

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

NINETEENTH REPORT OF THE MONITOR

OCTOBER 27, 2009

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 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, as amended on May 6, 2009 (the “**Initial Order**”).
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 December 15, 2009 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**”). On April 17, 2009, the U.S. Bankruptcy Court granted certain interim and final orders and set dates for the final hearing of the motions for which the U.S. Bankruptcy Court granted the interim orders.
4. The Petitioners are all subsidiaries of ABH (ABH, collectively with its subsidiaries, are referred to as the “**ABH Group**”).
5. 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.

6. 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.
7. On April 22, 2009, the Court amended the Initial Order to extend the stay of proceedings to the partnerships listed in Appendix “D” hereto.

BACKGROUND

8. 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.
9. 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**”).
10. 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.
11. ACCC, a wholly-owned subsidiary of ACI, and BCFPI hold the majority of ABH’s Canadian assets and operations.

PURPOSE

12. This is the nineteenth report of the Monitor (the “**Nineteenth Report**”) in the CCAA Proceedings, the purpose of which is to report to this Honourable Court with respect to:

(i) an update on:

- (a) the status of the transactions contemplated by the implementation agreement and the exhibits thereto (the “**Implementation Agreement**”) between ACI, ACCC, MPCo, Alcoa Canada Ltee. (“**Alcoa Canada**”) and Alcoa Ltd. (collectively, Alcoa Canada and Alcoa Ltd. are referred to herein as “**Alcoa**”) to which HQ Énergie Inc., a wholly owned subsidiary of Hydro Quebec (HQ Énergie Inc. and Hydro Quebec are collectively referred to herein as “**HQ**”), has intervened; and
- (b) the progress of finalizing the documentation to close the sale of ACCC’s 60% interest (the “**ACCC MPCo Interest**”) in the Manicouagan Power Company (“**MPCo**”);

(ii) the Petitioners’ request for an Order:

- (a) authorizing ACI and/or ACCC, as borrowers, to enter into a loan agreement (the “**ULC DIP Agreement**”) with an unlimited liability company (the “**ULC**”), to be incorporated as part of the transactions and steps (the “**Proposed Transactions**”) as contemplated in the Implementation Agreement and as described in the Monitor’s sixteenth report dated September 21, 2009 (the “**Sixteenth Report**”), in respect of a CDN\$230 million super-priority debtor-in-possession credit facility (the “**ULC DIP Facility**”), to be funded from the ULC reserve of approximately CDN\$282.3 million (the “**ULC Reserve**”) as described in the Sixteenth Report, which terms will be substantially in the form of the term sheet (the “**ULC DIP Term Sheet**”) attached to the Petitioners’

motion (the “**Petitioners’ Motion**”) and attached hereto as Appendix “**E**”;

- (b) approving a distribution in an amount up to CDN\$200 million (the “**Proposed Senior Secured Noteholders’ Distribution**”), upon the completion of the Proposed Transactions and court approval of the ULC DIP Agreement, to be paid from the net proceeds from the Proposed Transactions after certain payments, holdbacks, reserves and deductions as provided for in the Implementation Agreement, including the repayment of the ACI DIP Facility (as defined herein) (the “**Net Available Proceeds**”) and from cash reserves to pay to U.S. Bank, National Association as Indenture Trustee and Collateral Trustee (the “**Trustee**”) for the benefit of the holders (the “**Senior Secured Noteholders**”) of the 13.75% senior secured notes due April 1, 2011 (the “**Senior Secured Notes**”); and
- (c) amending the Initial Order to increase the super priority charge in respect of the ACI DIP Facility as set out in paragraph 61.3 of the Second Amended Initial Order (the “**ACI DIP Charge**”) by the aggregate amount of CDN\$230 million in favour of the ULC (as the ULC DIP Facility lender) for all amounts owing in connection with the ULC DIP Facility provided that the increase in the ACI DIP Charge shall be subordinated to any and all subrogated rights in favour of the Senior Secured Noteholders, the lenders under the ACCC Term Loan (the “**ACCC Term Lenders**”) and McBurney Corporation, McBurney Power Limited and MBB Power Services Inc. (the “**Lien Holders**”) arising under paragraph 61.10 of the Initial Order and pursuant to paragraph 11 of the MPCo Sale Approval Order (as defined herein);
- (iii) the Monitor’s comments on the proposed ULC DIP Facility;
- (iv) the Monitor’s comments on the Proposed Senior Secured Noteholders’ Distribution; and

- (v) the Monitor's recommendation regarding the Petitioners' Motion in respect of the ULC DIP Facility.

TERMS OF REFERENCE

13. In preparing this Nineteenth 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 Nineteenth Report. Some of the information referred to in this Nineteenth 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 Nineteenth 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.
14. Capitalized terms not defined in this Nineteenth 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.
15. Copies of all of the Monitor's Reports (with the exception of the Eighteenth Report of the Monitor dated October 16, 2009 which was filed under seal until such time as this Honourable Court makes a determination as to the extent of disclosure, if any), in both English and French, including a copy of this Nineteenth Report, and all motion records and Orders in the CCAA Proceedings will be available on the Monitor's website at www.ey.com/ca/abitibowater. 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.

16. 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.

BACKGROUND OF THE PROPOSED TRANSACTIONS

Summary of Financial Terms of the Implementation Agreement

17. Under the terms of the Implementation Agreement, HQ has agreed to pay ACCC CDN\$615 million (the "**Purchase Price**") for the ACCC MPCo Interest, from which, as described in greater detail in the Sixteenth Report, (i) CDN\$25 million will be paid at closing to Alcoa for tax liabilities arising from the Proposed Transactions, (ii) approximately CDN\$31 million will be held by HQ for two years to secure indemnifications to be provided to HQ under the acquisition agreement to be entered into with HQ (the "**HQ Holdback**"), (iii) certain inter-party accounts will be settled, (iv) a CDN\$282.3 million reserve, primarily to guarantee the obligations of ACCC and ACI, including potential contingent pension liabilities and taxes resulting from the Proposed Transactions, will be held by the Monitor in trust for the ULC pending further Orders of this Honourable Court, and (v) as provided for in the ACI DIP Agreement, the ACI DIP Facility will be repaid.

Approval of Sale of the ACCC MPCo Interest by this Honourable Court

18. On September 21, 2009, the Monitor filed its Sixteenth Report in respect of, among other things, the Proposed Transactions and the Monitor's recommendations thereon.
19. On September 29, 2009 this Honourable Court issued an Order (the "**MPCo Sale Approval Order**") approving the Petitioners' motion in respect of the sale of the ACCC MPCo Interest and certain other relief as summarized below:
- (i) approving the terms and conditions of the Implementation Agreement;

- (ii) authorizing and directing ACI and ACCC to implement and complete the Proposed Transactions with such non-material alterations, amendments, deletions or additions as the parties may agree to with the consent of the Monitor;
- (iii) declaring that (i) the proceeds from the Proposed Transactions, net of certain payments, holdbacks, reserves and deductions, and (ii) the shares of the ULC, shall constitute and be treated as proceeds of the disposition of ACCC's MPCo shares (collectively, the "**MPCo Share Proceeds**");
- (iv) declaring that the MPCo Share Proceeds extend to and include (a) ACCC's interest in the HQ Holdback and (b) ACCC's interest in claims arising from the satisfaction of related-party claims;
- (v) declaring that the MPCo Share Proceeds will be subject to a replacement charge (the "**MPCo Noteholder Charge**") in favour of the Trustee for the benefit of the Senior Secured Noteholders with the same rank and priority as the security held by the Trustee in respect of the shares of MPCo held by ACCC;
- (vi) declaring that the ULC Reserve is subject to a charge in favour of the Trustee for the benefit of the Senior Secured Noteholders which is subordinate to a charge in favour of Alcoa (the "**ULC Reserve Charge**"); and
- (vii) ordering that the cash component of the MPCo Share Proceeds and the ULC Reserve be paid to and held by the Monitor in an interest bearing account or investment grade marketable securities subject to further Order of this Honourable Court.

Status of the Closing of the Proposed Transactions

20. As reported in the Sixteenth Report, the parties to the Proposed Transactions had agreed to use reasonable commercial efforts to close the Proposed Transactions on or before October 15, 2009.

21. However, the Monitor has recently been advised by Management and HQ that the Proposed Transactions are now not expected to close until the latter part of November or early December, 2009 and that the ACI Group has requested an extension from Investissement Quebec (“**IQ**”) to December 15, 2009 for the repayment of the ACI DIP Facility.
22. The Monitor has discussed the requested extension with counsel to IQ.
23. The Monitor has been advised by ACI and HQ that the completion of the Proposed Transactions has been delayed due to the complex nature of the transactions, the outstanding governmental approval for the sale and/or transfer of private network hydroelectric facilities required by the Regie de l’Energie, and the need to address a number of outstanding issues relating to the closing of the Proposed Transactions, including:
 - (i) the negotiation of the definitive acquisition agreement (the “**Acquisition Agreement**”) for the Proposed Transactions by and among ACI, ACCC and HQ;
 - (ii) the receipt of certain regulatory approvals in connection with the Proposed Transactions;
 - (iii) HQ requires that a new collective bargaining agreement be in place with MPCo’s employees at closing; and
 - (iv) the negotiations with respect to a new power purchase agreement for the Baie-Comeau mill and the rates applicable thereto. The Monitor has been informed by Management that HQ has requested additional fees for the transportation and transmission of the electricity from MPCo to the Baie-Comeau mill. In order to mitigate this cost, ACI is considering selling to HQ, at nominal value, the transmission lines ACCC currently owns (and will no longer have a use for) that carry the electricity from the MPCo generation station to the Baie-Comeau mill as well as from the MPCo generation station to the city of Baie-Comeau.

24. The Monitor, together with its counsel, has reviewed a draft of the Acquisition Agreement and has raised several issues with the Petitioners regarding certain provisions thereof, including the scope of the representations and warranties, the indemnities and the conditions precedent set forth therein. The Monitor also understands that the parties intend to return to Court to seek approval of the final Acquisition Agreement.

Estimated Net Proceeds from the sale of ACCC's MPCo Interest

25. The following table, which details the Monitor's understanding of the amounts of the significant payments, holdbacks, reserves and deductions from the Purchase Price, was included in the Sixteenth Report and has been updated to include the Purchase Price and amounts of the payments, reserves and holdbacks in U.S. dollar equivalents (as the cash flow forecasts referred to herein are in U.S. dollars):

	CDN\$ millions	US\$ millions
Purchase Price	\$615.0	\$553.5
Payments and Adjustments from Purchase Price:		
Outstanding Balance Among ACCC/BCFPI and HQ	(31.3)	(28.2)
Reimbursement of Alcoa's taxes payable at closing	(25.0)	(22.5)
ACCC's Estimated Transaction Costs	(10.0)	(9.0)
Other Estimated Adjustments	(2.0)	(1.8)
Amounts owed to ACCC/BCFPI by MPCo, HQ or Alcoa	2.1	1.9
Pre-filing amounts payable by the ACI Group to Alcoa and MPCo	<u>(0.9)</u>	<u>(0.8)</u>
Total Payments and Adjustments from Purchase Price	<u>(67.1)</u>	<u>(60.4)</u>
Net Proceeds before Holdbacks and Reserves	<u>547.9</u>	<u>493.1</u>
Less:		
HQ Holdback	(30.8)	(27.7)
ULC Reserve	<u>(282.3)</u>	<u>(254.1)</u>
Net Proceeds After Holdbacks and Before Payment of ACI	<u>234.8</u>	<u>211.3</u>
DIP Facility		
Payments:		
Repayment of ACI DIP Facility (assuming fully drawn at US\$87.5 million. Currently US\$54.8 million is drawn)	<u>(97.2)</u>	<u>(87.5)</u>
Net Available Proceeds After Payment of ACI DIP Facility	<u>\$137.6</u>	<u>\$123.8</u>

Note: The above table assumes an exchange rate of CDN\$1.00=US\$0.90

26. An extract from the Sixteenth Report which described the components of payments, holdbacks and reserves from the Purchase Price is attached hereto as Appendix "F".
27. The table from the Sixteenth Report assumed that the ACI DIP Facility would be fully drawn. However, as of the date of this Nineteenth Report, the amount drawn under the ACI DIP Facility is \$54.8 million. If no further draws are made under the ACI DIP Facility, the Net Available Proceeds after the payment of the ACI DIP Facility would be CDN\$173.9 million as shown in the abbreviated table below, rather than CDN\$137.6 million as set out in the table above.

