

CANADA

**PROVINCE OF QUEBEC
DISTRICT OF MONTRÉAL**

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., a legal person incorporated under the laws of the State of Delaware, having its principal executive offices at 1155 Metcalfe Street, in the City and District of Montréal, Province of Quebec, H3B 5H2;

And

ABITIBI-CONSOLIDATED INC., a legal person incorporated under the laws of Canada, having its principal executive offices at 1155 Metcalfe Street, in the City and District of Montréal, Province of Quebec, H3B 5H2;

And

BOWATER CANADIAN HOLDINGS INC., a legal person incorporated under the laws of the Province of Nova Scotia, having its principal executive offices at 1155 Metcalfe Street, in the City and District of Montréal, Province of Quebec, H3B 5H2;

And

the other Petitioners listed on Appendices "A", "B" and "C";

Petitioners

And

ERNST & YOUNG INC., a legal person under the laws of Canada, having a place of business at 800 René-Lévesque Blvd. West, Suite 1900, in the City and District of Montréal, Province of Quebec, H3B 1X9;

Monitor

THIRTY-FOURTH REPORT OF THE MONITOR

February 19, 2010

INTRODUCTION

1. On April 17, 2009, Abitibi-Consolidated Inc. (“**ACI**”) and its subsidiaries listed in Appendix “A” hereto (collectively with ACI, the “**ACI Petitioners**”) and Bowater Canadian Holdings Incorporated (“**BCHI**”) and its subsidiaries and affiliates listed in Appendix “B” hereto (collectively with BCHI, the “**Bowater Petitioners**”) (the ACI Petitioners and the Bowater Petitioners are collectively referred to herein as the “**Petitioners**”) filed for and obtained protection from their creditors under the *Companies’ Creditors Arrangement Act* (the “**CCAA**” and the “**CCAA Proceedings**”) pursuant to an Order of this Honourable Court (the “**Initial Order**”). Pursuant to an Order of this Honourable Court dated November 10, 2009, Abitibi-Consolidated (U.K.) Inc., a subsidiary of ACI, was added to the list of ACI Petitioners.
2. Pursuant to the Initial Order, Ernst & Young Inc. (“**EYI**”) was appointed as monitor of the Petitioners (the “**Monitor**”) under the CCAA and a stay of proceedings in favour of the Petitioners was granted until May 14, 2009 (the “**Stay Period**”). The Stay Period has been extended until March 15, 2010 pursuant to further Orders of this Honourable Court.
3. On April 16, 2009, AbitibiBowater Inc. (“**ABH**”), Bowater Inc. (“**BI**”), and certain of their direct and indirect U.S. and Canadian subsidiaries, including BCHI and Bowater Canadian Forest Products Inc. (“**BCFPI**”) (collectively referred to herein as “**U.S. Debtors**”), filed voluntary petitions (collectively, the “**Chapter 11 Proceedings**”) for relief under Chapter 11 of the U.S. Bankruptcy Code, 11 U.S.C. §§ 101 et seq. (the “**U.S. Bankruptcy Code**”) in the United States Bankruptcy Court for the District of Delaware (the “**U.S. Bankruptcy Court**”).
4. BCHI, Bowater Canada Finance Corporation, Bowater Canadian Limited, AbitibiBowater Canada Inc., BCFPI, Bowater LaHave Corporation and Bowater Maritimes Inc. have commenced both CCAA Proceedings and Chapter 11

Proceedings and are referred to herein collectively as the “**Cross-Border Petitioners**” and are also included in the definition of “**Petitioners**”.

5. The Petitioners are all subsidiaries of ABH (ABH, collectively with its subsidiaries, are referred to as the “**ABH Group**”).
6. On April 17, 2009, ABH and the Petitioners listed on Appendix “C” hereto (collectively with ABH, the “**18.6 Petitioners**”) obtained Orders under Section 18.6 of the CCAA in respect of voluntary proceedings initiated under Chapter 11 and EYI was appointed as the information officer in respect of the 18.6 Petitioners.
7. On April 16, 2009, ACI and ACCC filed petitions for recognition under Chapter 15 of the U.S. Bankruptcy Code. On April 21, 2009, the U.S. Bankruptcy Court granted the recognition orders under Chapter 15 of the U.S. Bankruptcy Code.
8. On April 22, 2009, the Court amended the Initial Order to extend the stay of proceedings to the partnerships listed in Appendix “D” hereto (the “**Partnerships**”).

