CANADA

PROVINCE OF QUÉBEC
DISTRICT OF MONTRÉAL

No.:

SUPERIOR COURT

Commercial Division
Sitting as a court designated pursuant to the Companies' Creditors Arrangement Act, R.S.C., c. C-36, as amended

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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 "D";

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 2000, in the City and District of Montréal, Province of Quebec, H3B 1X9;

Monitor

REPORT OF ERNST & YOUNG INC.

April 16, 2009

INTRODUCTION

1. Ernst & Young Inc. (the "**Proposed Monitor**") understands that Abitibi-Consolidated Inc. ("**ACI**") and its subsidiaries listed in Appendix "A" hereto (collectively with ACI, the "**Abitibi Petitioners**") and Bowater Canadian Holdings Incorporated ("**BCHI**") and its subsidiaries listed in Appendix "B" hereto (collectively with BCHI, the "**Bowater Petitioners**") have jointly brought a petition before this Honourable Court seeking, among other things, commencement of proceedings under the *Companies' Creditors Arrangement Act* ("**CCAA**") in order to restructure the business and affairs of the Abitibi Petitioners and the Bowater Petitioners (collectively, the "**Petitioners**").

2. The Petitioners are all subsidiaries of AbitbiBowater Inc. ("**ABH**", collectively with its subsidiaries, the "**ABH Group**").

3. ACI is a direct and indirect wholly-owned subsidiary of ABH. ABH wholly owns Bowater Inc. ("**BI**"). BI, in turn, wholly owns BCHI which, in turn, indirectly owns Bowater Canadian Forest Products Inc. ("**BCFPI**"). BCFPI carries on the main Canadian operations of BI.

4. Abitibi-Consolidated Company of Canada ("**ACCC**"), a wholly-owned subsidiary of ACI, and BCFPI hold the majority of ABH's Canadian assets and operations.

5. As described further herein, ABH, BI and certain of their direct and indirect U.S. and Canadian subsidiaries, including BCHI and BCFPI (collectively, the "**U.S. Debtors**") have prepared applications for relief under Chapter 11 of Title 11 of the United States Bankruptcy Code ("**Chapter 11**"). Attached as Appendix "C" hereto is a list of the U.S. Debtors.

6. ABH and the petitioners listed on Appendix "D" hereto (collectively with ABH, the "18.6 Petitioners") are petitioners in these proceedings for the purpose of obtaining Orders under Section 18.6 of the CCAA in respect of voluntary proceedings initiated under Chapter 11.

7. ACI and ACCC have also prepared petitions for recognition under Chapter 15 of the United States Bankruptcy Code.

8. In addition, while the partnerships listed in Appendix "E" hereto (the "**Partnerships**") are not petitioners in these CCAA proceedings, the Proposed Monitor understands that the Petitioners and the 18.6 Petitioners are seeking to have the stay of proceedings extended to the Partnerships as they form an integral part of the business of the Petitioners.

9. This is the report (the "**Report**") of the Proposed Monitor in the Petitioners' CCAA proceedings. The Proposed Monitor has consented to act as Monitor in these CCAA proceedings.

10. The purpose of this Report is to provide this Honourable Court with information on:

- ABH Group's background and financial structure;
- ABH Group's current liquidity crisis;
- ABH Group's decision to commence formal insolvency proceedings;
- an overview of ACI's and BCFPI's short term cash flow forecasts, ACI's proposed continued use of its accounts receivable Securitization Program and BCFPI's proposed debtor-in-possession ("**DIP**") financing;
- selected financial matters addressed in the proposed CCAA Initial Order (the "**Initial Order**");
- restructuring options; and
- the Proposed Monitor's conclusions and recommendations.

TERMS OF REFERENCE

11. In preparing this Report, the Proposed 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 (the "**Management**"). The Proposed Monitor has not audited, reviewed or otherwise attempted to verify the accuracy or completeness of such information and, accordingly, the Proposed Monitor expresses no opinion or other form of assurance in respect of such information contained in this Report. Some of the information referred to in this 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 ("**CICA**") Handbook, has not been performed. Future-oriented financial information referred to in this 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.

12. Unless otherwise stated, all monetary amounts contained herein are expressed in U.S. dollars.

13. Capitalized terms not defined in this Report are as defined in the Petition for the Issuance of the Initial Order (the "**Petition**") filed by the Petitioners in connection with these CCAA proceedings.

14. The Proposed Monitor was retained by the ABH Group on March 12, 2009 to assist the Petitioners and their professional advisors in analyzing options available to refinance and

restructure their operations. The Proposed Monitor has not yet had an opportunity to fully analyze the business and operations of the ABH Group.

15. The Proposed Monitor does not act as auditor to any of the entities within the ABH Group.

GENERAL BACKGROUND

16. In October 2007, two of North America's largest organizations in the forest and wood products industry, ACI and BI, merged to create ABH.

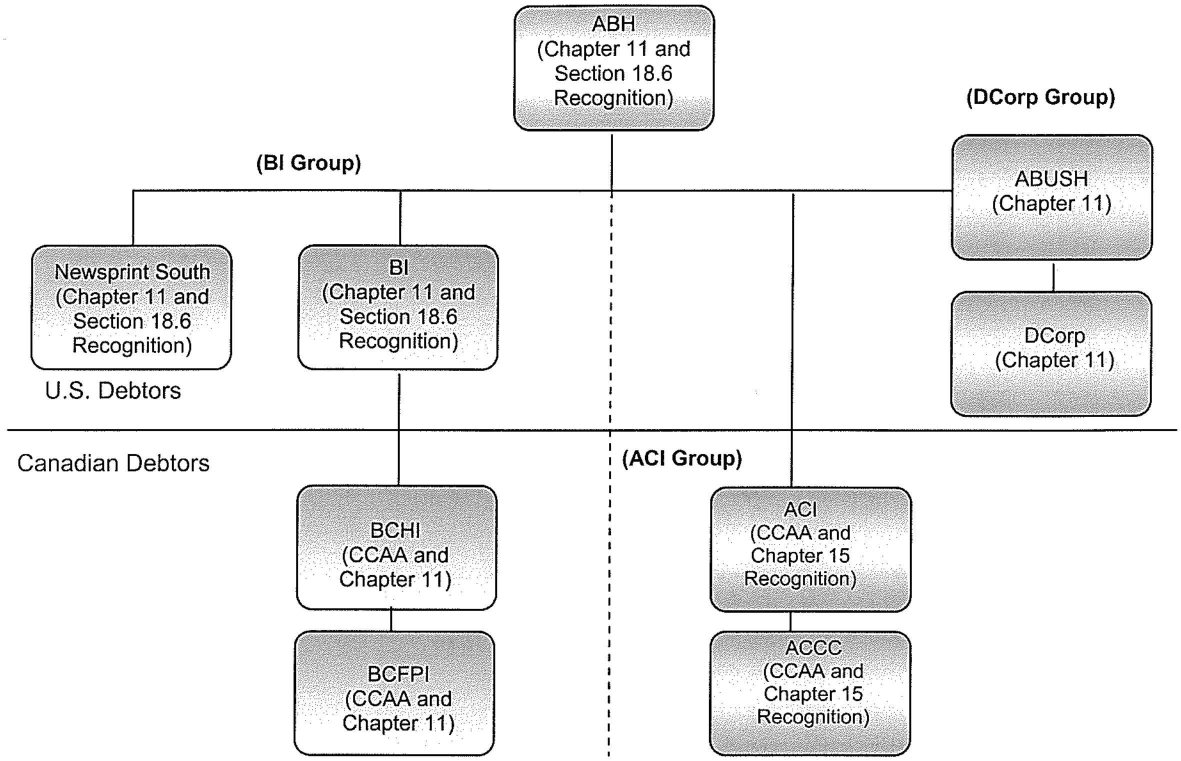
17. ABH is one of the world's largest publicly traded paper and forest product companies. It produces a wide range of newsprint and commercial printing papers, market pulp and wood products. As at December 31, 2008, the ABH Group employed approximately 15,800 people, approximately 11,300 of which work in ACI's and BI's Canadian operations. The ABH Group owns interests in or operates 35 pulp and paper mills, 24 sawmills (others have been permanently closed), 5 wood products facilities and 32 recycling facilities located in Canada, the United States, the United Kingdom and South Korea.

