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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

IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT OF GRANT FOREST PRODUCTS INC., GRANT FOREST PRODUCTS SALES INC., GRANT ALBERTA INC., GRANT U.S. HOLDINGS GP, SOUTHEAST PROPERTIES LLC, GRANT CLARENDON LP, GRANT ALLENDALE LP, GRANT US SALES INC., GRANT NEWCO LLC, AND GRANT EXCLUDED GP.

Applicants

and

THE TORONTO-DOMINION BANK, in its capacity as agent for secured lenders holding first lien security and THE BANK OF NEW YORK MELLON, in its capacity as agent for secured lenders holding second lien security

Respondents

SEVENTEENTH REPORT OF THE MONITOR
DATED DECEMBER 23, 2010

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 was subsequently extended to February 28, 2011 (the "**Original**

Applicants' Stay Period") pursuant to an Order of this Honourable Court dated June 30, 2010.

2. On March 30, 2010, Southeast Properties LLC ("**Southeast**"), Grant Newco LLC ("**Newco**"), Grant US Sales Inc. ("**U.S. Sales**"), Grant Clarendon LP ("**Clarendon**"), Grant Allendale LP ("**Allendale**") and Grant Excluded GP ("**Excluded**") were added as additional applicants to these CCAA proceedings (collectively, the "**Additional Applicants**" and together with the Original Applicants, the "**Applicants**" or "**Grant**"). Pursuant to an Order of this Honourable Court dated March 30, 2010 (the "**Supplemental Initial Order**"), EYI was appointed as the Monitor of the Additional Applicants in the CCAA proceeding. The Supplemental Initial Order provided for a stay of proceedings through to April 29, 2010 (the "**Additional Applicants' Stay Period**"). The Additional Applicants' Stay Period was subsequently extended to June 30, 2010 pursuant to an Order of this Honourable Court dated April 28, 2010.

3. The Initial Order, among other things, approved the continuation of the engagement of Stonecrest Capital Inc. ("**Stonecrest**") as Chief Restructuring Advisor (the "**CRA**") of the Applicants with services to be provided by Hap Stephen and Sandra Rosch.

4. On June 30, 2010, this Honourable Court approved the revised engagement of Stonecrest as the Chief Restructuring Organization (the "**CRO**") of the Applicants with services to be provided by Hap Stephen and Sandra Rosch.

5. Paragraph 33 of the Supplemental Initial Order set out that, upon the delivery of a certificate by the Monitor to GP International Acquisition III, Ltd. (the "**Canadian Purchaser**"), Georgia-Pacific LLC (the "**U.S. Purchaser**"), and GP Palmetto Holding LLC (the "**Additional U.S. Purchaser**") (collectively "**Georgia Pacific**"), primarily certifying that the funds related to the transaction between Georgia Pacific and Grant were received, the transaction between Georgia Pacific and Grant closed and the CCAA proceedings with respect to the Additional Applicants and the Grant Partnership were terminated. Accordingly, the Monitor was discharged as Monitor

of the Additional Applicants and the Grant Partnership.

6. As a result of the completion of the sale to Georgia Pacific and the resultant termination of the CCAA proceedings of the Additional Applicants and the Grant Partnership, only GFPI, GAI and GFPSI (the "**Remaining Applicants**") continue to remain as applicants in these CCAA proceedings.

PURPOSE

7. The purpose of this Seventeenth Report of the Monitor (the "**Seventeenth Report**") is to report to this Honourable Court with respect to:

    i. the status of the Directors and Officers Claims Process, as described further in paragraph 21 of this Seventeenth Report;

    ii. the Monitor's request for an Order declaring that none of the D&O Claims (as defined later in this Report) are claims for which the Applicants are required to indemnify their directors and officers pursuant to paragraph 27 of the Initial Order; and

    iii. the Monitor's request for an Order terminating, discharging and releasing the Director's Charge (as defined later in this Report) from the Applicants' property.

