Court File No. CV-09-8247-00CL

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 (the "Applicants")

RESPONDING MOTION RECORD

(Motion returnable August 6, 2009)

July 22, 2009

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Court File No. CV-09-8247-00CL

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 (the "Applicants")

AFFIDAVIT OF HAP STEPHEN
(sworn July 22, 2009)

I, **Hap Stephen**, of the City of Toronto, in the Province of Ontario, **MAKE OATH AND SAY**:

I am the chairman and chief executive officer of Stonecrest Capital Inc. ("**Stonecrest**"), which was retained by Grant Forest Products Inc. ("**Grant Forest**") to act as Chief Restructuring Advisor ("**CRA**") of the Applicants and as such, I have personal knowledge of the matters to which I hereinafter depose. Where I do not possess such personal knowledge, I have stated the source of my information and, in all such cases, do verily believe it to be true.

Restructuring Experience

1. I have been involved with many corporate insolvency restructurings as chief restructuring officer, chief restructuring advisor or in another similar position and I have assisted numerous insolvent corporations including Stelco, Athletes' World, Algoma Steel, The Mosaic Group and Eatons. Accordingly I am aware of the needs of corporations which are going through insolvency proceedings.

Overview

2. I have worked closely with Peter Lynch ("**Lynch**") since Stonecrest's initial engagement by Grant Forest as CRA on December 12, 2008. During that period, I developed a good appreciation for Lynch's value to the Applicants and their stakeholders.

3. On June 25, 2009, the Applicants obtained an order (the "**Initial Order**") pursuant to the provisions of the *Companies' Creditors Arrangement Act*, R.S.C. 1985 c. C-36, as amended (the "**CCAA**"). All terms not otherwise defined have the meanings as set out in the Initial Order. A copy of the Initial Order is attached hereto as Exhibit "**A**" to my affidavit.

4. The Initial Order approved a key employee retention plan agreement dated December 19, 2008 between Lynch and Grant Forest, as amended by an amendment agreement dated as of April 1, 2009 (collectively, the "**KERP Agreement**") which provided a retention plan (the "**KERP**") for Lynch. The Initial Order directed the Applicants to make when due the payments provided for thereunder. A copy of the KERP Agreement is attached hereto as Exhibit "**B**" to my affidavit.

5. The Initial Order also created a charge of the Applicants' property in the maximum amount of $1,134,000 as security for all amounts owing to Lynch pursuant to the KERP Agreement (the "**KERP Charge**").

6. On the granting of the Initial Order, an endorsement was made by Justice Newbould that provided that the Initial Order be without prejudice to the right of GE Canada Leasing Services Company ("**GE Canada**") to oppose the KERP provisions in paragraphs 42 and 43 of the Initial Order. The endorsement provided such issues were to be determined on a motion within 30 days.

7. This affidavit is being sworn in response to a motion by GE Canada whereby it is seeking an amendment to the Initial Order to remove all provisions relating to the KERP Agreement and the KERP Charge (the "**KERP Motion**").

Background

8. Grant Forest is a leading Canadian manufacturer of oriented strand board ("**OSB**"). Grant Forest manufactures OSB in panels of varying lengths and thickness, as well as specialty products such as web stock, rim board and oversized panels. The Applicants and their subsidiaries have interests in three mills in Canada and two mills in the United States. Only one mill in Canada and one mill in the United States are presently operating as a result of the current reduced demand for OSB and other wood products.

9. In support of the application by the Applicants for the Initial Order, Peter Lynch, a senior officer of Grant Forest, Grant Alberta Inc. ("**Alberta**") and Grant Forest Products Sales Inc. ("**Sales**") swore an affidavit on June 22, 2009 (the "**Initial Affidavit**"). A copy of the body of the Initial Affidavit, without exhibits, is attached hereto as Exhibit "**C**" to my affidavit.

10. The Initial Affidavit provides further background information regarding the Applicants' businesses and stakeholders, including their secured creditors.

Role of CRA

11. The provisions of the Initial Order confirmed the engagement of Stonecrest by Grant Forest to act as CRA and to provide services to the Applicants including, but not limited to, the development, evaluation and implementation of a restructuring of the Applicants' businesses which could include the refinancing, sale of all or substantially all of the assets of the Applicants as a going concern, asset sales and recapitalization transactions, or a combination of these (the "**Restructuring**").

12. The role of the CRA is focused on the Restructuring and assisting the Applicants through that process. The terms of the CRA Engagement Letter under which the CRA has been engaged do not include dealing with issues relating to the general operations of the Applicants. The expertise of the CRA does not relate to the operations of the Applicants' businesses but rather with respect to corporate restructurings.

13. The current terms of the CRA's engagement are set out in the CRA Engagement Letter which was approved by the Court in the Initial Order. A copy of the CRA Engagement

Letter, redacted with respect to certain confidential information, is attached hereto as Exhibit "**D**" to my affidavit.

Role of Lynch

14. Peter Lynch is the executive vice president and secretary of Grant Forest, the vice president and secretary of Alberta and the president and secretary of Sales. He is also a director of each of Grant Forest, Alberta and Sales.

15. I am advised by Peter Lynch that he has been employed as a senior officer of Grant Forest and other related subsidiaries since 1993.

16. Lynch is the only senior officer of the Applicants who is not a member of the Grant family and who works from Grant Forest's executive office in Toronto. Lynch has extensive knowledge of the operations and history of the Applicants' businesses and their financings. I am advised by the president of Grant Forest, Peter Grant, Jr., that Lynch is not a shareholder of Grant Forest or any related entity and has no stock options or any other equity interest in Grant Forest or any related entity.

17. In my view, there is no duplication in the respective roles of the CRA and Lynch in connection with the management and operation of the Applicants or the Restructuring.

Status of Proceedings and Lynch's Importance during the Restructuring

18. The CCAA proceedings of the Applicants are at a critical stage. The Initial Order was granted less than one month ago. The Marketing Process approved by the Initial Order is in its first phase.

19. The history, knowledge and stability that Peter Lynch provides to the Applicants are crucial not only in dealing with potential investors during the Restructuring to provide them with information regarding the Applicants' operations, but also in making decisions regarding operations and management on a day to day basis during this period. It would be extremely difficult at this stage of the Applicants' restructuring to find a replacement, either from within or outside the Applicants, to fulfil Peter Lynch's current responsibilities and to perform his duties.

20. In my view, Lynch has the confidence of Grant Forest's shareholders, lenders and other stakeholders based on his lengthy association and dealing with many of them and his efforts are important to the stabilization of the Applicants' businesses throughout the Restructuring.

<u>Support of Stakeholders</u>

21. I am advised by Jonathan Levin, a partner of Fasken Martineau DuMoulin LLP, the counsel for the board of directors of Grant Forest, that the board unanimously approved Peter Lynch's KERP before the KERP agreement dated December 19, 2009 was signed and that the board continues to unanimously support the KERP.

22. I am advised by The Toronto-Dominion Bank, the agent (the "**Agent**") for the First Lien Lenders, that the First Lien Lenders did not object to the KERP provisions contained in the Initial Order.

23. I am also advised by the Agent that, based upon their collective experience and the advice of their respective legal and financial advisors, the First Lien Lenders accept my judgment and the judgment of Grant Forest's board of directors regarding the importance of Peter Lynch to the Applicants' businesses and to the success of the CCAA process and that, accordingly, they support the Applicants in their desire to maintain the KERP as a means to ensure that Peter Lynch continues to provide his full and focused involvement with the Applicants during the CCAA process with a view to maximizing value for the stakeholders of the Applicants.

<u>Consequence of disturbing the KERP</u>

24. I am concerned that, if the KERP provisions in the Initial Order are removed, Peter Lynch may begin to search for other professional opportunities given the uncertainty of his present position with the Applicants. If Peter Lynch does not remain with the Applicants or does not provide the Applicants with his full and focused attention, the knowledge, stability and corporate memory that he provides will be lost to the material detriment of all stakeholders.

25. There is no other individual with the expertise and knowledge of Peter Lynch within the Applicants' organization to perform his current duties. Should Peter Lynch leave, the delay, uncertainty and expense of finding a replacement for him (who will most likely have inferior knowledge) would far outweigh any 'benefit' that may be received by the stakeholders in failing to make the payments when due as set out in the KERP Agreement.

Conclusion

26. For the reasons outlined above, I strongly support the inclusion of the provisions in the Initial Order relating to the KERP, including the KERP Charge. I swear this affidavit in opposition to the KERP Motion brought by GE Canada and for no other or improper purpose.

SWORN before me at the City of Toronto in the Province of Ontario this 22nd day of July, 2009	)	
A Commissioner, etc.	)	HAP STEPHEN

Annie Shuk-Ying Lau, a Commissioner, etc., Province of Ontario, while a Student-at-Law. Expires April 28, 2012.

TAB A

Exhibit "**A**" to the Affidavit of Hap Stephen,
sworn before me this 22nd day of July, 2009.

Commissioner for Taking Affidavits, etc.

Annie Shuk-Ying Lau, a
Commissioner, etc., Province of
Ontario, while a Student-at-Law.
Expires April 28, 2012.

Court File No. CV-09-8247-00CL

ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST

THE HONOURABLE MR.	)	THURSDAY, THE 25TH
	)	
JUSTICE NEWBOULD	)	DAY OF JUNE, 2009

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

INITIAL ORDER

THIS APPLICATION, made by Grant Forest Products Inc., Grant Alberta Inc., Grant Forest Products Sales Inc. and Grant U.S. Holdings GP (collectively, the "**Applicants**"), pursuant to the *Companies' Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended (the "**CCAA**") was heard this day at 330 University Avenue, Toronto, Ontario.

ON READING the affidavit of Peter Lynch sworn June 22, 2009 and the exhibits thereto (the "**Lynch Affidavit**"), the supplement affidavit of Peter Lynch sworn June 25, 2009 and the exhibits thereto (the "**Supplemental Lynch Affidavit**"), the report to Court of Ernst & Young Inc. ("**E&Y**") as proposed monitor and on hearing the submissions of counsel for the Applicants, The Toronto-Dominion Bank (the "**Agent**"), as agent for the first lien lenders (the "**First Lien Lenders**"), the independent directors of Grant Forest Products Inc.("**GFPI**"), E&Y, Peter Grant Sr., Peter Grant Jr., GE Canada Leasing Services Company, no one else appearing although duly served as appears from the affidavit of service of Jarvis Hetu sworn June 23, 2009, SERVICE

1. **THIS COURT ORDERS** that the time for service of the Notice of Application and the Application Record is hereby abridged so that this Application is properly returnable today and hereby dispenses with further service thereof.

APPLICATION

2. **THIS COURT ORDERS AND DECLARES** that the Applicants are companies to which the CCAA applies.

PLAN OF ARRANGEMENT

3. **THIS COURT ORDERS** that the Applicants shall have the authority to file and may, subject to further order of this Court, file with this Court a plan or plans of compromise or arrangement (collectively, the "**Plan**") between, *inter alia*, the Applicants, or any of the Applicants, and one or more classes of its or their secured and/or unsecured creditors as it deems or they deem appropriate.

POSSESSION OF PROPERTY AND OPERATIONS

4. **THIS COURT ORDERS** that the Applicants shall remain in possession and control of their current and future assets, undertakings and properties of every nature and kind whatsoever, and wherever situate including all proceeds thereof (the "**Property**"). Subject to further Order of this Court, the Applicants shall continue to carry on business in a manner consistent with the preservation of their businesses (the "**Business**") and Property. The Applicants shall be authorized and empowered to continue to retain and employ the employees, consultants, agents, experts, accountants, counsel and such other persons (collectively, the "**Assistants**") currently retained or employed by them, with liberty, subject to obtaining the prior consent of the Monitor or further order of the Court, to amend in any material manner the mandate of any Assistants or to retain such further Assistants as they deem reasonably necessary or desirable in the ordinary course of business or for the carrying out of the terms of this Order (except that such consent or further order shall not be required for the Applicants to hire new employees in the ordinary course of business).

5. **THIS COURT ORDERS** that the Applicants shall be entitled but not required to pay the following expenses whether incurred prior to or after this Order:

(a) all outstanding and future wages, salaries, employee benefits and pension contributions, vacation pay, bonuses and expenses payable on or after the date of this 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; and

(b) the fees and disbursements of any Assistants retained or employed by any of the Applicants as permitted herein in respect of these proceedings or the Applicants' proposed restructuring at their standard rates and charges.