18. The ABH Group is also among the world's largest recyclers of newspapers and magazines and has more third-party certified sustainable forest land than any other company in the world. It also operates a number of power generation facilities.

19. ABH's annual revenue was approximately $6.8 billion for the 12 month period ending December 31, 2008.

20. 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, collectively referred to as the "**DCorp Group**").

21. A summarized version of the ABH organization chart, which highlights the corporate structure of ABH and also indicates which entities are petitioners in these CCAA proceedings and which entities are filing for relief under the Chapter 11 proceedings, is as follows:



<u>The ACI Group</u>

22. ACI wholly owns ACCC which holds the primary Canadian assets and operations of the ACI Group. The ACI Group owns interests in or operates 14 pulp and paper mills, 17 sawmills (others have been permanently closed), 5 wood products facilities and 12 recycling facilities in Canada and the United Kingdom.

23. The ACI Group holds equity interests in various companies. For example, ACCC has a 75% interest in ACH Limited Partnership ("**ACH**") which holds a number of hydro-electricity assets in Ontario. ACCC also holds a 60% interest in Manicouagan Power Company ("**MPCo**") which owns a large hydroelectricity facility in Quebec. ACCC also holds indirect interests in other businesses.

24. ACI also holds an equity interest in Donohue Malbaie Inc., which owns and operates one of the paper machines at one of the ACI Group's newsprint mills.

25. Bridgewater Paper Company Limited ("**Bridgewater**") is a wholly owned subsidiary of ACCC and owns a pulp and paper mill facility in the United Kingdom. Bridgewater and its subsidiaries act as a selling vehicle for European sales for the ACI Group and the DCorp Group.

26. The ACI Group corporate structure also consists of a number of holding, finance, special purpose, non-operating and sales entities.

The DCorp Group

27. Donohue Corp. ("**DCorp**") is a wholly owned subsidiary of ABUSH and directly or indirectly owns operating assets located in the United States. DCorp directly owns Abitibi Consolidated Corporation which operates recycling facilities in the United States. DCorp also owns Abitibi-Consolidated Sales Corporation ("**ACSC**"), which acts as the selling vehicle for sales of the ACI Group in the United States. ACSC holds an equity interest in the Augusta Newsprint Company ("**Augusta**"), which owns a pulp and paper mill and indirectly owns the Alabama River Newsprint Company ("**ARNC**"). ARNC owns an idled pulp and paper mill.

28. The ACI Group's and the DCorp Group's cash management systems and their accounts receivable are managed in an integrated manner, as described more fully later in this Report. Moreover, DCorp and certain of its subsidiaries have guaranteed certain indebtedness of the ACI Group. Accordingly, the two groups are referred to in this Report on a combined basis as the **"ACI & DCorp Parties"**.

The BI Group

29. Newsprint South and its subsidiaries, and BI and certain of its subsidiaries, hold the primary U.S. assets and operations of ABH. BI also indirectly holds an equity interest in Bowater Mersey Paper Company Limited ("**Mersey**"), the Ponderay Newsprint Company ("**Ponderay**") and the Calhoun Newsprint Company ("**Calhoun**"). Mersey, Ponderay and Calhoun are non-filing entities.

30. Mersey owns a sawmill, a pulp and paper facility and woodlands located in Nova Scotia.

31. Ponderay owns and operates a paper mill in Usk, Washington. Calhoun owns certain assets located at BI's Calhoun operations.

32. BCFPI, which is a wholly owned subsidiary of BI, holds the primary Canadian assets and operations of the BI Group. BCFPI also indirectly owns smaller operations and Bowater-Korea Ltd. ("**Bowater Korea**"), which owns a mill in South Korea.

33. The balance of the BI Group's corporate structure primarily consists of a combination of holding, finance, special purpose, non-operating and sales entities in both the CCAA and Chapter 11 proceedings.

34. In summary, the BI Group owns interests in or operates 19 pulp and paper mills and 7 sawmills (others have been permanently closed) of which 5 pulp and paper mills and 4 sawmills (others have been permanently closed) are operated by BCFPI in Canada.

FINANCIAL STRUCTURE

35. The financial structure of the ABH Group is summarized below.

ABH

36. ABH issued $350 million of 8% senior unsecured convertible notes due April 15, 2013 that are guaranteed by BI.

The ACI Group

Term Loan

37. ACCC is a party to a 364-day senior secured term loan due March 30, 2009 (the "**Term Loan Facility**") with Goldman Sachs Credit Partners L.P. as administrative agent (the "**Term Loan Agent**"), the current outstanding principal balance of which is approximately $347 million. The Term Loan Facility is secured primarily by the personal (moveable) property (including 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 and its subsidiaries (including accounts receivable, inventory and equipment), the pledge of the stock or other equity interest of certain subsidiaries of DCorp and by the real estate relating to the mill owned by ARNC.

38. On a monthly basis, ACCC files a borrowing base certificate with the Term Loan Agent. The Proposed Monitor has reviewed the borrowing base certificate issued by ACCC to the Term Loan Agent for the month of February, 2009. As summarized in the schedule below, the February borrowing base estimate indicates a collateral value of $471 million for inventory and accounts receivable. This reflects a surplus collateral value of $124 million when compared to the outstanding loan balance of $347 million.