BACKGROUND

9. ABH is one of the world’s largest publicly traded pulp and paper manufacturers. It produces a wide range of newsprint and commercial printing papers, market pulp and wood products. The ABH Group owns interests in or operates pulp and paper facilities, wood products facilities and recycling facilities located in Canada, the United States, the United Kingdom and South Korea.
10. Incorporated in Delaware and headquartered in Montreal, Quebec, ABH functions as a holding company and its business is conducted principally through four direct subsidiaries: BI, Bowater Newsprint South LLC (“**Newsprint South**”) (BI, Newsprint South and their respective subsidiaries are collectively referred to as the “**BI Group**”), ACI (ACI and its subsidiaries are collectively referred to as the

“**ACI Group**”) and AbitibiBowater US Holding LLC (“**ABUSH**”) (ABUSH and its respective subsidiaries are collectively referred to as the “**DCorp Group**”).

11. ACI is a direct and indirect wholly-owned subsidiary of ABH. ABH wholly owns BI which in turn, wholly owns BCHI which, in turn, indirectly owns BCFPI which carries on the main Canadian operations of BI.
12. ACCC, a wholly-owned subsidiary of ACI, and BCFPI hold the majority of ABH’s Canadian assets and operations.

PURPOSE

13. This is the thirty-fourth report of the Monitor (the “**Thirty-Fourth Report**”) in the CCAA Proceedings, the purpose of which is to report to this Honourable Court with respect to (i) the motion (the “**Motion**”) by Her Majesty the Queen in the right of the Province of Newfoundland and Labrador (the “**Province**”) for a declaration regarding Orders issued pursuant to the *Environmental Protection Act*, S.N.L. 2002, c. E-14.02 (the “**EPA**”) for which Her Majesty the Queen in the right of the Province of British Columbia (“**BC**”) has intervened and (ii) the Petitioners amended contestation with respect to the Motion (the “**Contestation**”).

TERMS OF REFERENCE

14. In preparing this Thirty-Fourth Report, the Monitor has been provided with and, in making comments herein, has relied upon unaudited financial information, the ABH Group’s books and records, financial information and projections prepared by the ABH Group and discussions with management of the ABH Group and its advisers (the “**Management**”). The Monitor has not audited, reviewed or otherwise attempted to verify the accuracy or completeness of such information and, accordingly, the Monitor expresses no opinion or other form of assurance in respect of such information contained in this Thirty-Fourth Report. Some of the information referred to in this Thirty-Fourth Report consists of forecasts and projections. An examination or review of the financial forecast and projections,

as outlined in the Canadian Institute of Chartered Accountants Handbook, has not been performed. Future-oriented financial information referred to in this Thirty-Fourth Report was prepared by the ABH Group based on Management's estimates and assumptions. Readers are cautioned that, since these projections are based upon assumptions about future events and conditions, the actual results will vary from the projections, even if the assumptions materialize, and the variations could be significant.

15. Capitalized terms not defined in this Thirty-Fourth Report are as defined in the previous reports of the Monitor and the Initial Order. All references to dollars are in U.S. currency unless otherwise noted.
16. Copies of all of the Monitor's Reports, in both English and French, including a copy of this Thirty-Fourth Report, and all motion records and Orders in the CCAA Proceedings will be available on the Monitor's website at www.ey.com/ca/abitibibowater. The Monitor has also established a bilingual toll-free telephone number that is referenced on the Monitor's website so that parties may contact the Monitor if they have questions with respect to the CCAA Proceedings.
17. Copies of all of the U.S. Bankruptcy Court's orders are posted on the website for Epiq Bankruptcy Solutions LCC ("Epiq") at <http://chapter11.epiqsystems.com/abitibibowater>. The Monitor has included a link to Epiq's website from the Monitor's website.

PROVINCE AND BC

18. As discussed in more detail in this Thirty-Fourth Report, one point of distinction between the position of the Province and that of BC is that, as of the date of the commencement of these CCAA Proceedings, certain of the Petitioners were, and remain today, in ownership and occupation of the relevant properties in BC whereas only a portion of the relevant properties in Newfoundland remained in the Petitioners' possession, occupation or control as at such date.

