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

TWENTY SEVENTH REPORT OF THE MONITOR DATED OCTOBER 18, 2012

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 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 most recently extended to January 31, 2013 (the "**Stay Period**")

pursuant to an Order of this Court dated June 25, 2012.

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 Court dated March 30, 2010 (the "**Supplemental Initial Order**"), EYI was appointed as the Monitor of the Additional Applicants in the CCAA proceeding.

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 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 resulting 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 Twenty Seventh Report of the Monitor (the "**Twenty Seventh Report**") is to report to this Court with respect to:

    a. an update on the notice to the second lien lenders' agent (the "**Second Lien Lenders' Agent**") and the second lien lenders (the "**Second Lien Lenders**") to seek the position of the Second Lien Lenders on the relief requested in the Remaining Applicants' motion (the "**Pension Motion**") for an Order declaring that none of GFPI, the CRO or the Monitor are required to make any further payments to the pension plan registered as #1053008 Pension Plan for the Salaried Employees of GFPI - Timmins Plant (the "**Timmins Salaried Plan**") or the pension plan registered as #0992537 Pension Plan for Executive Employees of GFPI (the "**Executive Plan**") (the Timmins Salaried Plan and Executive Plan are collectively referred to as the "**Pension Plans**"), or their respective trustees or administrators, without further order of this Court, and none of GFPI, the CRO or the Monitor shall incur any liability for not making any payments when due to the Pension Plans or their respective trustees or administrators; and

    b. approving the Twenty Sixth Report of the Monitor dated August 22, 2012 (the "**Twenty Sixth Report**"), this Twenty Seventh Report and the conduct and activities of the Monitor as set forth in the these Reports.

8. This Twenty Seventh Report is prepared as a supplement to the Twenty Fifth Report of the Monitor dated June 20, 2012 (the "**Twenty Fifth Report**") and the Twenty Sixth Report.

TERMS OF REFERENCE

9. In preparing this Twenty Seventh 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 Twenty Seventh Report. Some of the information referred to in this Twenty Seventh 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.

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

11. Capitalized terms not defined in this Twenty Seventh Report are defined in the Initial Order, the Supplemental Initial Order or previous Reports of the Monitor.

BACKGROUND

12. The background with respect to these CCAA proceedings is described in paragraphs 11 through to 22 of the Twenty Sixth Report.

PENSION PLAN RESERVES

13. As described in the Twenty Sixth Report, pursuant to Orders of this Court, the Monitor is holding in escrow CDN$726,372 with respect to the Timmins Salaried Plan and CDN$2,384,688 with respect to the Executive Plan (collectively, the "**Pension Plan Reserves**"). Further details with respect to the Pension Plan Reserves are set out in the Twenty Fifth Report and the Twenty Sixth Report.

NOTICE TO THE SECOND LIEN LENDERS

14. As described in the Twenty Sixth Report, on July 12, 2012, GFPI, through its CRO, sent a letter to the Second Lien Lenders' Agent (the "**July 12 Letter**") to advise the

Second Lien Lenders of the issues in respect of the Pension Plans and the Pension Motion scheduled be heard on August 27, 2012. A copy of the July 12 Letter that was sent to the Second Lien Lenders along with certain analysis showing the funds held by GFPI and the Monitor on behalf of GFPI and the estimated expenses, reserves, and potential proceeds was attached to the Twenty Sixth Report.

15. Further to the direction of the Honourable Justice Campbell at the hearing on August 27, 2012 (the "**August 27 Hearing**"), on August 31, 2012, the Monitor sent a letter to the Second Lien Lenders' Agent (the "**August 31 Letter**") advising of the August 27 Hearing and the adjournment of the Pension Motion to a date to be determined at a comeback hearing prior to the end of September 2012. The August 31 Letter advised that at the August 27 Hearing the Monitor was directed to send a further communication to the Second Lien Lenders to seek their position on the Pension Motion prior to the return of the Pension Motion. In the August 31 Letter, the Monitor requested a conference call at 10:00 a.m. on September 5, 2012 (the "**September 5 Call**") with representatives of the Monitor, GFPI and the Second Lien Lenders to describe in further detail the issues in respect of the Pension Plans addressed by the Pension Motion and to seek the position of the Second Lien Lenders with respect to the Pension Motion. A copy of the August 31 Letter is attached as Appendix 'A' to this Twenty Seventh Report.