	CDN\$ millions	US\$ millions
Net Proceeds After Holdbacks and Before Payment of ACI DIP Facility	<u>\$234.8</u>	<u>\$211.3</u>
Payments:		
Repayment of ACI DIP Facility (assuming US\$54.8 million is drawn)	<u>(60.9)</u>	<u>(54.8)</u>
Net Available Proceeds After Payment of ACI DIP Facility	<u>\$173.9</u>	<u>\$156.5</u>

Note: The above table assumes an exchange rate of CDN\$1.00=US\$0.90

THE ACI GROUP'S SOURCES OF LIQUIDITY

28. Currently, the ACI Group has three primary sources of liquidity: (i) the Securitization Program (as defined later in this Nineteenth Report), (ii) the ACI DIP Facility and (iii) asset sales (e.g. the sale of the Quebec Timberlands as approved by this Honourable Court on August 4, 2009).

The Securitization Program

29. On June 15, 2009, this Honourable Court issued an Order authorizing the Petitioners to enter into an Amended and Restated Securitization Program (the “**Securitization Program**”). The Securitization Program enables entities in the ACI Group and in the DCorp Group to generate immediate cash flow from their accounts receivable by selling the accounts receivable to a securitization vehicle rather than waiting to collect the accounts directly from customers.
30. Pursuant to section 5.14 of the Securitization Program's Guaranty and Undertaking Agreement dated June 16, 2009 among ACI, Citibank, N.A., as agent, and the guarantors party thereto (the “**Guaranty Agreement**”), ACI, DCorp and their respective subsidiaries must maintain certain covenants in respect of earnings (before interest, taxes, depreciation, amortization and restructuring costs (“**EBITDAR**”). If such EBITDAR covenant is not met, then the ACI Group is required to meet certain minimum liquidity covenants. The ACI Group has advised the Monitor that it will not meet the EBITDAR covenant and, accordingly, the ACI Group must, pursuant to the terms of the Guaranty

Agreement, maintain a minimum cash availability (cash plus availability under the ACI DIP Facility) of \$75 million and the daily average cash availability on a four week rolling period must be at least \$100 million. Failure to meet the liquidity requirements would constitute an event of default under the Guaranty Agreement.

31. As of October 16, 2009, \$143.2 million was outstanding under the Securitization Program.
32. Maintaining the Securitization Program is essential for ACI to maintain stability of its operations. Accordingly, ACI will require a replacement DIP facility to replace the liquidity available under the ACI DIP Facility, otherwise it will be at high risk of defaulting under the Guaranty Agreement.

The ACI DIP Facility

33. On May 6, 2009, this Honourable Court issued an Order authorizing ACI and DCorp to enter into a loan agreement with the Bank of Montreal (“**BMO**”), guaranteed by IQ, that provided the ACI Group and the DCorp Group with \$100 million in debtor-in-possession financing (the “**ACI DIP Facility**”). Pursuant to the terms of the ACI DIP Facility, the ACI Group and the DCorp Group were required to maintain availability of \$12.5 million under the ACI DIP Facility, which effectively capped the amount available under the ACI DIP Facility at \$87.5 million.
34. As previously noted in this Nineteenth Report, the amount drawn under the ACI DIP Facility is currently \$54.8 million.
35. While the ACI Group currently has both the Securitization Program and the ACI DIP Facility to meet its day-to-day liquidity requirements, the ACI DIP Facility must be repaid on or before November 1, 2009, subject to an extension which has been requested and is being processed by IQ and BMO, but has not yet been granted. In order for the ACI Group to have sufficient short term liquidity for operations and working capital requirements, the ACI Group needs to secure a new DIP financing arrangement for it to have sufficient liquidity for the duration of the CCAA Proceedings.

THE PETITIONERS' PROPOSED USE OF THE ULC RESERVE

The ULC Reserve

36. As described earlier in this Nineteenth Report (and as set forth in the Sixteenth Report), pursuant to the Implementation Agreement, the ULC is required to maintain the ULC Reserve for the purposes of indemnifying the Alcoa Indemnified Persons and the MPCo Indemnified Persons (as each is defined in the Implementation Agreement). The ULC Reserve is to be comprised of the following:

- (i) CDN\$202.3 million with respect to certain potential contingent pension liabilities as described in greater detail in the Sixteenth Report; and
- (ii) approximately CDN\$80 million with respect to certain tax reserves and related costs for Alcoa as described in greater detail in the Sixteenth Report.

Permitted Investments

37. On the closing of the Proposed Transactions, the ULC will hold the ULC Reserve in the amount of approximately CDN\$282.3 million. This amount may be used for a limited number of purposes (the “**Permitted Investments**”) that are described in the Implementation Agreement. Such Permitted Investments include:

- (i) holding the amount in cash;
- (ii) holding such other assets that may be agreed to by ACCC and Alcoa; and
- (iii) making a DIP loan to either ACI or ACCC. As contemplated in the Implementation Agreement, the security granted to ULC in exchange for a new DIP facility shall be on similar terms as those granted to IQ pursuant to the current ACI DIP Facility. The same guarantors and obligors to the ACI DIP Facility must be parties to any new DIP agreement.

38. The Monitor has been advised that ACI and Alcoa are negotiating the terms and conditions of the ULC DIP Facility. A draft of the ULC DIP Term Sheet is attached hereto as Appendix “E”.

Terms, Conditions and Fees of the Proposed ULC DIP Facility

39. The ULC DIP Term Sheet provides that the ACI Group may borrow CDN\$230 million from the ULC Reserve as a Permitted Investment of the ULC Reserve.
40. Based on the following analysis, the Monitor estimates that the ULC DIP Facility would provide the ACI Group with additional net liquidity (after the retirement of the ACI DIP Facility) after the payment of the Proposed Senior Secured Noteholders Distribution, if so approved by this Honourable Court, in the amount of approximately CDN\$167 million as shown in the table below:

Incremental Increase in Liquidity: \$millions	CDN	USD
	Nov 2009	Nov 2009
<i>From MPCo Proposed Transactions</i>		
Net Proceeds Before Holdbacks and Reserves (from table in paragraph 25)	\$ 547.9	\$ 493.1
HQ Holdback	(30.8)	(27.7)
MPCo Net Proceeds After Holdbacks and Before Payment of ACI DIP Facility and ULC Reserve	517.1	465.4
Repayment of ACI DIP Facility	(60.9)	(54.8)
ULC Reserve	(282.3)	(254.1)
Net Available Proceeds	\$ 173.9	\$ 156.5
<i>Permitted Use of ULC Reserve</i>		
ULC Reserve	282.3	254.1
ULC DIP Facility	(230.0)	(207.0)
ULC Reserve Held in Cash	\$ 52.3	\$ 47.1
<i>Increase in Liquidity from ULC DIP Facility</i>		
ULC DIP Facility	230.0	207.0
Net Available Proceeds from MPCo	173.9	156.5
Senior Secured Notes Payment	(200.0)	(180.0)
Extinguish Undrawn ACI IQ DIP Facility Availability (US\$87.5 million less US\$54.8 million)	(36.3)	(32.7)
Net Increase in Liquidity for the ACI Group	\$ 167.6	\$ 150.8

Note: The above table assumes an exchange rate of CDN\$1.00=US\$0.90

41. The proceeds of the ULC DIP Facility will be used for working capital and for other general corporate purposes of the ACI Group. In addition, the ULC DIP Facility will be used to pay the fees and expenses associated with the ULC DIP Facility, including the

reasonable legal and other out-of-pocket costs incurred by the ULC and Alcoa and to pay the costs and expenses incurred in respect of these CCAA Proceedings.

42. The Monitor has reviewed a draft of the ULC DIP Term Sheet and has summarized the significant terms of the ULC DIP Term Sheet as follows:

- (i) ***Manner of Borrowing*** – the ULC DIP Facility will be available by way of an immediate draw of CDN\$230 million;
- (ii) ***Interest Payments*** – no interest will be payable on the ULC DIP Facility;
- (iii) ***Fees*** – there are no fees payable in respect of the ULC DIP Facility;
- (iv) ***Expenses*** – the borrowers will pay all reasonable expenses incurred by the ULC and Alcoa in connection with the ULC DIP Facility;
- (v) ***Reporting*** – reporting similar to that provided under the ACI DIP Facility and copies of all financial information will be placed in the data room. Reporting will include notice of events of default or maturing events of default;
- (vi) ***Use of Proceeds*** – the ULC DIP Facility will be used for general corporate purposes in material compliance with the 13-week cash flow forecasts to be provided no less frequently than the first Friday of each month (the “**Budget**”);
- (vii) ***Maturity Date*** – December 31, 2010 (the “**Outside Maturity Date**”) or such earlier date as required by Alcoa, it being understood that if Alcoa requires an earlier initial maturity, the consent of the Senior Secured Noteholders shall not be required thereafter to extend it to any date prior to the Outside Maturity Date;
- (viii) ***Events of Default*** – the events of default include the following (each, an “**Event of Default**”):
 - (a) substantial non-compliance with the Budget;
 - (b) termination of the CCAA Stay of Proceedings;

- (c) failure to file a CCAA Plan with this Honourable Court by September 30, 2010; and
- (d) withdrawal of the existing Securitization Program unless replaced with a reasonably similar facility;
- (ix) ***Rights of Alcoa*** – Alcoa to receive all reporting noted above and notices of events of default. Alcoa’s consent is required for any amendments or waivers;
- (x) ***Rights of Senior Secured Noteholders*** – the Senior Secured Noteholders’ rights consist of:
 - (a) receiving all reporting noted above and any notice of an Event of Default;
 - (b) consent of Senior Secured Noteholders holding a majority of the principal amount of the Senior Secured Notes is required for any amendments to the maximum amount of the ULC DIP Facility or any change to the Outside Maturity Date or the interest rate;
 - (c) upon an Event of Default, there is no right to accelerate payment or maturity, subject to the right to apply to Court for the termination of the ULC DIP Facility, which right is without prejudice to the right of ACI, ACCC, the ULC or Alcoa to oppose such application;
 - (d) entitled to review draft of documents, but final approval of such documents is in Alcoa’s sole discretion; and
 - (e) entitled to request the approval of this Honourable Court to amend any monthly cash flow budget which has been filed;
- (xi) ***Security*** – similar to the existing ACI DIP Facility and ranking immediately after the existing ACI DIP Charge. There shall be no charge on the assets of the Chapter 11 Debtors (as defined in the existing ACI DIP Facility).

MONITOR'S COMMENTS ON THE ACI GROUP'S PROPOSED ULC DIP FACILITY

43. In assessing the reasonableness of the ULC DIP Facility, the Monitor has considered, among other things:
- (i) the proposed terms and conditions in the ULC DIP Term Sheet;
 - (ii) the necessity of the ACI Group raising sufficient financing to maintain the stability of its operations and preserve its business as a going concern in a volatile market; and
 - (iii) the impact the financing will have on the ACI Group's stakeholders, including the Senior Secured Noteholders, the ACCC Term Lenders, the unsecured creditors and all other stakeholders.