19. In addition, the order of magnitude of the potential remediation claims for the properties in Newfoundland are better understood than the potential remediation claims for the properties in BC.
20. In this Thirty-Fourth Report the Monitor will discuss first the position of the Province and the properties in Newfoundland and thereafter discuss the properties in BC.

NEWFOUNDLAND - THE ABITIBI ACT

21. On December 4, 2008, ABH announced the closure of the Petitioners' last remaining operating mill in the Province effective March, 2009, prior to the Petitioners filing for protection in these proceedings.
22. On December 16, 2008, the Province introduced and passed the *Abitibi-Consolidated Rights and Assets Act*, S.N.L. 2008, c. A-1.01 (the "**Abitibi Act**").
23. The Petitioners are of the view that, in effect, the Abitibi Act confiscated most of the assets of the Petitioners located in the Province, cancelled all water and hydro electric agreements between the Province and the Petitioners, cancelled legal proceedings instituted by the Petitioners against the Province and deprived the Petitioners of access to the Province's Courts for redress in respect of the foregoing. The assets allegedly confiscated by the Abitibi Act are described in greater detail in the Contestation.
24. The Petitioners have advised the Monitor that, in April 2009, ABH filed a *Notice of Intent to Submit a Claim to Arbitration* under Chapter 11 of the *North American Free Trade Agreement* ("**NAFTA**") in respect of losses (in excess of \$300 million) arising out of the allegedly wrongful confiscation effected by the Province. The Petitioners have also advised the Monitor that, although they remain in negotiations with the Canadian Government regarding its claim under NAFTA, should the negotiations fail to result in an acceptable amount of compensation, the Petitioners will file a *Notice of Arbitration* under Chapter 11 of NAFTA.

THE EPA ORDERS AND THE SITES

25. On November 12, 2009, the Province, acting through the Minister of Environment and Conservation, issued five Ministerial Orders pursuant to Section 99 of the EPA (the “**EPA Orders**”) against the Petitioners.¹ On that same date, the Province served the Motion seeking a declaration regarding the EPA Orders from this Honourable Court.
26. In its Motion, the Province is seeking a declaration that, among other things, the Order issued by this Honourable Court on August 26, 2009 (the “**Claims Procedure Order**”) shall not bar, extinguish or otherwise affect the enforceability of the EPA Orders made against the Petitioners.
27. The EPA Orders require that the Petitioners submit a detailed Remediation Action Plan for all of the Sites (as defined below), complete approved site remediation actions and close all landfills and lagoons/impoundments associated with such Sites, all within certain specified timelines.
28. The EPA Orders relate to several locations in the Province (collectively, the “**Sites**”), all of which were either no longer owned by the Petitioners or no longer used by the Petitioners in their business as follows:
- (a) mining and processing of minerals at the Buchans mine (the “**Buchans Site**” or “**Buchans**”);
 - (b) pulp and paper operations at the Grand Falls-Windsor mill (the “**Grand Falls Mill**” or “**Grand-Falls**”);
 - (c) pulp and paper operations at the Stephenville mill (the “**Stephenville Mill**” or “**Stephenville**”);

¹ The Monitor notes that the Petitioners issued Notices of Appeal with respect to the EPA Orders on January 11, 2010 pursuant to s. 107 of the EPA. Such appeals were dismissed on February 8, 2010.

- (d) shipping and storing operations at the Botwood site (the “**Botwood Site**” or “**Botwood**”); and
 - (e) logging camps at approximately fifty different locations across the Province (the “**Logging Camps**”).
29. The Monitor has been advised by the Petitioners that, of the above noted Sites, Buchans, Grand Falls and the Logging Camps were expropriated by the Province under the Abitibi Act and are no longer owned by the Petitioners.
30. The Petitioners have also advised the Monitor that certain assets owned by the Petitioners when the Abitibi Act was passed into law were not expropriated by the Province. These include (i) the Stephenville Mill, which consists of vacant land (the mill itself has been demolished) with small buildings located thereon, and (ii) the Botwood Site, which consists of unused storage facilities and a shipping terminal. The Petitioners have referred to such assets as the “**Remaining Assets**” in their Contestation. The Monitor has been advised by the Petitioners and understands that the Remaining Assets are no longer used by the Petitioners in their business and have little or no net value to the Petitioners and their stakeholders.
31. The Province contends that the Petitioners’ industrial activities resulted in the release of substances into the environment in amounts, concentrations and at rates that have caused and will, in the future, continue to cause, an adverse effect both on and adjacent to the Sites.
32. In its Motion, the Province acknowledges that over the years the Petitioners have performed and completed some environmental assessment and remediation work at some of the Sites. However, the Province also contends that, by the spring of 2009, the Petitioners had not fulfilled all of their obligations under the EPA with respect to the Sites.