6. **THIS COURT ORDERS** that, except as otherwise provided to the contrary herein and provided that the Applicants provide the Monitor with a list of their intended disbursements before making such disbursements, the Applicants shall be entitled but not required to pay all reasonable expenses incurred by the Applicants in carrying on the Business in the ordinary course on or after this Order (or, in the case of the following subparagraph (c), prior to the date of this Order), and in carrying out the provisions of this Order including:

(a) subject to paragraph 10 below, all expenses and capital expenditures reasonably necessary for the preservation of the Property or the Business including payments on account of insurance (including directors' and officers' insurance), maintenance and security services;

(b) expenses for goods or services actually supplied to any of the Applicants on or following the date of this Order; and

(c) expenses for goods or services actually supplied to any of the Applicants prior to the date of this Order provided:

(i) such payments are critical to any Applicant's Business and are made with the prior written consent of the Monitor; or

(ii) such payments are owing to a person or persons for the supply of logs or timber to GFPI.

7. **THIS COURT ORDERS** that the Applicants shall remit, in accordance with legal requirements, or pay:

(a) 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;

(b) 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 this Order, or where such Sales Taxes were accrued or collected prior to the date of this Order but not required to be remitted until on or after the date of this Order; and

(c) 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.

8. **THIS COURT ORDERS** that the Applicants, or any of them, may, with the prior written consent of the Monitor, lend funds to Grant Allendale LP, Grant Clarendon LP and Grant US Sales Inc. (or any of them), to enable them to continue to carry on their respective businesses in the ordinary course and the Applicants, or any of them, may receive and retain any repayments made by Grant Allendale LP, Grant Clarendon LP and Grant US Sales Inc. (or any of them).

9. **THIS COURT ORDERS** that until such time as any of the Applicants repudiate a real property lease in accordance with paragraph 12(c) of this Order, the Applicants shall pay when

due all amounts constituting rent or payable as rent under real property leases (including, for greater certainty, common area maintenance charges, utilities and realty taxes and any other amounts payable to the landlord under any lease) or as otherwise may be negotiated by the Applicants from time to time ("**Rent**"), for the period commencing from and including the date of this Order, monthly in advance (but not in arrears).

10. **THIS COURT ORDERS** that, except as specifically permitted herein or included in the Cash Flow Projection (as defined by the Lynch Affidavit) as amended or prepared for later periods from time to time with the Agent's approval (the "**Cash Flow Projections**"), the Applicants and their subsidiaries are hereby prohibited, without the prior written approval of the Agent and the Monitor, from:

(a) granting, or permitting to be outstanding, any lien, charge, security interest or any other encumbrance of any kind whatsoever (each an "**Encumbrance**") other than valid and enforceable Encumbrances existing on the date of this Order, charges created by this Order and liens arising solely by operation of law in the ordinary course of business of the Applicants and their subsidiaries;

(b) creating, incurring, assuming or suffering to exist, directly, contingently or otherwise, any debt or obligations other than:

A. debt or obligations existing on the date hereof; or

B. unsecured current liabilities (which are not the result of borrowing) incurred and payable in the ordinary course of business of the Applicants and their subsidiaries as permitted herein;

(c) entering into any transactions outside the ordinary course of its business;

(d) making expenditures or commitments of the Applicants on account of any capital or fixed asset account of the Applicants in the aggregate in excess of 110% of the capital expenditure amount indentified in the Cash Flow Projections, except that the Applicants may make capital expenditures or commitments for excess amounts with the Monitor's approval, to the extent required to carry on the existing oriented strand board Business;

(e) declaring any dividends or distributions to any shareholder or any person affiliated or associated with any shareholder whether by way of dividend or otherwise;

(f) guaranteeing, endorsing or otherwise becoming surety for or upon any obligations of any person;

(g) paying any amount to its employees and officers as such by way of salary, bonus, commission, directors' fees or otherwise in excess of the amounts currently being paid or at a rate in excess of the current rate thereof, provided that nothing in this Order shall prohibit the Applicants and their subsidiaries from reimbursing their employees and officers for reasonable expenses incurred by them in the ordinary course of business;

(h) paying any amount to any shareholder of GFPI, any person who owns shares of any shareholder of GFPI or any person related by blood or marriage to any such person, except for payments permitted by the immediately preceding subparagraph;

(i) making any cash payment (interest or otherwise) to any creditor including: (i) under the existing aircraft leases with GE Capital Equipment Financing; or (ii) under the First Lien Credit Agreement or the Second Lien Credit Agreement (as defined by the Lynch Affidavit);

(j) making expenditures or commitments in respect of any or all assets of an Applicant not required in connection with the Business;

(k) opening or maintaining deposit accounts other than the deposit accounts maintained with The Toronto-Dominion Bank, Wachovia Bank, National Association, Harris N.A. and Bank of Montreal as of the date hereof or such other account approved by the Agent (the "**Accounts**");

(l) making any changes to the officers or senior management, or to any of the signing authorities specified on the Accounts;

(m) making any payment of any amount owing pursuant to the tax refund purchase and sale agreement dated as of March 31, 2008 with respect to the sale by GFPI of certain of its tax refunds;

(n) entering into any interest or currency exchange agreement or any other swap agreement; and

(o) obtaining any debtor-in-possession financing from any lender other than one or more of the First Lien Lenders and in accordance with the further order of the Court.

11. **THIS COURT ORDERS** that, notwithstanding anything contained in this Order, the Applicants shall in all respects comply with their obligations under the First Lien Credit Agreement made as of October 26, 2005 among the Agent, the First Lien Lenders, GFPI and others in respect of reporting and the provision of information. The Applicants shall cooperate fully with PricewaterhouseCoopers Inc. ("**PWC**"), the financial advisor to the First Lien Lenders, in providing such information.

RESTRUCTURING

12. **THIS COURT ORDERS** that each of the Applicants shall have the right to:

(a) permanently or temporarily cease, downsize or shut down any of its business or operations and to dispose of redundant or non-material assets not exceeding $500,000 in any one transaction or $2 million in the aggregate, subject to the prior written consent of the Monitor and subject to subparagraph (c) of this section, if applicable;

(b) terminate the employment of such of its employees or temporarily lay off such of its employees as it deems appropriate on such terms as may be agreed upon between the Applicant and such employee or, failing such agreement, to deal with the consequences thereof in the Plan or otherwise;

(c) in accordance with paragraphs 13 and 14, vacate, abandon or quit any leased premises and/or repudiate any real property lease and any ancillary agreements relating to any leased premises, on not less than seven (7) days' notice in writing to the relevant landlord on such terms as may be agreed upon between the Applicant and such landlord or, failing such agreement, to deal with the consequences thereof in the Plan or otherwise;

(d) repudiate such of its arrangements or agreements of any nature whatsoever, whether oral or written, as the Applicant deems appropriate on such terms as may be agreed upon between the Applicant and such counter-parties or, failing such agreement, to deal with the consequences thereof in the Plan or otherwise; and

(e) in accordance with the Marketing Process (as hereinafter defined), pursue all avenues of refinancing and recapitalization and pursue all purchase offers for material parts of its Business or Property, in whole or part, subject to prior approval of this Court being obtained before any material refinancing or recapitalization or any sale (except as permitted by subparagraph (a) of this section),

all of the foregoing to permit the Applicants to proceed with an orderly restructuring of the Business (the "**Restructuring**").

13. **THIS COURT ORDERS** that an Applicant shall provide the relevant landlord with notice of the applicable Applicant's intention to remove any fixtures from any leased premises at least seven (7) days prior to the date of the intended removal. The relevant landlord shall be entitled to have a representative present in the leased premises to observe such removal and, if the relevant landlord disputes the Applicant's entitlement to remove any such fixture under the provisions of the lease, such fixture shall remain on the premises and shall be dealt with as agreed between any applicable secured creditors, such landlord and the applicable Applicant, or by further Order of this Court upon application by an Applicant on at least two (2) days' notice to such landlord and any such secured creditors. If an Applicant repudiates the lease governing such leased premises in accordance with paragraph 12(c) of this Order, it shall not be required to

pay Rent under such lease pending resolution of any such dispute, and the repudiation of the lease shall be without prejudice to the Applicant's claim to the fixtures in dispute.

14. **THIS COURT ORDERS** that if a lease is repudiated by an Applicant in accordance with paragraph 12(c) of this Order, then: (a) during the notice period prior to the effective time of the repudiation, the relevant landlord may show the affected leased premises to prospective tenants during normal business hours, on giving the Applicants and the Monitor 24 hours' prior written notice; and (b) at the effective time of the repudiation, the relevant landlord shall be entitled to take possession of any such leased premises without waiver of or prejudice to any claims or rights such landlord may have against the applicable Applicant in respect of such lease or leased premises and such landlord shall be entitled to notify the Applicants of the basis on which it is taking possession and to gain possession of and re-lease such leased premises to any third party or parties on such terms as such landlord considers advisable, provided that nothing herein shall relieve such landlord of its obligation to mitigate any damages claimed in connection therewith.

15. **THIS COURT ORDERS** that, subject to the other provisions of this Order (including the payment of Rent as herein provided) and any further Order of this Court, the Applicants shall be permitted to dispose of any or all of the Property located (or formerly located) at such leased premises without any interference of any kind from landlords (notwithstanding the terms of any leases) and, for greater certainty, the Applicants shall have the right to realize upon the Property and other assets in such manner and at such locations, including leased premises, as it deems suitable or desirable for the purpose of maximizing the proceeds and recovery therefrom.

MARKETING OF INVESTMENT OPPORTUNITY

16. **THIS COURT ORDERS AND DIRECTS** the Applicants to immediately commence a marketing process (the "**Marketing Process**") in accordance with the protocol attached hereto as Appendix "A" to this Order (the "**Investment Offering Protocol**") for the purpose of offering the opportunity for potential investors to purchase the business and operations of the Applicants and their subsidiaries as a going concern or to sponsor a plan of arrangement of the Applicants or any of them.

17. **THIS COURT ORDERS** that the Investment Offering Protocol is hereby approved and the Applicants and the Monitor are hereby authorized and directed to perform each of their obligations thereunder.

18. **THIS COURT ORDERS** that the Applicants are hereby authorized and directed to engage an investment offering advisor (the "**Investment Offering Advisor**") in accordance with an Investment Offering Advisor engagement letter (the "**Investment Offering Advisor Engagement Letter**"), after it is approved by the Monitor and the Agent, to act as Investment Offering Advisor in connection with the conduct of the Marketing Process. The Investment Offering Advisor Engagement Letter shall not be affected by the Plan.

19. **THIS COURT ORDERS** that the Investment Offering Advisor shall be entitled to the benefit of and is hereby granted a charge (the "**Investment Offering Advisor Charge**") in the maximum amount of $200,000 of all Property of the Applicants to secure its fees and recoverable disbursements incurred in performing its obligations under the Investment Offering Advisor Engagement Letter but not including any indemnity or any fees or expenses incurred by the Investment Offering Advisor in connection with any right of indemnity included in the Investment Offering Advisor Engagement Letter. The Investment Offering Advisor Charge shall rank *pari passu* with the Administration Charge (as hereinafter defined) and the Applicants are directed to pay to the Investment Offering Advisor the fees and expenses payable under the Investment Offering Advisor Engagement Letter promptly when due.

20. **THIS COURT ORDERS** that the Investment Offering Advisor, its affiliates, partners, directors, employees, agents and controlling persons shall have no liability with respect to any and all losses, claims, damages or liabilities, of any nature or kind, to any person in connection with or as a result of either its engagement by the Applicants as Investment Offering Advisor or any matter referred to in the Investment Offering Advisor Engagement Letter except to the extent such losses, claims, damages or liabilities result from the gross negligence or wilful misconduct of the Investment Offering Advisor in performing its obligations under the Investment Offering Advisor Engagement Letter.

NO PROCEEDINGS AGAINST THE APPLICANTS OR THE PROPERTY

21. **THIS COURT ORDERS** that until and including July 24, 2009 or such later date as this Court may order (the **"Stay Period"**), no proceeding or enforcement process in any court or tribunal (each, a **"Proceeding"**) (including the application for a bankruptcy order brought by GE Canada Leasing Services Company) shall be commenced or continued against or in respect of any of the Applicants or the Monitor, or affecting any Business or the Property, except with the written consent of the Applicants and the Monitor, or with leave of this Court, and any and all Proceedings currently under way against or in respect of any of the Applicants or affecting any Business or the Property are hereby stayed and suspended pending further Order of this Court.