		$US (Millions)
Amount outstanding under the Term Loan Facility		$346.9
Collateral calculation:		
Net eligible accounts receivable		
• Net eligible accounts receivable including equity value in Securitization Program	$291.0	
• Advance rate	85%	247.4
Net eligible inventory		
• Net eligible inventory	319.0	
• Advance rate	70%	223.3
Total collateral per borrowing base certificate		470.7
Collateral value amount less amount outstanding		$123.8

39. In addition to the accounts receivable and inventory collateral included in the borrowing base certificate, the Term Loan Facility also has the following additional security with respect to the DCorp Group:

- the indirect pledge of the equity interest (52.5%) in Augusta which is a 423,000 metric ton ("**MT**") newsprint mill that sells 100% of its product to ACSC at arm's length market determined rates;
- the currently idled Alabama River newsprint and recycling facility with a capacity of 265 000 MT;
- a guarantee from the Abitibi-Consolidated Corporation which owns a closed 384,000 MT pulp and paper facility in Lufkin, Texas; and
- a guarantee from DCorp.

Senior Notes

40. ACCC is also an issuer of $413 million in 13.75% senior secured notes due April 1, 2011 (the "**Senior Notes**"). Wells Fargo Bank, National Association is the indenture trustee.

41. As at March 31, 2009, approximately $413 million was outstanding in respect of the Senior Notes with accrued interest thereon of approximately $18 million.

42. The Senior Notes are guaranteed by several affiliates, including ACI and DCorp and certain of their subsidiaries, and are secured by mortgages on certain pulp and paper mills owned by ACCC and security interests in and pledges of certain other assets of ACCC and its subsidiaries that are guarantors.

43. The Senior Notes are secured by ACCC's 60% interest in Manicouagan Power Company ("**MPCo**") which owns a 335 MW hydroelectric facility. ABH made a public announcement on March 13, 2009 that it signed a non-binding agreement in principle with Hydro Quebec for the sale of the facility for gross proceeds of CDN $615 million. It is expected that ACCC's net proceeds from the sale will be approximately $390 million. ACCC is continuing negotiations in connection with the MPCo sale.

44. The Senior Notes are also secured by ACCC's 75% equity interest in ACH which owns eight hydroelectric facilities located in Ontario. On December 22, 2008, ABH announced that it had accepted a proposal to sell its equity interest in ACH to a major unaffiliated industrial energy producer. The resulting gross proceeds (excluding expenses) to ACI is projected to be approximately CDN $197.5 million. As part of the transaction, the buyer would also assume CDN $250 million of ACH debt. The proposal is non-binding and is subject to due diligence, among other terms and conditions. While it is expected that a definitive agreement may be reached in the second quarter of 2009, no assurances can be provided as to when or if a definitive agreement will be executed.

45. In addition to the hydro assets, the Senior Notes are secured by the fixed assets of the following pulp and paper facilities of ACCC and its subsidiaries with a net book value of approximately $1.4 billion:

Mill	Capacity 2009 (000s Metric Tons)	2008 Consolidated Production (000s Metric Tonnes)				Net Book Value ($Millions)
		Newsprint	Specialty Paper	Market Pulp	Total	
Alma	357	-	343	0	343	$270
Amos	209	199	-	-	199	39
Baie Comeau	574	545	-	-	545	138
Beaupre	241	-	218	-	218	68
Bridgewater	235	212	-	-	212	44
Clermont	353	349	-	-	349	40
Fort Frances	393	-	268	96	364	257
Iroquois Falls	276	225	35	-	260	167
Kenogami	211	-	207	-	207	122
Laurentide	360	-	327	-	327	150
Thorold	414	378	-	-	378	76
Totals	**3,623**	**1,908**	**1,398**	**96**	**3,402**	**$1,371**

46. The Senior Notes are also secured by liens on substantially all of the equipment of ACCC and its subsidiaries that are guarantors.

Unsecured Notes

47. ACCC is obligated under various unsecured notes with an aggregate principal amount outstanding of $1.493 billion.

48. ACI is obligated under various additional unsecured notes with an aggregate principal amount outstanding of $1.445 billion.

Securitization Program

49. ACI and ACSC participate in a securitization program (the "**Securitization Program**") to help fund the working capital requirements of the ACI & DCorp Parties. This program is more fully described later in this Report but, essentially, the Securitization Program involves selling receivables generated by the operations of ACCC and the operating businesses of the DCorp Group to a securitization vehicle in order to generate liquidity. The Securitization Program is for an aggregate principal amount of approximately $210 million, which amount is limited by the outstanding balance of the eligible receivables net of reserves. The Securitization Program has been amended as described in greater detail in this Report.

The BI Group

50. BI is a party to a five-year $381 million revolving credit facility (the "**BI Revolving Credit Facility**") with several lenders and Wachovia Bank, National Association as administrative agent with a scheduled maturity date of May 25, 2011. It is guaranteed by ABH, Newsprint South and certain wholly owned subsidiaries of Newsprint South and BI. It is secured by inventory, accounts receivable and deposits of BI, Newsprint South and the subsidiaries referred to above, as well as pledges of stock of certain subsidiaries. As at March 31, 2009, approximately $203.7 million was outstanding under this facility, excluding accrued interest.

51. BCFPI is a party to a 364-day credit agreement (the "**BCFPI Revolving Credit Facility**") with several lenders and The Bank of Nova Scotia as administrative agent which provides for a $129.7 million revolving credit facility with a maturity date of June 5, 2009, subject to annual extensions. It is guaranteed by BI and certain subsidiaries, Newsprint South and its subsidiaries and certain subsidiaries of BCFPI. It is secured by inventory, accounts receivable and deposit accounts of BCFPI and liens on substantially all of the Canadian fixed assets and the shares of Bowater Korea. As at March 31, 2009, approximately $61.1 million was outstanding under the BCFPI Revolving Credit Facility, excluding accrued interest and letters of credit issued in the amount of approximately $27 million.

52. BI is obligated under various unsecured notes with an aggregate principal amount outstanding of $1.207 billion.

53. Newsprint South is a borrower under a certain unsecured creditor agreement for a principal amount of $8.5 million of which $4 million was outstanding as of September 30, 2008.

54. On February 5, 2009, BCFPI entered into a loan agreement with Fairfax Financial Holdings Limited as lender for advances of up to an aggregate principal amount of $30 million. The loan is guaranteed by ABH and certain BI direct and indirect subsidiaries.

55. BCFPI is obligated under various unsecured notes with an aggregate principal amount outstanding of $225 million. Bowater Canada Finance Corporation, a subsidiary of BI, is obligated under various unsecured notes with an aggregate principal amount outstanding of $600 million.

56. The Proposed Monitor has not yet completed a review of the credit facilities or security of the ABH Group. The Proposed Monitor has based its Report on the assumption that all such agreements are valid and enforceable in accordance with their terms.