TERMS OF REFERENCE

8. In preparing this Seventeenth Report, the Monitor has been provided with and in making the comments herein relied upon unaudited financial information, the Remaining Applicants' books and records, financial information prepared by the Remaining Applicants and discussions with management of the Remaining Applicants. The Monitor has not audited, reviewed or otherwise attempted to verify the accuracy or completeness of such information and, accordingly, the Monitor expresses no opinion or other form of assurance in respect of such information contained in this Seventeenth Report. Some of the information referred to in this Seventeenth Report consists of forecasts and projections. An examination or review of the financial forecast and projections, as outlined in the Canadian Institute of

Chartered Accountants (**"CICA"**) Handbook, has not been performed. Future oriented financial information referred to in this report was prepared based on management's estimates and assumptions. Readers are cautioned that since projections are based upon assumptions about future events and conditions that are not ascertainable, the actual results will vary from the projections, even if the assumptions materialize, and the variations could be significant.

9. Unless otherwise stated all monetary amounts contained herein are expressed in U.S. Dollars.

10. Capitalized terms not defined in this Seventeenth Report are defined in the Initial Order, the Supplemental Initial Order or previous Reports of the Monitor.

BACKGROUND

11. GFPI and certain of its subsidiaries are privately owned corporations which carried on an oriented strand board ("**OSB**") manufacturing business from facilities located in Canada and the United States. OSB is an engineered, mat-formed panel product made of strands, flakes or wafers sliced from logs and bonded with an exterior-type binder under heat and pressure. The most common uses are sheathing in walls, floors and roofs in the construction of buildings and residential housing.

12. The Applicants and Footner Forest Products Ltd. ("**Footner**") (in which GFPI has a 50% interest) had a total annual capacity to produce 3.7 billion square feet of OSB, which made them the third largest OSB manufacturer in North America.

13. The Applicants had interests in three mills in Canada located at Englehart and Timmins in Ontario and High Level in Alberta, and two mills in the United States located in the counties of Allendale and Clarendon in South Carolina.

14. The OSB mills located in Englehart (the "**Englehart Mill**") and Timmins (the "**Timmins Mill**") in Ontario were owned by GFPI, and as such, were subject to these CCAA proceedings.

15. The OSB mills located in Allendale (the "**Allendale Mill**") and Clarendon (the

"**Clarendon Mill**") in South Carolina are owned by Allendale and Clarendon respectively, each of which is owned by Southeast, which in turn was owned by the Grant Partnership. Each of these entities were Additional Applicants and were subject to these CCAA proceedings.

16. As described in the Fourteenth Report of the Monitor dated June 1, 2010 (the "**Fourteenth Report**"), the Applicants completed a sale of the Grant Partnership and the Englehart Mill to Georgia Pacific on May 26, 2010, and as such, the Allendale Mill and the Clarendon Mill are no longer owned by the Remaining Applicants.

17. As described above, GFPI has a 50% interest in an OSB mill located at High Level in Alberta (the "**Footner Mill**"). This OSB mill is held by Footner as trustee for GFPI and Ainsworth and GFPI owns 50% of the shares of Footner (such 50% interest and shares, the "**Footner Interests**"). Footner is not a CCAA applicant.

18. With the completion of the Georgia Pacific sale, the remaining assets of the Remaining Applicants include:

    i. the Timmins Mill;

    ii. the Footner Interests, which are included in a transaction with GFPI, Ainsworth Lumber Co. Ltd. ("**Ainsworth**") and Footner as described in detail in the Sixteenth Report of the Monitor dated December 21, 2010 (the "**Sixteenth Report**"); and

    iii. certain assets which were not required for the operations of the OSB business, including an office premises and boathouse in Haileybury (the "**Haileybury Office**"), a golf course in Earlton (the "**Golf Course**"), a 65 foot custom built motor boat which is currently located in Florida (the "**Boat**") and a lease of a hangar at the Earlton Airport (the "**Hangar Lease**") (collectively, the "**Non-Core Assets**").

19. The Timmins Mill has been idled since September 2006 and the Footner Mill has been idled since November 2007.

20. The Monitor has been actively working with the Remaining Applicants and the CRO to sell the remainder of Remaining Applicants' assets.

DIRECTORS AND OFFICERS CLAIMS PROCESS

21. On June 30, 2010, this Honourable Court granted an order (the **"D&O Claims Order"**) establishing a claims process (the **"D&O Claims Process"**) with respect to claims against any director or officer (the "**Directors and Officers**") of any Applicant (a **"D&O Claim"**).

22. Pursuant to the D&O Claims Order, any claimant with a D&O Claim against one or more of the Directors and Officers was required to submit a Proof of Claim (all as defined in the D&O Claims Order) before August 16, 2010 (the "**Claims Bar Date**") in order to assert such D&O Claim(s).