The ULC DIP Facility's Terms and Conditions

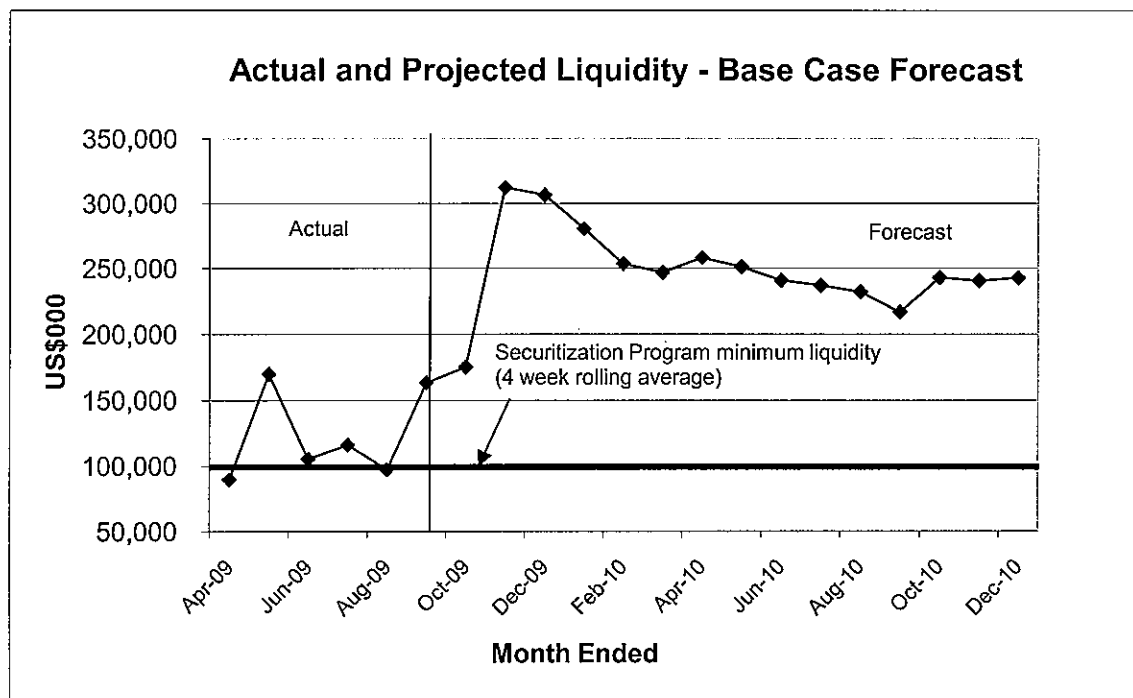
44. The Monitor notes that the terms and conditions of the ULC DIP Facility are attractive for the ACI Group in that: (i) no interest is being charged on the draws under the ULC DIP Facility, and (ii) no closing or standby fees are being charged by the ULC.
45. The Monitor has been advised by ACI that the rationale for there being no interest rate and no fees with respect to the ULC DIP Facility is that the ULC Reserve, in the opinion of ACI, will ultimately revert back, subject to no claims being made against the ULC Reserve as set out in the Sixteenth Report, to the ACI Group upon or after emergence from these CCAA Proceedings. Therefore, if any interest or fees were paid to the ULC in respect of the ULC DIP Facility, then effectively, these expenses would eventually be returned to ACI after emergence from CCAA. However, the payment of interest and fees to the ULC during the CCAA Proceedings would likely result in taxable income for the ULC, which would not be beneficial to the ACI Group.
46. Given that there is no cost to the ACI Group for borrowing the ULC DIP, this is a very attractive form of financing from the ACI Group's perspective. The cost of external DIP financing, if such DIP financing could be secured at all, would be substantially greater

than the ULC DIP. Furthermore, any return that the ULC could generate on the investment of the ULC Reserve in other Permitted Investments would be nominal. The Monitor concurs with Management in this regard and is of the view that the terms and conditions of the ULC DIP Term Sheet are attractive to the ACI Group.

The ACI Group's Forecast Liquidity Requirements to December 31, 2010

47. It is premature at this stage to accurately predict the period for which the ACI Group will remain in these CCAA Proceedings. ACI and ABH are still in the process of developing business plans and restructuring scenarios that will form the basis for discussions with the stakeholder groups with respect to the form of a Plan of Arrangement in both the CCAA Proceedings and the Chapter 11 Proceedings.
48. While Management has advised the Monitor that the Petitioners wish to complete these CCAA Proceedings as soon as possible, the Monitor is of the view that it will take a number of months to complete the business plan and consider all of the restructuring scenarios, negotiate the Plan of Arrangement, raise exit financing, conduct creditor meetings, complete negotiations with employee groups and complete all of the other tasks required to emerge from these CCAA Proceedings. Accordingly, the Monitor expects that the ACI Group may require DIP financing until the end of the summer of 2010. In this context, and in order to provide for contingencies, the Monitor believes that it is appropriate to review the ACI Group's cash flow needs through to the end of 2010 in assessing the appropriate level of DIP financing required.
49. In order to determine its liquidity requirements through 2010, the ACI Group has prepared, with the assistance of the Monitor, a monthly forecast from October 1, 2009 to December 31, 2010 (the "**ACI Monthly Forecast**"), which is attached hereto as Appendix "**G**" to this Nineteenth Report. The Monitor cautions that, due to the Petitioners exposure to uncontrollable variables such as newsprint, specialty paper and lumber pricing and demand, as well as foreign exchange rates and North American/global economic conditions, any forecast with such a time horizon is subject to significant variability.

50. Based on the ACI Monthly Forecast, the ACI Group is currently projecting that its liquidity, assuming the approval of the ULC DIP Facility in the amount of CDN\$230 million and the payment of the Proposed Senior Noteholders Distribution of CDN\$200 million, will be \$335 million on the closing of the Proposed Transactions and will range from approximately \$335 million to approximately \$217 million from October 1, 2009 to December 2010 (the “Forecast Period”) as outlined below:



51. Assuming the ULC DIP is approved, based on the ACI Monthly Forecast, the ACI Group is projected to have sufficient liquidity through 2010 (although some of this liquidity may not be required by the ACI Group until the latter half of 2010), which should provide sufficient time for the Petitioners to complete their restructuring process.
52. As summarized in Appendix “G”, the ACI Group is projecting that its liquidity position will decline by approximately \$70 million from December 1, 2009 through December 31, 2010. However, the forecast projects that the ACI Group will generate positive EBITDA (earnings before interest, taxes and depreciation) from operations over this period. The decline in liquidity is projected to occur due to non-operating costs, such as Adequate Protection Payments by DCorp to the ACCC Term Lenders (\$45 million) and

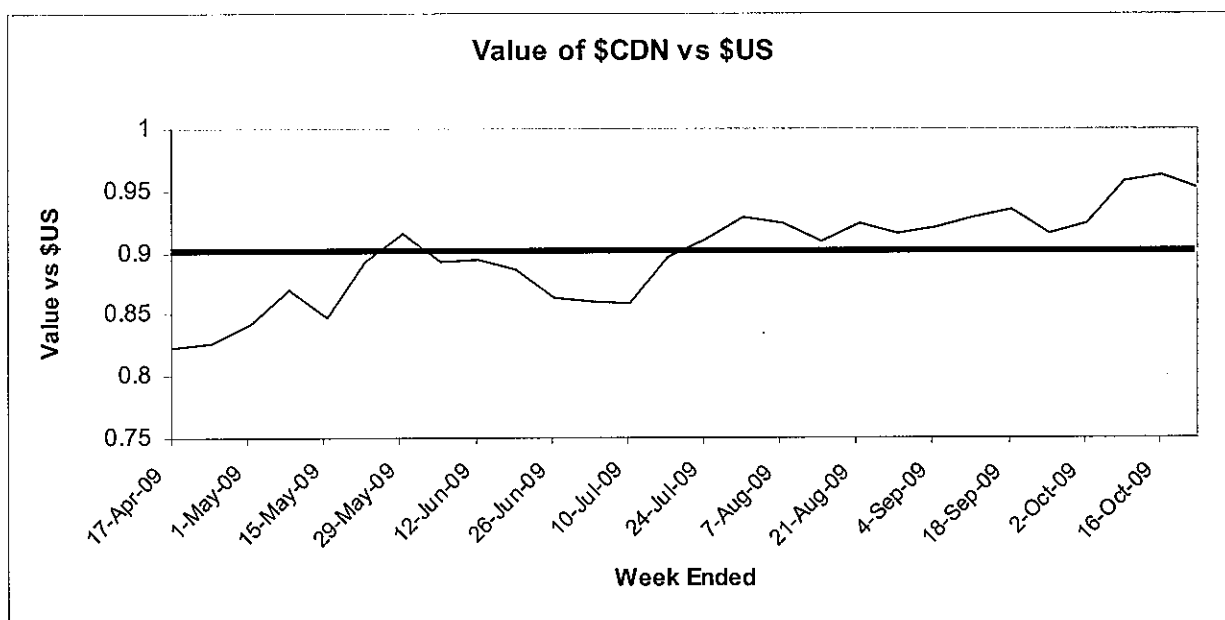
restructuring costs (\$55 million), as well as capital expenditures (\$64 million) and a build in working capital assets (\$27 million), primarily due to a projected increase in accounts receivable due to a stronger pricing environment, as assumed in the forecast.

53. The liquidity requirements of the ACI Group are highly dependent upon the market price and demand for paper and wood products as well as the exchange rate of the Canadian dollar relative to the U.S. dollar. As previously reported by the Monitor, the forest products industry continues to face significant challenges with respect to pricing and demand. A significant factor has been the overcapacity in the newsprint market and the continuing weakness of the new home construction segment of the U.S. housing market. However, as reported in the Seventeenth Report of the Monitor dated October 5, 2009 (the “**Seventeenth Report**”), all major North American newsprint producers have announced price increases of approximately \$35 per tonne in September and October. Further, on October 19, 2009, ACI announced further price increases of \$25 and \$25 per tonne (for U.S. newsprint customers only) effective November 1, 2009 and December 1, 2009, respectively. These price increases have been reflected in the ACI Monthly Forecast.
54. The Monitor’s view is that a reasonable liquidity reserve is required to ensure that ACI can meet each of its payrolls and its commitments to purchase the supplies and materials necessary to keep its mills operational. As an example, on an average weekly basis during the Forecast Period, the ACI Group is forecasting disbursements of approximately \$43 million per week. Payroll or payroll-related costs are made either weekly or semi-monthly and in certain weeks will exceed \$13 million. In addition, the Monitor notes that, since the date of filing, weekly variances in the cash flow forecasts produced by the ACI Group have varied by as much as \$26 million due to the timing of receipts and disbursements.
55. In addition, the ACI Monthly Forecast is subject to a number of assumptions that, if not achieved, could cause material variances. In particular, one of the more significant assumptions that may have an impact on ACI’s forecast net cash position is the projection of net cash flow from the Securitization Program. Estimating the cash flow ACI receives

from (or remits to) the Securitization Program is complex and requires numerous assumptions regarding future sales, accounts receivable collections and estimates of the amount of future ineligible receivables, including estimating the ageing of receivables and the amount of accounts receivable by customers in specific countries, as there are certain ageing and country concentration restrictions in calculating how much cash flow is available from the Securitization Program. As a result, in analyzing the ACI Monthly Forecast, a certain level of cash reserves is required to provide for potential variations in the forecast.

56. It is also important for ACI to be able to demonstrate to its customers, key vendors and employees that it has sufficient financial resources to operate without disruption during the restructuring process in order to maintain confidence in ACI's ability to deliver products to customers and pay suppliers for amounts due.
57. The ACI Group has prepared the ACI Monthly Forecast based on certain key assumptions including the following:
 - (i) collections are based on a "days sales outstanding" calculation in order to approximate Management's collections expectations;
 - (ii) collections on behalf of joint ventures and the related remittances have been eliminated as they are essentially pass through cash flows over the Forecast Period;
 - (iii) an exchange rate of CDN\$1.00=US\$0.90;
 - (iv) capital expenditures are \$60 million for 2010 which is consistent with the capital expenditures in the current 13 week cash flow forecast, but is lower than the level of capital expenditures in 2008;
 - (v) the Securitization Program remains in place through 2010;
 - (vi) the Adequate Protection Payments to the ACCC Term Lenders continue through 2010 at the current level; and

- (vii) the MPCo loans of approximately CDN\$10 million are repaid after the closing of the sale of the ACCC MPCo Interest and are available for working capital purposes.
58. A complete listing of the key assumptions is included with the ACI Monthly Forecast in Appendix “G”.
59. The Monitor notes that the ACI Monthly Forecast has been developed using an exchange rate of CDN\$1.00=US\$0.90 based on a review of the actual exchange rate since the date of filing as shown in the graph below. However, as of the date of this Report, the CDN exchange rate is approximately \$0.94 (which is down from \$0.97 last week), and has risen dramatically since the commencement of the CCAA Proceedings. If this exchange rate remains at this level, it will likely result in a negative impact on the actual cash flow results of the ACI Group as compared with the ACI Forecast.