ABH HISTORICAL FINANCIAL RESULTS

57. The following is a summary of the financial results for ABH (consolidated), ACI, BI (including BCFPI) and BCFPI (unconsolidated) for the nine-month period ending September 30, 2008 (which is the latest period in respect of which ABH issued quarterly financial statements):

	($ Millions)			
	ABH (Consolidated)	ACI (Consolidated)	BI (Consolidated)	BCFPI (Unconsolidated)
Sales*	5,154	2,584	2,524	916
Operating Income (Loss)*	(371)	(677)	(91)	(352)
Interest*	(519)	(281)	(154)	(30)
Net Income*	(801)	(1,060)	(294)	(385)

*The figures included in the above table are from publicly filed documents posted on SEDAR and EDGAR.

58. As summarized in the above table, ABH, ACI, BI and BCFPI have all incurred substantial losses in the nine-month period ending September 30, 2008.

EMPLOYEES

59. As indicated previously in this Report, as at December 31, 2008, ABH employed approximately 15,800 active employees, of which approximately 11,300 work in Canada. Approximately 9,000 of these employees are covered by collective bargaining agreements and the remaining employees are non-unionized. Many of these employees work in certain communities where the ACI or BCFPI mill is the dominant employer.

The ACI Group

60. The ACI Group has approximately 9,000 employees of which approximately 8,700 work in Canada. The ACI Group maintains 20 registered pension plans for the Canadian employees. The pension plans consist of defined benefit plans, defined contribution plans and some that operate on a hybrid basis. As at December 31, 2008, the aggregate solvency deficit of the defined plans (including the hybrid plans as applicable) was estimated to be approximately $964 million.

61. The ACI Group maintains supplemental pension plans ("**SERPs**") for certain of its Canadian salaried staff and also funds post-retirement benefits for its employees ("**OPEBs**"). Certain SERPs are secured by a letter of credit, while others are not. The ACI Group's aggregate contributions to the Canadian OPEBs and SERPs during the fiscal year ended December 31, 2008 totalled approximately CDN $9.2 million and CDN $5.8 million, respectively.

62. Due to its liquidity constraints, the ACI Group intends to suspend the remittance of special payments in respect of past service for all current and former employees to the defined benefit Canadian pension plans and the SERPs during these CCAA proceedings.

The BI Group

63. The BI Group has approximately 6,000 employees of which approximately 2,600 work in Canada. The BI Group maintains 13 registered pension plans for Canadian employees. The pension plans consist of defined benefit plans, defined contribution plans and some operate on a hybrid basis. As at December 31, 2008, the aggregate solvency deficit of the defined benefit plans (including the hybrid plans as applicable) was estimated to be approximately CDN $419 million.

64. The BI Group also maintains SERPs for certain of its Canadian and U.S. salaried staff and also funds OPEBs for its employees. The BI Group's aggregate contributions to the OPEBs and SERPs during the fiscal year ended December 31, 2008 totalled approximately CDN $19 million and CDN $25.9 million, respectively.

65. Similar to the ACI Group, the BI Group intends to suspend the remittance of special payments in respect of past service for all current and former employees to the defined benefit BI Canadian pension plans and the SERPs during these CCAA proceedings.

Severance Payments

66. On March 27, 2009, ACCC closed its pulp and paper mill in Grand Falls, Newfoundland. As a result, several hundred employees were terminated from their employment. On April 2, 2009, ACCC paid out $4.8 million to the former employees on account of vacation pay and outstanding wages. Severance amounts owing to the former employees total approximately $28 million.

67. The ACI Group and the BI Group intend to suspend severance payments for the time being, but expect to review this issue once adequate DIP financing is available and to seek further direction from the Court.

ABH's CURRENT LIQUIDITY CRISIS

68. ACI and ACCC have significant debt maturities over the next year consisting of:

- $347 million Term Loan Facility that became due March 30, 2009;
- $210 million under the Securitization Program was previously scheduled to terminate in September 2009; and
- $8 million 7.875% notes due August 1, 2009.

69. BI and BCFPI have significant debt maturities over the next year consisting of:

- BCFPI's Revolving Credit Facility that will expire on June 5, 2009; and
- BI has approximately $251.8 million of 9% notes due August 1, 2009.

70. The Proposed Monitor is advised by ABH that trade payables for the ACI Group and the BI Group are in excess of $141 million and $40 million, respectively, and each is experiencing

pressure from a number of its suppliers that have demanded cash or significantly shortened payment terms.

71. Each of the ACI Group, the DCorp Group and the BI Group is experiencing significant liquidity constraints. Each of these groups has experienced an even further deterioration in business conditions in January and February 2009 with significant price and volume pressures that have negatively impacted operating results.

72. The Securitization Program, which is the ACI & DCorp Parties' main liquidity funding source, was reduced from a $350 million facility as of December 31, 2008 to $210 million as of March 31, 2009, pursuant to a waiver with Citibank N.A., the Agent of the Securitization Program (the "**Securitization Agent**"), further impacting the liquidity positions of the ACI & DCorp Parties.

73. As of April 10, 2009, ACI had $34.8 million of cash on hand. A further $29.1 million was held in a Securitization Program lockbox.

74. As of April 10, 2009, BI had $25.8 million of cash on hand and minimal liquidity available under the BI Revolving Credit Facility.

75. As of April 10, 2009, BCFPI had $3.2 million of cash on hand and minimal liquidity available under the BCFPI Revolving Credit Facility.

76. ABH continues to face significant economic challenges as a result of the declining long term demand for newsprint, the continued decline for coated mechanical papers primarily due to sharp declines in advertising, the decrease in global demand for pulp primarily from offshore markets and depressed lumber prices and demand due to the dramatic slowdown in the construction of new homes in the U.S. market.

77. As a result, the ACI Group, the DCorp Group and the BI Group do not have sufficient liquidity from operations to meet their significant near term debt maturity obligations and to pay their obligations generally as they come due. The ABH Group has become insolvent.

<u>Recapitalization Plan</u>

78. In order to address the debt maturities and to raise additional liquidity, ABH made a number of public announcements in February and March, 2009 that each of the BI Group and the ACI Group were undertaking separate comprehensive refinancing plans to address the financial needs of each group.

The BI Group

79. In February 2009, ABH announced that BI and its subsidiaries were commencing a recapitalization plan (the "**BI Exchange Offers**"). Key elements of the BI Exchange Offers included:

- an exchange offering to certain of the BI Group unsecured note holders to exchange certain outstanding series of unsecured notes for Second Lien Notes and Third Lien Notes. Concurrently with the exchange offering, eligible holders of the existing notes were offered the opportunity to subscribe for new 15.5% First Lien Notes. Eligible holders had the right but not the obligation to subscribe for First Lien Notes;

- the exchange offer was conditional upon, among other things, tenders greater than 97% in aggregate principal amount of certain classes of existing notes and greater than 50% in aggregate principal amount of certain other classes of existing notes; and
- a note purchase agreement was also entered into with an institutional investor to purchase $80 million of First Lien Notes.