The Buchans Site

33. The Buchans Site was part of the original lands granted in 1905 under what is known as a "Charter Lease" to the Anglo-Newfoundland Development Company, a company which merged with a predecessor of one of the Petitioners in 1961. Mining operations were developed on certain lands at the Buchans Site in the 1920s as part of a joint venture with a predecessor of ASARCO, a corporation unrelated to the Petitioners or their predecessors.
34. The Petitioners have advised the Monitor that the land beneath the Town of Buchans was surrendered to the Province by grants in 1978 and 1979. In 1994, most of the remaining interests of the Petitioners in the area surrounding the Buchans Site were surrendered to the Province.
35. The Petitioners have advised the Monitor that between 1999 and 2008, the mining rights in relation to tailings disposal ponds associated with ASARCO's mining operations were transferred by the Province to Atlantic Barite Limited, a subsidiary of Pennecon Limited, an entity unrelated to the Petitioners. The Monitor also understands that, in addition, the Province issued mining rights to Buchans River Limited, another entity unrelated to the Petitioners, over much of the former Buchans Site.
36. The Petitioners have also advised the Monitor that, until the passage of the Abitibi Act in 2008, the Petitioners retained certain residual surface and timber rights in the area as well as a small 2 MW hydroelectric power station near the Town of Buchans.
37. In its Motion, the Province acknowledges that it retained the services of Conestoga-Rovers and Associates ("CRA"), environmental consultants, to undertake environmental site assessments at the Sites on the basis that the Province could not be certain when, if at all, the Petitioners would fulfill their obligations to provide the assessment reports requested or whether the Petitioners

would fulfill their obligations to remediate the contamination identified by the Province.

38. CRA prepared an environmental site assessment report for the Province with respect to the Buchans Site in November 2009 (the “**Buchans Report**”). The Buchans Report outlines thirty-three potential areas of concern² at the Buchans Site.
39. The potential cost of remediation as estimated by CRA, and a competing estimate of such cost prepared by the environmental consultants to the Petitioners, have not been disclosed by the Province or the Petitioners in this proceeding and are the subject of confidentiality restrictions. The estimated potential costs are addressed later in this Thirty-Fourth Report.

The Grand Falls Mill

40. The Grand Falls Mill was built in 1909 and was purchased by the Petitioners in 1969. At that time, the Petitioners also acquired land tenure that included freehold and leasehold lands. The primary industrial activity at the Grand Falls Mill was newsprint manufacturing.
41. The Petitioners have advised the Monitor that, in their view, the Province effectively expropriated the land upon which the Grand Falls Mill was built when it passed the Abitibi Act and, accordingly, the Province is the owner of the Grand Falls Mill.
42. CRA prepared an environmental site assessment report for the Province with respect to the Grand Falls Mill in November 2009 (the “**Grand Falls Report**”). The Grand Falls Report identified sixteen broad areas of concern at the Grand Falls Mill.

² A “potential area of concern” is defined by CRA as a past release into the environment that resulted in property damage and may have impacted media at concentrations that could trigger environmental remediation.