23. The D&O Claims Order provides that any claimant who fails to deliver a Proof of Claim by the Claims Bar Date is forever barred from making or enforcing such D&O Claim against any Director or Officer, and that any such D&O Claim (an **"Unasserted Claim"**) is forever extinguished, barred or released. The D&O Claims Order does not set out any allowance for late-filed claims.

24. Pursuant to the D&O Claims Order, the Monitor took the following steps:

   i. On July 9, 2010, a claim package including a copy of the public notice, an instruction letter and a Proof of Claim form (the "**Claim Package**") was sent to 2,630 creditors including current and former employees of the Applicants. Further Claim Packages were sent to any person who requested one from the Monitor. In addition, on July 12, 2010, a Claim Package was sent by e-mail to each person included on the service list of these CCAA proceedings;

   ii. The Public Notice (as defined in the D&O Claims Order) to give notice to any potential claimants who might have a D&O Claim against the Directors and Officers of the Claims Bar Date was published on July 9, 2010 in each of the Temiskaming Speaker (Northern Ontario), the Globe and Mail (National Edition) and the State (South Carolina) newspapers.

iii. Following the Claims Bar Date, copies of the applicable Proofs of Claim received were provided to the respective counsel to the Directors and Officers at the request of such counsel; and

iv. Each of the Proofs of Claim and supporting documentation received by the Monitor were reviewed by the Monitor and its counsel with the assistance of the Remaining Applicants.

25. As of the Claims Bar Date, the Monitor had received 16 Proofs of Claim totalling in the aggregate to approximately CDN $254.8 million, excluding certain claims received after the Claims Bar Date. Subsequent to the Claims Bar Date, the Monitor received a further five Proofs of Claim totalling in the aggregate to approximately CDN $74,000, including one claim that did not set out any amount claimed. As set out above, the D&O Claims Order makes no allowance for late filed claims. However, for purposes of this Report the Monitor has reviewed the five Proofs of Claim delivered after the Claims Bar Date for the limited purpose set out further in this Seventeenth Report.

26. A copy of the Proofs of Claim received by the Monitor including the five Proofs of Claim received after the Claims Bar Date are attached as confidential Appendix A to this Seventeenth Report, along with a chart providing a summary of these Proofs of Claim. As these Proofs of Claim contain personal and confidential information, the Monitor is seeking an Order from this Honourable Court sealing Appendix A.

27. The Proofs of Claim, including the five Proofs of Claim received after the Claims Bar Date, fall within six categories as described below :

- **Category 1** - Four (4) Proofs of Claim representing approximately CDN$198,000 in value are claims by certain of GFPI's suppliers for pre-filing amounts claimed to be owed by GFPI to such suppliers;

- **Category 2** – Two (2) Proofs of Claim representing approximately CDN$26,000 in value are claims by certain of GFPI's suppliers for post-filing amounts claimed to be owed by GFPI to such suppliers. GFPI has advised that payment of the invoices associated with these claims have been made by GFPI, as such, the amounts claimed should no longer be owing;

- **Category 3** – Three (3) Proofs of Claim representing approximately CDN$207,000 in value are claims by certain suppliers of GFPI for both pre-filing and post-filing amounts claimed to be owed by GFPI to such suppliers. GFPI has advised that payment of the invoices associated with the post-filing portion of these claims have either been made or will be made upon confirmation that they are accurate per GFPI's records;

- **Category 4** – Eight (8) Proofs of Claim representing approximately CDN$18,000 in value (including one claim that did not set out any amount claimed), which GFPI advises are not liabilities of the Applicants. GFPI has advised the Monitor that five (5) of these claims relate to liabilities assumed by Georgia Pacific pursuant to the transaction with Georgia Pacific. Of the remaining three claims, one (1) of these claims relates to a former director's residence; one (1) is a claim related to employment at Grant Equipment Corp. (which is a company affiliated with GFPI but not a CCAA applicant); and one (1) is a claim containing no amount or information;

- **Category 5** – Two (2) Proofs of Claim representing approximately CDN $7,000 relate to tax related claims. One claim relates to a claim for penalties and interest for certain pre-filing sales tax claims related to GFPI and the other claim is with respect to certain pre-filing withholding taxes including penalties and interest related to U.S. Sales; and

- **Category 6** – Two (2) Proofs of Claim representing approximately CDN$254.4 million in value are claims of a fiduciary nature asserted against the Directors and Officers.