16. The September 5 Call was conducted by the Monitor and was attended by representatives of the Monitor, the CRO, counsel to GFPI and two Second Lien Lenders. On the September 5 Call, the Monitor provided an update of the August 27 Hearing and requested the two Second Lien Lenders who attended the call to provide their position with respect to the Pension Motion to the Monitor. The two Second Lien Lenders who participated in the September 5 Call advised the Monitor that they support GFPI's position with respect to the Pension Motion.

17. On September 21, 2012, the Monitor sent a letter (the "**September 21 Letter**") to the Second Lien Lenders' Agent advising that the Pension Motion is now scheduled for October 22, 2012. Further, the Monitor advised that it would be filing a report to advise the Court that the two Second Lien Lenders that participated in the September 5 Call support GFPI's position with respect to the Pension Motion. The

Monitor further advised that any Second Lien Lender that wished to make its position known with respect to the Pension Motion should contact the Monitor to inform the Monitor of its position. A copy of the September 21 Letter is attached as Appendix 'B' to this Twenty Seventh Report.

18. As described above, the two Second Lien Lenders who participated in the September 5 Call had already advised the Monitor that they support the Pension Motion.

19. On October 12, 2012, the Monitor received a letter (the "**West Face Funds Letter**") from West Face Capital Inc., the investment adviser to West Face Long Term Opportunities Limited Partnership, West Face Long Term Opportunities (USA) Limited Partnership, West Face Long Term Opportunities Master Fund L.P. and West Face Long Term Opportunities Global Master L.P. (collectively, the "**West Face Funds**"), each of which is a Second Lien Lender, advising that the West Face Funds support the Pension Motion. A copy of the West Face Funds Letter is attached as Appendix 'C' to this Twenty Seventh Report.

20. Accordingly, based on the debt holdings of the Second Lien Lenders as of May 24, 2012, approximately 27% of the Second Lien Lenders have advised that they support GFPI's position with respect to the Pension Motion. The Monitor has not received any communications from any other Second Lien Lenders.

All of which is respectfully submitted this 18th day of October, 2012.

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”

Ernst & Young Inc.
Ernst & Young Tower
222 Bay Street, P.O. Box 251
Toronto, ON M5K 1J7
Tel: 416 864 1234
Fax: 416 943 3300
ey.com/ca

Bank of New York Mellon
600 E. Las Colinas Boulevard, Suite 1300
Irving, TX 75039

Attention: Melinda Valentine

Re: Grant Forest Products Inc. ("GFPI")

Dear Ms. Valentine:

We are the Monitor for GFPI in its proceeding under the *Companies' Creditors Arrangement Act* (CCAA) in the Ontario Superior Court of Justice (the "Court"). This letter is sent further to the letter to you dated July 12, 2012 from Sandra Rosch of Stonecrest Capital Inc. in its capacity as Chief Restructuring Organization of GFPI, which is attached for your reference, and at the direction of the Honourable Mr. Justice Colin Campbell.

As set out in Ms. Rosch's letter, GFPI brought a motion, originally scheduled to be heard June 25, 2012, seeking, among other things, a direction from the Court that GFPI is not required to make any further payments into its two defined pension plans (the "Pension Plans") at this time, because the priority and treatment of payments into the Pension Plans is currently under review by the Supreme Court of Canada in the *Re Indalex* case. PricewaterhouseCoopers Inc. ("PwC"), the administrator of the Pension Plans, as well as the Financial Services Commission of Ontario and one of the pension beneficiaries, Peter Grant Sr., opposed this relief. This motion was originally adjourned until August 27, 2012.