The Stephenville Mill

43. The Petitioners have advised the Monitor that operations at the Stephenville Mill were shut down in December 2005. Between approximately 2006 and 2008, the Petitioners completed a decommissioning and demolition program that included the demolition of the majority of the main mill buildings and related infrastructure. The Petitioners have advised the Monitor that since the closure of the Stephenville Mill, they have expended approximately \$2 million in environmental assessments and site clean-up.
44. The Petitioners also advised the Monitor that substantial portions of the Stephenville Mill served as the Harmonville Base of the United States Air Force ("USAF") between 1941 and 1966. During that time, several fuel storage and dump sites for by-products of the air force base were established.
45. In addition, the Petitioners advised the Monitor that in the late 1960's, the Province passed legislation which allowed for the construction of a kraft linerboard mill in Stephenville which was taken over and operated by a Crown corporation, Labrador Linerboard Limited ("**Linerboard**") from 1972 to 1977. The Stephenville Mill was ultimately closed in 1979 when it was purchased by the Petitioners and converted to a pulp and paper production mill which remained until its closure in 2005.
46. CRA prepared an environmental site assessment report for the Province in respect of the Stephenville Mill in November 2009 (the "**Stephenville Report**"). The Stephenville Report outlines twenty-one potential areas of concern with respect to the Stephenville Mill.

The Botwood Site

47. The Botwood Site refers to an area around the town of Botwood where the Petitioners formerly had a storage and shipping operation relating to its Grand Falls Mill. The Botwood Site also served as a transportation hub for mining operations by ASARCO in Buchans.

48. CRA prepared an environmental site assessment report for the Province in respect of the Botwood Site in November 2009 (the “**Botwood Report**”). The Botwood Report outlines ten potential areas of concern with respect to the Botwood Site.

The Logging Camps

49. CRA was retained by counsel to the Province to conduct Phase 1 environmental site assessments of former logging camps operated by the Petitioners and located on Crown Lands throughout the Province. In total, CRA identified approximately forty-eight (48) Logging Camps.
50. Development and use of the Logging Camps began in the 1940s and continued until recently. The Petitioners have advised the Monitor that they only have active records for twenty (20) Logging Camps which have been closed since 1965 and that the remaining twenty-eight (28) Logging Camps were either not owned by the Petitioners or date back to a time when few, if any, refuelling sites were likely to have existed.
51. CRA prepared an environmental site assessment for the Province with respect to the Logging Camps in November 2009 (the “**Logging Camps Report**”). The Logging Camps Report identified potential areas of concern for the Logging Camps.

ORDERS ISSUED IN THESE CCAA PROCEEDINGS AND THE POSITIONS OF THE PARTIES

Paragraph 10 of the Initial Order

52. Paragraph 10 of the Initial Order, as amended, provides that until and including March 15, 2010, or such later date as the Court may order, no right may be exercised and no proceeding may be commenced or proceeded with by anyone, including any government, administration or entity exercising executive, legislative, judicial, regulatory or administrative functions against or in respect of

the Petitioners or any of the present or future property, assets, rights and undertakings of the Petitioners.

53. It is the position of the Petitioners that the EPA Orders fall within Paragraph 10 of the Initial Order and are therefore stayed.

Paragraph 10.1 of the First Stay Extension Order

54. The Petitioners are of the view that the EPA Orders are in substance financial or monetary in nature and were issued in violation of the Initial Order. As a result, the EPA Orders are not exempted from the stay of proceedings issued by this Honourable Court and there is no basis, in fact or in law, to grant the conclusions of the Motion which would have the effect of granting the Province a preference over other creditors.

55. On May 14, 2009, this Honourable Court granted the First Stay Extension Order which included the following amendment to the Initial Order:

10.1 **ORDERS** that the aforementioned stay cannot be interpreted as to restrict or prevent Her Majesty the Queen or her agents from exercising powers, rights or duties in relation to matters involving public health, safety, security, public order or the environment against the Petitioners, the Partnerships, the Property, the Directors or others, providing that any financial or monetary fines or orders shall be stayed.

56. It is the position of the Province that the EPA Orders fall within Paragraph 10.1 of the First Stay Extension Order and are not stayed. The Province has asserted that the EPA Orders are in relation to the environment and are not financial or monetary fines or orders in that they simply require the Petitioners to take certain steps in order to comply with their statutory obligations for the protection of the environment in the Province.

57. In addition, the Province asserts that orders issued by the Province in relation to matters involving the environment that do not require payments to be made to the Province are not "claims" as that term is defined in the CCAA and that the

issuance of the EPA Orders does not render the Province a “creditor”. The net effect of the position of the Province would be to render the obligations of the Petitioners to remediate the Sites as obligations not subject to compromise under the CCAA.