NO EXERCISE OF RIGHTS OR REMEDIES

22. **THIS COURT ORDERS** that during the Stay Period, all rights and remedies of any individual, firm, corporation, governmental body or agency, or any other entities (all of the foregoing, collectively being **"Persons"** and each being a **"Person"**) against or in respect of any of the Applicants or the Monitor, or affecting the Business or the Property (including any right to submit a shotgun buy or sell offer with respect to GFPI's shares of Footner Forest Products Ltd. or GFPI's interest in the OSB facility at High Level, Alberta or related assets), are hereby stayed and suspended except with the written consent of the Applicants and the Monitor, or leave of this Court, provided that nothing in this Order shall: (a) empower the Applicants to carry on any business which the Applicants are not lawfully entitled to carry on; (b) exempt the Applicants from compliance with statutory or regulatory provisions relating to health, safety or the environment; (c) prevent the filing of any registration to preserve or perfect a security interest; (d) prevent the registration of a claim for lien under the *Construction Lien Act* or the *Forestry Workers Lien for Wages Act* or any other applicable statute; or (e) prevent GE Canada Leasing Services Company from selling the 1992 Dassault Falcon 50 aircraft or the 1994 Dassault Falcon 900B aircraft and related engines and parts pursuant to its lease thereof to GFPI.

NO INTERFERENCE WITH RIGHTS

23. **THIS COURT ORDERS** that, during the Stay Period, no Person shall discontinue, fail to honour, alter, interfere with, repudiate, terminate or cease to perform any right, renewal right,

contract, agreement, licence or permit in favour of or held by any of the Applicants, except with the written consent of the Applicants and the Monitor, or leave of this Court.

CONTINUATION OF SERVICES

24. **THIS COURT ORDERS** that, during the Stay Period, all Persons having oral or written agreements with any of the Applicants or statutory or regulatory mandates for the supply of goods and/or services including, without limitation, all resin supply, timber, log and wood supply, computer software, communication and other data services, centralized banking services, payroll services, insurance, transportation services, utility services or other services to the Business or any of the Applicants, are hereby restrained until further Order of this Court from discontinuing, altering, interfering with or terminating the supply of such goods or services as may be required by any of the Applicants, and that each of the Applicants shall be entitled to the continued use of its current premises, telephone numbers, facsimile numbers, internet addresses and domain names, provided in each case that the normal prices or charges for all such goods or services received after the date of this Order are paid by the Applicants in accordance with normal payment practices of the Applicants or such other practices as may be agreed upon by the supplier or service provider, the Applicants and the Monitor, or as may be ordered by this Court.

NON-DEROGATION OF RIGHTS

25. **THIS COURT ORDERS** that, notwithstanding anything else contained herein, no creditor of any of the Applicants shall be under any obligation after the making of this Order to advance or re-advance any monies or otherwise extend any credit to any of the Applicants. Nothing in this Order shall derogate from the rights conferred and obligations imposed by the CCAA.

PROCEEDINGS AGAINST DIRECTORS AND OFFICERS

26. **THIS COURT ORDERS** that, during the Stay Period and except as permitted by subsection 11.5(2) of the CCAA, no Proceeding may be commenced or continued against any of the former, current or future directors or officers of any of the Applicants with respect to any claim against the directors or officers that arose before or arises after the date hereof and that relates to any obligations of any of the Applicants whereby the directors or officers are alleged under any law to be liable in their capacity as directors or officers for the payment or

performance of such obligations, until a compromise or arrangement in respect of the Applicants, if one is filed, is sanctioned by this Court or is refused by the creditors of the Applicants or this Court.

DIRECTORS' AND OFFICERS' INDEMNIFICATION AND CHARGE

27. **THIS COURT ORDERS** that each of the Applicants shall indemnify its directors and officers from all claims, costs, charges and expenses relating to the failure of any of the Applicants, after the date hereof, to make payments due and payable after the date of this Order of the nature referred to in subparagraphs 5(a), 7(a), 7(b), and 7(c) of this Order which they sustain or incur by reason of or in relation to their respective capacities as directors and/or officers of any of the Applicants except to the extent that, with respect to any officer or director, such officer or director has actively participated in the breach of any related fiduciary duties or has been grossly negligent or guilty of wilful misconduct.

28. **THIS COURT ORDERS** that the directors and officers of the Applicants shall be entitled to the benefit of and are hereby granted a charge (the "**Directors' Charge**") on all Property, which charge shall not exceed the aggregate amount of $3,000,000, as security for the indemnity provided in paragraph 27 of this Order. The Directors' Charge shall have the priority set out in paragraph 44 of this Order.

29. **THIS COURT ORDERS** that, notwithstanding any provision of any applicable insurance policy to the contrary: (a) no insurer shall be entitled to be subrogated to or claim the benefit of the Directors' Charge; and (b) the Applicants' directors and officers shall only be entitled to the benefit of the Directors' Charge to the extent that they do not have coverage under any directors' and officers' insurance policy, or to the extent that such coverage is insufficient to pay amounts indemnified in accordance with paragraph 27 of this Order or the insurer fails to fund defence costs on a timely basis (provided the insurance beneficiaries assign to the applicable Applicant the insurance beneficiaries' rights under the applicable insurance policy to receive such defence costs paid pursuant to the Directors' Charge).

APPOINTMENT OF MONITOR

30. **THIS COURT ORDERS** that E&Y is hereby appointed pursuant to the CCAA as the Monitor, an officer of this Court, to monitor the Property and the Applicants' conduct of the Business with the powers and obligations set out in the CCAA or set forth herein and that the Applicants and their shareholders, officers, directors and Assistants shall advise the Monitor of all material steps taken by any of the Applicants pursuant to this Order, and shall co-operate fully with the Monitor in the exercise of its powers and discharge of its obligations.

31. **THIS COURT ORDERS** that the Monitor, in addition to its prescribed rights and obligations under the CCAA, is hereby directed and empowered to:

(a) monitor the Applicants' receipts and disbursements;

(b) perform its obligations under the Investment Offering Protocol;

(c) report to this Court at such times and intervals as the Monitor may deem appropriate with respect to matters relating to the Property, the Business, the Marketing Process and such other matters as may be relevant to the proceedings herein;

(d) assist the Applicants, to the extent required the Applicants, in the dissemination to the Agent and BNY and their respective counsel on a bi-weekly basis or otherwise as required herein of financial and other information as agreed to between the Applicants and the Agent or BNY;

(e) advise the Applicants in relation to the Cash Flow Projections, including the reconciliation of actual results to Cash Flow Projections and the formulation of Cash Flow Projections as may be required herein, which information shall be reviewed with the Monitor and delivered to the Agent and its counsel on a periodic basis, but not less than bi-weekly, or as otherwise agreed to by the Agent;

(f) advise the Applicants in their development of the Plan and any amendments to the Plan;

(g) report and advise the Applicants, the Court and the Agent in relation to any offers to purchase or refinance the Business received in accordance with the Marketing Process;

(h) assist the Applicants, to the extent required by the Applicants, with the holding and administering of creditors' or shareholders' meetings for voting on the Plan;

(i) have full and complete access to the books, records, management, employees and advisors of the Applicants and to the Business and the Property to the extent required to perform its duties arising under this Order;

(j) be at liberty to engage independent legal counsel or such other persons as the Monitor deems necessary or advisable respecting the exercise of its powers and performance of its obligations under this Order;

(k) consider, and if deemed advisable by the Monitor, prepare a report and assessment on the Plan; and

(l) perform such other duties as are required by this Order or by this Court from time to time.

32. **THIS COURT ORDERS** that the Monitor shall not take possession of the Property and shall take no part whatsoever in the management or supervision of the management of the Business and shall not, by fulfilling its obligations hereunder, be deemed to have taken or maintained possession or control of the Business or Property, or any part thereof.

33. **THIS COURT ORDERS** that nothing herein contained shall require the Monitor to occupy or to take control, care, charge, possession or management (separately and/or collectively, "**Possession**") of any of the Property that might be environmentally contaminated, might be a pollutant or a contaminant, or might cause or contribute to a spill, discharge, release or deposit of a substance contrary to any federal, provincial or other law respecting the protection, conservation, enhancement, remediation or rehabilitation of the environment or relating to the disposal of waste or other contamination including, without limitation, the *Canadian Environmental Protection Act*, the Ontario *Environmental Protection Act*, the *Ontario*

Water Resources Act, or the Ontario *Occupational Health and Safety Act* and regulations thereunder (the "**Environmental Legislation**"), provided however that nothing herein shall exempt the Monitor from any duty to report or make disclosure imposed by applicable Environmental Legislation. The Monitor shall not, as a result of this Order or anything done in pursuance of the Monitor's duties and powers under this Order, be deemed to be in Possession of any of the Property within the meaning of any Environmental Legislation, unless it is actually in possession.

34. **THIS COURT ORDERS** that that the Monitor shall provide any creditor of any of the Applicants with information provided by the Applicants in response to reasonable requests for information made in writing by such creditor addressed to the Monitor. The Monitor shall not have any responsibility or liability with respect to the information disseminated by it pursuant to this paragraph. In the case of information that the Monitor has been advised by the Applicants is confidential, the Monitor shall not provide such information to creditors unless otherwise directed by this Court or on such terms as the Monitor and the Applicants may agree.

APPOINTMENT OF CHIEF RESTRUCTURING ADVISOR

35. **THIS COURT ORDERS** that GFPI be and is hereby authorized and directed to continue the engagement of Stonecrest Capital Inc. ("**Stonecrest**") as Chief Restructuring Advisor (the "**CRA**") with services to be provided by Hap Stephen ("**Stephen**") and Sandra Rosch ("**Rosch**") on the terms and conditions set out in the amended engagement letter between GFPI and Stonecrest as referred to in the Supplemental Lynch Affidavit (the "**CRA Engagement Letter**").

36. **THIS COURT ORDERS** that the CRA Engagement Letter is hereby approved and given full force and effect in accordance with its provisions and that the claims, if any, of Stonecrest, Stephen or Rosch pursuant to the CRA Engagement Letter shall not be affected by the Plan.

37. **THIS COURT ORDERS** that the CRA shall have and may exercise and perform the powers, responsibilities and duties described in the CRA Engagement Letter, together with such other powers, responsibilities and duties as may be agreed upon by the CRA and GFPI and approved by the Monitor or this Honourable Court.

PROVISIONS RELATED TO THE MONITOR, THE CRA AND OTHERS

38. **THIS COURT ORDERS** that, in addition to the rights and protections afforded the Monitor under the CCAA or as an officer of this Court, the Monitor, the CRA, Stephen and Rosch shall incur no liability or obligation as a result of their appointments or the carrying out of the provisions of this Order (or, in the case of the CRA, Stephen and Rosch, the provisions of the CRA Engagement Letter), except for any gross negligence or wilful misconduct on their respective parts. Nothing in this Order shall derogate from the protections afforded the Monitor by the CCAA or any applicable legislation.

39. **THIS COURT ORDERS** that the Monitor, PWC, counsel to the Monitor, counsel to GFPI's board of directors and counsel to the Applicants shall be paid by the Applicants their reasonable fees and disbursements, in each case at their standard rates and charges and whether incurred before, on or after the date of this Order, and that the CRA shall be paid by the Applicants its fees and disbursements as set out in the CRA Engagement Letter, as part of the costs of these proceedings. The Applicants are hereby authorized and directed to pay the accounts of the Monitor, PWC, counsel to GFPI's board of directors, counsel for the Monitor, the CRA and counsel for the Applicants on a weekly basis and to pay the CRA's monthly work fee monthly in advance in accordance with the CRA Engagement Letter. Additionally, the Applicants shall pay the fees and disbursements of the Canadian and U.S. counsel to the Agent (each, "**First Lien Lenders' Agent's Counsel**") promptly on receipt of copies of their invoices.

40. **THIS COURT ORDERS** that the Monitor and its legal counsel shall pass their accounts from time to time and, for this purpose, the accounts of the Monitor and its legal counsel are hereby referred to a judge of the Commercial List of the Ontario Superior Court of Justice.

41. **THIS COURT ORDERS** that the Monitor, counsel to the Monitor, counsel to GFPI's board of directors, the CRA, the Applicants' counsel and the First Lien Lenders' Agent's Counsel shall be entitled to the benefit of and are hereby granted a charge (the "**Administration Charge**") on all Property, which charge shall not exceed the aggregate amount of $2,000,000, as security for all amounts owing to the Monitor, counsel to the Monitor, counsel to GFPI's board of directors, the CRA, the Applicants' counsel and the First Lien Lenders' Agent's Counsel as

set out in paragraph 39 hereof, both before and after the making of this Order in respect of these proceedings. The Administration Charge shall have the priority set out in paragraph 44 hereof.

KERP PAYMENT

42. **THIS COURT ORDERS** that the key employee retention plan agreement dated December 19, 2008 between Peter Lynch (**"Lynch"**) and GFPI, as amended by an amendment agreement dated as of April 1, 2009, as described in the Lynch Affidavit (the **"KERP Agreement"**) be and is hereby approved and given full force and effect in accordance with its terms and the Applicants are hereby directed to make when due the payments provided for thereunder.