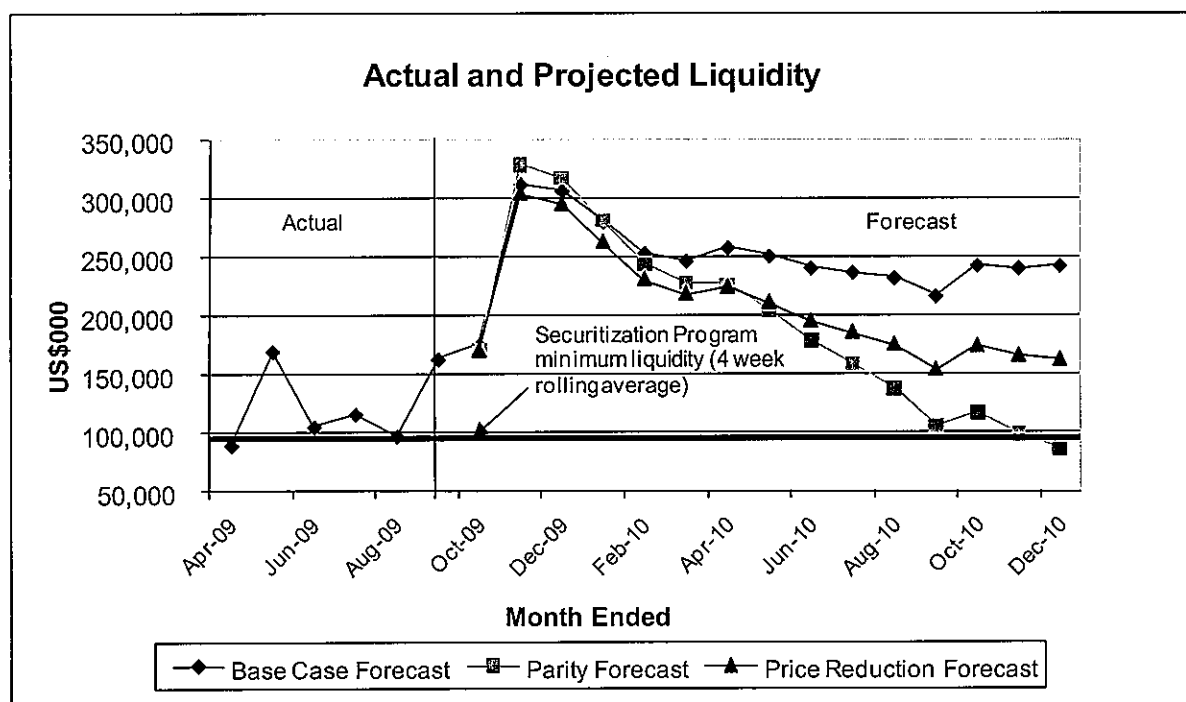


Sensitivity Analyses

60. As stated previously, the ACI Group’s ultimate cash requirements will be highly dependent on variables that the ACI Group may not be able to control such as pricing and the exchange rate for the Canadian dollar. The Monitor believes that, in considering the

size of the ULC DIP Facility, it is appropriate to consider whether the ACI Group will have access to sufficient liquidity to ensure that the ACI Group is able to cover the impact of these uncontrollable variables during the Forecast Period.

61. Accordingly, the Monitor has requested that the ACI Group prepare sensitivity analyses assuming that: (i) the price of newsprint and specialty paper is lower than the ACI Monthly Forecast by approximately \$25 per tonne (the “**Price Reduction Forecast**”) and (ii) an exchange rate of CDN\$1.00=US\$1.00 (the “**Parity Forecast**”). The following graph shows the actual and projected liquidity for the ACI Group based on the ACI Monthly Forecast (the “**Base Case Forecast**”) under the Price Reduction Forecast and the Parity Forecast:



62. The Monitor has reviewed the Price Reduction Forecast and the Parity Forecast.
63. As can be seen in the graph above, the ULC DIP Facility of CDN\$230 million is projected to provide the ACI Group with sufficient liquidity in the Base Case Forecast through December 2010. However, as demonstrated by the graph above, the ACI

Group's liquidity position could be strained if the uncontrollable variables are significantly negative for a prolonged period of time.

64. ACI has advised the Monitor that it believes if the conditions which underlie the Parity Forecast were to occur, it may be possible that additional newsprint selling price increases would be achievable in U.S. dollars, which would offset some of the negative cash flow impact which arises from selling to customers who are invoiced in U.S. dollars. This is not reflected in the Parity Forecast.
65. As noted in the graph above, the fluctuations in the \$CDN/\$U.S. exchange rate have a substantial impact on the ACI Group's projected liquidity. The impact of every one cent appreciation of the Canadian dollar against the United States dollar is a reduction of approximately \$17 million in net cash flow in 2010 and the negative cash flow impact of every dollar of paper price reduction is approximately \$2.7 million for 2010. Particularly in light of the substantial volatility in the \$U.S. currency in recent months, the ACI Group would benefit from sufficient liquidity to provide it with a buffer against continued exchange rate variability.
66. Based upon the:
 - (i) ACI Monthly Forecast;
 - (ii) sensitivity analyses prepared by the ACI Group;
 - (iii) inter-month variability of the ACI Group's cash flows (based on timing of payments of payroll, payments to major suppliers and collections of customer receivables);
 - (iv) minimum liquidity requirements under the Securitization Program;
 - (v) net cash usage in the Base Case Forecast of approximately \$70 million from December 1, 2009 through to December 31, 2010; and
 - (vi) potential impact of variations in pricing or exchange rates as per the Parity Forecast and the Price Reduction Forecast in the graph above,

the Monitor is of the view that the ULC DIP Facility would likely ensure that the ACI Group has sufficient liquidity to complete its restructuring in these CCAA Proceedings. The Monitor is of the view that, even if not all of the ULC DIP Facility is required immediately after closing, the ACI Group may require access to the entire facility over the duration of these CCAA Proceedings.

Comparison of Available Liquidity with Other Companies

67. As reported by the Monitor to this Honourable Court when the ACI DIP Facility was approved, it was the Monitor's view that the liquidity available under the ACI DIP Facility (\$87.5 million) was not a significant level of liquidity for a company of the size and complexity of the ACI Group (annual sales of approximately \$3.3 billion) given its monthly operating disbursements of approximately \$190 million, including monthly payroll and benefit costs of \$37 million.
68. As an illustration, the table below demonstrates the liquidity that certain North American integrated forestry industry competitors of comparable size (companies with annual sales in excess of \$1 billion) have available in comparison to the projected liquidity that the ACI Group would have if the Proposed Transactions close and if the CDN\$230 million ULC DIP Facility is approved by this Honourable Court:

Company	Notes	Total Liquidity (\$Millions)	Last 12 Months Revenue (\$Millions)	Liquidity as % of Sales
ACI Group	(1)	335	3,566	9.4%
Canfor Corp.	(2)	586	2,287	25.6%
Catalyst Paper Corporation	(2)	161	1,641	9.8%
Domtar Corporation	(2)	933	5,711	16.3%
International Paper	(2)	3,154	24,824	12.7%
Louisiana Pacific	(2)	397	1,111	35.8%
Tembec Inc.	(2)	204	1,707	12.0%
West Fraser Timber Co. Ltd.	(2)	584	2,880	20.3%
Weyerhaeuser Company	(2)	3,945	6,468	61.0%
Peer group average, excluding the ACI Group				20.8%
Peer group average, excluding the ACI Group and Weyerhaeuser				18.9%
(1) ACI Group estimated liquidity on closing of the sale of ACCC MPCo Interest after payment of the Proposed Senior Secured Noteholders' Distribution				
(2) As at June 30, 2009				

Source: Capital IQ, Edgar and Sedar

69. The Monitor also notes that BI currently has total available liquidity of approximately \$400 million as at October 16, 2009. BI had sales of \$3.4 billion in 2008 as compared with ACI sales of \$3.3 billion in the same period.
70. Based on these comparables, the Monitor is of the view that the proposed ULC DIP Facility is not unreasonable for a company the size and complexity of the ACI Group and is not inconsistent with the liquidity available to other large North American integrated forestry companies.

IMPACT OF THE ULC DIP FACILITY ON SECURED AND UNSECURED CREDITORS

Petitioners' Analysis of the Impact on the Senior Secured Noteholders

71. The Senior Secured Noteholders are owed approximately \$413 million plus estimated accrued interest of \$59 million as at October 9, 2009. The Senior Secured Noteholders

are also claiming default interest, which the Petitioners have not acknowledged or admitted.

72. The Petitioners' Motion includes an assessment of the collateral held as security for the Senior Secured Noteholders grouped into three categories:

- (i) the ACI DIP Charge pursuant to which the Senior Secured Noteholders will have a subrogated charge on all the assets of the ACI Group to the extent that the ACI DIP Facility is repaid using the net proceeds from the sale of the ACCC MPCo Interest (the ACI DIP Facility was drawn in the amount of \$54.8 million as of the date of this Nineteenth Report);
- (ii) the MPCo Noteholder Charge and the ULC Reserve Charge; and
- (iii) the other assets pledged in favour of the Senior Secured Noteholders, including the ACCC MPCo Interest (the "**Senior Secured Noteholders' Pledged Assets**").

73. The Petitioners have asserted that the above-mentioned collateral should be more than sufficient to ensure that the amounts outstanding to the Senior Secured Noteholders are paid in full on or before the emergence of the ACI Group from these CCAA Proceedings. Furthermore, the Petitioners are proposing to make a payment of up to CDN\$200 million to the Senior Secured Noteholders which will further enhance the Senior Secured Noteholders' security position when compared to the net amounts owed to them.

74. The Petitioners' Motion indicates that the Senior Secured Noteholders' Pledged Assets, excluding the subrogated ACI DIP Facility Charge, the MPCo Noteholder Charge and the ULC Reserve Charge, have a net book value of over \$1.4 billion. The Petitioners believe that the Senior Secured Noteholders will be fully secured and will not be adversely impacted by the granting of the increase in the ACI DIP Charge by the amount of the ULC DIP Facility.

Petitioners' Analysis of the Impact on the ACCC Term Lenders

75. The Petitioners' Motion includes an assessment of the collateral held as security for the amounts owing to the ACCC Term Lenders which can be grouped into two primary categories:
- (i) a first ranking charge on the working capital assets including: cash and cash equivalents, inventory, claims, securities, insurance and receivables of Bridgewater, Cheshire Recycling Ltd. (U.K.), ACCC, ACI and 13 other guarantors, all of which are subsidiaries of ACCC; and
 - (ii) a first ranking charge on substantially all of the movable property (including receivables, inventory and equipment) of DCorp and certain of its subsidiaries, a pledge of shares or other interests in the DCorp Group entities and a mortgage over the real estate property related to the Alabama River Newsprint Mill.
76. The Petitioners' Motion states that the August 2009 borrowing base certificate indicates that the book value of eligible inventories and accounts receivable was approximately \$587 million. The ACI Group believes that this represents a surplus in excess of \$240 million over and above the amounts owing to the ACCC Term Lenders.
77. In addition, the Petitioners have advised the Monitor that this surplus is before considering any value for the following:
- (i) cash held by the ACI Group; and
 - (ii) the Alabama River newsprint mill.

Monitor's Comments on the Impact of the ULC DIP Facility on the Senior Secured Noteholders and the ACCC Term Lenders

78. ACI's ability to continue its operations on a going concern basis is fundamental to preserving the value of the collateral pledged in favour of the Senior Secured Noteholders

and the ACCC Term Lenders, as well as for preserving value for other stakeholders of the ACI Group, including employees and unsecured creditors.

