CANADA

PROVINCE OF QUEBEC
DISTRICT OF MONTREAL

No. 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, as amended)

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 the motion

Petitioners

and

ERNST & YOUNG INC.

Monitor

and

ATTORNEY GENERAL OF ONTARIO

Respondent on the motion

CONTESTATION BY THE ATTORNEY GENERAL OF ONTARIO IN RESPONSE TO PETITIONERS' MOTION FOR SANCTION OF THE PLAN OF COMPROMISE AND ARRANGEMENT

OVERVIEW

1. The Petitioners seek an order sanctioning their Plan of Compromise and Arrangement (the "Plan") and releasing them, their directors and officers, and others from all obligations based on facts in existence before the Canadian Filing Date.

2. The Attorney General of Ontario (Ontario) opposes the sanctioning of the Plan as currently drafted because it appears that the combined effect of clauses 1.1, 6.10(b) and 6.11 of the Plan purports to extinguish any and all responsibility on the part of the Petitioners, its officers and directors and AbiBow Canada Inc., the entity that will emerge from this restructuring, for uncrystallized inchoate environmental liabilities respecting properties that were contaminated by the Petitioner's operations but which have been transferred to third parties.

3. Ontario further contests the making of an order which purports to improperly enjoin the Crown from issuing regulatory orders respecting such obligations.

4. Ontario relies upon the Contestation and Cross-Motion filed in response to the Petitioners' Amended Second Motion for the Issuance of Various Orders Authorizing the Sale of Non-Core Properties (the Motion for Vesting Orders) and upon all arguments made at the hearing of the Contestation and Cross-Motion, not only with respect to the Non-Core Properties but also with respect to Ontario properties the Petitioners ceased to own before these proceedings commenced (the "pre-CCAA Properties"). These latter properties have not been the subject of the CCAA proceedings to date.

5. Ontario further relies upon the further affidavit of John Taylor sworn September 17, 2010 which deals specifically with the pre-CCAA Properties and the Outline of

Argument to be filed in respect of this motion which addresses the issues argued last week and the new issues arising in respect of the pre-CCAA Properties.

BASIS FOR CONTESTATION

6. Ontario contends that:

   a) The definition of "Claim" in the Claims Procedure Order and the Plan of Arrangement cannot be broader than the statutory definition of "claim" in the CCAA.

   b) For purposes of the CCAA, "claim" means any indebtedness, liability or obligation of any kind that, if unsecured, would be a *debt provable in bankruptcy* within the meaning of the *Bankruptcy and Insolvency Act*. Inchoate environmental obligations in respect of which the regulator has not yet exercised its statutory jurisdiction to impose financial consequences on the petitioner are so remote and speculative in nature that they cannot properly be considered contingent claims;

   c) Inchoate environmental liabilities that are not provable claims cannot be compromised or released in a Plan of Arrangement;

   d) It is neither fair nor reasonable that the emerging entities and their officers and directors be released from uncrystallized obligations imposed by a regulatory regime enacted in the public interest;

   e) A commercial court with statutory jurisdiction derived from federal constitutional power over insolvency should not sanction a restructuring and issue a Sanction Order that would have the effect of usurping regulator powers to enforce environmental obligations.

7. A unique situation exists with respect to one particular pre-CCAA Property which Ontario has specifically identified as contaminated. From about the 1950s to 1991 Abitibi Consolidated Company of Canada ("ACCC"), and its various affiliates, owned and operated the Georgetown Landfill Site, being a waste disposal site located in Halton Hills, Ontario. The landfill was closed in 1991. ACCC sold the landfill, including the surrounding property in 1991 however, ACCC agreed to manage the landfill. ACCC capped the landfill in 1995. Under the current Certificate of Approval for the landfill, ACCC is required to monitor groundwater and surface water impacts

from the landfill on a quarterly basis, and to submit annual monitoring reports to the Ministry of the Environment. The Certificate of Approval was amended in February 2009 to require ACCC to install off-site monitoring wells to assess off-site water impacts. This work was completed in 2009. The MOE holds $179,297.00 in Letters of Credit as Financial Assurance for all work required by the MOE. ACCC is now in default of its obligations under the Certificate of Approval. No regulatory action has yet been taken by Ontario. The extent of and potential costs associated with environmental remediation on the property cannot be reasonably identified and quantified at the present time.

8. The proposed Plan of Arrangement would not permit Ontario to take any regulatory steps against the Petitioners, their officers and directors, or new Abitibi and its officers and directors with respect to the Georgetown landfill. The terms of the Release should preserve Ontario's right to do so.

9. This motion for Plan Approval also raises new questions concerning a number of properties in Ontario on which the Petitioners previously operated their business and which were transferred to third parties prior to these proceedings. These facilities were operated under the authority of various Certificates of Approval issued by the Ministry of the Environment. There are contaminants in, on or under each of these properties that may have an adverse effect on the natural environment. It is likely that some of these facilities will require remediation (such as the closure and capping of a landfill or groundwater monitoring) in order to prevent, decrease or eliminate an adverse effect that may result from the discharge of a contaminant from the property or the presence of discharge of a contaminant in, on or under the property. It is difficult, if not impossible, to speculate on what long-term remediation may be required given that all of the long-term environmental consequences of the presence

of these contaminants is not currently known. As a former owner/occupier, the Environmental Protection Act would otherwise give the regulator the right to take future regulatory action against the Petitioners and their officers and directors.

10. The proposed Plan of Arrangement would not permit Ontario to take any regulatory steps against the Petitioners, their officers and directors, or new Abitibi and its officers and directors. The terms of the Release should preserve Ontario's right to do so.

ONTARIO'S REQUEST FOR RELIEF

11. Ontario respectfully requests that this Honourable Court:

a) Render a decision with respect to the issues raised by Ontario on the Motion for Vesting Orders and in this motion for approval of the Sanction Order;

b) Dismiss Abitibi's motion for approval of the Sanction Order;

c) In the alternative, Ontario requests that the Sanction Order provide that Ontario's right to argue the issues raised in this Contestation and the Contestation filed in the Motion for Vesting Orders is preserved.

ALL OF WHICH IS RESPECTFULLY SUBMITTED

September 16, 2010

Gowlings Lafleur Henderson LLP
For:

L.F. Marsello, Mario Faieta & Josh Hunter
Counsel for the Attorney General for Ontario