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")

NOTICE OF MOTION

(Re: Tax Refund Purchase and Sale Agreement)

[Returnable September 16, 2009]

The Moving Party, Peter Grant Sr. ("Peter Sr."), will make a motion to the Honourable Mr. Justice Newbould, presiding over the Commercial List, on Wednesday, September 16, 2009, at 10:00 a.m., or as soon after that time as the motion may be heard, at the Courthouse, 330 University Avenue, 8th Floor, Toronto, Ontario;

THE MOTION WILL BE HEARD orally.

THE MOTION IS FOR:

1. An order, declaration or directions, as appropriate:

   (a) that Peter Sr. has purchased and is entitled to receive from Grant Forest Products Inc. ("GFPI") a transfer of the "Sold 2009 Refund", as defined under a Tax Refund Purchase and Sale Agreement between Peter Sr. and GFPI, dated March 28, 2008 (the "Agreement");

(b) that forthwith upon receipt by GFPI (or other applicants, affiliates or subsidiaries) of the 2009 Tax Refund, as defined under the Agreement, or any portion thereof, GFPI (or other applicants, affiliates or subsidiaries) shall pay over to Peter Sr., or as he may direct, the full amount of the Sold 2009 Refund, and pending which payment GFPI (or other applicants, affiliates or subsidiaries) shall hold the Sold 2009 Refund in a segregated trust account for Peter Sr.;

(c) that, if necessary, GFPI is obliged to provide to Peter Sr. any documents or items to give effect to the relief requested above, as the Court may direct; and

(d) that the Sold 2009 Refund does not form part of the assets of GFPI available to other creditors of GFPI;

2. If necessary, an interim order requiring that GFPI, or alternatively the Monitor, hold in a segregated trust account pending final disposition of this motion (including any appeals or leave to appeal applications from the order granted on this motion), the full amount of the Sold 2009 Refund from and upon receipt of the 2009 Tax Refund (or any portion thereof);

3. Costs of this motion as appropriate; and

4. Such further or other order as may appear just or appropriate to this Honourable Court.

THE GROUNDS FOR THE MOTION are:

Background

1. Peter Sr. founded the predecessor to GFPI in 1980, and took the company into the oriented strand board ("OSB") market with the opening of the company's first OSB mill in Englehart, Ontario in 1981. Peter Sr. (and a Grant family trust known as Twin Lakes Trust) are the ultimate shareholders of GFPI. GFPI (and the other applicants) own OSB mills in Englehart and Timmins, Ontario, hold a 50% interest in an OSB mill in Footner, Alberta, and indirectly own OSB mills in Allendale and Clarendon, South Carolina.

2. GFPI and the other applicants filed for and obtained protection under the *Companies Creditors Arrangement Act* (Canada) by Initial Order of this Court dated June 25, 2009. Ernst & Young Inc. was appointed as Monitor. By Order dated July 24, 2009 the initial stay was extended to October 15, 2009.

Peter Sr.'s Recent Efforts to Assist GFPI Financially

3. As GFPI's financial performance began to come down from 2004 historic highs in the OSB market (and particularly after GFPI and affiliates incurred significant bank debt to construct the two new South Carolina OSB mills), Peter Sr. became directly involved in steps to assist GFPI's cash-flow. In July 2004, he caused 1308406 Ontario Inc. ("1308406"), a company which he controls, to loan $40 million on an unsecured basis to GFPI, and in October 2004 caused 1308406 to loan GFPI a further $10 million, again on an unsecured basis. These amounts have not been repaid, and have been subordinated to the First Lien Credit Agreement and Second Lien Credit Agreement.

4. GFPI declared preferred dividends in the amount of $6 million in favour of Grant Forest Products Corp., which Peter Sr. controls. These dividends have not been paid by GFPI.

5. Peter Sr. has not received a salary from GFPI for many months, even though he is the Chairman and CEO. An Executive Retirement Plan established by GFPI for Peter Sr.'s benefit is underfunded to the extent that it would require a contribution of approximately $18 million for the Plan to provide Peter Sr. with the retirement income that he was to receive under that Plan at age 70. No contributions have been made to the funding of that Plan for many months.

6. In order to provide further financial assistance to GFPI, in June 2008 Peter Sr. caused additional funds in the amount of $25 million to be advanced to GFPI. This amount is recorded in GFPI's accounts as a capital contribution.