79. If the ACI Group does not have sufficient funds to continue operations during the CCAA Proceedings, the value of its plant and equipment assets would be adversely affected and the value of its accounts receivable and inventory would be severely impaired.

Senior Secured Noteholders' Security

80. In the Monitor's view, the Senior Secured Noteholders likely have sufficient collateral to secure their indebtedness, taking into consideration the subrogation rights in respect of the repayment of the ACI DIP Facility, the MPCo Net Proceeds after the repayment of the ACI DIP Facility (which is estimated to be approximately CDN\$173.9 million and which is secured by the MPCo Noteholder Charge), the ULC Reserve Charge and the remaining collateral comprising the Senior Secured Noteholders' Pledged Assets.

The MPCo Noteholder Charge and the ULC Reserve Charge

81. As referred to above, the collateral position of the Senior Secured Noteholders includes the following charges:
- (i) the ACI DIP Charge (up to \$54.8 million) pursuant to which the Senior Secured Noteholders will have a subrogated charge on all the assets of the ACI Group to the extent that the ACI DIP Facility is repaid using the net proceeds from the sale of the ACCC MPCo Interest;
 - (ii) the ULC Reserve Charge pursuant to which the Senior Secured Noteholders have a second ranking charge, subordinate to Alcoa, in respect of the CDN\$282.3 million to be held as the ULC Reserve; and
 - (iii) the MPCo Noteholder Charge pursuant to which the Senior Secured Noteholders will have a first ranking charge on the net proceeds from the sale of the ACCC MPCo Interest after the payments, reserves, and holdbacks in the amount of

CDN\$173.9 million. The Monitor understands that this charge will be discharged upon the payment of the Proposed Senior Secured Noteholders' Distribution.

The Senior Secured Noteholders' Pledged Assets

82. The Senior Secured Noteholders' Pledged Assets, which will remain subject to the Senior Secured Noteholders' security, consist of the following:

- (i) mortgages on 10 pulp and paper mills in Canada and one in the United Kingdom:
 - (a) the pulp and paper mills in Canada include 4 operating newsprint mills, namely Amos, Baie-Comeau, Clermont and Thorold (the “**Operating Newsprint Mills**”);
 - (b) 4 operating specialty paper mills, namely Alma, Fort Frances, Kenogami and Laurentide (the “**Operating CPP Mills**”);
 - (c) one idled specialty paper mill (Beaupre); and
 - (d) the Bridgewater newsprint mill in the United Kingdom.
- (ii) ACCC's 75% equity interest in Abitibi Consolidated Hydro Limited Partnership (“ACH”) and Abitibi-Consolidated Hydro Inc.; and
- (iii) substantially all of the equipment and intellectual property of ACCC, ACI and the Guarantors (as defined in the Indenture dated April 1, 2008 in respect of the Senior Secured Notes).

83. The Monitor's legal counsel is currently reviewing the security held on behalf of the Senior Secured Noteholders in respect of all of the Senior Secured Noteholders Pledged Assets, other than the ACCC MPCo Interest, and is of the preliminary view that such security is valid and enforceable. With respect to the ACCC MPCo Interest, the Monitor's legal counsel has reviewed the security held by the Senior Secured Noteholders and is of the view that such security is valid and enforceable as discussed in greater detail at paragraph 119 herein.

Operating Newsprint Mills and Operating CPP Mills

84. Despite the current market-related and indefinite downtime being taken by producers of newsprint and specialty paper, there is still significant demand for such products. In the case of the ACI Group, operating newsprint and specialty paper mills have operated at an average rate of approximately 81% of capacity for the month of August (calculated as the amount of actual production time compared against possible production time). While a rate of 81% is a much lower rate of productivity than the ACI Group has historically been able to achieve, it indicates that, even in a liquidation scenario, it is likely that a significant number of the ACI Group's mills would be purchased as going concern as they will be required to meet the market demand they are currently servicing. As many of the ACI Group's mills produce positive cash flow from operations, it is reasonable, in the Monitor's view, to assume that a potential purchaser for the Operating Newsprint Mills and Operating CPP Mills would likely value the underlying plant and equipment assets on a going concern basis.
85. As the Operating Newsprint Mills and Operating CPP Mills produce positive EBITDA, even under current market conditions, the Monitor is of the view that these mills likely have value.
86. The Monitor has applied certain valuation techniques, including a discounted cash flow approach ("DCF") and benchmarks such as trading multiples and transaction multiples to determine an indication of the potential collateral value of the underlying assets based on a number of assumptions, industry comparables and discussions with Management.
87. As the Monitor understands that the Senior Secured Noteholders are supportive of the terms, conditions and the quantum of the ULC DIP Facility, the Monitor believes it would not be prudent to disclose the details of its analysis of the Senior Secured Noteholders' Pledged Assets as such disclosure may impact any future sales of these assets or any future financing sought by the Petitioners.

ACH

88. ACH consists of 8 hydroelectric facilities (the “**ACH Facilities**”) located in Ontario with total useable capacity of 137 MW. ACH is 75% owned by ACCC and 25% owned by the Caisse de Dépôt et Placement du Québec (“**CDPQ**”).
89. The ACI Group is currently negotiating a new contractual agreement with the Ontario Power Authority that will likely have a material positive impact on the future financial profile of ACH going forward. Accordingly, the Monitor’s analysis was based on two scenarios: (i) that this new agreement was put in place and (ii) that the status quo was maintained.
90. In assessing the potential collateral value of the ACI Group’s equity interest in ACH under both scenarios, the Monitor undertook a DCF analysis and performed various sensitivity analyses on critical underlying assumptions. In addition, the Monitor also considered the trading multiples and precedent transaction multiples that were compiled for the purposes of assessing the purchase price of the ACCC MPCo Interest as outlined in the Sixteenth Report.
91. The Monitor also compared the generation of the ACH Facilities as compared to MPCo’s hydro assets as described in the Sixteenth Report. The Monitor does not believe it is appropriate to present the details of this analysis, as it is possible that the ACI Group may consider selling its interest in ACH and the Monitor does not wish to influence any future marketing process.
92. The Monitor notes that the MPCo transaction implied a TEV/MW of \$3.1 million. ACH is a smaller facility, however, it does have a capacity of 137 MW and operates in a less regulated jurisdiction than MPCo. As such, the Monitor is of the view that ACCC’s equity interest (net of debt held by ACH) has significant collateral value.

Summary of Senior Secured Noteholders' Pledged Assets

93. Based on the analysis, the Monitor has undertaken of the Senior Secured Noteholders' Pledged Assets, as well as the consideration of the MPCo Noteholder Charge, the ULC Reserve Charge and the subrogation rights related to the repayment of the ACI DIP Facility, the Monitor is of the view that there is sufficient collateral value from the Senior Secured Noteholders' Pledged Assets to cover the amounts owing to the Senior Secured Noteholders. The Monitor has been informed by the Petitioners that they intend that the Senior Secured Noteholders will not be affected by the CCAA plan of arrangement.
94. Based on the analysis set forth above, the Monitor is of the view that that the Senior Secured Noteholders will not be prejudiced by the ULC DIP Charge.

ACCC Term Lenders' Collateral Position

95. As described in the First Report of the Monitor dated April 16, 2009, the Term Loan Facility is in the approximate amount of \$347 million. The Term Loan Facility is secured primarily by the personal (moveable) property (including cash, accounts receivable and inventory) of ACCC, ACI and other guarantors and by a first lien (charge) on substantially all of the personal (moveable) property of DCorp (including cash, accounts receivable, inventory and equipment). Generally, the Term Loan Facility is not secured by those assets that are pledged in favour of the Senior Secured Noteholders.
96. The Monitor has reviewed the borrowing base certificate issued by ACCC for the month of August, 2009. As summarized below, the certificate indicates a collateral value of \$458.7 million (compared to \$407 million for the month of March, 2009 as reported in the Third Report of the Monitor dated April 27, 2009), based on the advance rates allowed by the ACCC Term Lenders for the ACCC inventory and accounts receivable. This reflects a surplus collateral value of \$111.8 million (\$60.4 million as at March, 2009), before considering the cash held by the ACI Group (approximately \$115 million as at October 9, 2009) or the other assets of DCorp.

Borrowing Base Certificate - August 31, 2009					<u>\$US Millions</u>
Amount outstanding under the Term Loan Facility					<u>\$ 346.9</u>
Collateral calculation					
	<u>ACI</u>	<u>DCorp</u>	<u>Bridgewater</u>	<u>Total</u>	
Net eligible accounts receivable including equity value in the Securitization Program	\$ 91.5	+ \$ 171.9	+ \$ 53.3	= 316.7	
Advance rate				<u>x85%</u>	269.2
Net eligible inventory	\$ 206.1	+ \$ 43.4	+ \$ 21.2	= 270.7	
Advance rate				<u>70%</u>	189.5
Total collateral per borrowing base certificate					<u>458.7</u>
Surplus/(Deficit)					<u>\$ 111.8</u>

97. Based on a review of the March and August borrowing base certificates, the surplus collateral position of the ACCC Term Lenders increased by approximately \$50 million since March 31, 2009.
98. As noted above, the ACI Group also holds cash of \$115 million as at October 9, 2009, which the Monitor understands is also subject to the ACCC Term Lenders security interests.
99. The ACI Monthly Forecast includes a rollforward of the working capital position (cash, accounts receivables and inventory) of the ACI Group. This working capital rollforward indicates that the book value of the ACCC Term Lenders collateral is projected to increase by \$35.6 million during the Forecast Period.
100. The Monitor notes that the value of the ACCC Term Lenders collateral would likely be significantly adversely affected if the ACI Group did not have adequate liquidity to operate its business (and ultimately collect its accounts receivable and sell its inventory) or if the ACI Group was to default under the Securitization Program.

Subrogation Rights

101. The Petitioners propose to increase the amount of the existing ACI DIP Charge provided for in the Initial Order by the aggregate amount of CDN\$230 million and to extend such charge by a moveable and immoveable hypothec, mortgage, lien and security interest on all property of the ACI Group (as both terms are defined in the Initial Order) in favour of the ULC for all amounts owing, including principal, interest and all obligations required to be performed under or in connection with the ULC DIP Facility.
102. The Petitioners also propose to expand the scope of the existing ACI DIP Charge such that it shall continue to have the priority established by paragraphs 89 and 91 of the Initial Order. However, the increased amount of the ACI DIP Charge (CDN\$230 million) shall in all respects be subordinated to any and all rights in favour of existing secured creditors arising under paragraph 61.10 of the Initial Order, namely rights arising in favour of the Senior Secured Noteholders arising from the repayment of the existing ACI DIP Facility from the proceeds of the sale of the ACCC MPCo Interest as approved by the MPCo Sale Approval Order in the amount of \$54.8 million assuming no further draw before closing of the Proposed Transactions.
103. In the event that any of the assets subject to the ACCC Term Lenders' security are ultimately used to repay the ULC DIP Facility, the ACCC Term Lenders would be entitled to a subrogated charge on all of the remaining assets of the Petitioners pursuant to the Petitioners' proposed Order with respect to the ULC DIP Facility, subordinate to the subrogated charge in favour of the Senior Secured Noteholders as to amounts paid under the ACI DIP Facility.

Unpledged Assets

104. In addition to the above-noted assets that the ACI Group has pledged in favour of the Senior Secured Noteholders and the ACCC Term Lenders, the ACI Group has a number of unencumbered assets including the following:
 - (i) Hydro Saguenay (defined below);

- (ii) remaining Quebec and Ontario timberlands;
- (iii) the Iroquois Falls Pulp & Paper Mill;
- (iv) the claim in respect of the hydro assets expropriated in Newfoundland and Labrador; and
- (v) wood product facilities.