43. **THIS COURT ORDERS** that Lynch shall be entitled to the benefit of and is hereby granted a charge (the **"KERP Charge"**) on all Property, which charge shall not exceed the amount of $1,134,000, as security for all amounts now or hereafter owing to Lynch pursuant to the KERP Agreement, both before and after the making of this Order. The KERP Charge shall have the priority set out in paragraph 44 hereof.

VALIDITY AND PRIORITY OF CHARGES CREATED BY THIS ORDER

44. **THIS COURT ORDERS** that the priorities of the Administration Charge, the Investment Offering Advisor Charge, the KERP Charge and the Directors' Charge, as among them, shall be as follows:

   (a) Firstly – Administration Charge (to the maximum amount of $2,000,000) and the Investment Offering Advisor Charge (to the maximum amount of an additional $200,000) on a pari passu basis; and

   (b) Secondly – KERP Charge (to the maximum amount of $1,134,000) and Directors' Charge (to the maximum amount of $3,000,000) on a pari passu basis.

45. **THIS COURT ORDERS** that the filing, registration or perfection of the Administration Charge, the Investment Offering Advisor Charge, the KERP Charge and the Directors' Charge (collectively, the **"Charges"**) shall not be required, and that the Charges shall be valid and enforceable for all purposes, including as against any right, title or interest filed, registered,

recorded or perfected subsequent to the Charges coming into existence, notwithstanding any such failure to file, register, record or perfect.

46. **THIS COURT ORDERS** that each of the Charges shall constitute charges of all Property and the Charges shall rank in priority to all other security interests, trusts, liens, charges and encumbrances, statutory or otherwise (collectively, "**Encumbrances**") in favour of any Person.

47. **THIS COURT ORDERS** that, except as otherwise expressly provided for herein, or as may be approved by this Court, the Applicants shall not grant any Encumbrances over any Property that rank in priority to, or *pari passu* with any of the Charges without the written consent of the Monitor, and the beneficiaries of the Administration Charge, the Investment Offering Advisor Charge, the KERP Charge and the Directors' Charge, or further Order of this Court.

48. **THIS COURT ORDERS** that the Charges shall not be rendered invalid or unenforceable and the rights and remedies of the chargees entitled to the benefit of the Charges (collectively, the "**Chargees**") shall not otherwise be limited or impaired in any way by: (a) the pendency of these proceedings and the declarations of insolvency made herein; (b) any applications for bankruptcy orders issued pursuant to BIA or any bankruptcy order made pursuant to such applications in respect of any of the Applicants; (c) the filing of any assignments for the general benefit of creditors made pursuant to the BIA by any of the Applicants; (d) the provisions of any federal or provincial statutes; or (e) any negative covenants, prohibitions or other similar provisions with respect to borrowings, incurring debt or the creation of Encumbrances contained in any existing loan documents, lease, sublease, offer to lease or other agreement (collectively, an "**Agreement**") which binds any of the Applicants and, notwithstanding any provision to the contrary in any Agreement:

(i) the creation of the Charges shall not create or be deemed to constitute a breach by any of the Applicants of any Agreement to which it is a party;

(ii) none of the Chargees shall have any liability to any Person whatsoever as a result of any breach of any Agreement caused by or resulting from, the creation of the Charges; and

(iii) the payments made by any of the Applicants pursuant to this Order and the granting of the Charges, do not and will not constitute fraudulent preferences, fraudulent conveyances, oppressive conduct, settlements or other challengeable, voidable or reviewable transactions under any applicable law.

SERVICE AND NOTICE

49. **THIS COURT ORDERS** that the Applicants shall, within ten (10) business days of the date of entry of this Order, send a copy of this Order to their known creditors, other than employees and creditors to the Applicants owed less than $1,000.00, at their addresses as they appear on the Applicants' records, and shall promptly send a copy of this Order: (a) to all parties filing a Notice of Appearance in respect of this Application; and (b) to any other interested Person requesting a copy of this Order, and the Monitor is relieved of its obligation under Section 11(5) of the CCAA to provide similar notice, other than to supervise this process.

50. **THIS COURT ORDERS** that the Applicants and the Monitor be at liberty to serve this Order, any other materials and orders in these proceedings, any notices or other correspondence, by forwarding true copies thereof by prepaid ordinary mail, courier, personal delivery or electronic transmission to the Applicants' creditors or other interested parties at their respective addresses as last shown on the records of the Applicants and that any such service or notice by courier, personal delivery or electronic transmission shall be deemed to be received on the next business day following the date of forwarding thereof, or if sent by ordinary mail, on the third business day after mailing.

51. **THIS COURT ORDERS** that the Applicants, the Monitor, and any party who has filed a Notice of Appearance may serve any court materials in these proceedings by e-mailing a PDF or other electronic copy of such materials to counsels' email addresses as recorded on the Service List from time to time, in accordance with the E-filing protocol of the Commercial List to the

extent practicable, and the Monitor may post a copy of any or all such materials on the Monitor's website.

GENERAL

52. **THIS COURT ORDERS** that any of the Applicants or the Monitor may from time to time apply to this Court for advice and directions in the discharge of its powers and duties hereunder.

53. **THIS COURT ORDERS** that nothing in this Order shall prevent the Monitor from acting as an interim receiver, a receiver, a receiver and manager, or a trustee in bankruptcy of any of the Applicants, the Business or the Property.

54. **THIS COURT ORDERS** that the Monitor is hereby authorized to apply, after consultation with the Applicants, the Agent and BNY, for recognition of these proceedings as "Foreign Main Proceedings" in the United States pursuant to Chapter 15 of the *U.S. Bankruptcy Code*.

55. **THIS COURT HEREBY REQUESTS** the aid and recognition of any court, tribunal, regulatory or administrative body having jurisdiction in Canada or in the United States, to give effect to this Order and to assist the Applicants, the Monitor and their respective agents in carrying out the terms of this Order. All courts, tribunals, regulatory and administrative bodies are hereby respectfully requested to make such orders and to provide such assistance to the Applicants and to the Monitor, as an officer of this Court, as may be necessary or desirable to give effect to this Order, to grant representative status to the Monitor in any foreign proceeding, or to assist the Applicants and the Monitor and their respective agents in carrying out the terms of this Order.

56. **THIS COURT ORDERS** that each of the Applicants and the Monitor be at liberty and are hereby authorized and empowered to apply to any court, tribunal, regulatory or administrative body, wherever located, for the recognition of this Order and for assistance in carrying out the terms of this Order.

57. **THIS COURT ORDERS** that any interested party (including the Applicants and the Monitor) may apply to this Court to vary or amend this Order on not less than four (4) days' notice to any other party or parties likely to be affected by the order sought or upon such other notice, if any, as this Court may order.

58. **THIS COURT ORDERS** that this Order and all of its provisions are effective as of 12:01 a.m. Eastern Daylight Time on the date of this Order.

59. **THIS COURT ORDERS** that the unredacted copy of the CRA Engagement Letter be and is hereby sealed and treated as confidential pending completion of the marketing process contemplated by the Investment Offering Protocol or further Order of this Court.

ENTERED AT / INSCRIT À TORONTO
ON / BOOK NO:
LE / DANS LE REGISTRE NO.:

JUN 2 5 2009

PER / PAR: JSN Joanne Nicoara
Registrar, Superior Court of Justice

APPENDIX "A"

GRANT FOREST PRODUCTS INC.

INVESTMENT OFFERING PROTOCOL

Recitals

1. Grant Forest Products Inc., Grant Alberta Inc., Grant Forest Products Sales Inc. and Grant U.S. Holdings GP (collectively, the "**Grant Companies**") filed for protection with the Ontario Superior Court of Justice (the "**Court**") pursuant to the *Companies' Creditors Arrangement Act* (Canada) ("**CCAA**").

2. Pursuant to the CCAA proceedings, Ernst & Young Inc. (the "**Monitor**") has been appointed as the monitor of the Grant Companies.

3. The Grant Companies carry on business in North America as manufacturers and distributors of oriented strand board and other similar and related products (the "**Business**").

4. The Grant Companies wish to engage [<>] as their investment offering advisor (the "**Investment Offering Advisor**") to assist them in identifying prospective parties and negotiating the terms of a refinancing or recapitalization of the Grant Companies and their subsidiaries or a sale of the Business, in whole or in part, in consultation with the Monitor, an agent (the "**First Lien Agent**") for the first lien secured lenders (the "**First Lien Lenders**") and the agent (the "**Second Lien Agent**") for the second lien secured lenders (the "**Second Lien Lenders**").

5. The marketing process set out herein (the "**Marketing Process**") is intended to focus the efforts of the Grant Companies and the Investment Offering Advisor (with the assistance of the Monitor and in consultation with the First Lien Agent and the Second Lien Agent) on the maximization of value for the First Lien Lenders , the Second Lien Lenders, the Grant Companies' other creditors and other stakeholders (collectively, the "**Stakeholders**") either through a refinancing or recapitalization or a sale of the Business.

Leading the Marketing Process

6. In order to ensure that the Marketing Process successfully identifies the best possible buyer or investor, among other things:

(a) the Grant Companies and the Investment Offering Advisor shall lead the marketing efforts in consultation with the Monitor, the First Lien Agent and the Second Lien Agent; and

(b) the Grant Companies shall devote all time and attention necessary to pursue the Marketing Process in a timely manner.

Objectives

7. The Marketing Process will be implemented to achieve the following objectives:

(a) value maximization for the Stakeholders of the Grant Companies;

(b) continuity of the Business; and

(c) timely implementation.

8. In order to achieve these objectives:

(a) interested parties shall be encouraged to consider:

(i) the opportunity of sponsoring a refinancing or a recapitalization of the Grant Companies and their subsidiaries through a plan of arrangement; or

(ii) the purchase of the Business in whole or in part; and

(b) interested parties shall be required to participate in the Marketing Process and to respect the timetable set out herein.

Supervision and Reporting

9. The Marketing Process shall be approved by the Court and subject to the Court's overriding supervision. The Monitor will facilitate and oversee the Marketing Process

undertaken by the Investment Offering Advisor, the Grant Companies and their other advisors, all in accordance with this Protocol. Any sale of the Business must be approved by the Court in accordance with the Initial Order.

10. Whether the transaction is to be implemented by a plan of arrangement or a sale of the Business, the Monitor will provide a report to the Court including a detailed summary as to how the Marketing Process was conducted, the key elements of the resulting transaction and the Monitor's recommendation with respect to such plan or sale, as the case may be.

Reporting to Stakeholders

11. The Grant Companies and the Monitor may provide periodic updates, as appropriate, to Stakeholders which have executed confidentiality agreements including the First Lien Lenders and the Second Lien Lenders.

Selection of Investment Offering Advisor

12. The Grant Companies confirm that they have selected the Investment Offering Advisor and the Investment Offering Advisor has agreed to accept its engagement in accordance with the Investment Offering Advisor Engagement Letter filed in the CCAA proceedings and approved in the Initial Order.

Identification of Potential Interested Parties

13. The Grant Companies and the Monitor will jointly agree on a preliminary potential interested party list with input from the Investment Offering Advisor with a view to ensuring that all parties that have expressed interest in the Business prior to the CCAA proceedings and any potential interested party whose interest may be known to the Grant Companies, the Monitor or the Investment Offering Advisor are included on the preliminary list. The Stakeholders may nominate interested parties for inclusion in the preliminary list.

Marketing Process

14. Phase I

(a) The Grant Companies will work with the Investment Offering Advisor to prepare a one page marketing overview (the "**Teaser**"), a draft non-disclosure agreement (an "**NDA**"), a communications package, a confidential information memorandum, the data room and other relevant marketing materials. The NDA shall not prohibit any person from buying or selling any debt owing by any of the Grant Companies. The Monitor and the advisors to the First Lien Lenders shall be entitled to review and provide input into these materials as they shall deem appropriate.

(b) The Investment Offering Advisor will contact all of the parties on the final potential interested party list and provide them with a copy of the teaser memorandum and form of NDA.

(c) Interested parties that execute the NDA (or have previously executed an NDA satisfactory to the Grant Companies) will receive information and will receive access to a limited electronic data room.

(d) Each potential interested buyer or investor will be asked to submit a non-binding preliminary proposal on or before July 31, 2009.

(e) The Grant Companies and the Monitor, in consultation with the Investment Offering Advisor, will evaluate the non-binding preliminary proposals based on the ability of the potential interested parties to complete due diligence on a timely basis as well as other buyer or investor selection criteria that may be developed by the Grant Companies in consultation with the Monitor and the Investment Offering Advisor.