EFFECT OF THE EPA ORDERS

Financial Effect of the EPA Orders

58. The Monitor has not performed any independent assessment of the potential remediation costs that might be applicable in respect of Sites. The Monitor is aware, however, that both the Province and the Petitioners have engaged environmental experts to investigate and assess the potential remediation required and, as a result of such work, both experts have formed preliminary estimates of the potential costs involved. The Monitor has been advised by the Petitioners that these estimates are subject to confidentiality restrictions. Neither the Province nor the Petitioners have included in their materials filed in respect of this Motion estimates of the potential remediation costs.
59. The Monitor believes, however, that it is both appropriate and necessary to provide some financial context regarding this dispute to properly inform this Honourable Court and the Petitioners’ stakeholders regarding the effect that a decision in this Motion may have on the overall restructuring.
60. As a preliminary matter, the Monitor notes that there are many issues involved in attempting to quantify potential environmental remediation costs at this stage. A number of factors, some of which may not yet be fully identified or understood, can have a material effect upon the outcome. In the Monitor’s experience, generally speaking, providing a reliable estimate of such remediation costs is very difficult and reasonable experts can have widely divergent views.
61. At this time it was not possible to give an accurate assessment of the potential remediation costs for the Sites at issue. However, the Monitor and its counsel have had discussions with the Petitioners and its environmental consultant, Amec

Earth Environmental Inc. (“Amec”), and with counsel for the Province in an effort to find an appropriate description of the estimated range of potential remediation costs for the Sites for the benefit of the Court and other stakeholders.

62. Based on the Monitor’s discussions with Amec and the Petitioners, and subject to the qualifications expressed above, the Monitor advises that the Petitioners are of the view that a “base case” remediation plan could cost the Petitioners in a range of value from the mid-to-high eight figures. In the Petitioners’ view, a “worst case” to “extreme case” scenario could be several times the cost of the base case scenario.
63. As such, and subject to all of the difficulties and qualifications noted above with respect to estimating these potential remediation costs at this stage, the Monitor is of the view that amounts at issue in this Motion between the Province and the Petitioners are likely to be material to the estates of the Petitioners and on the Petitioners’ ability to effect a viable plan of arrangement among their stakeholders.

The Effect of the EPA Orders on the Petitioners’ Restructuring

64. The EPA Orders are in respect of liabilities or obligations that existed as of the date of commencement of this CCAA Proceeding. One issue that arises is whether this Honourable Court intended to grant super-priority status to regulatory bodies for pre-filing claims when it granted Paragraph 10.1 of the First Stay Extension Order or whether Paragraph 10.1 is intended to permit regulatory bodies to continue to regulate the Petitioners in respect of their conduct after the commencement of the CCAA Proceedings.
65. If the Petitioners are successful and the monetary consequences of the EPA Orders are treated as claims in the CCAA Proceedings, such claims will be compromised and the Province, if it is allowed to file a late proof of claim form (as it did not file a proof of claim by the Claims Bar Date), will be entitled to

participate in the negotiation of, and to receive its pro-rata distribution under, any plan of compromise or arrangement in the CCAA Proceedings.

66. If the Province is successful and the EPA Orders are not treated as claims, but rather as obligations or liabilities that either must be satisfied in priority to obligations to other creditors or that survive the restructuring proceedings, the Petitioners may find that this will negatively affect their efforts to obtain exit financing, which may in turn challenge the ability of the Petitioners to successfully emerge from these CCAA Proceedings.
67. The Monitor is of the view that the EPA Orders have the effect of compelling the Petitioners to expend material sums of money to remediate property that is either no longer owned by the Petitioners or no longer used by the Petitioners in their business and which have little or no net value to the Petitioners and their stakeholders. It is the Monitor's view that sources of potential exit financing will have concerns with respect to funding an enterprise carrying such a potentially burdensome obligation without any corresponding benefit for the business.
68. Alternatively, the Petitioners may be forced to transfer their remaining operating assets to a new entity to enable the restructured going concern business of the Petitioners to avoid the remediation obligation arising from the former ownership or occupation of the Sites. The Monitor does not know if this is a viable option for the Petitioners in view of the considerable cost and tax and other consequences that would flow from such a restructuring.
69. The Monitor also notes that the decision in this Motion will have consequences for other stakeholders of the Petitioners. If the Petitioners are successful and the remediation obligations are treated as claims in the CCAA Proceedings, the Province's claims may be significant in the estate. However, provided it is allowed to file a claim, the Province will only receive its *pro rata* share of whatever consideration is to be offered under the plan to all creditors in the Province's class, as such may be determined under any plan to be proposed by the Petitioners.