The ACI Group

80. In March 2009, ABH announced that ACI and its subsidiaries were commencing a recapitalization plan through reorganization under the *Canada Business Corporations Act* ("**CBCA**") (the "**ACI CBCA Arrangement**"). Key elements of the ACI CBCA Arrangement included:

- the conversion of $2.9 billion of eligible unsecured notes issued by ACI into approximately $321 million of 12.5% First Lien Notes and approximately $810 million of 11% Second Lien Notes, the issuance of 86.7 million shares of ABH common stock and the issuance of an aggregate of approximately 230.7 million warrants;
- a concurrent offering (the "**Concurrent Offering**") to raise approximately $350 million of new liquidity through the issuance of First Lien Notes and warrants. Certain investors provided binding commitments to subscribe for $150 million of the Concurrent Offering;
- the repayment in full of the Senior Notes; and
- the partial repayment of the Term Loan Facility.

81. On March 13, 2009, the Commercial Division of the Superior Court of Quebec in Montreal granted an interim order (the "**Interim Order**") under the CBCA in connection with the ACI CBCA Arrangement, including calling meetings of the affected noteholders and lenders on April 30, 2009. The Interim Order also provided a stay of proceedings in favour of ACI and certain of its subsidiaries to provide ACI with the opportunity to present the ACI CBCA Arrangement to its affected creditors and for the Court to consider whether it would be approved at a hearing scheduled for May 5, 2009.

82. The ACI CBCA Arrangement was conditional upon, among other things:

- the completion of the sale of ACCC's 60% interest in MPCo (for which ACCC announced on March 13, 2009 its acceptance of a non-binding proposal from Hydro-Quebec which was expected to result in gross sale proceeds of C$615 million);
- the completion of the previously announced BI Exchange Offers;

- the closing of the Concurrent Offering resulting in gross proceeds of $350 million for ACI; and
- final Court approval.

83. If approved by the Court, implementation of the ACI CBCA Arrangement was expected to occur in early May, 2009.

84. However, on April 1, 2009 ABH announced that the BI Exchange Offers had expired without obtaining the required support and were terminated. ABH also announced that it was evaluating new restructuring alternatives for BI and was in discussions with its lenders and debtholders.

85. While the BI Exchange Offers were one of the critical conditions of the ACI CBCA Arrangement, ABH announced it intended to continue the ACI recapitalization under the ACI CBCA Arrangement and to amend such CBCA process as necessary to take into account any developments in the BI financing.

86. ABH has advised the Proposed Monitor that a BI refinancing can no longer be pursued within the time frame originally contemplated by the ACI CBCA Arrangement.

ABH'S DECISION TO COMMENCE INSOLVENCY PROCEEDINGS

87. Due to the impending debt maturities and the Petitioners' liquidity crisis, the Petitioners have prepared a joint petition for protection under CCAA. An application for a Chapter 15 Recognition Order will also be made to the U.S. Bankruptcy Court for ACI and ACCC.

88. In addition, most of the U.S. operating subsidiaries of ABH, as well as certain Canadian subsidiaries of BI, are seeking relief under Chapter 11.

THE CASH MANAGEMENT SYSTEM

89. The ABH Group's treasury department administers a centralized cash management system (the "**CMS**") to support the business operations of the ABH Group. The CMS is administered separately for each of the BI Group and the ACI & DCorp Parties. The CMS is the vehicle for the transfer of funds among the various entities within each corporate group across various jurisdictional lines including Canada, the United States and Europe.

90. Funds are collected in separate concentration accounts from various deposit accounts in Canada, the United States and Europe. Funds are then transferred to various disbursement and payroll accounts to pay ongoing business expenses as required.

91. The ABH Group also uses the CMS to support the significant Intercompany Transactions (as defined below) among the ABH Group entities, which are described in greater detail below. Intercompany notes and agreements govern the intercompany relationships among the entities.

92. A detailed description of the CMS is set forth in the Petition. The Proposed Monitor has reviewed the CMS with the Petitioners and believes that it will be able to monitor and report on the cash flow activities of the ABH Group.

93. ABH has advised the Proposed Monitor that the CMS has been used continuously by the business and that the interrelationship among the ABH's Group's entities and the scope and breadth of their operations require the continued use of the CMS.

INTERCOMPANY ADVANCES

94. As described above, there are significant intercompany transactions between and among each of the ABH Group entities (the "**Intercompany Transactions**") which are recorded in general ledger accounts and, at any given time, there are outstanding receivable and payable claims made in the ordinary course between the ABH Group entities (the "**Intercompany Claims**").

95. A detailed description of the Intercompany Transactions is set forth in the Petition.

96. Some examples of the more significant Intercompany Transactions between the ABH Group entities include:

   (a) Sales by ABH's Canadian operations to other entities: (1) ACCC sells product to ACI which in turn sells product to (i) ACSC (for sales to U.S. domiciled customers), (ii) Bridgewater (for sales to European domiciled customers), or (iii) customers directly (for Canadian domiciled customers and international non-European domiciled customers), and (2) BCFPI sells its products to Bowater America Inc. ("**BAI**") in respect of all sales, excluding lumber, to U.S. customers. This flow of inventory and intercompany receivables and payables is tracked through the intercompany accounts.

   (b) Procurement of certain products and services such as (i) freight charges for the BI Group which are paid for by the ACI Group, (ii) the cost of the ABH Group's U.S. sales force which is paid by the BI Group and (iii) certain corporate charges are billed centrally and allocated to the various entities. Amounts are settled on a periodic basis depending on the nature of the charges.

   (c) Bridgewater acts as the selling vehicle for the ACI Group's European sales. Bridgewater purchases inventory from ACI and sells it to third-party customers. Bridgewater pays ACI for the purchased inventory upon collecting the accounts receivable from third party customers. However, Bridgewater also operates a pulp and paper mill and recycling facilities that are currently cash flow negative and Bridgewater retains a portion of the collections from the third party customers to fund its cash flow deficiencies.

   (d) The DCorp Group operates a recycling program in the U.S. as well as two pulp and paper mills that are currently idled. Through the CMS, ACI transfers funds to cover the costs of idling the two mills and any cash requirements for the recycling program.

97. The Intercompany Transactions and the resulting Intercompany Claims are significant. The Petitioners are seeking approval to complete any outstanding transactions and authorization to continue to transact in the normal course with entities within the ABH Group during the CCAA proceedings.