Hydro Saguenay

105. Hydro Saguenay, which is owned by ACCC, consists of 8 hydroelectric generating facilities and 10 generators with a peak production capacity of 162 MW located in Chicoutimi and Jonquiere within the Saguenay region of Quebec (“**Hydro Saguenay**”). Included in the assets of Hydro Saguenay are 9 transformer switchyards and 11 high-voltage lines totalling over 250 km of transmission lines. The network also consists of direct connections to two of the Operating CCP Mills, namely Alma and Kenogami, as well as two interconnections to Hydro Quebec. The interconnections to Hydro Quebec are required because Hydro Saguenay’s average annual production only supplies 55% of the power needed by the Alma and Kenogami mills.
106. In analyzing Hydro Saguenay, the Monitor undertook a DCF analysis and considered the trading multiples and precedent transaction multiples that were compiled for the purposes of analysing the sale of ACCC’s MPCo Interest in the Sixteenth Report.
107. Based on this analysis, the Monitor is of the view that Hydro Saguenay should have a substantial value.
108. The Monitor has provided a copy of the analysis of the illustrative range of potential values of Hydro Saguenay in Appendix “H”. Due to the confidential nature of this information and the potential impact it could have on any future marketing or strategic plan of the ACI Group, the Monitor is seeking this Honourable Court’s permission to seal the content of Appendix “H”.

Timberlands

109. In the absence of an appraisal of the remaining Quebec (approximately 10,500 hectares) and Ontario (approximately 63,500 hectares) timberlands, the Monitor relied upon discussions with Management for the purposes of obtaining a general understanding of the characteristics of the remaining timberlands and for gaining insight as to how they compare to the Quebec Timberlands that were recently sold by the ACI Group, as explained in the Twelfth Report of the Monitor dated July 31, 2009.
110. The Monitor has provided a copy of the analysis of the illustrative range of potential values of the Timberlands in Appendix “T”. Due to the confidential nature of this information and the potential impact it could have on any future marketing or strategic plan of the ACI Group, the Monitor is seeking this Honourable Court’s permission to seal the content of Appendix “T”.

Iroquois Falls

111. The ACI Group has a pulp and paper mill in Iroquois Falls, Ontario, that was modernized in 1983, which produces both newsprint and specialty paper for sale to customers.

Expropriated Assets

112. The Petitioners have given notice of their intention to file a claim against the Federal Government of Canada under provisions of the North American Free Trade Agreement in respect of the expropriated hydro assets in Newfoundland and Labrador in the amount of approximately CDN\$300 million.

Wood Product Facilities

113. The wood product assets consist of 2 engineered wood facilities, 4 remanufacturing wood facilities and 16 sawmill facilities (the “**Wood Product Assets**”).

Summary Comments on the Impact of the Approval of the ULC DIP Facility on the ACCC
Term Lenders

114. The Monitor is of the view that the approval of the ULC DIP Facility by this Honourable Court would not have an overall material negative impact on the ACCC Term Lenders for the following reasons:

- (i) the ACCC Term Lenders appear to have significant collateral based on the August 31, 2009 borrowing base certificate;
- (ii) the subrogation rights granted under the proposed ULC DIP Facility would provide the ACCC Term Lenders with protection against the impact of the ULC DIP Charge if the ULC DIP Facility is repaid from the ACCC Term Lenders collateral and there appears to be substantial value in the unpledged assets owned by the ACI Group;
- (iii) the ACI Monthly Forecast indicates that the ACCC Term Lenders working capital assets increase by \$35.6 million during the forecast period;
- (iv) the ACCC Term Lenders have received Adequate Protection Payments from DCorp totalling in excess of \$27.3 million during these CCAA Proceedings and are forecast to be paid a further \$52.0 million in the ACI Monthly Forecast. These Adequate Protection Payments are funding all of the interest accruing to the ACCC Term Lenders; and
- (v) approximately half of the ACCC Term Lenders' Collateral position per the August 31, 2009 borrowing base certificate is owned by DCorp and Bridgewater and the ULC DIP Charge will not extend to these assets; and
- (vi) the ULC DIP Facility is required for the ACI Group to continue to operate its business which is necessary to preserve the value of the ACCC Term Lenders' collateral.

115. Accordingly, the Monitor is of the view that, based on a balancing of interests, the ACCC Term Lenders will not be unduly prejudiced in comparison to the requirement of the ACI Group to have access to sufficient liquidity throughout this CCAA proceeding to ensure the preservation of its business as a going concern in a volatile market in the interests of all of its stakeholders.

The Unsecured Creditors

116. The Monitor is also of the view that the ULC DIP Facility will not have a material adverse impact on the ACI Group's unsecured creditors and that such unsecured creditors will not be unduly prejudiced as compared to the requirements of the ACI Group to have access to the ULC DIP Facility throughout this CCAA proceeding in order to preserve its business as a going concern in a volatile market in the interest of all of its stakeholders.

MONITOR'S COMMENTS ON THE PROPOSED SENIOR SECURED NOTEHOLDERS' DISTRIBUTION

117. The Petitioners have submitted a motion to this Honourable Court for an Order approving the distribution of up to CDN\$200 million to the Trustee for the benefit of the Senior Secured Noteholders after the closing of the Proposed Transactions. While there remains a dispute between the Petitioners and the Senior Secured Noteholders with respect to the allowability of default interest, there is no issue that the Senior Secured Noteholders are owed in excess of CDN\$200 million.
118. The Monitor requested that its independent counsel, ThorntonGroutFinnigan LLP ("TGF"), review the security held by the Senior Secured Noteholders in respect of the ACCC MPCo Interest.
119. TGF has advised the Monitor it has completed its review of the security held by the Trustee on behalf of the Senior Secured Noteholders in respect of the ACCC MPCo Interest. The Monitor has been advised by TGF that the Senior Secured Noteholders' security is sufficiently documented and registered so as to be valid and enforceable against a trustee in bankruptcy in respect of the ACCC MPCo Interest and, in addition,

the Trustee holds a first registered charge over the ACCC MPCo Interest on behalf of the Senior Secured Noteholders.

120. The payment of up to CDN\$200 million to the Senior Secured Noteholders will create interest savings of approximately CDN\$27 million per annum for the ACI Group.
121. The Monitor has been provided with and has reviewed a copy of the settlement agreement (the “**Settlement Agreement**”) between the ACI Group and the Senior Secured Noteholders. The Settlement Agreement provides, in essence, that the Petitioners will bring a motion providing for the payment of up to CDN\$200 million to the Senior Secured Noteholders in return for their support in respect of the approval of the ULC DIP Facility. The Monitor notes that the Settlement Agreement allows for a reduction of the payment to the Senior Secured Noteholders if the entire CDN\$230 million under the ULC DIP Facility is not immediately available to the ACI Group.
122. Some of the stakeholders have expressed concern to the Monitor with respect to the amount of the Proposed Senior Secured Noteholders’ Distribution and the timing of the payment of such distribution. The Monitor acknowledges that the Proposed Senior Secured Noteholders’ Distribution is the result of an agreement reached between the ACI Group and the Senior Secured Noteholders as a condition to the Senior Secured Noteholders providing their support in respect of the approval of the ULC DIP Facility. As discussed above, the Monitor is of the opinion that the terms of the ULC DIP Facility are favourable to the ACI Group and it is beneficial for the ACI Group to have access to sufficient liquidity to ensure the preservation of its business as a going concern in a volatile market, particularly if certain key metrics such as selling prices and foreign exchange rates, move against the ACI Group over the coming months. The Monitor further acknowledges that, although there is no immediate need for the full CDN\$230 million available under the ULC DIP Facility, no interest or fees are payable in respect of an immediate drawdown and access to the balance of the ULC DIP Facility may be required before the conclusion of this CCAA proceeding, particularly if the market assumptions built into the ACI Monthly Forecast are not met.

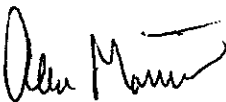
RECOMMENDATION

123. It is the Monitor's view that, based on the ACI Monthly Forecast, the sensitivity analyses prepared by ACI with the assistance of the Monitor, the inter-month variability of ACI's cash flows, the minimum liquidity requirements under the Securitization Program and the requirement to repay the ACI DIP Facility, ACI will require the new ULC DIP Facility to ensure that ACI has sufficient liquidity to complete its restructuring in these CCAA Proceedings, although the Monitor notes that not all of the incremental ULC DIP Facility liquidity may be required immediately.
124. Accordingly, the Monitor recommends that this Honourable Court grant the Petitioners' request for an Order:
- (a) authorizing ACI and/or ACCC, as borrowers, to enter into the ULC DIP Agreement substantially in the form of the ULC DIP Term Sheet; and
 - (b) amending the Initial Order to increase the ACI DIP Charge by the aggregate amount of CDN\$230 million in favour of the ULC DIP Lender provided that the increased amount of the ACI DIP Charge shall be subordinated to any and all rights in favour of the Senior Secured Noteholders, the ACCC Term Lenders and the Lien Holders arising under paragraph 61.10 of the Initial Order and pursuant to the MPCo Sale Approval Order.
125. The Monitor recognizes the concerns raised by certain stakeholders regarding the size of the ULC DIP Facility and the timing and availability of draws thereunder. The Monitor's concerns in this regard are mitigated by the fact that no interest accrues and no other fees are payable in respect of use of this facility. The Monitor also notes that, while there is no immediate need for the full amount of the ULC DIP Facility, such need may arise over the course of this CCAA proceeding if certain key assumptions in the ACI Monthly Forecast are not met. In the Monitor's opinion, it would prudent for the ACI Group to have access to the entire ULC DIP Facility without the need for a further Court order to

ensure access to sufficient liquidity to preserve the business of the ACI Group as a going concern, thereby enhancing value for all stakeholders.

All of which is respectfully submitted.

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

Per: 

Alex Morrison, CA, CIRP
Senior Vice President

Ken Brooks
Senior Vice President

John Barrett, CA, CIRP
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.

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

APPENDIX “E”

ULC DIP Term Sheet

ABITIBI PETITIONERS ULC DIP TERM SHEET

1. Amount: C\$230.0 M.
2. Lender: ULC to be established under the MPCo Transaction.
3. Interest Rate: Interest free.
4. Expenses: Borrowers to pay reasonable expenses of ULC and of Alcoa related to the DIP.
5. Security: DIP charge on terms mutatis mutandis similar to existing ACI DIP reasonably satisfactory to Alcoa (for greater certainty, no charges on assets of Chapter 11 Debtors as defined in the existing DIP), ranking immediately after existing ACI DIP Charge.
6. Use of Proceeds: General corporate purposes in material compliance with budget as disclosed by 13 week cash flows to be provided no less frequently than the first Friday of every month ("Budget").
7. Reporting: Similar to existing ACI DIP financial reporting. Copies of all financial information to be placed in Data Room. Notice of Events of Default or maturing events of default.
8. Events of Default: Substantial non-compliance with Budget; termination of CCAA stay of proceedings; failure to file a CCAA Plan with the Court by September 30, 2010; withdrawal of Securitization Facility (unless replaced with reasonably similar facility).
9. Documents: Reasonably satisfactory to Alcoa, mutatis mutandis similar to the existing ACI DIP documents.
10. Alcoa Rights: Receive all reporting to Lender and notices of default. Alcoa consent required for any amendments or waivers.
11. SSNs Rights: SSNs' rights in respect of the ULC DIP are as follows:
 - (a) receive all reporting to Lender and notices of Events of Default;
 - (b) consent of SSNs' holding a majority of the principal amount thereof required for any amendments to the maximum amount, the Outside Maturity or the rate of interest provided for in the ULC DIP;
 - (c) upon an Event of Default under the ULC DIP, Trustee, Committee and SSNs have no right to accelerate payment or

maturity, subject to the right to apply to court in that event for the termination thereof, which right is without prejudice to right of Borrowers, Lender or Alcoa to oppose such application;

- (d) Committee entitled to review drafts of documents but final approval in Alcoa's sole discretion;
- (e) SSNs entitled to request court to amend any monthly cash flow budget filed.

12. Maturity:

December 31, 2010 (the "**Outside Maturity**"), or such earlier date as required by Alcoa, it being understood that if Alcoa requires an earlier initial maturity the SSNs' consent shall not be required thereafter to extend it to any date prior to the Outside Maturity.

