Court File No. 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")

REPLY AFFIDAVIT OF PETER J. GRANT SR.

(Sworn September 18, 2009)

I, **Peter J. Grant Sr.**, of the City of Temiskaming Shores, in the Province of Ontario, businessman, **MAKE OATH AND SAY**:

1. I am the Chairman and Chief Executive Officer of the applicant Grant Forest Products Inc. ("GFPI"). As such, I have personal knowledge of the matters to which I hereinafter depose. Where matters are not based on my personal knowledge, I have stated the source of my information and in all such cases verily believe it to be true.

Introduction

2. This affidavit is sworn in reply to the Affidavit of Benjamin Montgomery, a Vice-President and Director of TD Securities, sworn September 14, 2009 (the "Montgomery Affidavit"). I swore an earlier affidavit in this matter on September 8, 2009. I have used the defined terms that were employed in my September 8 affidavit in this affidavit.

3. In this reply affidavit, I have not commented on, or responded to, every statement in the Montgomery Affidavit, but should not be taken as necessarily agreeing with statements upon which I have not commented.

4. I am also obliged to say at the outset that I am not a lawyer and have not commented on the legal interpretation of agreements, or the purported legal effect of steps taken. I do not believe that Mr. Montgomery is a lawyer either, but must observe that he has in several paragraphs of his affidavit purported to interpret agreements. Even as a layman, I can observe that some of Mr. Montgomery's "legal conclusions" are inaccurate or are not "expressly stated" in the agreements to which he refers, despite his contentions. I note, for example, that, among others, the legal conclusions that he purports to draw in paragraphs 9(d), (h) and (i) are not "expressly stated" in the agreement to which he refers, nor are they at all apparent from the agreement.

Reply

5. In response to paragraph 6 of the Montgomery Affidavit, it is not clear to me why the non-core assets are relevant to the issue on this motion, but I am obliged to say that GFPI's decision to embark on the development of those assets was approved by the Board of Directors of GFPI on an unanimous basis, well before the First and Second Lien Credit Agreements, and were therefore fully known to the banking syndicates before they agreed to advance their funds.

6. In relation to paragraph 7 of the Montgomery Affidavit, I used the word "devised" in my first affidavit as a synonym for "developed", and I did not intend to say that there was anything clever or surreptitious vis-à-vis the banks. Indeed, the banks were fully aware of this agreement and, as described below, had input into its development.

7. Mr. Montgomery in paragraphs 8, 9, 13, 14, 23 and 24 of his Affidavit appears to be offering legal conclusions, in the absence of legal training. It is my understanding that that is the role of the Court on this motion.

8. As to paragraph 10 of the Montgomery Affidavit, which states that neither the Lien Agents nor banks were asked to approve or did approve the Agreement, I am informed by Ross Walker, the partner at Fraser Milner Casgrain LLP who drafted the Agreement, and believe, that the Lien Agents or their solicitors reviewed and commented upon drafts of the Agreement and provided specific input on the language of the Agreement. Moreover, the First and Second Lien Agents provided partial discharges in March 2008 and were clearly aware of and content with the Agreement at that time. I have no doubt that the First and Second Lien Agents, and the members of the banking syndicate, were also very content that GFPI would have the full use (commencing in March 2008) of the $20 million purchase price that I paid for the purchase of the Sold 2008 and 2009 Refunds.

9. As to paragraphs 12 and 18 of the Montgomery Affidavit, the statements therein do not appear consistent with, or in the very least give a misleading impression when compared with, what is stated in Mr. Lynch's email of June 19, 2009 which is attached as Exhibit "E" to my September 8 Affidavit.

10. As to paragraphs 19-22 of the Montgomery Affidavit, the term sheet he references was not approved by me, and I never agreed to have GFPI retain the 2009 Sold Refund.

11. In this regard, and in respect of the supposition made by Mr. Montgomery in paragraph 25 of his affidavit that I "must have participated" in the decision not to complete the transfer of the 2009 Sold Refund, I can state unequivocally that I was never asked and never

gave, and would never have given, my consent to the non delivery of the Transfer or of the 2009 Sold Refund.

My Discussions with Independent Directors of the Board of GFPI

12. I have also personally spoken with the independent Directors of GFPI who served at the time the tax refund arrangement was approved by the Board on March 27, 2008.

13. I am informed by Mike Harris, a director of GFPI and the former Premier of Ontario, and believe, that the tax refund arrangement was approved by the directors based on a clear understanding and direction that it was "iron clad" that the tax refunds when received by the Company would be paid over to me. Mr. Harris informs me, and I believe, that it was also his clear understanding that my right to receive the tax refunds stood in front of the banks.

14. I am informed by Jamie Wallace, a director of GFPI, and believe, that in the context of the Board approval of the proposed transaction, his understanding and indeed insistence was that my right to receive the tax refund I was purchasing would rank ahead of any claims of the banking syndicate.

15. I am also informed by William Stinson, a director of GFPI, and believe that Mr. Stinson recalls that Mr. Wallace was very obdurate in insisting that my right to receive the tax refunds should stand ahead of the bank's claims, and that was the basis of Mr. Stinson's approval of the transaction.

16. I am informed by Per Brunes, a director of GFPI, and believe that the directors' approval of the arrangement was accompanied by the direction of the Board that the transaction would only proceed if it was a certainty that I would receive the relevant portions of the tax refunds

when they were received by the Company, in priority to any other claims. The transaction was a means of getting money into the Company to assist it with cash-flow, before the tax refunds were actually received.

17. My own comprehension of what was communicated to and by the Board of Directors in respect of the tax refund arrangement is the same as that of the directors described above, and it was on that basis only that I entered into the transaction.

18. This affidavit is sworn in respect of my motion concerning the Agreement, and for no improper purpose.

SWORN BEFORE ME at the City of Temiskaming Shores, in the Province of Ontario, this 18th day of September, 2009.	))))	
A COMMISSIONER FOR OATHS in and for the Province of Ontario	))))	**PETER J. GRANT SR.**

Monique Marie Plante, a Commissioner, etc.,
District of Timiskaming
for Grant Forest Products Inc. and its associated companies.
Expires May 7, 2011.

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Proceeding commenced at Toronto

AFFIDAVIT OF PETER J. GRANT SR.
(Sworn September 18, 2009)

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