70. On the other hand, if the Province is successful in its Motion, the remediation obligation will become, in effect, a priority or unaffected obligation to be satisfied in full by the Petitioners before the remaining value of the Petitioners' enterprise is allocated among the other creditors and claimants. The net effect of such a determination would be the reallocation of value away from the creditors generally in favour of the Province and the size of such reallocation could be material.
71. It is the Petitioners' view that, if the Province is successful and effect is given to the EPA Orders, the resulting reallocation of value would not be consistent with the scheme of priorities under federal insolvency legislation.
72. It is the Monitor's view that, if the Province is successful in this Motion, the net result will be that the ability of the Petitioners to successfully restructure will be challenged on a number of levels, including the consequences of the reallocation of enterprise value among stakeholders and the likely adverse effect on the Petitioners' ability to secure exit financing. In addition, the restructuring process will likely become more complicated, including further delays and costs, all of which will be borne by the Petitioners and their estates.

BC - MACKENZIE PROPERTIES

73. The Petitioners' own a pulp and paper mill (the "**BC Mill**") and a sawmill ("**Site 1**") and they operate a second sawmill ("**Site 2**") on land leased from BC Rail, all located in MacKenzie, British Columbia (collectively, the "**MacKenzie Properties**"). The BC Mill has been operated as a pulp mill since 1971 and a pulp and paper mill since 1989. Site 1 and Site 2 have been operated as sawmills since 1968 and circa 1971 respectively.
74. The Petitioners' actively operated the BC Mill and the two sawmills since about January 2002 to on or about January 2008. The BC Mill was idled in November 2007 and its permanent closure was announced in November 2008. The sawmills

were idled at the same time but restarted on or about October 18, 2009 on a limited basis.

75. The Petitioners are in advanced discussions with a prospective buyer for the sale of the two sawmills and possibly the BC Mill.
76. The Petitioners have received draft Stage 1 Preliminary Site Investigation reports prepared by their environmental consultants and the reports are being internally reviewed by the Petitioners. The Monitor has been advised by the Petitioners that the Petitioners have not commenced Stage 2 studies at this time and, as a result, are not in a position to estimate costs of possible remediation.

EFFECT OF THE MACKENZIE PROPERTIES

77. The Monitor has not performed any independent assessment with respect to any potential remediation costs associated with the MacKenzie Properties. Likewise, as stated above, the Petitioners have not been able to advise the Monitor as to an estimate of any such costs.
78. In addition, neither the Monitor nor, to the Monitor's knowledge, the Petitioners, have attempted to analyze the potential remediation obligations in terms of obligations that existed as of the commencement of this CCAA proceeding as opposed to those that arose or continue thereafter.
79. Accordingly, the Monitor is not able, at this time, to provide this Honourable Court or any of the other stakeholders with an assessment of the financial effect of the potential remediation costs upon the Petitioners or their estates nor can it assess the potential effect upon the ability of the Petitioners to achieve a successful restructuring.

CLAIMS BAR DATE

80. The Province did not file a Proof of Claim in the CCAA Proceedings in accordance with Claims Procedure Order and, as a result, the Petitioners are of the

view that all claims by the Province are now barred in accordance with paragraph 15 of the Claims Procedure Order.

81. The Monitor takes no position with respect to whether the Province should be granted an extension of the Claims Bar Date with respect to filing its claim against the Petitioners.