APPENDIX “F”

EXTRACT FROM SIXTEENTH REPORT

Estimated Net Proceeds from the Proposed Transactions

1. As previously discussed in this Sixteenth Report, the Purchase Price is subject to a number of payments, holdbacks, reserves and deductions as provided for in the Implementation Agreement.
2. The following table details the Monitor’s understanding of the amounts of the significant payments, holdbacks, reserves and deductions from the Purchase Price:

	CDN\$millions	Ref.
Purchase Price	\$615.0	
Payments and Adjustments from Purchase Price:		
Outstanding Balance Among ACCC/BCFPI and HQ	(31.3)	Para. 5
Reimbursement of Alcoa’s taxes payable at closing	(25.0)	Para. 10
ACCC’s Estimated Transaction Costs	(10.0)	Para. 12
Other Estimated Adjustments	(2.0)	Para. 13
Amounts owed to ACCC/BCFPI by MPCo, HQ or Alcoa	2.1	Para. 14
Pre-filing amounts payable by the ACI Group to Alcoa and MPCo	<u>(0.9)</u>	
Total Payments and Adjustments from Purchase Price	<u>(67.1)</u>	
Net Proceeds before Holdbacks and Reserves	<u>547.9</u>	
Less:		
HQ Holdback	(30.8)	Para. 16
ULC Reserve	<u>(282.3)</u>	Para. 17
Net Proceeds After Holdbacks and Before Payment of ACI DIP Facility	<u>234.8</u>	
Payments:		
Repayment of ACI DIP Facility (assuming fully drawn at US\$87.5 million)	<u>(97.2)</u>	Para. 20
Net Proceeds After Payment of ACI DIP Facility	<u>137.6</u>	

3. Subsequent to the closing of the Proposed Transactions, New LP shall repay a CDN\$10 million loan owed by MPCo to ACCC (see paragraph 67 of this Sixteenth Report).
4. The following paragraphs describe each of the significant deductions, reserves, holdbacks and payments from the Purchase Price.

Outstanding Balances Among ACCC/BCFPI and HQ

5. The Implementation Agreement requires that the intercompany payables among ACCC/BCFPI and HQ, ACCC and Alcoa, and ACCC and MPCo are to be settled at closing of the Proposed Transactions, which the Monitor understands includes pre-CCAA filing amounts. The Petitioners' Motion has estimated the pre-filing amount at approximately CDN\$31.3 million as described in the table below:

Outstanding Balances Between ACCC/BCFPI and HQ	
<u>Debtor</u>	CDN\$ millions Pre-CCAA liability
ACCC	22.7
BCFPI	8.6
	31.3

6. The Monitor notes that it is highly unusual in a CCAA proceeding to have such significant levels of pre-filing obligations satisfied in full other than through a plan of arrangement. Furthermore, it is also unusual that an unsecured obligation of one of the entities, BCFPI, is being satisfied by proceeds of the sale of the assets of a subsidiary (MPCo) of a separate filed entity (ACCC).
7. However, the Monitor was advised by Management that the payment of the intercompany payables was imposed as an essential condition by HQ in order to enter into the MPCo transaction.

8. Although this aspect of the Proposed Transactions is unusual, the Monitor notes that HQ could have achieved the same net economic terms had it simply required, in order to complete the transaction, a lower Purchase Price on account of all pre-transaction outstanding liabilities, including the pre-filing liabilities stayed as a result of the filing by the Petitioners.
9. Further, the Monitor notes that, to the extent ACCC pays a liability on behalf of BCFPI (approximately CDN\$9 million), ACCC will benefit from the intercompany charge described in the Initial Order.

Reimbursement of Alcoa's Taxes Payable

10. Alcoa will not be receiving any proceeds from the Proposed Transactions. However, Alcoa agreed to proceed with the Proposed Transactions on the basis that it would not suffer or incur any negative tax consequences as a result of the Proposed Transactions unless the amount of such taxes was fully reimbursed to it prior to or concurrently with the implementation of the Proposed Transactions. As a result, the Implementation Agreement provides that:
 - (i) ACCC or ACI will pay or cause to be paid to Alcoa approximately CDN\$25.0 million in respect of the taxes which Alcoa will incur as a result of the Proposed Transactions;
 - (ii) ACCC and ACI will indemnify Alcoa and MPCo from any tax that may result from the Proposed Transactions; and
 - (iii) a favourable ruling from the U.S. Internal Revenue Service will be issued or favourable opinions from Alcoa's and ACCC's tax advisors that the Proposed Transactions will constitute a tax-free reorganization for U.S. tax purposes.
11. In addition, Alcoa indicated that it would require, as a condition of the MPCo sale, that approximately CDN\$75 million be retained in a wholly-owned unlimited liability company to be incorporated by ACCC ("ULC") to satisfy any potential tax plus an additional CDN\$5 million for other indemnities, the whole as specifically set forth in the

Implementation Agreement. This amount is included in the CDN\$282.3 million ULC Reserve (as defined herein). The Implementation Agreement provides for a further CDN\$1.0 million to be added to the ULC Reserve in the event that MPCo does not receive a favourable U.S. tax ruling or the required tax opinions with respect to same on or before the closing of the Proposed Transactions.

ACCC's Estimated Transaction Costs

12. ACCC is required to compensate certain advisors engaged to provide services related to the MPCo transaction, including CIBC's completion fee. ACCC is also required to pay the professional fees and disbursements incurred by Alcoa in connection with the Proposed Transactions. Fees and disbursements will be reimbursed up to a cap of CDN\$2.0 million. However the cap is subject to reassessment by Alcoa under certain conditions. The total of such transaction costs, including Alcoa's costs, is estimated by ACCC to be CDN\$10.0 million.

Other Estimated Adjustments

13. Management has estimated there may be as much as an additional CDN\$2 million in further adjustments at closing.

Amounts Owed to ACCC/BCFPI

14. A net amount of approximately CDN\$2.1 million is payable to ACCC or BCFPI from MPCo, Alcoa and HQ pursuant to a number of offsetting transactions among the parties to the Proposed Transactions as described in the table below:

Estimated Net Amounts Owed to/(from) ACCC As at September 30, 2009 (CDN \$ millions)		
	<u>Total</u>	
HQ electricity purchases from BCFPI	4.4	
MPCo payable to ACCC	1.0	
ACCC payable to MPCo for electricity purchases for the Baie-Comeau mill	(0.7)	
MPCo cost sharing dispute with HQ - re: Lac Ste Anne	(2.1)	ACCC 60% equity share
Alcoa payable to MPCo for electricity purchases	0.7	ACCC 60% equity share
MPCo outstanding line of credit	<u>(1.1)</u>	ACCC 60% equity share
	<u>2.1</u>	

15. Pursuant to paragraph 1.5 of the Implementation Agreement, all intercompany payables are to be settled at closing of the Proposed Transactions. These above-noted amounts are estimated and final amounts outstanding at closing may differ.

HQ Holdback

16. HQ is requiring approximately CDN\$30.75 million to be held for a period of two years representing 5% of the Purchase Price as a holdback to secure ACCC's indemnification obligations in favour of HQ under the documentation implementing the Proposed Transactions.

ULC Reserve

17. HQ and Alcoa believe that a potential pension liability may exist with respect to the *Régime de retraite à prestations déterminées des employés non syndiqués d'Abitibi-Consolidated Inc. and the Régime complémentaire de retraite des employés non syndiqués de Donohue Inc.* (the "**Pension Plans**") maintained by ACI for the benefit of current and former non-unionized employees of ACI, ACCC and MPCo.
18. As a result, the Implementation Agreement requires that ULC will hold, in the form of "Permitted Investments" described in the Implementation Agreement, approximately CDN\$202.3 million, corresponding to the amount of the estimated potential contingent pension liabilities, as well as CDN\$80 million for the Alcoa tax reserve and other costs (the "**ULC Reserve**"), subject to a potential increase of \$1.0

million in the event that MPCo does not receive a favourable U.S. tax ruling or a favourable opinion with respect to same on or before the closing of the Proposed Transactions. Management has advised that it expects to receive either the opinion or the ruling prior to the closing of the Proposed Transactions. ULC's obligation to hold such funds as "Permitted Investments" will terminate as follows:

- (a) coincident with the successful completion of the restructuring of ACCC under the CCAA, as to CDN\$202.3 million (representing the estimated amount of the potential contingent pension liabilities)¹;
 - (b) 90 days following the expiration of the latest date on which taxes may be assessed or reassessed upon Alcoa in respect of the Proposed Transactions, as to CDN\$75 million, unless a successful "real-time audit" is performed. However, if any claims against Alcoa, MPCo or New LP have been made or threatened for any matters other than pension liabilities, then the amount of such claims must continue to be retained until the claims have been resolved; and
 - (c) upon certain other occurrences provided for in the Implementation Agreement, as to CDN\$5 million. However, if any claims against Alcoa, MPCo or New LP have been made or threatened for any matters other than pension liabilities, then the amount of such claims must continue to be retained until the claims have been resolved.
19. The Petitioners' Motion requests that the ULC Reserve be held in trust for ULC by the Monitor, subject to further orders of this Honourable Court, for the purpose of indemnifying Alcoa (and certain Alcoa related parties) and MPCo (and certain MPCo related parties) in respect of potential pension and tax liabilities.

¹ Less any delinquent current service cost contributions and special payments accruing up to the end of the month of the closing of the Proposed Transactions; however, if any claims for pension liabilities have been made or threatened against any of ULC, MPCo, Alcoa or New LP prior to the foregoing release, then the lesser of the CDN\$202.3 million and the amount of the claims must continue to be retained until the claims have been resolved.

Repayment of the ACI DIP Facility

20. The Petitioners are required to repay the ACI DIP Facility by November 1, 2009. The ACI DIP Agreement also requires that any proceeds received from the sale of MPCo are to be used to repay amounts outstanding under the ACI DIP Facility. The Monitor has assumed, for illustrative purposes in the table in paragraph 48, that the full amount (US\$87.5 expressed as CDN\$97.2 million) of the available ACI DIP Facility will be drawn as at the closing date of the Proposed Transactions.

Repayment of ACCC Loan to MPCo

21. Under a December 18, 2003 loan agreement between MPCo and ACCC, ACCC provided MPCo with a CDN\$10 million facility to finance certain major capital expenditure requirements. MPCo signed a promissory note in respect of this financing. This loan is repayable by MPCo upon five days' written demand from ACCC. As of the date of this report, the entire CDN\$10 million has been utilized by MPCo as evidenced by MPCo's internal records and its internal financial statements. Under the Implementation Agreement, HQ and Alcoa will contribute funds to New LP on closing. New LP shall repay the CDN\$10 million loan to ACCC immediately after closing.

