Court File No.: CV-09-8247000L

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 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

THIRTEENTH REPORT OF THE MONITOR DATED MAY 21, 2010

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TO: THE SERVICE LIST

Court File No.: CV-09-824700CL

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SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)

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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 was subsequently extended to June 30, 2010 (the "**Original

Applicants' Stay Period") pursuant to an Order of this Honourable Court dated February 26, 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 stay of proceedings was subsequently extended to June 30, 2010 (the "**Additional Applicants' Stay Period**") pursuant to an Order of this Honourable Court dated April 28, 2010.

PURPOSE

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

   a. the status of the marketing process as described in the Initial Order (the "**Marketing Process**");

   b. the Applicants' motion for an order discharging the Order of this Court made February 1, 2010 (the "**Registration Order**") registered against title to certain real property (collectively, the "**Real Property**") being sold to Georgia Pacific pursuant to the PSA (all as defined below) (the "**Order Discharging the Registration Order**");

   c. the status of a proposed marketing process (the "**Footner Marketing Process**") in respect of the 50% interest of GFPI in the assets comprising the Footner mill in High Level, Alberta and the business with respect thereto and in the shares issued by Footner Forest Products Ltd. ("**Footner**"), and

GFPI's interest in agreements relating thereto (collectively, the "**Grant Footner Interests**"); and

d. the Applicants' motion to approve this Thirteenth Report and the conduct and activities of the Monitor as set forth herein.

TERMS OF REFERENCE

4. In preparing this Thirteenth Report, the Monitor has been provided with and in making the comments herein relied upon unaudited financial information, the Applicants' books and records, financial information prepared by the Applicants and discussions with management of the 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 Thirteenth Report. Some of the information referred to in this Thirteenth 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.

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

6. Capitalized terms not defined in this Thirteenth Report are defined in the Initial Order or previous Reports of the Monitor.

BACKGROUND

7. 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.

8. The Applicants and Footner (in which GFPI has a 50% interest), have a total annual capacity to produce 3.7 billion square feet of OSB, which makes them the third largest OSB manufacturer in North America.

9. The Applicants and Footner have 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.

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

11. 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 bare trustee and GFPI owns 50% of the shares of Footner. Footner is not a CCAA applicant.

12. 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. Each of these entities are Additional Applicants and are subject to these CCAA proceedings.

13. The Grant Partnership, which is one of the Original Applicants, owns 100% of Southeast.

14. GFPI, also one of the Original Applicants, owns 99.99% of the Grant Partnership (and GAI, another Original Applicant, owns the remaining 0.01%); thereby, GFPI

and GAI collectively own indirectly the Allendale Mill and the Clarendon Mill.

15. As a result of the present market conditions and the reduced demand for OSB and other wood products, only the Englehart Mill and the Allendale Mill are presently operating. Both the Timmins Mill and the Footner Mill are idle. The Clarendon Mill is a new mill which is substantially complete but has not yet been put into production.

16. 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 Original Applicants with services to be provided by Hap Stephen and Sandra Rosch.

STATUS OF THE MARKETING PROCESS

17. The Initial Order provided for the immediate commencement of 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 and their subsidiaries as a going concern or offer to sponsor a plan of arrangement of the Original Applicants, or any of them. The Initial Order also authorized the Original Applicants to engage an investment offering advisor (the "**Investment Offering Advisor**") to assist in connection with the Marketing Process. The Original Applicants requested that EYI undertake the role of the Investment Offering Advisor.

18. The Sixth Report describes in detail the Marketing Process that was conducted by the Investment Offering Advisor with the assistance of the CRA, which included the Grant Footner Interests. The Marketing Process resulted in Georgia Pacific as the selected party to proceed to *Phase III* to negotiate a purchase and sale agreement with the Applicants.

19. On March 30, 2010 this Honourable Court granted an order (the "**Canadian Sale Approval Order**") approving the transaction (the "**Transaction**") as contemplated

by a purchase agreement (the "**PSA**") between the Applicants and 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**") to sell a substantial portion of the Applicants' assets and operations, as set out in further detail in the Sixth Report of the Monitor dated January 15, 2010 (the "**Sixth Report**"). The Grant Footner Interests was an excluded asset from the PSA, as was the Timmins Mill and certain other assets described in further detail in the Sixth Report.

20. On March 31, 2010, pursuant to the terms of the Canadian Sale Approval Order, the Monitor, as the foreign representative of the Applicants, filed petitions in the United States Bankruptcy Court for the District of Delaware (the "**U.S. Bankruptcy Court**") for relief under Chapter 15 of Title 11 of the U.S. Bankruptcy Code ("**Chapter 15**"), including recognition of these CCAA proceedings as a foreign main proceeding in respect of the Applicants and an order recognizing and approving the Canadian Sale Approval Order specifically. An Order granting emergency relief under Chapter 15 to the Applicants was granted by the U.S. Bankruptcy Court on April 6, 2010, and an Order granting provisional relief under Chapter 15 to the Applicants was granted by the U.S. Bankruptcy Court on April 19, 2010.