REVIEW OF THE D&O CLAIMS

28. Paragraphs 27 and 28 of the Initial Order provide for an amount of CDN$3.0 million (the "**D&O Charge**") to indemnify the Directors and Officers from all claims, costs, charges and expenses if the Applicants fail to make certain enumerated payments after the date of the Initial Order. Specifically, the D&O Charge is available to indemnify Directors and Officers in the event that the Applicants fail to make any of the following payments:

    - all outstanding and future wages, salaries, employee benefits and pension contributions, vacation pay, bonuses and expenses payable on or after the date of the Initial Order, in each case incurred in the ordinary course of business and consistent with existing compensation policies and arrangements, which, for greater certainty, shall not include any payments in respect of employee termination or severance;

    - any statutory deemed trust amounts in favour of the Crown in right of Canada or of any Province thereof or any other taxation authority which are required to be deducted from employees' wages including, without limitation, amounts in respect of (i) employment insurance, (ii) Canada Pension Plan, (iii) Quebec Pension Plan, and (iv) income taxes;

    - all goods and services or other applicable sales taxes (collectively, **"Sales Taxes"**) required to be remitted by any of the Applicants in connection with the sale of goods and services by any of the Applicants, but only where such Sales Taxes are accrued or collected after the date of the Initial Order, or where such Sales Taxes were accrued or collected prior to the date of the Initial Order but not required to be remitted until on or after the date of the Initial Order; and

- any amount payable to the Crown in right of Canada or of any Province thereof or any political subdivision thereof or any other taxation authority in respect of municipal realty, municipal business or other taxes, assessments or levies of any nature or kind which are entitled at law to be paid in priority to claims of secured creditors and which are attributable to or in respect of the carrying on of the Business by any of the Applicants.

29. Accordingly, the only amounts that are indemnified pursuant to paragraph 27 of the Initial Order are amounts related to:

    i. employee compensation;

    ii. deemed trust amounts;

    iii. certain sales taxes; and

    iv. certain other amounts payable to the Crown.

30. The D&O Claims Order did not set out a process for assessment of the D&O Claims, but provided that the Monitor could return to this Honourable Court for approval of a process for evaluation and adjudication as to whether any of the Proofs of Claim filed assert D&O Claims that are indemnified pursuant to paragraph 27 of the Initial Order.

31. Although it was not the purpose of the D&O Claims Process to solicit post-filing supplier claims, as it was clear that certain of the Proofs of Claim were related to post-filing goods or services provided to the Applicants, the Monitor had discussions with management of GFPI to determine whether it was appropriate for GFPI to make such payments. As set out above, such post-filing amounts have either been paid or are in the process of being paid once GFPI management has confirmed that such payments are accurate per GFPI records and are appropriate post-filing obligations of the Remaining Applicants.

32. Other than addressing the post-filing claims, the Monitor reviewed each of the Proofs of Claim with the assistance of its counsel, primarily for the limited purpose

of determining whether any process was required to evaluate and adjudicate whether such claims might be indemnified pursuant to paragraph 27 of the Initial Order. In addition, the Monitor followed up with certain claimants for further information or clarification of items included in the Proofs of Claim.

33. Based on the Monitor's review of the D&O Claims, the Monitor is of the view that, on their face, none of the Proofs of Claim assert D&O Claims which are indemnified by paragraph 27 of the Initial Order such that the Directors and Officers would have recourse to the D&O Charge. The detailed analysis by category is explained in further detail below:

- **Category 1** – As described above, Category 1 claims are pre-filing claims asserted by certain of GFPI's suppliers for pre-filing amounts claimed to be owed to these suppliers by GFPI. Such claims are stayed pursuant to the Initial Order, and in any event are not claims indemnified by paragraph 27 of the Initial Order because they do not relate to employee compensation, deemed trust amounts, sales taxes or payments to the Crown;

- **Category 2** – As described above, Category 2 claims are claims by certain of GFPI's suppliers for post-filing amounts claimed to be owed by GFPI to such suppliers, and these amounts have been paid. In any event, these claims would not be indemnified by paragraph 27 of the Initial Order because they do not relate to employee compensation, deemed trust amounts, sales taxes or payments to the Crown;