98. As mentioned above, the Petitioners maintain records of the Intercompany Transactions and have advised that they can ascertain, trace and account for Intercompany Transactions between and among the Petitioners and the U.S. Debtors and any subsidiaries and affiliates, through the use of intercompany agreements and notes.

99. To ensure that each individual Petitioner and U.S. Debtor will not fund, at the expense of its stakeholders, the operations of another entity, the Petitioners have advised the Proposed Monitor that they are seeking the granting of the secured charges described in the Petition (the "**Intercompany Charges**"). The Intercompany Charges will secure the post-filing Intercompany Claims arising from the Intercompany Transactions in Canada. In addition, the Petitioners have advised the Proposed Monitor that the U.S. Debtors are seeking the approval of the U.S. Bankruptcy Court to accord administrative expense status to post-petition Intercompany Claims against a U.S. Debtor arising from an Intercompany Transaction after the effective time of the Initial Order in the CCAA proceedings or the filing of the U.S. proceedings.

THE SECURITIZATION PROGRAM – THE ACI & DCORP PARTIES

100. In order to reduce its working capital requirements, ACI and ACSC participate in the Securitization Program with respect to receivables generated from sales to customers. As described previously in this Report, ACI is a member of the ACI Group and a Petitioner in these CCAA proceedings. ACSC is a member of the DCorp Group and is one of the U.S. Debtors in the Chapter 11 proceedings.

101. Historically, DCorp was a subsidiary of ACCC, however, on April 1, 2008, DCorp became a wholly owned subsidiary of ABUSH.

102. As stated previously in this Report, ACCC carries on the main operations in Canada within the ACI Group and sells its products to ACI which in turn sells the products to either:

(i) Canadian domiciled customers or to certain international domiciled customers (non-European);

(ii) ACSC (which then sells the products to U.S. domiciled customers); or

(iii) Bridgewater (which sells the products to European domiciled customers).

103. ARNC, which owns an idled mill in the DCorp Group, and Augusta, which is a joint venture that operates a newsprint mill, also sell their products to ACSC, which sells the products to end customers.

104. Pursuant to the Securitization Program, when accounts receivable are generated from sales to third parties, the third party receivables are then sold by ACI and ACSC to Abitibi-Consolidated U.S. Funding Corp. ("**ACUSFC**"), a DCorp Group special purpose vehicle.

ACUSFC then sells the receivables to a special purpose vehicle funded by the Securitization Agent, which immediately pays ACUSFC for such receivables. ACI acts as a servicing agent and administers the collection of the receivables sold pursuant to the Securitization Program. Collections of accounts receivable are directed to various lockbox accounts controlled by the Securitization Agent.

105. ACI prepares a daily accounts receivable pool calculation that computes an eligible receivable pool after deducting various ineligible receivable amounts and reserves. If the balance of the accounts receivable pool ("**Base Amount**") is less than the purchases made under the Securitization Program ("**Purchase Balance**"), then cash deposits from accounts receivable collections are paid to the Securitization Agent until the Purchase Balance is equal to the Base Amount. If the Base Amount is greater than the Purchase Balance, then cash deposits are paid to ACCC or ACI until the Purchase Balance is equal to the lesser of the Base Amount or the contractual limit of $210 million under the Securitization Program.

106. ACI informs the Securitization Agent, which controls the deposits in the lockboxes as described above, to either reduce the Purchase Balance or forward the cash deposits to ACI as appropriate.

107. It is anticipated that the Securitization Program will continue under the CCAA proceedings. In anticipation of the filing of these CCAA proceedings and the Chapter 11 proceedings, ACI, ACSC and ACUSFC executed Amendment No. 5 to the Securitization Program agreement (the "**Waiver**") with the Securitization Agent. The Waiver sets out the terms and conditions pursuant to which the Securitization Agreement will continue to operate subsequent to the issuance of the Initial Order and the filing of the Chapter 11 proceedings. The terms of the Waiver include:

- until the later date of i) the issuance of the Initial Order and ii) the date that the U.S. Bankruptcy Court enters an Interim Order with respect to the Chapter 11 proceedings, the Securitization Agent will have no obligation to purchase accounts receivable under the Securitization Program or release accounts receivable collections to ACSC; and

- ACUSFC agrees to continue to purchase receivables in accordance with the Securitization Program until the Securitzation Program is terminated, being no later than 45 days following the issuance of the Initial Order and the filing of the Chapter 11 proceedings.

108. In respect of the previously executed Amendment No. 4 to the Securitization Program, ACUSFC agreed to pay to the Securitization Agent a non-refundable structuring fee (the "**Structuring Fee**") in the amount of $12.6 million which was to be paid in four equal instalments of $3.15 million. As of the date of this Report, ACUSFC had paid the first instalment to the Securitization Agent. The balance of the Structuring Fee in the amount of $9.45 million will be paid to the Securitization Agent after the issuance of the proposed Initial Order. The Proposed Monitor has been advised by Management that, with the exception of the payment of the balance of the Structuring Fee, there are no additional fees payable to the Securitization Agent in respect of the Waiver.

109. ACI, with the assistance of its financial advisor, BMO Nesbitt Burns Inc. ("**BMO Capital Markets**"), has already commenced a process to secure a longer term arrangement with a financial institution to continue to fund the Securitization Program during these CCAA proceedings. It is expected that ACI will return to this Honourable Court in a short period of time to seek the approval of a longer term arrangement or replacement for the Securitization Program.

110. The Proposed Monitor has reviewed the ACI & DCorp Parties' cash flow forecasts for the next five weeks and it would appear that, based on their projections, these groups should have sufficient liquidity to operate their businesses under the terms of the Securitization Program and the Waiver during that period.

DIP FINANCING – THE ACI GROUP

111. While it is anticipated that the ACI Group, with the support of the Waiver, should have sufficient short term liquidity under the Securitization Program, the ACI Group will need to secure new DIP financing to fund itself for the duration of the CCAA Proceedings (the "**ACI DIP Financing**") while ABH, the ACI Group, the BI Group, the DCorp Group and their stakeholders consider restructuring options.

112. ACI and its advisor, BMO Capital Markets, have been in discussions with financiers to discuss potential ACI DIP Financing options. They have advised the Proposed Monitor that they are close to finalizing a $100 million ACI DIP Financing.

113. ACI expects to return to this Honourable Court as early as next week to seek approval for the ACI DIP Financing once the terms are finalized.

DIP FINANCING – THE BI GROUP

114. In order to address financing needs during these proceedings, ABH and BI (collectively, the "**US Borrowers**") and BCFPI (the US Borrowers and BCFPI are hereinafter referred to as the "**Borrowers**") have entered into a DIP financing agreement (the "**BI/BCFPI DIP Agreement**") with Fairfax Financial Holdings Limited as the initial lender, and such lenders as may be party thereto from time to time (collectively, the "**BI/BCFPI DIP Lender**").