21. Further, pursuant to the terms of the Canadian Sale Approval Order, on April 1, 2010 the Monitor also filed a motion on behalf of the Applicants (the "**U.S. Sales Motion**") requesting the U.S. Bankruptcy Court grant an order (the "**U.S. Sale Approval Order**"), among other things, affirming and enforcing the Canadian Sale Approval Order, and approving the Transaction as contemplated by the PSA between the Applicants and Georgia Pacific to sell a substantial portion of the Applicants' assets and operations, as set out in further detail in the Sixth Report. An Order granting recognition and approval of the Canadian Sale Approval Order was granted by the U.S. Bankruptcy Court on April 26, 2010.

22. On May 15, 2010, Georgia Pacific and the Applicants agreed to certain amendments and clarifications of the PSA, with respect to closing matters and escrow accounts,

none of which negatively impact the PSA overview provided in the Sixth Report.

23. The Applicants and Georgia Pacific have scheduled the closing of the Transaction on May 26, 2010.

DISCHARGE OF THE REGISTRATION ORDER

24. On February 1, 2010, this Honourable Court granted the Registration Order declaring that, as of February 1, 2010, no further registrations shall be made against title to the Real Property without the prior written consent of the Monitor and authorizing the Original Applicants to register the Registration Order on title to the Real Property.

25. As the Real Property will be conveyed to Georgia Pacific on the closing of the Transaction, the Applicants' are seeking the Order Discharging the Registration Order from this Honourable Court. The Monitor understands that upon the closing of the Transaction it will be asked to provide prior written consent to the registration of the Approval and Vesting Order to comply with the terms of the Registration Order, and that the Order to Discharge the Registration Order will have the effect of discharging the Registration Order upon the registration of the Approval and Vesting Order against title to the Real Property.

THE GRANT FOOTNER INTERESTS

Background

26. As described earlier in this Thirteenth Report, GFPI has a 50% interest in the Footner Mill. This OSB mill is held by Footner as bare trustee and Ainsworth and GFPI (collectively, the "**Parties**") each own 50% of the shares of Footner.

27. The construction of the Footner Mill commenced in September 1999 and was completed in late 2000. The Footner Mill is located approximately 600 kilometres from Edmonton and is situated on approximately 400 acres of land and has an annual production capacity of approximately 800 million square feet of OSB (3/8 inch basis). As discussed earlier in this Thirteenth Report, the Footner Mill is

currently not operating.

28. As indicated previously in this Thirteenth Report, the Grant Footner Interests were included in the Marketing Process, during which a number of parties expressed an interest in acquiring the Grant Footner Interests. Georgia Pacific elected not to acquire the Grant Footner Interests.

29. The Applicants served a motion for approval of the Footner Marketing Process, however, subsequent to the service of that motion counsel for certain second lien lenders requested an adjournment. The Monitor is agreeable to this adjournment and will address the details of the Footner Marketing Process in a future report.

30. In addition, counsel to Ainsworth, counsel to GFPI, the Monitor and the Monitor's counsel have exchanged correspondence wherein Ainsworth has expressed concerns with respect to the Footner Marketing Process. GFPI and the Monitor continue to discuss these issues with Ainsworth and, if not resolved, will report on these issues to this Court in a further report prior to the return of the adjourned motion to approve the Footner Marketing Process.

RECOMMENDATIONS

31. The Applicants are seeking this Honourable Court's authorization for an Order:

    a. discharging the Registration Order of February 1, 2010; and

    b. approving this Thirteenth Report of the Monitor and the conduct and activities of the Monitor as reported on herein.

32. The Monitor recommends that this Honourable Court grant the relief sought by the Applicants.

All of which is respectfully submitted this 21st day of May, 2010.

ERNST & YOUNG INC.
in its capacity as the Monitor of
Grant Forest Products Inc., Grant Alberta Inc.,
Grant Forest Products Sales Inc., Grant U.S. Holdings G.P.,
Southeast Properties LLC, Grant Newco LLC,
Grant US Sales Inc., Grant Clarendon LP
Grant Allendale LP and Grant Excluded GP

Per:

Alex Morrison
Senior Vice President

Court File No: CV-09-824700CL

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ONTARIO
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(COMMERCIAL LIST)

Proceeding commenced at Toronto

THIRTEENTH REPORT OF THE MONITOR, ERNST & YOUNG INC.
(Dated MAY 21, 2010)

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