CANADA
PROVINCE OF QUEBEC
DISTRICT OF MONTRÉAL

N°: 500-11-036133-094

SUPERIOR COURT
Commercial Division
(Sitting as a court designated pursuant to the *Companies' Creditors Arrangement Act*, R.S.C., c. C-36)

IN THE MATTER OF THE PLAN OF COMPROMISE OR ARRANGEMENT OF:

ABITIBIBOWATER INC.
And
ABITIBI-CONSOLIDATED INC.
And
BOWATER CANADIAN HOLDINGS INC.
And
The other Petitioners listed on Schedules "A", "B" and "C"

Petitioners,

AND

ERNST & YOUNG INC.

Monitor,

AND

The Ad Hoc Committee of the Senior Secured Noteholders and U.S. Bank National Association, Indenture Trustee for the Senior Secured Notes

Respondents

LIMITED CONTESTATION TO PETITIONERS' MOTION FOR THE APPROVAL OF THE SALE OF CERTAIN TIMBERLAND PROPERTIES

IN CONTESTATION TO PETITIONERS' MOTION FOR THE ISSUANCE OF AN ORDER AUTHORIZING THE SALE OF CERTAIN ASSETS OF THE PETITIONERS (the "Motion"), THE AD HOC COMMITTEE OF SENIOR SECURED NOTEHOLDERS (the "Senior Noteholders Committee") AND U.S. BANK NATIONAL ASSOCIATION, INDENTURE TRUSTEE FOR THE SENIOR SECURED NOTES (the "Notes Trustee") (the Senior Noteholders Committee and the Notes Trustee, collectively the "Senior Secured Noteholders") SUBMIT THE FOLLOWING:

A. OVERVIEW AND SUMMARY

1. Abitibi seeks approval to enter into certain transactions for the sale (the "**Proposed Sales**") of certain timberland assets located in the Mauricie, Charlevoix and Cote-Nord regions of Québec (the "**Timberland Assets**");

2. The Senior Secured Noteholders hold a charge upon the Petitioners' equipment, though it appears that equipment may not form any part (and in any event not a material part) of the Timberland Assets;

3. The Senior Secured Noteholders do not oppose the Proposed Sales as the conversion of surplus property to cash at an acceptable price is in the interests of the Petitioners and their stakeholders;

4. It is evident from the most recent cash flow statements filed by the Petitioners that the proceeds of sale of the Timberland Assets (the "**Timberland Proceeds**") are not required for use in the Petitioners' business. It is anticipated that the Timberland Proceeds will be approximately C$53 million;

5. While the repayment of the DIP Loan out of the Timberland Proceeds may not be required, it is fair and reasonable that the Timberland Proceeds be used for that purpose or be retained separate from the Petitioners operating accounts and in the hands of the Monitor pending further order of the court;

6. The Timberland Proceeds are charged by the DIP charge and contingently by the subrogation charge provided for in the Initial Order for the benefit of those whose collateral may ultimately fund the repayment of the DIP Loan. That could include the Senior Secured Noteholders, among others;

B. THE SENIOR SECURED NOTES

7. The Senior Secured Noteholders advanced US$ 413 million to Abitibi Consolidated Company of Canada ("**ACCC**") in the spring of 2008 (the "**Senior Secured Loan**"). The amount presently owing to the Senior Secured Noteholders exceeds US$450 million;

8. The Senior Secured Loan is secured by ACCC's interest in two hydro projects (the "**Hydro Assets**"):

(i) ACCC's 60% interest in Manicouagan Power Company ("**MPCo**"), which owns and operates a 335 megawatt hydroelectric power facility on the Manicouagan River; and

(ii) ACCC's 75% interest in ACH Limited Partnership ("**ACH**"), a joint venture with Caisse de depot et placement du Quebec for its Ontario hydro-electric generation facilities, which encompass eight hydroelectric generation facilities located in Ontario together with the shares of Abitibi Consolidated Hydro Inc, general partner of ACH Limited Partnership;

9. In addition to the Hydro Assets, the Senior Secured Noteholders have the benefit of additional security, including charges upon eleven pulp and paper mills (the "**PPMs**"), related equipment, intellectual property and other property (the "**Additional Collateral**" and collectively, the "**Senior Notes Security**");

10. The Senior Secured Noteholders do not have registered charges against the Timberland Assets (with the possible exception of equipment, to the extent that it is included in the Proposed Sales).