115. The BI/BCFPI DIP Lender will provide senior secured super-priority DIP term loans of $166 million to the U.S. Borrowers (the "**U.S. Term Advance**") and $40 million to BCFPI (the "**Canadian Term Advance**") (collectively, the "**Term Facility**") (with an option to increase the amount of the Term Facility to $360 million (the "**Incremental Facility**")) (the Term Facility, together with any Incremental Facility, are hereinafter referred to as the "**DIP Facility**"). The Term Facility will be advanced in full on Closing.

116. The proceeds of the DIP Facility will be used (i) to pay transaction costs, fees and expenses which are incurred in connection with the DIP Facility, (ii) for working capital purposes, (iii) for other general corporate purposes and (iv) to pay adequate protection to holders of debt under certain existing senior secured loan facilities provided, however, that the proceeds of any advances under the DIP Facility shall not be used to repay Prepetition Debt (as defined in the BI/BCFPI DIP Agreement).

117. The significant terms of the BI/BCFPI DIP Agreement are as follows:

- Term Facility – a term loan in the amount of $166 million to the U.S. Borrowers and $40 million to BCFPI;

- Incremental Facility – an option to increase the amount of the Term Facility in an aggregate principal amount not to exceed $360 million less the principal amount of the initial funding under the Term Facility;

- Guarantors: (i) borrowings by the U.S. Borrowers are guaranteed by ABH, BI and each direct and indirect wholly-owned subsidiary of BI and Bowater Newsprint South Operations LLC organized under the laws of the United States and (ii) borrowings by BCFPI are guaranteed by each direct and indirect wholly-owned subsidiary of BI and Newsprint South organized under the laws of Canada;

- Interest Payments – interest will be paid monthly in arrears. Interest shall be payable at a Base Rate or, at the option of the Borrowers, a LIBOR rate, in each case, plus an Applicable Margin. The Base Rate is a fluctuating rate equal to the greater of (a) the Federal Funds Rate plus 0.5% or (b) 2.5%. The LIBOR rate is a fixed rate for a specified period equal to the greater of (a) the London interbank rate or (b) 3.5%. The Applicable Margin for Base Rate loans is 6.5% and for LIBOR loans is 7.5%, in both cases, increasing by 0.5% if the loan is not repaid within 12 months. Upon the occurrence of an event of default, as defined in the BI/BCFPI DIP Agreement, the interest rate shall increase by 2%;

- Closing and Other Fees – the Borrowers shall pay an upfront fee to the BI/BCFPI DIP Lenders in an amount equal to 3% of the stated principal amount of the Term Facility. The Borrowers shall also pay closing fees in an amount equal to further 2% of the stated principal amount of such loans under the DIP Facility, earned when funded and payable out of the proceeds of the DIP Facility, provided that (i) 50% of such closing fees shall be payable to the BI/BCFPI DIP Lender upon entry of the Interim DIP Order by the U.S. Bankruptcy Court and (ii) 50% of such closing fees shall be deposited into escrow and paid to the BI/BCFPI DIP Lender upon the earlier of (a) the maturity date and (b) the U.S. Bankruptcy Court entering the Final DIP Order. The Borrowers shall also pay all professional and advisory fees and expenses of the BI/BCFPI DIP Lender related to the DIP Facility;

- Exit Fee – an exit fee of 2% of the aggregate amount of the advances made under the BI/BCFPI DIP Agreement, which is payable on the earlier of the maturity date and the date of repayment;

- Closing Date – the first date on which the conditions precedent are satisfied including the granting of the Interim DIP Order by the U.S. Bankruptcy Court and the Initial Order (including the approval of the BI/BCFPI DIP Agreement) by this Honourable Court;

- Maturity Date – The earliest of (i) the 45th day following the Closing Date if the Final DIP Order is not granted by the U.S. Bankruptcy Court, (ii) 12 months after the

Closing Date, unless otherwise extended in accordance with the terms of the BI/BCFPI DIP Agreement, (iii) the effective date of the plan of reorganization of the Borrowers and (iv) the acceleration of the loans and termination of the commitments under the DIP Facility;

- Security – the DIP Facility and each Guarantee will be secured by valid and enforceable security interests in all of the property and assets, whether real or personal, of each such Borrower and Guarantor, having the priority set forth in the Initial Order and the Final Order and the Interim Order issued by the U.S. Bankruptcy Court; and

- Financial Covenants – include limits on capital expenditures, minimum consolidated adjusted EBITDA and minimum liquidity.

118. The amount borrowed by BCFPI under the DIP Facility will be secured by, among other things, a court-ordered charge (the "**BCFPI DIP Charge**") on the Borrowers' and the Guarantors' property ranking in priority to all other liens, charges and security interests, but subordinate to the Administration Charges, a portion of the Directors' Charge and the security interests securing the BCFPI Revolving Credit Facility.

119. The Petitioners have advised, and the Proposed Monitor has confirmed, that BCFPI urgently requires financing to continue its operations which will preserve value for the benefit of the Petitioners' stakeholders. Given the integration of the BI Groups' operations, it is effectively operating as one business entity.

OVERVIEW OF WEEKLY CASH FLOW FORECAST

120. The ACI Group and BCFPI have each prepared weekly cash flow projections to forecast their liquidity positions for the five week period as contemplated by the proposed Initial Order.

<u>ACI</u>

121. ACI has prepared a five week cash flow forecast (the "**ACI Forecast**"), a copy of which is attached as Appendix "F" to this Report. The ACI Forecast indicates that ACI has sufficient cash resources to meet its post-filing obligations over the next five weeks, which will allow ACI to have the time it believes is necessary for it to secure a longer term arrangement for the Securitization Program and to secure the ACI DIP Financing, provided the assumptions in the ACI Forecast are met.

122. The main assumptions of the ACI Forecast are as follows:

- ACI has cash balances of approximately $34.8 million on hand in addition to approximately $29 million held in a Securitization Program lockbox account as at April 10, 2009;

- accounts receivable generated from post-filing sales and collections of accounts receivable will be subject to the Securitization Program. It is assumed that there will be no impact on the collectability of customer accounts as a result of the ACI Group commencing formal insolvency proceedings;

- payroll and benefit disbursements are assumed to be made in the normal course, including pension funding payments for current service. The Abitibi Petitioners intend to suspend the remittance of special payments in respect of past service with respect to its Canadian defined benefits pension plans and such special payments are not included in the ACI Forecast. Further, SERP, severance and salary continuance payments are not included in the ACI Forecast; and

- payments and receipts with certain joint ventures are assumed to continue in the normal course.

123. The ACI Forecast indicates that ACI has sufficient liquidity resources under the Securitization Program and the Waiver to meet its post-filing obligations during the next five weeks, allowing ACI time to secure a longer term arrangement for the Securitization Program and the ACI DIP Financing.

