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

THIRD REPORT OF THE MONITOR DATED JULY 31, 2009

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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 ("**U.S. Holdings**") (collectively "**Grant**" or the "**Applicants**") filed for and obtained protection under the *Companies' Creditors Arrangement Act* ("**CCAA**") in order to restructure the business and affairs of the 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 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 October 15, 2009 (the "**Stay Period**") pursuant to an Order of this Honourable Court dated July 24, 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 Applicants and their Subsidiaries as a going concern or offer to sponsor a plan of arrangement of the Applicants, or any of them.

PURPOSE

3. The purpose of this Third Report of the Monitor (the "**Third Report**") is to report to this Honourable Court with respect to the motion of GE Canada Leasing Services Company ("**GE Canada**") returnable August 6, 2009. GE Canada is requesting an order to amend certain provisions in the Initial Order with respect to the charge granted on the property of the Applicants (the "**KERP Charge**") as security for any amounts owed to Mr. Peter Lynch ("**Lynch**") pursuant to an employee retention plan agreement dated December 19, 2008 between Lynch and GFPI as amended by an amendment as of April 1, 2009 (the "**KERP Agreement**").

TERMS OF REFERENCE

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

5. Capitalized terms not defined in this Third Report are defined in the Initial Order or the Monitor's previous reports.

BACKGROUND

6. GFPI and certain of its Subsidiaries are privately owned corporations carrying 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.

7. The Applicants and the Subsidiaries have interests in three mills in Canada located at Englehart and Timmins in Ontario and High Level in Alberta. The

Applicants and their Subsidiaries also have interests in the Allendale and Clarendon mills located in South Carolina in the United States. The mills located in Englehart and Timmins in Ontario are owned by GFPI and, as such, they are included in Grant's CCAA proceedings. GFPI also has a 50% interest in a mill located at High Level in Alberta. This mill is held by Footner as bare trustee and GFPI owns 50% of the shares of Footner. The Allendale and Clarendon mills in South Carolina are owned by Grant Allendale LP and Grant Clarendon LP respectively, which are 99.9% owned by Southeast Properties LLC, but these mills are indirectly owned by GFPI.

8. As set out in the Monitor's First Report, as of May 31, 2009, GFPI has total funded debt obligations of approximately $549 million in two levels of primary secured debt. As of May 31, 2009, the first lien lenders (the "**First Lien Lenders**") were owed the principal amount of approximately $399 million plus accrued interest. Further, as of May 31, 2009, the second lien lenders (the "**Second Lien Lenders**") were owed the principal amount of approximately $150 million. In addition, as of May 31, 2009, GFPI has unsecured trade creditors of over $4.0 million, as well as other unsecured debt obligations.

9. As set out in the Monitor's First Report, GFPI entered into a master aircraft lease agreement dated December 22, 1999 with GE Canada in respect of three aircraft. One of the aircraft was sold in 2008, the proceeds of which were received by GE Canada. The remaining two aircraft were returned to GE Canada in March 2009. These two aircraft have not been sold by GE Canada. As of March 31, 2009, GFPI ceased making payments under the lease. GE Canada has issued a demand for payment of approximately $31.1 million.

10. As a result of an alleged deficiency claim under the applicable master aircraft lease, GE Canada brought an application for a bankruptcy order dated March 17, 2009 against GFPI originally returnable on April 16, 2009. GFPI filed a notice disputing the application on April 9, 2009.

11. As set out in the Monitor's Second Report, paragraph 18 of the Initial Order and the Investment Offering Protocol authorized and directed the Applicants to engage an investment offering advisor (the "**Investment Offering Advisor**"), subject to the approval of the Monitor and the Toronto-Dominion Bank, the Agent of the First Lien Lenders (the "**Agent**"), to assist in connection with the conduct of the Marketing Process. Subsequent to the issuance of the Initial Order, the Applicants requested that the Monitor undertake the role of the Investment Offering Advisor. The Agent was also in concurrence with the Monitor fulfilling the Investment Offering Advisor role.