CONCLUSIONS AND RECOMMENDATIONS

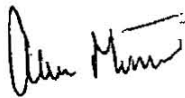
82. The Monitor notes that the outcome of this Motion could have far reaching consequences both in this restructuring and in other large, heavy industry restructurings where potential environmental obligations are of concern.
83. The Monitor recognizes the need in all Court supervised CCAA restructurings to strike a balance between various stakeholders affected by particular decisions, all operating within the established federal and provincial legislative schemes.
84. The Monitor notes, as a practical and factual matter, that if the Province is successful, then the provincial environmental regulatory scheme will be respected and, in fact, will escape the restructuring process unscathed, whereas the costs of such remediation will be visited upon the Petitioners, their estates and, ultimately, all other stakeholders, without, at least in the case of the Province where the Petitioners no longer own or use the Sites, any corresponding benefit accruing to the Petitioners, their estates or the other stakeholders.
85. Furthermore, if the Province is successful in its Motion, it is the view of the Monitor that the ability of the Petitioners to affect a successful restructuring will be negatively affected, including by a reallocation of value in favour of the Province, by increased difficulty in securing exit financing and by additional delays, potential complications and increased costs.
86. On the other hand, if the pre-filing obligations of the Petitioners in respect of the potential remediation costs, especially, in the case of the Province, for properties the Petitioners no longer own or use, are found to be compromisable obligations,

if a claim is filed on a timely basis or if allowed as a late claim, then the Province would share on a *pro rata* basis with a class of similar creditors as determined in accordance with a plan of arrangement yet to be filed and the Province would be entitled to participate in the formulation, negotiation and implementation of any such plan.

All of which is respectfully submitted.

ERNST & YOUNG INC.
in its capacity as the Court Appointed Monitor
of the Petitioners

Per:

A handwritten signature in black ink, appearing to read "Alex Morrison".

Alex Morrison, CA, CIRP
Senior Vice President

Greg Adams, CA, CIRP
Senior Vice President

APPENDIX "A"

ABITIBI PETITIONERS

1. Abitibi-Consolidated Company of Canada
2. Abitibi-Consolidated Inc.
3. 3224112 Nova Scotia Limited
4. Marketing Donohue Inc.
5. Abitibi-Consolidated Canadian Office Products Holding Inc.
6. 3834328 Canada Inc.
7. 6169678 Canada Inc.
8. 4042140 Canada Inc.
9. Donohue Recycling Inc.
10. 1508756 Ontario Inc.
11. 3217925 Nova Scotia Company
12. La Tuque Forest Products Inc.
13. Abitibi-Consolidated Nova Scotia Incorporated
14. Saguenay Forest Products Inc.
15. Terra Nova Explorations Ltd.
16. The Jonquière Pulp Company
17. The International Bridge and Terminal Company
18. Scramble Mining Ltd.
19. 9150-3383 Quebec Inc.
20. Abitibi-Consolidated (U.K.) Inc.

APPENDIX "B"
BOWATER PETITIONERS

1. Bowater Canada Finance Corporation
2. Bowater Canadian Limited
3. Bowater Canadian Holdings. Inc.
4. 3231378 Nova Scotia Company
5. AbitibiBowater Canada Inc.
6. Bowater Canada Treasury Corporation
7. Bowater Canadian Forest Products Inc.
8. Bowater Shelburne Corporation
9. Bowater LaHave Corporation
10. St-Maurice River Drive Company Limited
11. Bowater Treated Wood Inc.
12. Canexel Hardboard Inc.
13. 9068-9050 Quebec Inc.
14. Alliance Forest Products Inc. (2001)
15. Bowater Belledune Sawmill Inc.
16. Bowater Maritimes Inc.
17. Bowater Mitis Inc.
18. Bowater Guérette Inc.
19. Bowater Couturier Inc.

APPENDIX “C”
18.6 PETITIONERS

1. AbitibiBowater US Holding 1 Corp.
2. AbitibiBowater Inc.
3. Bowater Ventures Inc.
4. Bowater Incorporated
5. Bowater Nuway Inc.
6. Bowater Nuway Mid-States Inc.
7. Catawba Property Holdings LLC
8. Bowater Finance Company Inc.
9. Bowater South American Holdings Incorporated
10. Bowater America Inc.
11. Lake Superior Forest Products Inc.
12. Bowater Newsprint South LLC
13. Bowater Newsprint South Operations LLC
14. Bowater Finance II, LLC
15. Bowater Alabama LLC
16. Coosa Pines Golf Club Holdings, LLC

APPENDIX “D”

PARTNERSHIPS

1. Bowater Canada Finance Limited Partnership
2. Bowater Pulp and Paper Canada Holdings Limited Partnership
3. Abitibi-Consolidated Finance LP