 NINTH REPORT TO COURT
[Prepared for the February 20, 2008 Court Hearing]**

FEBRUARY 19, 2008

**POPE & TALBOT LTD. et al
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1 INTRODUCTION

1.1 This is the Monitor's ninth Report to this Court with respect to the Company's filing under the *Companies' Creditors Arrangement Act* (the "CCA"). This report is prepared in respect of the scheduled February 20, 2008 hearing to inform the Court of the following:

1.1.1 The Monitor's findings in respect of the suggestions by the unsuccessful bidder in the auction sales process for the Fort St. James sawmill, K&D Logging Limited ("K&D"), that its offer was superior to the offer from PT Pindo Deli Pulp and Paper Mills ("Pindo Deli"); and

1.1.2 The request of certain logging contractors that International Forest Products Ltd. ("Interfor"), the approved purchaser of certain of P&T's sawmills, is required to assume their logging contracts.

2 BACKGROUND OF THESE PROCEEDINGS

2.1 On October 29, 2007, P&T made an application under the CCA 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 CCA are referred to herein as the "CCA Proceedings".

2.2 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 CCA Proceedings transferred from the Ontario Court and for this Court to assume primary jurisdiction of the CCA Proceedings. This Court granted such order.

2.3 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.

2.4 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.

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- 2.5 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.
- 2.6 The Monitor has previously filed eighth reports with respect to the CCAA Proceedings. The most recent report was dated February 11, 2008 and was prepared for the February 12, 2008 Court Hearing.
- 2.7 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.
- 2.8 Materials filed and Orders granted by the U.S. Court in respect of the Chapter 11 proceedings are maintained on the website of Kurtzman Carson Consultants at <http://www.kccllc.net/popetalbot>.

3 FORT ST. JAMES – SALES PROCESS

- 3.1 Background
- 3.1.1 On February 5, 2008, the Company held an auction for the sale of its Fort St. James sawmill. The auction was part of the sales process that had been approved by this Court and the U.S. Court in a joint hearing.
- 3.1.2 Two qualified bidders (Pindo Deli and K&D) participated in the auction, while a third qualified bidder declined to participate once all bid amounts were known.
- 3.1.3 At the February 5th auction, the offer from Pindo Deli was determined to be the highest. On February 12, 2008, the Company sought the approval of this Court and the U.S. Court for the sale of its Fort St. James sawmill to Pindo Deli.

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3.2 Objections by K&D

3.2.1 On Monday, February 11, 2008, counsel for K&D formally advised the Monitor and the Company that it intended to seek an adjournment of the February 12, 2008 Court approval hearing in order that it be afforded an opportunity to show that the K&D offer was economically superior to the Pindo Deli offer.

3.2.2 The Monitor requested, but did not receive, the details surrounding the issues being raised by K&D prior to finalizing its eighth report to this Court. K&D requested that the approval for the Pindo Deli offer be deferred until it could provide support for the issues that it was raising.

3.2.3 Generally, the issues raised by K&D consisted of specific conditions contained in the offers, liabilities being assumed, contracts being assigned, and the forest license approvals. Counsel to K&D advised the Monitor that in particular, it was awaiting a detailed report from its financial advisors that would assist with an explanation of its position.

3.2.4 At the February 12, 2008 joint hearing of this Court and the U.S. Court, the approval of the sale to Pindo Deli was adjourned to allow K&D time to outline its issues and provide evidence to the Monitor that the K&D offer was economically superior.

3.2.5 Over the course of the period from February 13 to 18, the Monitor and its counsel held discussions with counsel for K&D on numerous occasions. As of the close of business on February 18th, the Monitor has not been provided with any support for the position that K&D's final offer at the auction of February 5th was economically superior to the offer from Pindo Deli.

3.3 Conclusion of the Monitor regarding K&D's Offer

3.3.1 The Monitor has concluded its analysis of the Pindo Deli and the K&D offers and is satisfied that the Pindo Deli offer is the superior offer that was available to the Company at the February 5th auction.

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3.3.2 Based on discussions between counsels of the Monitor and K&D, the Monitor understands that K&D now appreciates that given the known liabilities related to the Fort St. James Sawmill, its offer as presented at the auction was not economically superior to the Pindo Deli offer.

3.4 Receipt of New Offer from K&D

3.4.1 K&D has now submitted a new offer for the Fort St. James sawmill. The purchase price of the new offer is \$6,250,000, \$250,000 higher than the Pindo Deli offer. The K&D offer is similar to the Pindo Deli offer in respect of the non-price elements, although its offer will result in the assumption of \$200,000 to \$250,000 of liabilities that are not being assumed under the Pindo Deli offer.

3.4.2 The new K&D offer is slightly, but not materially better than the Pindo Deli offer on price. Although the Monitor had concerns that K&D may not have fully comprehended the process at the auction and may have understood that the Pindo Deli offer was the same as theirs in respect to assumption of liabilities, given the relatively minor increase in value of their new offer, this concern is assuaged.

3.4.3 Given the process which this Court has endorsed and given that any consideration of the new offer of K&D will require a joint hearing and significant further expenses, the Monitor will await the direction of this Court.

4 CERTAIN LOGGING CONTRACTORS REQUEST – INTERFOR APA

4.1 Various counterparties to Bill 13 Replaceable Contracts with P&T have requested that the Court vary or modify the Interfor APA, whereby Interfor would be required to assume the Replaceable Contracts or to assume liabilities of P&T as to holdbacks referenced in the Replaceable Contracts.

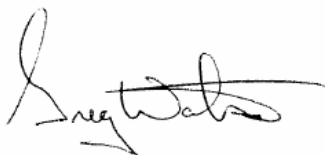
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- 4.2 As this matter is primarily a legal issue and not a factual issue, the Monitor takes no active position on this application by certain of the logging contractors. As in the case of Celgar, these issues could have been and should have been raised at the approval hearing.
- 4.3 It appears to the Monitor that Interfor wishes to complete the purchase of P&T without the inclusion of these contracts. The Monitor understands that the requirements for tenure transfer under the *Forest Act* should not be impacted by this issue and accordingly, the Monitor does not want to see added complications to the purchase and sale to Interfor that may reduce the likelihood of the transaction being successfully completed.

This report is respectfully submitted this 19th day of February 2008.

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



Greg Watson
President



Michael J. Vermette
Senior Vice President