Tax Refund Purchase and Sale Agreement

7. As GFPI's financial performance declined in 2008, it was proposed that Peter Sr. might assist the company's cash-flow by purchasing a portion of certain Canadian and Ontario tax refunds which GFPI expected to receive in 2008 and 2009. The concept was that Peter Sr. would pay US$20 million to GFPI in March 2008 to acquire a portion of GFPI's 2008 and 2009 tax refunds, with the purchased portions of the tax refunds amounting to approximately US$10 million in each of 2008 and 2009. This would assist the company with immediate cash-flow but ensure that Peter Sr. would ultimately receive the purchased portions when the 2008 and 2009 tax refunds were paid by the government.

8. The arrangement was such that once GFPI received the 2008 and 2009 tax refunds from the government, it would be obliged to hold the portions of the refunds which Peter Sr. had

purchased (approximately US $10 million each year) in trust for him and then pay them out to him, or as he directed.

9. The Board of Directors of GFPI approved the tax refund purchase arrangement on March 27, 2008.

10. The operative contract, styled as a Tax Refund Purchase and Sale Agreement (the "Agreement") was signed by Peter Sr. and GFPI effective March 31, 2008.

Events Subsequent to the Execution of the Agreement

11. The "2008 Closing" as defined in the Agreement took place on March 31, 2008. At that time, Peter Sr. personally paid to GFPI US$10 million to purchase the "Sold 2008 Refund" and paid a further US$10 million to purchase the "Sold 2009 Refund", as defined under the Agreement. In exchange, he received a transfer acknowledgment and partial discharges from the First and Second Lien Lenders in respect of the Sold 2008 Refund.

12. The Lien Lending Agents in respect of the First and Second Lien Credit Agreements knew of and approved of the Agreement, and provided the partial discharges in respect of the Sold 2008 Refund thereunder.

13. Later in 2008, after GFPI received its 2008 tax refund from the Canada Revenue Agency, Peter Sr. received from GFPI approximately US$10 million in respect of his purchase of the Sold 2008 Refund.

14. The "2009 Closing" was to occur on January 2, 2009, as specified in the Agreement. Peter Sr. was not obliged to provide anything at the 2009 Closing as he had already paid the

US$10 million purchase price in March 2008, and exchange rate adjustments meant that a small additional amount was to be paid by way of an adjustment under the Agreement. GFPI was to deliver a transfer acknowledgment and partial discharges of security from the First and Second Lien Lenders in relation to the 2009 Closing.

15. GFPI delivered neither of these documents on January 2, 2009, nor at any time thereafter. The Lien Lenders apparently indicated informally that they would not approve providing the partial discharges, and GFPI thereafter took the position that it would not provide the transfer acknowledgment (although the consent of the Lien Lenders is in no way a necessary condition under the Agreement). GFPI made no written demand of the Lien Lenders to provide the partial discharges in respect of the Sold 2009 Refund. Peter Sr. did not agree with or consent to this.

Other Grounds

16. GFPI now takes the position that it will not deliver the transfer acknowledgment, and (subject only to this motion) intends not to hold in trust or pay to Peter Sr. the Sold 2009 Refund when it receives its tax refunds in 2009, or thereafter.

17. GFPI has acknowledged that it is in default to Peter Sr. under the Agreement. Peter Sr. has written to GFPI demanding the delivery of the transfer acknowledgement and completion of the transaction in respect of the Sold 2009 Refund.

18. The approach that GFPI has taken is at odds with the purchase and sale transaction as approved by the directors in 2008 and is in breach of the Agreement. Peter Sr. purchased an asset and is entitled to it once received by GFPI. The tax refund purchase transaction was structured as it was because it involved the purchase of an asset, and was not a loan or capital

injection. The Sold 2009 Refund, once received, should be held in trust for Peter Sr. and thereafter paid to him or as he may direct, by GFPI.

19. Equity will assist, if necessary, to facilitate the completion of the transaction as agreed upon by the parties.

20. *Companies' Creditors Arrangement Act*, R.S.C. 1985, c. C-36.

21. Such further or other grounds as counsel may advise and the Court may allow.

THE FOLLOWING DOCUMENTARY EVIDENCE will be used at the hearing of the motion:

1. The Affidavit of Peter Grant Sr., sworn September 8, 2009, and exhibits thereto;
2. Such further or other material as counsel may advise and this Court may allow.

Date: September 8, 2009

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TO: Service List

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