(f) Given that all parties recognize the need to complete a transaction as quickly as possible, the number of parties invited to participate in Phase II of the Marketing Process will be limited in number and will be jointly selected by the Monitor and the Grant Companies in consultation with the First Lien Agent and the Second Lien Agent.

15. Phase II

(a) Interested parties invited to participate in Phase II will be provided with a management presentation and full electronic data room access.

(b) Interested parties must complete due diligence and submit to the Grant Companies, the Monitor and the Investment Offering Advisor a revised proposal on or before August 30, 2009.

(c) The Grant Companies and the Monitor, in consultation with the Investment Offering Advisor, will review the proposals and, in full consultation with the First Lien Agent and the Second Lien Agent, jointly select one or more parties which wish to proceed to Phase III.

16. Phase III

(a) The Grant Companies and the Monitor, in consultation with the Investment Offering Advisor, the First Lien Agent and the Second Lien Agent, will conduct final negotiations of an agreement to sponsor a plan of arrangement or to sell the Business with or to the interested parties selected to proceed to Phase III.

(b) The Grant Companies shall not, without the prior written approval of the First Lien Agent, at the direction of the First Lien Lenders then holding not less than 66 2/3% of the total amount of the then outstanding indebtedness owing by the Grant Companies to the First Lien Lenders:

(i) file any plan of arrangement with the Court; or

(ii) enter into an agreement to sell the Business or any material part of the Business.

(c) If the transaction is to be completed by a plan of arrangement, such plan will be filed with the Court and submitted to all required meetings of affected creditors for approval no later than September 30, 2009.

(d) If the transaction is to be completed by a sale, the asset purchase agreement will be completed and submitted by the Grant Companies to the Court for approval not later than September 30, 2009.

Adjustments to the Marketing Process

17. The Grant Companies, in consultation with the Investment Offering Advisor, may adjust the Market Process (and extend any time limits) as necessary to achieve the objectives set out in this protocol, provided the Monitor and the First Lien Agent consent to such adjustment.

Court File No: CV-09-8247-00CL

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 (the "Applicants")

ONTARIO

SUPERIOR COURT OF JUSTICE

PROCEEDING COMMENCED AT TORONTO

INITIAL ORDER

FRASER MILNER CASGRAIN LLP
1 First Canadian Place
100 King Street West,
Toronto, Ontario
M5X 1B2

Lawyer:	Alex L. MacFarlane / Jane Dietrich
LSUC:	28133Q / 49302U
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Facsimile:	416 863-4592

Lawyers for the Applicants Grant Forest Products Inc., Grant Alberta Inc., Grant Forest Products Sales Inc., and Grant U.S. Holdings GP

TAB B

Exhibit "**B**" to the Affidavit of Hap Stephen,
sworn before me this 22nd day of July, 2009.

Commissioner for Taking Affidavits, etc.

Annie Shuk-Ying Lau, a
Commissioner, etc., Province of
Ontario, while a Student-at-Law.
Expires April 28, 2012.

KEY EMPLOYEE RETENTION AGREEMENT

THIS AGREEMENT is dated as of the 19th day of December, 2008

BETWEEN:

GRANT FOREST PRODUCTS INC.
having offices at
BCE Place, 181 Bay Street, Suite 1520,
Toronto, Ontario, Canada M5J 2T3 (the "**Company**")

- and -

PETER LYNCH, Chief Financial Officer (the "**Employee**")

Recitals:

The Company anticipates that commencing in Q1, 2009, the Company will be required to implement a recapitalization or restructuring of its affairs (collectively the "**Restructuring**"), including a recapitalization or restructuring of the Company's obligations to its first lien lending syndicate (the "**Senior Lenders**") and the Company's obligations to its second lien lending syndicate (the "**Second Lien Lenders**").

The Company has determined that it is vital to the Restructuring and is in the best interests of all of the Company's stakeholders, including the Senior Lenders and the Second Lien Lenders, to take immediate steps to secure the continued employment of the Employee during the Restructuring and thereafter, and to provide the Employee with certain financial inducements and protections.

NOW THEREFORE in consideration of the covenants and agreements set out in this agreement and for other good and valuable consideration given by each party hereto to the other, the receipt and sufficiency of which are hereby acknowledged by each of the parties, the parties hereby agree as follows:

1. Upon the occurrence of the earliest of any of the events listed in section 2 of this Agreement (a "**Termination Event**") at any time between the date of this Agreement and the date on which the Employee turns 65 years of age (the "**Term**"), the Company shall pay to the Employee, within five days after such Termination Event, an amount (net of applicable withholding taxes) equivalent to three times the Employee's base salary ("**Base Salary**") for the fiscal year of the Company during which such Termination Event occurs. For the purposes hereof, the amount of the Base Salary shall be the amount thereof for the whole of such fiscal year as if the Employee were employed for the whole of such fiscal year.

2. For purposes of this Agreement, a Termination Event means the earliest to occur of one of the following events:

(a) the termination of the Employee's employment with the Company for any reason (including, without limitation, as a result of the bankruptcy or insolvency of the Company), other than:

(i) just cause; or

(ii) voluntary resignation by the Employee;

(b) constructive dismissal of the Employee which, for purposes of this Agreement, shall include:

(i) a significant change in the current position, duties, responsibilities or status of the Employee; or

(ii) a significant change in the current reporting responsibilities, titles or offices of the Employee; or

(iii) a reduction of the Employee's Base Salary; or

(iv) the removal of the Employee from his current position;

(c) through one or more transactions, the sale of the business, or substantially all of the business, or a material part of the assets of the Company considered on a consolidated basis through a sale, merger, amalgamation, arrangement, partnership or otherwise; or

(d) a change in control of the Company which, for purposes of this Agreement, shall mean that Peter Grant Sr. and his direct or indirect descendants and the Peter Grant Family Trust cease to own beneficially, directly or indirectly, more than a majority of the outstanding equity voting shares or interests in the Company computed on a fully diluted basis.

3. In the event that Termination gives rise to entitlements of the Employee to participate in any contractual or other profit sharing, incentive or bonus program from time to time established by the Company (**"Other Bonus"**), the amounts payable under this Agreement shall be in addition to such Other Bonus payment.

4. In the event that, upon Termination, the Employee is indebted to the Company in respect of any loans made by the Company to the Employee (**"Employee Loans"**), the amount of the Employee Loans shall:

(a) firstly be set off against the amount owing by the Company to the Employee under this Agreement; and

(b) secondly be set off against any Other Bonus payable to the Employee,

in each case, to the extent such set-off does not contravene any applicable law and net of any applicable withholding taxes, provided that any such set-off shall only be effected to the extent that there remains any amount owing by the Employee with respect to any Employee Loans as at the time of such set off.

5. The Employee agrees that amounts payable under this Agreement shall constitute the only notice or compensation to which the Employee is entitled in lieu of reasonable notice for termination of the Employee's employment, and upon receipt of such amount by the Employee the Company will have no further obligations to the Employee with respect to the termination of his employment including, without limitation, common law or statutory entitlements upon termination of employment, except such amounts as may have been specifically agreed to by the Company in writing on account of any Other Bonus.

6. In order to secure the obligations of the Company to the Employee under this Agreement, the Company shall, within 30 days of the date of the execution of this Agreement, arrange for and deliver to the Employee an irrevocable letter of credit, in form satisfactory to the parties hereto acting reasonably, issued pursuant to the Company's letter of credit facility established with the Senior Lenders, with a face amount equivalent to three times the Employee's Base Salary for the Company's fiscal year ending December 31, 2008 (as amended from time to time, the "**Severance LC**"). The Company shall, throughout the Term, from time to time extend the expiry date of the Severance LC before the 30th day prior to its then current expiry date, and shall thereupon increase the amount of the Severance LC to reflect any increase in the Employee's Base Salary from the amount thereof as at the date hereof. If the Company does not so extend any expiry date of the Severance LC before such 30th day, the Employee may draw on the Severance LC and hold the proceeds therefrom as security for payment of the Company's obligations to the Employee under this Agreement. The provisions of the Severance LC shall state that the Employee shall be entitled to draw on the Severance LC by delivering a certificate to the issuer, executed by the Employee, certifying that:

(a) the Employee has given not less than ten days' written notice to the Company of his intention to draw down such Severance LC;

(b) the Employee is entitled to be paid, pursuant to the provisions of this Agreement, an amount at least equivalent to the amount of such draw; and

(c) the Employee has not been paid such amount.

Notwithstanding the foregoing, if the Company fails to deliver the Severance LC within the aforesaid period of 30 days of the date of execution of this Agreement, the Company shall, after the Company obtains the necessary consents of the Senior Lenders and the Second Lien Lenders, deposit an amount of cash equal to three times the Employee's Base Salary for 2008 in a trust for the sole benefit of the Employee, with the trustee to be a professional trustee or the Company's outside law firm (or a corporation used by such firm for such purpose) and with the terms of such trust to be consistent with the provisions hereof and to be on terms satisfactory to the parties hereto acting reasonably. Such trust shall secure the Company's payment obligations to the Employee under this Agreement. The Company shall use its commercially reasonable efforts to obtain such consents of the Senior Lenders and the Second Lien Lenders if the Severance LC is not delivered within 30 days after the date of execution of this Agreement.

7. The Company represents that:

(a) the Company's board of directors and the independent committee of its board have authorized the Company to enter into this Agreement; and

(b) this Agreement has been entered into with the Employee as if on an arm's-length basis in order to encourage the Employee to remain with the Company.

8. The Employee shall not be entitled to assign its rights under this Agreement, in whole or in part.

9. In the event that any provision or part of this Agreement shall be deemed void or invalid by a court of competent jurisdiction or an arbitration tribunal, the remaining provisions or parts of this Agreement shall be and remain in full force and effect.

10. The Employee hereby acknowledges and confirms that he has obtained independent legal advice with respect to the nature, contents, terms and effects of this Agreement or has had the opportunity to do so but has declined to obtain such independent legal advice in his absolute and sole discretion, and that the Employee voluntarily accepts the consideration provided by Company for the purpose of entering this Agreement.

11. This Agreement may be executed in one or more counterparts, both of which will be taken together and constitute one agreement, and the execution page and one or more of such counterparts may be delivered by facsimile or other electronic transmission.

12. This Agreement shall be governed by and construed, performed and enforced in accordance with the law of Ontario.

IN WITNESS WHEREOF the parties have executed this Agreement as and with effect from the date first above written.

GRANT FOREST PRODUCTS INC.

Per:____________________________
Peter J. Grant Sr.
Chairman and CEO

____
PETER LYNCH

Formal Date of Execution of this Agreement: January 6th, 2009

AMENDMENT NO. 1 to
KEY EMPLOYEE RETENTION AGREEMENT

THIS AGREEMENT is dated as of the 1st day of April, 2009,

BETWEEN:

GRANT FOREST PRODUCTS INC.
having offices at
BCE Place, 181 Bay Street, Suite 1520,
Toronto, Ontario, Canada M5J 2T3 (the "**Company**")

-and-

PETER LYNCH, Executive Vice President & Secretary of the Company (the "**Employee**")

Recitals:

WHEREAS the Company and the Employee entered into a key employee retention agreement dated as of the 19th day of December, 2008 (the "**Key Employee Retention Agreement**");

AND WHEREAS paragraph 6 of the Key Employee Retention Agreement contemplated the delivery to the Employee of the Severance LC (as defined by the Key Employee Retention Agreement) or the deposit in trust for the Employee of the amount of cash referred to therein;

AND WHEREAS the Severance LC has not been delivered to the Employee and no amount of cash was deposited in trust for the Employee;

AND WHEREAS the Company is contemplating filing for protection under the *Companies' Creditors Arrangement Act* (the "**CCAA**");

NOW THEREFORE in consideration of the payment of the sum of $10.00 and other good and valuable consideration given by each party hereto to the other, the receipt and sufficiency of which are hereby acknowledged by each of the parties, the parties hereby agree as follows:

1. Paragraph 6 of the Key Employee Retention Agreement is hereby amended by the addition of the following sentence at the end thereof:

> Notwithstanding the foregoing, if the Company makes an application under the *Companies' Creditors Arrangement Act*, the Company shall seek an order, on terms satisfactory to the Employee, creating a charge in the amount of $1,050,000 over all property of the Company and the other applicants with priority satisfactory to the Employee as security for payment of all obligations of the Company to the Employee under this Agreement. The Company shall not request the Court to discharge such charge unless the Company provides alternate security to the

Employee in form and amount satisfactory to the Employee, acting reasonably.

2. The parties hereto hereby confirm all provisions of the Key Employee Retention Agreement, as amended by this agreement.

3. If there is any conflict between any provision of this agreement and any provision of the Key Employee Retention Agreement, the provision of this agreement shall prevail.

