Court File No.: CV-09-824700CL

ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST

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 GRANT FOREST PRODUCTS INC., GRANT ALBERTA INC., GRANT FOREST PRODUCTS SALES INC. AND GRANT U.S. HOLDINGS GP

Applicants

EIGHTH REPORT OF THE MONITOR DATED FEBRUARY 8, 2010

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INTRODUCTION

1. On June 25, 2009, Grant Forest Products Inc. ("**GFPI**"), Grant Alberta Inc. ("**GAI**"), Grant Forest Products Sales Inc. ("**GFPSI**") and Grant U.S. Holdings GP (the "**Grant Partnership**" or "**U.S. Holdings**") (collectively the "**Original Applicants**") filed for and obtained protection under the *Companies' Creditors Arrangement Act* ("**CCAA**") in order to restructure the business and affairs of the Original Applicants. Pursuant to the Order of this Honourable Court dated June 25, 2009 (the "**Initial Order**"), Ernst & Young Inc. ("**EYI**") was appointed as the Monitor of the Original Applicants (the "**Monitor**") in the CCAA proceeding. The Initial Order provided for a stay of proceedings through to July 24, 2009. The stay of proceedings has been subsequently extended, most recently to February 26, 2010 (the "**Stay Period**") pursuant to an Order of this Honourable Court dated November 30, 2009.

2. The Initial Order provided for the immediate commencement of a marketing process (the "**Marketing Process**") in accordance with the protocol attached as Appendix "A" to the Initial Order (the "**Investment Offering Protocol**") to provide interested parties with the opportunity to offer to purchase the business

and operations of the Original Applicants as a going concern or offer to sponsor a plan of arrangement of the Original Applicants, or any of them. As part of this Marketing Process, the Original Applicants requested that the Monitor undertake the role of investment offering advisor ("**Investment Offering Advisor**"), and together with Stonecrest Capital Inc. as Chief Restructuring Advisor ("**CRA**"), assist the Original Applicants in a sale of their businesses, in whole or in part, in consultation with the Monitor, the First Lien Lenders' Agent and the Second Lien Lenders' Agent, as provided for in the Initial Order.

3. The Original Applicants brought a motion (the "**Sale Motion**") originally returnable February 1, 2010 seeking, *inter alia,* an approval and vesting order with respect to a transaction as contemplated by a purchase agreement (the "**PSA**") between the Original Applicants (and certain additional subsidiaries) and Georgia-Pacific LLC and related entities ("**GP**") (the "**Transaction**"). The Sale Motion has been adjourned to February 9, 2010.

4. On January 15, 2010, the Monitor served its Sixth Report (the "**Sixth Report**") which, among other things, provided an overview of the Marketing Process, summarized the analysis which was undertaken with respect to the various bids received and provided an overview of the PSA with GP. As discussed in the Sixth Report, a sealing order will be sought at the Sale Motion with respect to the Management Presentation, Overview of the Final Bids Received in Phase IIb, the PSA and the unredacted version of the Overview of the PSA.

5. Terms not otherwise defined herein have the meanings ascribed to them in the Sixth Report.

PURPOSE

6. The purpose of this report (the "**Eighth Report**") is to report to this Honourable Court with respect to:

   a. The receipt on Friday, February 5, 2010, by the Monitor of a non-binding expression of interest received from a bidder who previously participated in

Phase I, Phase II and Phase IIb of the Marketing Process (the "**February 5 Letter**").

EXPRESSION OF INTEREST RECEIVED

7. A summary of the bids of the three Short Listed Parties in Phase IIb of the Marketing Process was provided in Appendix K to the Sixth Report. Appendix K was filed on a confidential basis and is the subject of a sealing order request at the Sale Motion returnable February 9, 2010. The identity of the bidders in Appendix K, other than the bid from GP, was kept confidential and the other two bidders were referred to simply as "Bidder B" and "Bidder C". The February 5 Letter is a non-binding indication of interest to improve Bidder B's bid from that submitted during Phase IIb of the Marketing process. The total face value of the consideration being proposed remains as was summarized in Appendix K. However, the February 5 Letter is now proposing to exclude certain assets which were previously included in Bidder B's Phase IIb bid.

8. The Monitor does not recommend that the Applicants pursue this expression of interest for four primary reasons.

9. First, the fairness and integrity of the Marketing Process is paramount to these proceedings and to alter the terms of the Marketing Process at this point would be grossly unfair to GP and all the other parties who participated in the Marketing Process. The terms of the Marketing Process, and the bidding process in particular, have been widely known by all bidders and interested parties since the outset of the Marketing Process in July 2009.

10. Second, as no bid protections are in place to protect GP's interest as the potential purchaser, it has relied upon the protections of the court-approved Marketing Process and the oversight of the Monitor to ensure that the process is fair to all parties and that a bidder who fairly advances to Phase III cannot not be "out-bid" at the last moment once the terms of its offer are made public. There is significant risk that GP would drop out of the process if there was an attempt to pursue another bid at this stage in the Marketing Process.

11. Third, to consider any new bids at this stage would result in a set back in timing, as a new purchase agreement would need to be negotiated. The February 5 Letter is a non-binding expression of interest. As such, many issues would have to still be negotiated with Bidder B with respect to execution, financing and closing risks relating to Bidder B's expression of interest.

12. Fourth, the expression of interest put forth by Bidder B refers to an undisclosed mix of cash/notes and warrants compared to the GP all cash bid. The specific terms and details of the notes and warrants would have to be negotiated to fully assess the value of the consideration referred to in the February 5 Letter. As well, the full terms of any transaction would have to be negotiated and documented. This poses a greater risk to the creditors of the Applicants versus the all cash bid by GP which has been fully negotiated and documented in the PSA.

13. Based on the foregoing, as well as the need to preserve the integrity of the Court supervised Marketing Process, the Monitor recommends that the Sale Motion with respect to the GP Transaction proceed and confirms its recommendation that the GP Transaction be approved by the Court.

14. All of which is respectfully submitted this 8th day of February, 2010.

ERNST & YOUNG INC.
in its capacity as the Monitor of
Grant Forest Products Inc.,
Grant Alberta Inc.,
Grant Forest Products Sales Inc., and
Grant U.S. Holdings G.P.

Per:

Alex Morrison
Senior Vice President

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Proceeding commenced at Toronto

EIGHTH REPORT OF THE MONITOR, ERNST & YOUNG INC. (Dated FEBRUARY 8, 2010)

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