- **Category 3** – As described above, Category 3 claims are claims by certain suppliers of GFPI for both pre-filing and post-filing amounts claimed to be owed by GFPI to such suppliers. The post-filing amounts have either been paid or are in the process of being paid. These amounts are not indemnified by paragraph 27 of the Initial Order because they do not relate to employee compensation, deemed trust amounts, sales taxes or payments to the Crown;

- **Category 4** – As described above, Category 4 claims are claims that are not liabilities of the Applicants. In addition, these amounts are not indemnified by paragraph 27 of the Initial Order because they do not relate to employee compensation, deemed trust amounts, sales taxes or payments to the Crown;

- **Category 5** – As described above, Category 5 claims are claims that relate to penalties and interest related to a pre-filing sales tax claim and a withholding tax claim. GFPI advises that the withholding tax claim appears to relate to payroll taxes of U.S. Sales. The Monitor has written to the claimant and requested details with respect to the withholding tax claim including applicable supporting documentation. The Monitor is of the view that if such amount is required to be paid by GFPI, that GFPI has sufficient amounts in reserve to pay this claim. With respect to the pre-filing sales tax claim, while paragraph 27 of the Initial Order provides that Directors and Officers are indemnified with respect to certain sales tax claims, such claims are only indemnified if they relate to sales taxes that were accrued or collected post-filing, or if accrued or collected pre-filing, were not required to be remitted until post-filing. GFPI advises that the sales tax claim for interest and penalties had accrued prior to the date of the Initial Order, and accordingly is not indemnified by paragraph 27 of the Initial Order; and

- **Category 6** – As described above, Category 6 claims are claims of a fiduciary nature asserted against the Directors and Officers. Accordingly, these amounts are not indemnified by paragraph 27 of the Initial Order because they do not relate to employee compensation, deemed trust amounts, sales taxes or payments to the Crown.

34. Accordingly, rather than apply to this Honourable Court for approval of a process to evaluate and adjudicate whether any of the Proofs of Claim assert a D&O Claim to which the D&O Charge applies, the Monitor is seeking an Order from this Honourable Court declaring that none of the D&O Claims are claims for which the Applicants are required to indemnify the Directors and Officers pursuant to paragraph 27 of the Initial Order. Such an Order is without prejudice to the merits

of the claims asserted in the Proofs of Claim as between the claimant and the Directors and Officers, and is only a determination with respect to whether the Proofs of Claim assert a D&O Claim subject to indemnity under paragraph 27 of the Initial Order.

35. The Monitor has not disallowed or otherwise assessed any of the Proofs of Claim and has not sent notices to the claimants with respect to the status of their Proofs of Claim. However, the Monitor will serve all claimants that delivered a Proof of Claim with this Seventeenth Report and the associated Motion Record, and the Monitor also proposes to send notices to all such claimants following this Honourable Court's determination of the Monitor's motion advising of the status of their claims.

36. The Applicants have advised that they support the relief sought by the Monitor with respect to the D&O Claims Process. Counsel for the Directors and Officers have been advised of the relief being sought by the Monitor but have not indicated whether they take a position with respect to it.

RELEASE OF THE D&O CHARGE

37. Subject to this Honourable Court declaring that none of the D&O Claims are claims for which the Applicants are required to indemnify the Directors and Officers pursuant to paragraph 27 of the Initial Order, the Monitor is seeking an Order from this Honourable Court terminating, discharging and releasing the D&O Charge that was created pursuant to paragraph 28 of the Initial Order.

38. Given that all Directors and Officers were deemed to have resigned effective June 30, 2010 pursuant to the Order dated June 30, 2010 granted by this Honourable Court appointing the CRO, all potential claims against Directors and Officers for which they might claim indemnity under paragraph 27 of the Initial Order were barred as of the Claims Bar Date. Accordingly, there is no continuing purpose for maintaining the D&O Charge.

RECOMMENDATIONS

39. The Monitor is seeking this Honourable Court's authorization:

    i. for an Order declaring that none of the D&O Claims are claims for which the Applicants are required to indemnify their Directors and Officers pursuant to paragraph 27 of the Initial Order; and

    ii. for an Order terminating, discharging and releasing the D&O Charge from the Applicants' property;

40. The Monitor requests that this Honourable Court grant the relief sought by the Monitor.

All of which is respectfully submitted this 23rd day of December, 2010.

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

Per:

Alex Morrison
Senior Vice President

Simone Carvalho
Vice President

APPENDIX A

[Redacted – Subject to a request for a Sealing Order.]