4. This agreement shall be governed by and construed in accordance with the laws of the Province of Ontario and the laws of Canada applicable therein.

5. This agreement may be executed in one or more counterparts, in original or telecopied form, each of which shall be deemed to be an original and which taken together shall be deemed to constitute one and the same agreement.

IN WITNESS WHEREOF the parties hereto have executed this Agreement as and with effect from the date first above written.

GRANT FOREST PRODUCTS INC.

By: ________________________
Name: Peter J. Grant Sr.
Title: President

____

PETER LYNCH

TAB C

Exhibit "**C**" to the Affidavit of Hap Stephen,
sworn before me this 22nd day of July, 2009.

Commissioner for Taking Affidavits, etc.

Annie Shuk-Ying Lau, a Commissioner, etc., Province of Ontario, while a Student-at-Law. Expires April 28, 2012.

Court File No. ~~09-CL~~-CV-09-8247-00CL

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 (the "Applicants")

AFFIDAVIT OF PETER LYNCH
(sworn June 22, 2009)

I, **Peter Lynch**, of the City of Toronto, in the Province of Ontario, **MAKE OATH AND SAY:**

I am the executive vice-president and secretary of Grant Forest Products Inc. ("**Grant Forest**"), the vice-president and secretary of Grant Alberta Inc. ("**Alberta**") and the president and secretary of Grant Forest Products Sales Inc. ("**Sales**"). I am also a director of Grant Forest, Alberta and Sales. As such, I have personal knowledge of the matters to which I hereinafter depose. Where I do not possess such personal knowledge, I have stated the source of my information and, in all such cases, do verily believe it to be true.

OVERVIEW

1. This affidavit is sworn in support of the application by Grant Forest, Alberta , Sales and Grant U.S. Holdings GP ("**Grant Holdings**") (collectively, the "**Applicants**") for certain relief under the *Companies' Creditors Arrangement Act*, R.S.C. 1985, C. C-36, as amended (the "**CCAA**").

2. The organizational structure of the Applicants and certain of their subsidiaries or other related parties (collectively, the "**Subsidiaries**") is set out in the chart attached hereto as Exhibit "A".

3. Grant Forest is a leading Canadian manufacturer of oriented strand board ("**OSB**"). Grant Forest manufactures OSB in panels of varying lengths and thickness, as well as specialty products such as web stock, rim board, and oversized panels. The Applicants and the Subsidiaries have interests in three mills in Canada and two mills in the United States. Only one mill in Canada and one mill in the United States are presently operating as a result of the current reduced demand for OSB and other wood products.

4. The Applicants have two levels of primary secured debt. Each of The Toronto-Dominion Bank ("**TD**") and a related entity, Toronto Dominion (Texas) LLC ("**TD Texas**") is an agent (collectively, the "**First Lien Lenders' Agents**") for the first lien lenders (the "**First Lien Lenders**") which, as at May 31, 2009, were owed the principal amount of approximately US$398.8 million (and accrued interest of approximately US$5.3 million) pursuant to a credit agreement dated as of October 26, 2005, as amended by an agreement dated as of March 21, 2007 (the "**First Lien Credit Agreement**"). The Bank of New York Mellon ("**BNY**") is the agent for the second lien lenders (the "**Second Lien Lenders**") which, as at May 31, 2009, were owed the principal amount of approximately US$150 million (and accrued interest of approximately US$42 million) pursuant to a credit agreement dated as of March 21, 2007, as amended by an agreement dated as of April 30, 2009 (the "**Second Lien Credit Agreement**"). Each of TD and TD Texas (collectively, the "**Second Lien Lenders' Agents**") was originally an agent for the Second Lien Lenders but has resigned and transferred its interests with respect thereto to BNY as the replacement agent for the Second Lien Lenders. Grant Holdings is in default under both the First Lien Credit Agreement and the Second Lien Credit Agreement.

5. The Applicants are not able to repay the First Lien Lenders and the Second Lien Lenders but have been working with both groups to develop a restructuring plan. Grant Forest engaged Goldman, Sachs & Co. ("**Goldman Sachs**") in October 2008 to canvass the market for potential investors and engaged Stonecrest Capital Inc. ("**Stonecrest**") as chief restructuring advisor (the "**CRA**") in December 2008.

6. The Applicants have been taking steps to reduce expenses. Grant Forest returned to GE Canada Leasing Services Company ("**GE Leasing**") two corporate aircraft that Grant

Forest had leased from GE Leasing. As a consequence of an alleged deficiency claim under the applicable master aircraft lease, GE Leasing brought an application for bankruptcy order dated March 17, 2009 against Grant Forest originally returnable on April 16, 2009. Grant Forest filed a notice disputing the application on April 9, 2009 and a hearing has been scheduled for July 6, 2009.

7. The Applicants are insolvent and require a stay of proceedings in order to provide them with the time required to formulate a restructuring plan.

OVERVIEW OF THE BUSINESSES

8. Grant Forest is a privately owned corporation which carries on an oriented strand board manufacturing business. It was founded by Peter Grant Sr. in 1980. With a total capacity to produce 3.7 billion square feet of OSB per annum, the Applicants and their Subsidiaries are the third largest OSB manufacturer in North America.

9. A brief description of each of the Applicants is as follows:

(a) Grant Forest: Grant Forest is the main operating company in Canada and owns two mills located in Englehart and Timmins, Ontario and a 50% interest in one mill located in High Level, Alberta. Title to the mill in Alberta is held by Footner Forest Products Ltd., as bare trustee, and Grant Forest owns 50% of the shares of Footner Forest Products Ltd. Grant Forest owns real property in Ontario including the two mills, various woodlots, a golf course and a corporate office building under construction. Grant Forest also holds agreements and licences from the Minister of Natural Resources of the Province of Ontario with respect to the supply of wood. Grant Forest has a 99.99% partnership interest in Grant Holdings.

(b) Alberta: Alberta is a wholly owned subsidiary of Grant Forest and has a 0.01% partnership interest in Grant Holdings as its only asset.

(c) Sales: Sales is a wholly owned subsidiary of Grant Forest and purchases all of the OSB produced by Grant Forest at its Canadian mills and sells it to customers.

(d) Grant Holdings: Grant Holdings is a Delaware general partnership. Grant Holdings' two partners are Grant Forest and Alberta. Grant Holdings directly owns all the issued common shares of Southeast Properties LLC and preferred limited partnership interests in Grant Allendale LP (**"Allendale"**) and Grant Clarendon LP (**"Clarendon"**). Each of Allendale and Clarendon owns an OSB mill in South Carolina. They are not included as Applicants in these proceedings.

10. Because of the present market conditions and the reduced demand for OSB and other wood products, only two of the OSB mills, owned directly or indirectly by Grant Forest located in Englehart, Ontario and Allendale, South Carolina, are presently operating. Both the mill in Timmins, Ontario and the mill in High Level, Alberta are idle. The mill in Clarendon, South Carolina is a new mill which is substantially complete but has not yet been put into production.

11. The ultimate shareholders of Grant Forest, through various holding companies, are Peter Grant Sr. and Twin Lakes Trust (a Grant family trust).

12. Grant Forest's head office is located in leased premises in Brookfield Place, Toronto. Grant Forest has administrative offices in Earlton, Ontario and an IT support office in leased premises in Mississauga, Ontario. Sales has sales and marketing offices in Mississauga, Ontario which are leased by Grant Forest.

13. Historically, the Applicants have benefited from a secure and abundant fibre supply, geographical diversification, proximity to key markets, direct-to-customer marketing strategy, large scale mills which take advantage of efficiency of operations and a strong and experienced management team. However, the recent economic slump and corresponding severe decrease in both demand and price for all building supplies, including OSB, when coupled with the debt incurred to fund the construction of the Allendale and Clarendon mills have contributed to the Applicants' current financial problems.

FINANCIAL SITUATION AND STAKEHOLDERS

14. Attached as Exhibit "B" are copies of the Applicants' financial statements, audited or unaudited, prepared during the year prior to the application made by the Applicants under the CCAA.

15. Prices for OSB have decreased dramatically since 2004. The annual average applicable per msf price for OSB each year from 2004 to 2008 was:

2004	US $375.00
2005	US $324.00
2006	US $217.00
2007	US $162.00
2008	US $170.00.

The comparable price of OSB for the first quarter of 2009 was US $155.00 and the comparable price currently is US $138.00.

16. The annual consolidated sales of Grant Forest have accordingly also decreased substantially since 2004. The annual consolidated sales of Grant Forest in each of the years from 2004 to 2008 (in U.S. dollars) were:

2004	$506 million
2005	$420 million
2006	$291 million
2007	$160 million
2008	$184 million.

17. In its 2007 and 2008 fiscal years, Grant Forest incurred consolidated losses of approximately Cdn. $36 million and Cdn. $216 million, respectively.

18. The Applicants and their Subsidiaries incurred total capital expenditures of approximately U.S. $650 million from 2005 to 2008. These were primarily related to the construction of the Allendale and Clarendon mills and the updating of the Englehart and Timmins mills.

19. The Applicants' stakeholders include their secured creditors, trade creditors, other unsecured creditors, shareholders, employees, landlords and customers. Further details of these are set out below.

Secured Creditors

20. Summaries of the results of searches of registrations against the Applicants under the *Personal Property Security Act* (Ontario) as at April 1, 2009 and the *Personal Property Security Act* (Alberta) as at April 1, 2009 are attached hereto as Exhibits "C" and "D", respectively.

21. The interests of the primary secured creditors (the First Lien Lenders and the Second Lien Lenders) are described below.

First Lien Lenders

22. The First Lien Lenders were as at May 31, 2009 owed approximately US$398.8 million principal and US$5.3 million accrued interest pursuant to the First Lien Credit Agreement. Grant Forest and Grant Holdings are direct borrowers. In addition the Applicants were, as at May 31, 2009, liable to one or more of the First Lien Lenders in the total amount of approximately $8,720,345 pursuant to interest rate swap agreements with them and such liability is also secured by their security.

23. Each of the Applicants which is not a direct borrower and each of the Subsidiaries (other than Grant Excluded GP) has guaranteed payment of such indebtedness and delivered to the First Lien Lenders' Agents security charging all its assets.

24. One of the First Lien Lenders' Agents delivered to Grant Forest or Grant Holdings notices dated April 17, 2009, May 20, 2009 and May 28, 2009 that defaults have occurred under the First Lien Credit Agreement.

Second Lien Lenders

25. The Second Lien Lenders are owed approximately US$190 million pursuant to the Second Lien Credit Agreement. Grant Holdings is the sole direct borrower.

26. Each of the other Applicants and each of the Subsidiaries (other than Grant Excluded GP) has guaranteed payment of such indebtedness and delivered to the Second Lien Lenders' Agents security charging all its assets. TD and TD Texas have assigned their interests in

such security to their successor agent, BNY. Such security ranks subordinate to the security held by the First Lien Lenders' Agents.

Intercreditor Agreement

27. The First Lien Lenders' Agents and the Second Lien Lenders' Agents executed an Intercreditor Agreement dated as of March 21, 2007. Such agreement restricts certain rights of the Second Lien Lenders and the Second Lien Lenders' Agents from enforcing their security for a period of 180 days after receipt by Grant Holdings and TD, as agent for the First Lien Lenders, from the agent for the Second Lien Lenders of notice of an event of default under the Second Lien Credit Agreement or related documents and the intention of the Second Lien Lenders to exercise remedies with respect thereto.

GE Leasing

28. Grant Forest entered into a master aircraft lease agreement dated December 22, 1999 (and various lease schedules) with GE Leasing in respect of three aircraft, two of which (a 1992 Dassault Falcon 50 and a 1994 Dassault Falcon 900B) have not been sold by GE Leasing. As of March 31, 2009, Grant Forest ceased making payments under the lease. Grant Forest has returned these two remaining aircraft to GE Leasing. GE Leasing has issued a demand for payment of approximately US$31.1 million.

29. As noted above, GE Leasing brought an application seeking a bankruptcy order against Grant Forest with respect to amounts GE Leasing is claiming under the lease.

Trade Creditors

30. A listing of the approximate total amounts of the trade accounts payable of each of the Applicants as of May 31, 2009 is attached as Exhibit "E". The approximate total amount owing by all the Applicants to their respective trade creditors as at May 31, 2009 was $4.3 million. In addition there was approximately $2.4 million owing to trade creditors which has been incurred but not billed.

31. The primary trade creditors of Grant Forest are log suppliers, log transportation providers and resin and wax suppliers.