APPENDIX “G”

ACI Monthly Forecast

Abitibi Consolidated Inc. and its subsidiaries (the "ACI Group")
Quarterly Cash Flow Forecast
Base Case Scenario

Quarter ended	Notes	US\$000s					TOTAL
		Q4 2009	Q1 2010	Q2 2010	Q3 2010	Q4 2010	
Opening Cash	1	130,651	306,707	246,909	240,967	216,969	130,651
Receipts							
Total A/R Collections	3	489,614	484,258	480,050	516,459	537,601	2,507,980
Other Inflows	4	87,054	38,384	40,385	39,372	75,045	280,240
Total Receipts		576,667	522,642	520,435	555,830	612,646	2,788,221
Disbursements							
Trade Payables	5	(316,344)	(315,495)	(271,556)	(323,457)	(320,405)	(1,547,258)
Capital Expenditures	6	(12,000)	(15,000)	(15,000)	(15,000)	(15,000)	(72,000)
Marine Freight Payments	7	(17,050)	(25,714)	(26,286)	(26,286)	(26,000)	(121,336)
Utility Payments	8	(103,572)	(86,548)	(92,323)	(94,350)	(94,350)	(471,143)
Payroll & Benefits	9	(117,245)	(109,373)	(108,628)	(108,906)	(108,906)	(549,057)
Total Disbursements		(566,212)	(552,130)	(513,793)	(565,999)	(562,661)	(2,760,794)
Financing							
Securitization Inflows / (Outflows)	10	(3,182)	(7,291)	10,565	9,425	(844)	8,672
Adequate Protection and fees by DCorp to ACCC Term Lenders	11	(10,505)	(10,269)	(10,399)	(10,505)	(10,505)	(52,183)
MPCo Transaction Proceeds	12	465,390	-	-	-	-	465,390
ACI DIP Facility Drawings / (Repayments)	16	(54,800)	-	-	-	-	(54,800)
Monitor's Trust Account - ULC Reserve	14	(254,070)	-	-	-	-	(254,070)
ULC Facility Drawings	13	207,000	-	-	-	-	207,000
Repayment of Senior Secured Notes	15	(180,000)	-	-	-	-	(180,000)
ACI DIP Interest & Fees		(482)	-	-	-	-	(482)
MPCo Loan Repayment to ACCC	17	9,000	-	-	-	-	9,000
Restructuring & Other Items	18	(12,750)	(12,750)	(12,750)	(12,750)	(12,750)	(63,750)
Total Financing		165,601	(30,310)	(12,584)	(13,830)	(24,099)	84,777
Total Change in Cash		176,056	(59,799)	(5,942)	(23,998)	25,886	112,204
Ending Cash Balance (with ACI DIP and ULC Facility Draws)		306,707	246,909	240,967	216,969	242,855	242,855
Undrawn ACI DIP Facility		-	-	-	-	-	-
Undrawn ULC Facility		-	-	-	-	-	-
Total Liquidity		306,707	246,909	240,967	216,969	242,855	242,855
ULC Reserve (Monitor's Trust Account)							
Opening Balance		-	-	-	-	-	-
Initial Deposit	14	254,070	-	-	-	-	254,070
Restricted ULC Reserve Deposit	19	(47,070)	-	-	-	-	(47,070)
ULC Facility Drawings - Liquidity	13	(207,000)	-	-	-	-	(207,000)
Ending Balance ULC Reserve - Available Liquidity		-	-	-	-	-	-
Cumulative Restricted ULC Reserve Deposits	19	47,070	47,070	47,070	47,070	47,070	47,070
Working Capital Balances							
Accounts Receivable	3	324,291	307,136	331,995	354,171	352,184	352,184
Inventory	20	366,415	382,549	336,140	350,287	370,554	370,554
Total Working Capital		690,706	689,685	668,134	704,458	722,739	722,739
ACI DIP Facility							
Opening Availability		32,700	-	-	-	-	32,700
(Drawings) / Repayments	16	54,800	-	-	-	-	54,800
Retirement of ACI DIP Facility		(87,500)	-	-	-	-	(87,500)
Closing Availability		-	-	-	-	-	-
Cumulative Drawings		-	-	-	-	-	-

The above forecast uses an exchange rate of CDN\$1.00=US\$0.90.

Note: The above totals are subject to rounding adjustments in the underlying balances.

The information and analysis in this document have not been audited or reviewed and, according, no assurances are provided thereon. In addition, because forecasts are dependent upon numerous assumptions regarding future events, actual results will be different than forecast, and such differences may be material.

Albitri Consolidated Inc. and its subsidiaries (the "ACI Group")
Notes to Cash Flow Forecast
US\$000s

1. Opening Cash in the forecast includes cash on hand as at September 28, 2009.
2. The cash flow forecast includes mills owned by the ACI Group and its subsidiaries and includes the operations of the DCorp Group. The forecast is based on the ACI Group's Q4 + 9 mill sheets, adjusted to reflect the recently announced price increase for U.S. newsprint (\$25 per tonne increase in each of November and December, 2009).
3. Total A/R Collections and Accounts Receivable represent amounts estimated to be collected from the ACI Group's customers. Such amounts are derived from a days sales outstanding method ("DSO"). DSO implied by the cash flow forecast correspond with historical averages.
4. Other Inflows represent miscellaneous receipts including, but not limited to, such items as tax refunds or insurance proceeds, as estimated by the ACI Group. Included in Other Inflows for each of October 2009 and October 2010 are amounts representing the receipt of refunds related to tax credits from the Quebec provincial government.
5. Trade Payables represent amounts estimated to be paid to suppliers for the purchase of the ACI Group's raw materials, repairs and maintenance and other goods and services related to production. This line also includes amounts necessary to fund the DCorp Group's recycling operations.
6. Capital Expenditures represent amounts estimated to be paid pursuant to the ACI Group's most recent capital expenditure budget. It is assumed that the ACI Group will spend approximately \$60 million on capital projects in 2010.
7. Marine Freight Payments represent amounts estimated to be paid to the ACI Group's outbound marine freight suppliers.
8. Utility Payments represent amounts estimated to be payable to the ACI Group's hydroelectricity suppliers.
9. Payroll and Benefits represent estimated amounts for salaries, wages and current service pension costs.
10. Securitization Inflows(Outflows) represent the estimated net availability or repayment (including interest) of (unds under the ACI Group's Amended Securitization Program. It is assumed that the ACI Group's existing securitization program will remain in place through 2010.
11. Adequate Protection and fees by DCorp to ACCC Term Lenders represents an estimate of payments pursuant to the adequate protection order issued by the U.S. Bankruptcy Court.
12. MPCo Transaction Proceeds represent the net proceeds before holdbacks and reserves from the MPCo sale, net of the Hydro Quebec holdback.
13. ULC Facility Drawings are drawings made by the ACI Group against the ULC DIP Facility to provide the ACI Group with sufficient liquidity.
14. Monitor's Trust Account - ULC Reserve represents the portion of the MPCo Transaction Proceeds held by the Monitor pursuant to the Amended and Restated Proposal Re: MPCo Transaction.
15. Repayment of Senior Secured Notes are payments made to the Senior Secured Noteholders, or the Trustee, for the purpose of paying outstanding fees, expenses, interest or principal associated with the Senior Secured Notes.
16. ACI DIP Facility Drawings(Repayments) represent cash flows pursuant to the ACI Group's current DIP facility provided by the Investissement de Quebec. The cash flow forecast assumes that there will be no further draws on this facility prior to its expiry date of November 1, 2009 and it will be repaid from proceeds of the sale of ACCC's 60% interest in MPCo.
17. MPCo Loan Repayment to ACCC represent the collection by the ACI Group of CDN\$10 million loaned to MPCo under a December 18, 2003 loan agreement. These funds are assumed collected immediately after closing on November 1, 2009.
18. Restructuring and Other Items represent amounts estimated by the ACI Group for restructuring costs and other miscellaneous payments.
19. Restricted ULC Reserve Deposit represents ULC Reserve funds held by the Monitor in its trust account which are not available to the ACI Group as part of the ULC DIP Facility unless further ordered by the Court.
20. Inventory as at October 1, 2009 is based on the ACI Group's August 31, 2009 inventory balance as reported in the Term Lender Borrowing Base Certificate. Production and delivery is assumed to be equal throughout the forecast period with the exception of roundwood inventory which was been forecast based on management's best estimate.
21. The forecast excludes the proceeds from the sale of DCorp's Lufkin facility. Such proceeds are estimated to be approximately \$20 million.

Abitibi Consolidated Inc. and its subsidiaries (the "ACI Group")
Monthly Cash Flow Forecast
Summary of Key Underlying Assumptions

		US\$000s															
		Oct 2009	Nov 2009	Dec 2009	Jan 2010	Feb 2010	Mar 2010	Apr 2010	May 2010	Jun 2010	Jul 2010	Aug 2010	Sep 2010	Oct 2010	Nov 2010	Dec 2010	
Weighted Average Pricing per tonne		647	643	639	643	642	642	642	655	671	662	683	690	694	696	702	693
Tonnage																	
Newsprint		124,799	118,051	121,944	123,768	111,989	124,922	130,402	122,235	126,596	124,880	127,872	124,153	136,539	122,764	128,005	128,005
Specialty Paper		118,283	104,089	87,799	98,868	83,521	94,203	96,697	100,366	95,988	106,864	101,041	101,255	108,943	98,722	87,036	87,036
Pulp		6,055	5,875	6,055	6,055	5,515	6,055	5,875	4,795	5,875	6,055	6,055	5,875	6,055	5,875	6,055	6,055
Weighted Average Variable Costs per tonne		(298)	(301)	(322)	(322)	(341)	(335)	(321)	(332)	(333)	(309)	(315)	(312)	(312)	(326)	(340)	(340)
Weighted Average Freight per tonne		(82)	(83)	(84)	(84)	(86)	(85)	(86)	(87)	(86)	(89)	(89)	(88)	(90)	(89)	(89)	(89)
Capital Expenditures per Month		(4,000)	(4,000)	(4,000)	(5,000)	(5,000)	(5,000)	(5,000)	(5,000)	(5,000)	(5,000)	(5,000)	(5,000)	(5,000)	(5,000)	(5,000)	(5,000)
Pension Payments per Month		(6,000)	(6,000)	(6,000)	(6,000)	(6,000)	(6,000)	(6,000)	(6,000)	(6,000)	(6,000)	(6,000)	(6,000)	(6,000)	(6,000)	(6,000)	(6,000)
Accounts Receivable		328,578	328,908	324,291	313,776	299,961	307,136	311,526	328,585	331,995	338,186	345,173	354,171	363,282	361,626	352,184	352,184
Inventory		366,415	366,415	366,415	379,041	395,375	382,549	354,378	337,275	336,140	337,538	342,180	350,287	359,741	364,706	370,554	370,554
Recycling Funding per Month		(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)
Securitization Inflows/(Outflows)		(1,360)	140	(1,952)	(4,469)	(5,871)	3,049	1,866	7,250	1,449	2,631	2,970	3,824	3,872	(704)	(4,013)	(4,013)
SG&A Expense per Month		(7,692)	(7,692)	(7,692)	(8,817)	(8,817)	(8,817)	(8,817)	(8,817)	(8,817)	(8,817)	(8,817)	(8,817)	(8,817)	(8,817)	(8,817)	(8,817)
EBITDA per Month		4,527	(3,760)	9,162	890	139	4,934	5,756	5,399	9,982	20,944	23,653	17,811	25,761	20,911	21,716	21,716

Abitibi Consolidated Inc. and its subsidiaries (the "ACI Group")
Reconciliation of Quarterly EBITDA to Cash Burn

US\$000s

Month ended	Q4 2009	Q1 2010	Q2 2010	Q3 2010	Q4 2010	TOTAL
EBITDA	9,929	5,964	21,138	62,408	68,387	167,826
Reconciling Items						
Repayment of Senior Secured Notes	(180,000)	-	-	-	-	(180,000)
Capex	(12,000)	(15,000)	(15,000)	(15,000)	(15,000)	(72,000)
Pension	(18,000)	(18,000)	(18,000)	(18,000)	(18,000)	(90,000)
Restructuring and Other Items	(12,750)	(12,750)	(12,750)	(12,750)	(12,750)	(63,750)
Adequate Protection	(10,505)	(10,269)	(10,399)	(10,505)	(10,505)	(52,183)
Recycling	(3,000)	(3,000)	(3,000)	(3,000)	(3,000)	(15,000)
Securitization	(3,182)	(7,291)	10,565	9,425	(844)	8,672
Collection timing differences	(3,579)	17,155	(24,859)	(22,177)	1,987	(31,472)
Inventory build	-	(16,134)	46,409	(14,147)	(20,267)	(4,139)
ACI DIP Interest & Fees	(482)	-	-	-	-	(482)
Net GST	1,106	(473)	(47)	(253)	879	1,211
MPCo Loan Repayment to ACCC	9,000	-	-	-	-	9,000
Road Tax Recovery	36,000	-	-	-	35,000	71,000
Total Reconciling Items	(197,393)	(65,762)	(27,080)	(86,407)	(42,501)	(419,143)
EBITDA Including Reconciling Items	(187,464)	(59,799)	(5,942)	(23,998)	25,886	(251,316)
Cash Flow Per Quarterly Cash Flow Forecast	(187,464)	(59,799)	(5,942)	(23,998)	25,886	(251,316)
Difference	-	-	-	-	-	-

APPENDIX “H”

Analysis of Illustrative Range of Potential Values of Hydro Saguenay

[TO BE FILED UNDER SEAL]

APPENDIX "I"

Analysis of Illustrative Range of Potential Values of Timberlands

[TO BE FILED UNDER SEAL]