LYNCH'S ROLE IN THE CCAA PROCEEDINGS AND THE MARKETING PROCESS

12. Lynch is the executive vice president and secretary of GFPI. The Monitor understands that he is the most senior officer of the Applicants who is not a member of the Grant family, and has been informed that Lynch has been employed by GFPI (or its predecessor companies) in excess of 15 years.

13. Since the commencement of the CCAA proceedings, the Monitor had significant contact and interaction with Lynch. In particular, the Monitor has worked closely with Lynch to deal with numerous matters involving the Applicants' customers, suppliers and employees which have been critical to stabilize the Applicants' business operations during the CCAA proceedings. The Monitor notes that Lynch's input and involvement in the CCAA stabilization activities has been very helpful in ensuring that no plant production disruptions have occurred since the commencement of the CCAA proceedings.

14. Further to the appointment of the Monitor as the Investment Offering Advisor, the CRA, the Monitor and Grant, primarily represented by Lynch, have collectively commenced the Marketing Process. It is the opinion of the Monitor that Lynch has contributed significantly to the Marketing Process and the Monitor has been able to leverage on his knowledge of the Applicants' businesses and the OSB industry to ensure that Phase I of the Marketing Process has been conducted in an

efficient and effective manner. Specifically, Lynch's contributions to the Marketing Process have included:

a. specific knowledge of the sales process that was previously conducted by the Applicants prior to the CCAA proceedings;
b. knowledge of prospective bidders;
c. key presenter at a presentation conducted by management for the benefit of prospective bidders; and
d. key management resource to provide and coordinate responses for the Monitor to questions and data requests from prospective bidders.

THE KERP CHARGE

15. As Lynch is a very seasoned executive, the Monitor would expect that Lynch will consider other employment options if his KERP Agreement is not secured by the KERP Charge, which can only distract from the Marketing Process.

16. The Monitor is of the view that Lynch's continuing role as a senior executive is important for the stability of the business and to enhance the effectiveness of the Marketing Process.

17. The Monitor does not know what Lynch's response will be if the KERP Charge were to be rescinded. However, the Monitor does note that Lynch's future employment prospects with the Applicants is not certain in light of the Marketing Process nor is the ultimate potential outcome of a sale or refinancing of the business, which could very well result in the appointment of a new management team. As such, there is a risk that Lynch will consider other employment options.

AFFECTED STAKEHOLDERS

18. In the Monitor's view, the creditors likely most affected by the KERP Charge are the First Lien Lenders and the Second Lien Lenders who are owed on a combined basis approximately $549 million as at the date of the Initial Order plus accrued interest. While the Monitor has not yet conducted an independent review of either the validity or priority of the security held by either the First Lien Lenders or

Second Lien Lenders, the Monitor understands and assumes for the purposes of this Third Report that the First and Second Lien Lenders are beneficiaries of general security charges against the Applicants' assets to secure their obligations.

19. Given the significant level of secured debt, it is very uncertain as to what, if any, recovery unsecured creditors will recover in the CCAA proceedings.

20. On or about July 22, 2009, the Monitor had discussions with the trading desk of TD Securities. Due to the sensitive nature of the information received from TD Securities, such information along with the Monitor's comments are presented in Appendix "A" to this Third Report. The Monitor will seek the approval of this Honourable Court to seal Appendix "A" to this Third Report.

21. The Monitor notes that it has contacted the Agent for the First Lien Lenders and the Agent has advised that it recognizes the importance of Lynch's role in the restructuring process, and is not opposing the KERP Charge.

22. The Monitor has not received notice from the Bank of New York Mellon, the Second Lien Agent that it is opposing the KERP Charge.

23. The Monitor has also not received notice from any other creditor opposing the KERP Charge.

RECOMMENDATION

24. For the reasons set out herein, the Monitor supports the provisions in the Initial Order with respect to the KERP Charge.

All of which is respectfully submitted this 31st day of July, 2009.

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

Alex Morrison
Senior Vice President

Appendix A

The Monitor will be seeking a sealing order with respect to the information contained in this Appendix A, at the motion returnable August 6, 2009.

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ONTARIO
SUPERIOR COURT OF JUSTICE
Proceeding commenced at Toronto

THIRD REPORT OF THE MONITOR, ERNST & YOUNG INC.
(Dated July 31, 2009)

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