32. I understand that many of the trade creditors which supply logs to Grant Forest may be entitled to assert a lien claim against such logs pursuant to the *Forestry Workers Lien for Wages Act*, R.S.O. 1990, c. F.28 (the "**FWLWA**"). Specifically, I understand that section 3 of the FWLWA states:

> 3(1) A person performing labour has a lien upon the logs or timber in connection with which the labour is performed for the amount due for such labour, and the lien has precedence over all other claims or liens thereon, except a claim or lien of the Crown for any dues or charges or that a timber slide company or any owner of a slide or boom may have thereon for tolls. R.S.O. 1990, c. F.28, s. 3 (1).
>
> (2) A contractor who has entered into any agreement under the terms of which the contractor personally or by others in the contractor's employ have cut, removed, taken out or driven logs or timber, shall be deemed to be a person performing labour upon logs or timber within the meaning of this section, and such cutting, removal, taking out and driving shall be deemed to be the performance of labour within the meaning of this section. R.S.O. 1990, c. F.28, s. 3 (2).

33. In part because of such lien rights of the log suppliers, the form of the initial order being sought by the Applicants under the CCAA would permit the Applicants to make payments to a person or persons for the supply of logs or timber to Grant Forest prior to, on or after the date of the order.

<u>Major Inter-Company Unsecured Indebtedness</u>

34. Much of the principal amounts loaned by the First Lien Lenders and the Second Lien Lenders to Grant Holdings was loaned, through various transactions, to Allendale and Clarendon. Amounts loaned to Allendale were used by Allendale to construct its mill at Allendale, South Carolina and amounts loaned to Clarendon were used by Clarendon to construct its mill at Clarendon, South Carolina.

35. The indebtedness borrowed by Allendale to construct its mill is now owing by Allendale to Grant Excluded GP and evidenced by a grid note dated August 13, 2007 in the approximate principal amount of US$295.5 million.

36. The indebtedness borrowed by Clarendon to construct its mill is now owing by Clarendon to Grant Excluded GP and evidenced by a grid note dated August 13, 2007 in the approximate principal amount of US$227.2 million.

37. Each of Allendale and Clarendon has guaranteed payment of the indebtedness owing by Grant Holdings and, in the case of the First Lien Lenders, Grant Forest, to the First Lien Lenders and the Second Lien Lenders and has granted charges of all its assets (including its general partnership interest in Grant Excluded GP) to the First Lien Lenders' Agents and the Second Lien Lenders' Agents, respectively.

38. Grant Excluded GP has no material creditors and its activities are limited by agreements with the First Lien Lenders' Agents and the Second Lien Lenders' Agents.

39. Attached as Exhibit "G" is a summary of amounts owing by any of the Applicants or by any of the Subsidiaries to any of the other Applicants or other Subsidiaries as at May 31, 2009.

Shareholder Unsecured Indebtedness

40. Grant Forest is indebted to one of its shareholders, 1308406 Ontario Inc., in the total principal amount of $50 million as evidenced by two notes dated December 6, 2004 in the respective principal amounts of $40 million and $10 million. Such indebtedness is unsecured and payable by Grant Forest to 1308406 Ontario Inc. on demand by 1308406 Ontario Inc. However 1308406 Ontario Inc. has provided postponement and subordination agreements to one of each of the First Lien Lenders' Agents and the Second Lien Lenders' Agent. Grant Forest is also indebted to Grant Forest Products Corp., the holder of preferred shares issued by Grant Forest, in the total amount of $6,160,000 with respect to dividends declared in 2006 which have not been paid.

Employees

41. As of May 31, 2009, the Applicants had approximately 253 active employees (excluding employees who have been laid off temporarily in Alberta and Ontario), the details of which are set out below:

Entity	Non-Union	Union
Grant Forest	113	122
Alberta	0	0
Sales	18	0
Grant Holdings	0	0

The foregoing do not include employees of Allendale, Clarendon or Footner Forest Products Ltd..

42. Grant Forest and Sales use a payroll service, ADP Services, to pay their respective employees. The total amount of the bi-weekly payroll remitted to such service, including government remittances, is approximately Cdn. $900,000. I understand that the government remittance obligations of Grant Forest and Sale related to payroll are current.

43. Grant Forest administers the following four pension plans registered with the Financial Services Commission of Ontario ("**FSCO**") for certain of its employees, former employees and their beneficiaries:

(a) Pension plan for the employees of Grant Forest, FSCO registration number 0940734, which is a defined contribution pension plan;

(b) Pension plan for the hourly employees of Grant Forest - Englehart Plant, FSCO registration number 1013044, which is a defined contribution pension plan;

(c) Pension plan for the hourly employees of Grant Forest - Timmins Plant, FSCO registration number 1048271, which is a defined contribution pension plan;

(d) Pension plan for the salaried employees of Grant Forest - Timmins Plant, FSCO registration number 1053008, which is a defined benefit pension plan; and

(e) Pension plan for certain executive employees of Grant Forest – FSCO registration number 0992537, which is a defined benefit pension plan.

The total amount of the monthly contributions of Grant Forest in respect of the three defined contribution pension plans is approximately $112,514. Grant Forest contributes approximately $322 each month to fund defined benefit pension plan No. 1053008 and approximately $4,080 each month to fund defined benefit pension plan No. 0992537.

Contributions to the two defined benefit pension plans have been made in accordance with the actuarial valuation reports for each plan filed with FSCO. Monthly payments for all five registered pension plans are current and not in arrears.

44. Grant Forest provides supplemental executive retirement plan ("**SERP**") benefits to certain of its current and former executive employees. The SERP benefits are not provided under a registered pension plan. "Retirement Compensation Arrangement" (as defined under the Income Tax Act of Canada) accounts have been established with Canada Revenue Agency in connection with the SERP benefits.

Landlords

45. Grant Forest leases its head office at Brookfield Place in Toronto, the term of which expires on January 31, 2010, and a sales office in Mississauga, Ontario, from which Sales operates.

46. The total approximate amount of Grant Forest's monthly rent payments is $49,500. Rents are payable monthly in advance. I understand that these rent payments are current.

Customers

47. The Applicants and the Subsidiaries have over 2,500 customers. No single customer accounts for more than 10% of total sales. Approximately 80% of these customers are retail lumber chains or buying groups which sell to member lumberyards and which in turn supply builders.

FOOTNER MILL AT HIGH LEVEL, ALBERTA

48. Grant Forest Products Corp. and Ainsworth Lumber Co. Ltd. signed a memorandum of agreement dated December 9, 1999 with respect to the construction and operation of an OSB mill at High Level, Alberta. Grant Forest acquired the interests of Grant Forest Products Corp. therein by an assignment agreement dated as of December 9, 1999. The mill is owned legally by Footner Forest Products Ltd., as bare trustee for the assignees of the parties to the memorandum of agreement. Grant Forest owns one-half of the issued common shares of Footner Forest Products Ltd. The mill is not currently operating as a result of low market demand for its products.

49. The memorandum of agreement dated December 9, 1999 contains a provision indicating that a co-owners' agreement will be entered into to govern the parties' involvement with respect to the mill and that such agreement will contain a shotgun buy/sell agreement in relation to the investments of the parties. The parties never entered into the co-owners' agreement.

50. Any use of a shotgun buy/sell arrangement during Grant Forest's CCAA restructuring period would likely disrupt the restructuring of Grant Forest and could be materially detrimental to the interests of Grant Forest's creditors and other stakeholders because Grant Forest is not in a position to finance a purchase of the other party's interests while Grant Forest is insolvent. Any exercise of any shotgun buy/sell right during the CCAA period could result in a material loss to Grant Forest and its stakeholders.

<u>TAX REFUND SALES</u>

51. By an agreement dated March 31, 2008, Peter Grant, Sr. agreed to purchase from Grant Forest:

(a) part of Grant Forest's income tax refund in excess of $45 million with respect to its income taxes paid for 2005 and 2006 (the "**Sold 2008 Refund**") for a purchase price of the Canadian dollar equivalent on March 31, 2008 of US $10 million; and

(b) part of Grant Forest's income tax refund in excess of $15 million with respect to its income taxes paid for 2006 (the "**Sold 2009 Refund**") for a purchase price of the Canadian dollar equivalent on January 2, 2009 of US $10 million.

The purpose of the transaction was for Peter Grant, Sr. to provide cash to Grant Forest to improve Grant Forest's liquidity.

52. On or about March 31, 2008 the sale by Grant Forest to Peter Grant, Sr. of the Sold 2008 Refund was completed, Peter Grant, Sr. paid to Grant Forest the sum of Cdn. $10,270,947 and the First Lien Lenders' Agents and the Second Lien Lenders' Agents discharged their respective security interests in the Sold 2008 Refund to facilitate such

sale. Grant Forest has paid the Sold 2008 Refund in the amount of Cdn. $10,478,857 to Peter Grant, Sr.

53. As part of the transaction, Peter Grant, Sr. also paid to Grant Forest a deposit with respect to the Sold 2009 Refund of the sum of Cdn. $10,270,947 on March 31, 2008. Grant Forest has not delivered to Peter Grant, Sr. the partial security discharges by the First Lien Lenders' Agents or the Second Lien Lenders' Agents and other documents pursuant to the agreement and is in default of its obligation to do so.

PROPOSED PLAN OF COMPROMISE OR ARRANGEMENT

54. Because of their financial difficulties, the Applicants believe it is necessary for them to file for CCAA protection. The Applicants have begun work with the proposed monitor, Ernst & Young Inc. ("**E&Y**"), which expects to provide the Court with a preliminary report.

55. The Applicants intend to work with their advisors to develop and implement a restructuring plan if the Applicants are granted CCAA protection.

PROJECTED CASH FLOW

56. A copy of the Applicants' projected cash flow (the "**Cash Flow Projection**") for the period June 22, 2009 to September 27, 2009 is attached hereto as Exhibit "F".

57. The Cash Flow Projection indicates the Applicants do not require debtor-in-possession financing at this time.

MARKETING PROCESS

58. Grant Forest intends, with the approval of the First Lien Lenders' Agents and subject to the approval of the Court, to enter into an engagement agreement with an investment offering advisor (the "**Investment Offering Advisor**"). The agreement will appoint the Investment Offering Advisor to assist Grant Forest *inter alia* to elicit letters of intent with respect to the refinancing or recapitalization of Grant Forest and its subsidiaries or the sale of their assets in accordance with the investment offering protocol attached as

Exhibit "H". I believe that the process set out in the protocol will elicit expressions of interest which will facilitate Grant Forest's decision to complete a restructuring, recapitalization or sale which will optimize the returns for the Applicants' creditors and other stakeholders.

INITIAL CCAA ORDER SOUGHT

Need for a Stay of Proceedings

59. Because of the Applicant's financial difficulties and the bankruptcy application brought by GE Leasing, a stay of proceedings is essential for the continued operations of the Applicants' businesses. Such stay would create the necessary environment to allow the Applicants to develop and implement a restructuring plan.

60. Stability is necessary to facilitate on-going customer, supplier and employee support critical to a successful reorganization of the Applicants' businesses.

Need for a Chief Restructuring Advisor

61. Because of the challenges facing the Applicants, on December 12, 2008 Grant Forest retained Stonecrest Capital Inc. to assist it with its restructuring. Since then Stonecrest Capital Inc., and specifically Hap Stephen and Sandra Rosch, have worked with Grant Forest in this regard. Grant Forest is currently negotiating an amended engagement letter (the "**CRA Engagement Letter**") with Stonecrest Capital Inc which, I am hopeful, will be completed and presented to the Court for approval. I anticipate the CRA Engagement Letter will engage Stonecrest Capital Inc. to provide services to Grant Forest and Grant Holdings in connection with the development and implementation of a restructuring plan and to advise and assist Grant Forest and Grant Holdings with their negotiations with creditors and other stakeholders.

62. Because there will be many issues related to the CCAA proceedings and the development and implementation of the Applicants' restructuring plan, I believe that it is necessary that the Applicants have the assistance of the CRA.

63. There are a large number of stakeholders with varying interests and many issues which will need to be addressed quickly given the financial circumstances the Applicants are

facing. I believe the engagement of the CRA is critical to moving the restructuring process forward effectively. In addition, the CRA will have the independence and the objectivity necessary to facilitate the restructuring process.

64. The form of the order sought by the Applicants contains provisions authorizing the continuation of the appointment of the CRA pursuant to the CRA Engagement Letter and providing for an indemnification and charge relating to the fees and expenses of the CRA. Such charge is part of the Administration Charge described below.