C. THE ACI DIP CHARGE AND THE SUBROGATION RIGHTS

11. By order dated May 6, 2009 (the "**Second Amended Initial Order**"), this Honourable Court authorized the ACI DIP Agreement and created the ACI DIP Charge upon all of the assets of the Abitibi Petitioners;

12. The ACI DIP Charge applies to the Timberland Assets;

13. The Petitioners may not be obliged by the ACI DIP Agreement to use the Timberland Proceeds to reduce the amount drawn on the DIP, however there is nothing that would prevent them for doing so;

14. Pursuant to section 61.10 of the Second Amended Initial Order, this Honourable Court ordered that Impaired Secured Creditors shall be subrogated to the rights of the ACI DIP Lender under the ACI DIP Charge to the extent the proceeds of sale of the security held by an Impaired Secured Creditor is used to repay the ACI DIP Facility;

15. If the Timberland Proceeds were to be used by the Petitioners for operating purposes the availability of the Timberland Proceeds to repay the DIP loan or to protect any Impaired Secured Creditors in accordance with section 61.10 of the Second Amended Initial Order would be lost;

D. PETITIONERS' CASH REQUIREMENTS

16. It appears from the cash flow statement filed with the Monitor's Ninth Report, (the "**Cash Flow Projections**") that during the period from August 2, 2009 to October 2, 2009 (the "**Period**"), Petitioners will at all times relevant maintain a

cash balance on hand of not less than CDN$ 52 million and of up to CDN$ 88 million;

17. The Cash Flow Projections do not include the Proceeds or any other out of the ordinary course projected or possible receipts;

18. The Monitor and the Petitioners have consistently indicated that a cash balance on hand of CDN$ 50 million is a sufficient cushion for the Petitioners' day to day cash requirements;

19. In paragraph 24 of the Motion, Petitioners indicate that the sale of the Timberland Assets will provide Petitioners with "needed liquidity", suggesting that the Timberland Proceeds should be available for operating purposes;

20. However, based on the Cash Flow Projections, the Timberland Proceeds are not needed for that purpose;

E. PAYDOWN OF THE DIP OR RETENTION PENDING FURTHER ORDER OF THE COURT

21. In these circumstances it is reasonable and practical, and consistent with rights and protections granted by the Second Amended Initial Order that the Timberland Proceeds be applied in repayment of the DIP loan or be segregated and held by the Monitor subject to the terms of the proposed vesting order pending further order of the Court.

22. Therefore, the Senior Secured Noteholders propose that this Honourable Court make the following additional order:

> "**ORDER** that forthwith upon closing of each of the transactions contemplated in the Mauricie Agreement, the Charlevoix Agreement and the Côte-Nord Agreement, :
>
> (a) the proceeds of sale of the Purchased Properties be paid to the DIP Lender as a prepayment of the DIP loan; and
>
> (b) any portion of the proceeds of sale of the Purchased Properties not paid in accordance with subparagraph (a) be retained by the Monitor in trust pending further order of the Court."

23. This proposed order does not conflict with the terms of the order required by the Purchasers of the Timberland Assets, as provided in i) schedule 1.1 (o) of the Mauricie Agreement, Exhibit P-1 in support of the Motion, ii) schedule 1.1 (o) of the Charlevoix Agreement, Exhibit P-2 in support of the Motion, and iii) schedule 1.1 (o) of the Côte-Nord Agreement, Exhibit P-3 in support of the Motion;

WHEREFORE, MAY IT PLEASE THIS COURT TO:

GRANT the Senior Noteholders' Committee and U.S. Bank National Association's limited contestation;

ORDER that the approval of the of the Proposed Sales include the following order:

> "**ORDER** that forthwith upon closing of each of the transactions contemplated in the Mauricie Agreement, the Charlevoix Agreement and the Côte-Nord Agreement, :
>
> (a) the proceeds of sale of the Purchased Properties be paid to the DIP Lender as a prepayment of the DIP loan; and
>
> (b) any portion of the proceeds of sale of the Purchased Properties not paid in accordance with subparagraph (a) be retained by the Monitor in trust pending further order of the Court."

Montreal, August 3, 2009

Borden Ladner Gervais LLP

Borden Ladner Gervais LLP
Attorneys for the Ad Hoc Committee of the Senior Secured Noteholders and U.S. Bank National Association, Indenture Trustee for the Senior Secured Notes

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ORIGINAL

Borden Ladner Gervais LLP
Lawyers • Patent & Trade-mark Agents
1000 de La Gauchetière Street West
Suite 900, Montréal, Québec H3B 5H4
tel.: (514) 879-1212 fax: (514) 954-1905

Me François D. Gagnon
B.M. 2545

File: 024330-000001