At the hearing on August 27, 2012, Justice Campbell again adjourned the hearing of this motion, and directed that it come back before him prior to the end of September 2012. In the interim, Justice Campbell directed the Monitor to send a further communication to the Second Lien Lenders to seek their position on the relief requested by GFPI in respect of the Pension Plans prior to the return of this motion. Accordingly, we request a conference call be scheduled for 10 a.m. on Wednesday, September 5, 2012, with representatives of the Monitor, GFPI and the Second Lien Lenders to describe in more detail the issues in respect of the Pension Plans being addressed by this motion and to obtain the position of as many Second Lien Lenders as possible. The following number will be used for the conference call:

Telephone Number: 1-800-969-9731
Access Code: 1560978

If you have any questions in the interim, or are unable to attend the conference call as scheduled, you may contact the undersigned at (416) 941-7743 or Sandra Rosch at (416) 364-0730.

Sincerely,

Alex F. Morrison
Partner, Ernst & Young Inc.

APPENDIX “B”

ERNST & YOUNG

Ernst & Young Inc.
Ernst & Young Tower
222 Bay Street, P.O. Box 251
Toronto, Ontario M5K 1J7

Tel: 416 864 1234
Fax: 416 943 3300
ey.com/ca

Bank of New York Mellon
600 E. Las Colinas Boulevard, Suite 1300
Irving, TX 75039

September 21, 2012

Attention: Melinda Valentine

Grant Forest Products Inc. ("GFPI")

Dear Ms. Valentine:

Further to our letter posted August 31, 2012 and the conference call held on September 5, 2012, GFPI's motion (the "**Pension Motion**") seeking, among other things, a direction from the Court that GFPI is not required to make any further payments into its two defined benefit pension plans (the "**Pension Plans**") pending the decision of the Supreme Court of Canada in the *Re Indalex* case, is now scheduled for October 22, 2012. As we have previously advised, PricewaterhouseCoopers Inc. ("**PwC**"), the administrator of the Pension Plans, as well as the Financial Services Commission of Ontario and one of the pension beneficiaries, Peter Grant Sr., oppose this Pension Motion.

As mentioned on the conference call, the Monitor will be filing a report to advise the Court that the two Second Lien Lenders that participated in the conference call support the Pension Motion. If any other Second Lien Lenders wish to make their position known, please contact the undersigned at 416 941 7743 or provide a letter setting out your position. If you want to have your position presented directly to the Court, you may retain your own counsel to do so.

Sincerely,

ERNST & YOUNG INC.,
in its capacity as Court-appointed Monitor of
Grant Forest Products Inc.

Per:

Alex F. Morrison
Senior Vice President

APPENDIX “C”

WEST FACE

Alexander Singh, General Counsel & Secretary
t: 647.724.8917
f: 647.724.8910
e: alex@westfacecapital.com

SENT VIA EMAIL AND INTRALINKS

October 12, 2012

Ernst & Young Inc.,
In its capacity as Court-appointed Monitor of Grant Forest Products Inc.
Ernst & Young Tower
222 Bay Street, P.O. Box 251
Toronto, ON M5K 1J7

Attn: Alex F. Morrison
Senior Vice President

Re: Grant Forest Products Inc. ("GFPI") – West Face Second Lien Lender comments

Dear Sir:

We are in receipt of your letter dated September 21, 2012 (the "**Monitor Letter**") regarding the Pension Motion (as defined in the Monitor Letter) and the letter dated September 21, 2012 (the "**Agent Letter**") from The Bank of New York Mellon, as Administrative Agent, U.S. Collateral Agent and Canadian Collateral Agent (the "**Agent**"). Capitalized terms used but not defined herein have the meanings ascribed to such terms in the Monitor Letter or the Agent Letter.

West Face Capital Inc., the undersigned, is the investment adviser to West Face Long Term Opportunities Limited Partnership, West Face Long Term Opportunities (USA) Limited Partnership, West Face Long Term Opportunities Master Fund L.P. and West Face Long Term Opportunities Global Master L.P. (together, the "West Face Funds"), each of which is a Second Lien Lender.

We understand that PwC, as administrator of, inter alia, the Pension Plans, opposes the

Pension Motion. We hereby advise you that the West Face Funds, in their capacity as Second Lien Lenders, support the Pension Motion.

Yours truly,

WEST FACE CAPITAL INC.

Alexander Singh
General Counsel & Secretary

cc: Melinda Valentine, Vice President
Bank of New York Mellon
600 E. Las Colinas Boulevard, Suite 1300
Irving, TX 75039