Payment of Professional Fees and the Administration Charge

65. I believe it is in the interests of the Applicants and their stakeholders that the CRA, the Applicants' legal advisors, the Monitor, the Monitor's legal advisors, the legal advisors to Grant Forest's board of directors and the legal advisors to the First Lien Lenders' Agents assist throughout this process. Consequently, it is necessary to continue to pay their reasonable fees and disbursements, whether incurred before, on or after the date of the initial CCAA order requested by the Applicants and to provide the Monitor and such advisors with a first ranking charge in the total amount of $2,000,000 (the "**Administration Charge**") of all assets of the Applicants as security for all amounts now or hereafter owing by the Applicants to them.

KERP Charge

66. On December 19, 2008, Grant Forest entered into a key employee retention agreement (the "**KERP Agreement**") with me. The agreement was approved by the board of directors of Grant Forest before it was signed and was provided in recognition of my role as the principal officer of Grant Forest assigned the task of guiding the Applicants through the CCAA process and their restructuring. Such agreement provides for the payment by Grant Forest to me of an amount equivalent to three times base salary upon any of the Termination Events (as defined in the KERP Agreement) for a total maximum payment of $1,134,000.

67. The KERP Agreement required Grant Forest to provide me with a letter of credit or cash deposit in such amount as security. Because of the financial condition of Grant Forest, it

has been unable to do so and, accordingly, Grant Forest and I entered into an amendment agreement dated as of April 1, 2009 which requires Grant Forest to seek, in the initial CCAA order, a charge (the "**KERP Charge**") of the assets of the Applicants in the amount of $1,134,000 as security for payment of the amounts hereafter owing by Grant Forest to me under the KERP Agreement. The amendment agreement provides that such charge will have the same priority as the directors' charge. Copies of the KERP Agreement and such amendment agreement are attached as Exhibit "I" hereto.

Directors' Charge

68. The Applicants wish to retain their current directors and officers to assist the Applicants during the uncertainties of the restructuring period with the development and implementation of their restructuring plan. The current directors of Grant Forest (other than Peter Grant Sr. and Peter Grant Jr.) do not own any shares or other ownership interests in any of the Applicants.

69. A charge (the "**Directors' Charge**") of the Applicants' assets in favour of the directors and officers of the Applicants is required in order to provide a level of protection to the directors and officers of the Applicants with respect to liabilities imposed on individuals in their capacities as directors or officers of a corporation. The directors and officers of the Applicants require the protection afforded by the Directors' Charge due to the uncertainty created by the filing of these proceedings. The Applicants are requesting that the Directors' Charge rank second in priority, directly behind the Administration Charge and pari passu with the KERP Charge.

U.S. Subsidiaries

70. All trade payables of Allendale and Grant US Sales Inc. ("**US Sales**") are current and Grant Forest believes that sufficient revenues will be generated by Allendale and US Sales during the restructuring period to continue to pay their trade payables when due in the ordinary course. Clarendon has not yet started production at its mill. None of Southeast Properties LLC, Grant Newco LLC or Grant Excluded GP has any trade payables. Accordingly, Grant Forest does not intend to cause any of the Subsidiaries to make filings under the U.S. Bankruptcy Code unless such filings become necessary in the

future. Grant Forest is hopeful that this will simplify the Applicants' restructuring and reduce expenses.

71. Grant Forest intends to cause each of Allendale and US Sales to continue to carry on its business and to cause Clarendon to continue to maintain its mill in the ordinary course in the same manner as it has in the past. Grant Forest believes that sufficient revenues will be generated by Allendale and US Sales to finance the continuation of their businesses in the ordinary course. Grant Forest and Grant Holdings are prepared, in the event any additional funds are required by any of Allendale, US Sales or Clarendon, to lend such funds to it provided the Monitor consents to such loans. Each of Allendale, US Sales and Clarendon has guaranteed payment of all indebtedness of Grant Holdings (and, in the case of the First Lien Lenders, Grant Forest) to the First Lien Lenders and the Second Lien Lenders and charged all its existing and after-acquired assets as security for such guarantee obligations. Accordingly, any amounts loaned to Allendale, US Sales or Clarendon (and all proceeds thereof) would be charged by such security. Therefore Grant Forest believes it is unnecessary for Allendale, US Sales or Clarendon to provide security to Grant Forest or Grant Holdings as security for any such loans.

CONCLUSION

72. The Applicants believe that their core businesses and operations are viable and that, if they are provided with a reasonable period of protection, they will be in a position to develop and implement a restructuring plan to maximize value for their stakeholders and preserve jobs for Grant Forest's and Sales' employees.

73. I swear this affidavit in support of the Applicants' application for an order under the CCAA and for no other or improper purpose.

SWORN before me at the City of Toronto in the Province of Ontario this 22nd day of June, 2009	)))))))	
A Commissioner, etc.		PETER LYNCH
KATE STIGLER		

Court File No: CV-09-8247-00CL

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 (the "Applicants")

ONTARIO

SUPERIOR COURT OF JUSTICE

PROCEEDING COMMENCED AT TORONTO

AFFIDAVIT OF PETER LYNCH
(Sworn June 22, 2009)

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Lawyers for the Applicants Grant Forest Products Inc., Grant Alberta Inc., Grant Forest Products Sales Inc., and Grant U.S. Holdings GP

TAB D

Exhibit "**D**" to the Affidavit of Hap Stephen, sworn before me this 22nd day of July, 2009.

Commissioner for Taking Affidavits, etc.

Annie Shuk-Ying Lau, a
Commissioner, etc., Province of
Ontario, while a Student-at-Law.
Expires April 28, 2012.

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Stonecrest Capital Inc.

STRICTLY PRIVATE & CONFIDENTIAL

Amended Engagement Letter dated June 23, 2009

Grant Forest Products Inc.
BCE Place, 181 Bay Street
Suite 1520
Toronto, Canada M5J 2T3

Attention: Mr. Peter Lynch, Executive Vice-President

Dear Sir:

Re: Engagement of Stonecrest Capital Inc. ("SCI")

Grant Forest Products Inc.(the "Company") wishes to retain Stonecrest Capital Inc. ("SCI") as its chief restructuring advisor to assist it in connection with its filing and proceedings under the Companies' Creditors Arrangement Act ("CCAA"). This may include, but is not limited to, the development, evaluation, and implementation of a restructuring which could include refinancing, sale of all or substantially all of the assets of the business as a going concern, asset sales and recapitalization transactions, or a combination thereof, (the "Restructuring"). This letter confirms the engagement of SCI and sets out the terms of the engagement of SCI.

1. SCI's Services

SCI shall provide its expertise, services and assistance to the Company, Grant Alberta Inc., Grant Forest Products Sales Inc. and Grant U.S. Holdings GP (the "Borrowers") in connection with the development and implementation of a restructuring plan for the Borrowers and their affiliates. SCI's services will be provided by Hap Stephen ("Stephen") and Sandra Rosch ("Rosch"). SCI will work with the Company's Board, management team, and financial advisors in consultation with Ernst & Young Inc. in its capacity as Monitor appointed in proceedings under the CCAA. Without limiting the foregoing, the services to be provided by SCI, working together with the Company's management and its other legal and financial advisors shall include:

(a) Advising and assisting the Borrowers in the development and implementation of a restructuring plan including negotiations with the various lender and creditor groups and other stakeholders as appropriate;

(b) Advising and assisting, together with the Company's management and its legal and other financial advisors, in connection with the consideration of a strategy to effect a sale of the shares of the Company or of all or substantially all or a material part of the assets of the Company, Grant Allendale LP and Grant Clarendon LP (together, the "Mill Owners") or the combination of all or a material part of the Mill Owners' businesses with one or more other business entities through a sale, merger, amalgamation arrangement, partnership or otherwise (a "Sale Transaction");

(c) Advising and assisting the Company and its legal and financial advisors in the development, evaluation and implementation of the restructuring or recapitalization of the Borrowers' equity and/or indebtedness;

(d) Assisting management, if requested, in coordinating the financial and other advisors;

(e) Advising and assisting management, as requested, with respect to the development and analysis of any operational restructuring and cost reduction plans;

(f) Assisting in the development of a plan for filing under the Companies' Creditors Arrangements Act ("CCAA") and similar U.S. legislation for creditor protection and as a means to facilitate a Restructuring;

(g) Acting as Chief Restructuring Advisor when the Company commences proceedings under the CCAA or other creditor protection legislation ("Formal Restructuring Proceedings"); and

(h) Performing the duties of Chief Restructuring Advisor as provided in any court order made in Formal Restructuring Proceedings, including, cooperating fully and providing such assistance, advice and direction as may be necessary or appropriate to facilitate and implement any marketing protocol or other initiative authorized by the court to seek new investors in the Borrowers or their business..

2. **Information**

The Company represents and warrants to SCI, and will use its best efforts to ensure, that all information to be provided to SCI, directly or indirectly, orally or in writing, in connection with SCI's engagement hereunder will be accurate and complete in all material respects and will not be misleading in any material way and will not omit to state any fact or information which might reasonably be considered material to SCI in performing its services hereunder. SCI shall be entitled to rely upon such information, and SCI shall be under no obligation to verify independently any such information so provided to or otherwise obtained by SCI. SCI shall also be under no obligation to determine whether there have been or to investigate any changes in any of such information occurring after the date any of the same were provided or obtained.

3. **Fees**

SCI's compensation for the services referred to above will be as follows:

(a) a work fee of Cdn$100,000 per month (the "Work Fee") payable in advance on the 12th day of each month commencing on July 12, 2009 until termination of this engagement with it being acknowledged that the Work Fee having been irrevocably paid to July 11, 2009; and

(b) a fee in an amount equal to the greater of Cdn$500,000 and the amount determined in accordance with the grid set out below (the "Restructuring Fee"), payable as provided below in respect of the first to occur of the following events on terms satisfactory to the Borrowers and accepted by the First Lien Lenders:

(i) the refinancing of all or substantially all of the indebtedness of the Borrowers to the Secured Lenders or the restructuring or recapitalization of the Borrowers' equity, debt securities and/or other indebtedness to the Secured Lenders that is not a "Creditor Plan" (as defined below);

(ii) the completion of a Sale Transaction that is not a Creditor Plan; or

(iii) the implementation of a restructuring under a plan that is not a Creditor Plan approved by the Company's Board, the First Lien Lenders and a court pursuant to the CCAA, the Canada Business Corporations Act ("CBCA") or the Bankruptcy and Insolvency Act and similar insolvency legislation in the United States.

For the purposes of this Engagement Letter, a Creditor Plan is any transaction, restructuring or sale of any nature of kind in respect of the Borrowers that does not include an investment of cash by an investor other than some or any of the First Lien Lenders or any of their affiliates.

The following grid will be used in the calculation of the Restructuring Fee:

Enterprise Value*	Restructuring Fee**

* Enterprise Value shall be equal to the fair value of the consideration received or retained by the secured creditors in the restructuring or sale transaction

** The Restructuring Fee shall be the total of fees earned in each category

The Restructuring Fee will be payable if any of the events in paragraph 3 (b) is completed during the term of this engagement or for a period of 18 months following the termination of this engagement by (i) the Company or (ii) SCI in the event of a breach of this agreement by the Company.

In addition to the foregoing compensation, the Company shall reimburse SCI for its reasonable out-of-pocket expenses in entering into and performing this agreement, including, but not limited to, legal fees, travel and communications expenses and courier charges. Such reimbursable expenses will be payable on receipt of SCI's invoices by the Company.

All or part of the foregoing may be subject to the federal Goods and Services Tax and/or applicable provincial sales tax. Where tax is applicable, an additional amount equal to the amount of tax owing thereon will be charged to and payable by the Company.

4. **Additional Services**

If SCI is requested to perform services in addition to those described above, then the terms and conditions relating to such services will be outlined in a separate agreement and the fees for such services will be in addition to fees payable hereunder and will be negotiated separately and in good faith.

5. **Indemnification**

The Company hereby agrees to indemnify SCI in accordance with Schedule A hereto, which Schedule forms part of this agreement, the consideration for which is the entering into of this agreement. Such indemnity (the "Indemnity") shall be executed and delivered to SCI, Stephen and Rosch on the execution of this agreement and shall be in addition to, and not in substitution for, any liability which the Company or any other person may have to SCI, Stephen and Rosch or other persons indemnified pursuant to the Indemnity apart from such Indemnity. The Indemnity shall also apply to any additional services provided pursuant to paragraph 4 above until superseded or replaced by agreement of the parties.

Court File No: CV-09-8247-00CL

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 (the "Applicants")

ONTARIO

SUPERIOR COURT OF JUSTICE

PROCEEDING COMMENCED AT TORONTO

AFFIDAVIT OF HAP STEPHEN
(Sworn July 22, 2009)

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ONTARIO

SUPERIOR COURT OF JUSTICE

PROCEEDING COMMENCED AT TORONTO

RESPONDING MOTION RECORD

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