BCFPI

124. BCFPI has prepared a five week cash flow forecast (the "**BCFPI Forecast**"). A copy of the BCFPI Forecast is attached as Appendix "G" to this Report. The BCFPI Forecast indicates that BCFPI has sufficient cash resources to meet its post-filing obligations over the forecast period, provided the assumptions in the BCFPI Forecast are met.

125. The main assumptions of the BCFPI Forecast are as follows:

- BCFPI has cash balances of approximately $3.2 million as at April 10, 2009;

- post-filing sales and collections are based on historical collection results and assume no impact on the collectability of customer accounts as a result of BCFPI commencing formal insolvency proceedings;

- payroll and benefit disbursements are assumed to be made in the normal course, including pension funding payments for current service. The Bowater Petitioners intend to suspend the remittance of special payments in respect of past service with respect to its Canadian defined benefits pension plans, and such special payments are not included in the BCFPI Forecast. Further SERP, severance and salary continuance payments are not included in the BCFPI Forecast; and

- payments and receipts with joint ventures, including the payment of arrears, are assumed to continue in the normal course.

CROSS-BORDER PROTOCOL

126. The Proposed Monitor has been advised that, given that there will be proceedings in both the United States and Canada in respect of these related entities, the Petitioners intend to seek approval of a cross-border court-to-court protocol at a later date in coordination with the applications brought for similar approval in the Chapter 11 proceedings.

127. It is the view of the Proposed Monitor that cooperation and coordination between the U.S. Bankruptcy Court and this Honourable Court would be helpful and that a cross-border protocol would be appropriate, subject to the views of this Honourable Court.

APPOINTMENT OF BMO CAPITAL MARKETS AS THE ACI GROUP'S FINANCIAL ADVISOR

128. On March 31, 2009, ACI and BMO Capital Markets Group signed a letter agreement (the "**BMO Engagement Letter**") pursuant to which BMO Capital Markets has agreed, subject to the approval of this Honourable Court, to provide services to the ACI Group in connection with the provision of restructuring advice and raising DIP financing.

129. The BMO Engagement Letter provides for ACI to pay BMO Capital Markets' fees for these services, including a retention fee of $350,000, a $200,000 monthly work fee, a financing fee of 2% of the commitment amount of the DIP financing raised, including any continuation or replacement of the Securitization Program, (reduced to 1% for certain specified capital providers) and exit financing fees. Additionally, the BMO Engagement Letter also provides for payment of a completion fee upon a successful restructuring based upon a formula set out in the BMO Engagement Letter.

130. The payments owing to BMO Capital Markets are secured by a $350,000 retainer and by the Administration Charge set out in the proposed Initial Order.

131. BMO Capital Markets is a firm with substantial experience providing restructuring advisory services and raising capital for large complex organizations. Further, the Proposed Monitor is advised that BMO Capital Markets is very familiar with ACI and has been working for ACI for a significant period of time on its recapitalization initiatives and, as such, is well-suited to advise the ACI Group through its restructuring.

132. The Proposed Monitor supports ACI's engagement of BMO Capital Markets.

APPOINTMENT OF INFORMATION OFFICER IN RESPECT OF U.S. PROCEEDINGS

133. The Petitioners have advised the Proposed Monitor that, in respect of the Chapter 11 proceedings, they intend to seek an Order appointing Ernst & Young Inc. as an information officer (the "**Information Officer**") with the powers and obligations set out in the proposed Initial Order.

134. The Information Officer shall report to this Court at such times and intervals as the Information Officer deems appropriate or the Court may direct and, in any event, shall deliver a report to the Court at least once every two months outlining the status of the Chapter 11 proceedings and such other information as the Information Officer believes to be material.

135. Ernst & Young Inc. consents to its appointment as an Information Officer.

SELECTED FINANCIAL MATTERS ADDRESSED IN THE PROPOSED INITIAL ORDER

136. The proposed draft Initial Order provides for a number of charges and thresholds related to asset sales and other matters (the "Charges"), the highlights of which are outlined below.

Administration Charges

137. The Administration Charges as described in the proposed Initial Order provide for (i) a charge in the amount of CDN $6 million (the "**Abitibi Administration Charge**"), which shall affect the assets of the Abitibi Petitioners and (ii) a charge in the amount of CDN $2 million (the "**Bowater Administration Charge**"), which shall affect the assets of the Bowater Petitioners (collectively, the "**Administration Charges**") in favour of the Proposed Monitor, legal counsel to the Proposed Monitor and legal counsel and other advisors to the Petitioners as security for professional fees and disbursements incurred both before and after the making of the Initial Order in respect of these CCAA proceedings. The Administration Charges have been established based on the respective professional's previous history and experience with large cross-border restructurings of similar magnitude and complexity. The Proposed Monitor believes that the Administration Charges are required and reasonable under the circumstances.

Directors' Charge

138. The proposed Initial Order provides for (i) a CDN $75 million charge (the "**Abitibi D&O Charge**"), which shall only affect the assets of the Abitibi Petitioners, and (ii) a CDN $25 million charge (the "**Bowater D&O Charge**"), which shall only affect the assets of the Bowater Petitioners (collectively, the "**Directors' Charge**") to indemnify the directors and officers of the Abitibi Petitioners and the Bowater Petitioners, respectively, in respect of all costs (including, without limitation, full defence costs), charges, expenses, claims and obligations relating to liabilities that the directors and officers incur in that capacity, subject to the limitations and qualifications in the proposed Initial Order and including all claims relating to the Petitioners failing to pay amounts in respect of employee or former employee entitlements to wages, vacation pay, termination pay, severance pay, pension or any other benefits, or any other amount for services performed prior to or after the date of the Initial Order.

139. As set forth in the proposed Initial Order, each of the Abitibi D&O Charge and the Bowater D&O Charge is divided into two tranches.

140. The first tranche of the Abitibi D&O Charge is up to a maximum of CDN $22.5 million. The second tranche of the Abitibi D&O Charge is the balance of the CDN $75 million, if any.

141. The first tranche of the Bowater D&O Charge is up to a maximum of CDN $7.5 million. The second tranche of the Bowater D&O Charge is the balance of the CDN $25 million, if any.

142. The amount of each of the Abitibi D&O Charge and the Bowater D&O Charge was estimated by the Petitioners taking into consideration the amount of their hourly and salaried payroll, vacation pay and sales taxes. The Proposed Monitor believes, based on its experience with large, complex CCAA restructurings, that the Directors' Charges are required and reasonable under the circumstances.

Sale of Assets

143. The thresholds established in the proposed Initial Order allow the Petitioners to dispose of redundant or non-material assets provided that the price not exceed \$10 million in any one transaction or \$50 million in aggregate. These thresholds were established in relation to the size of the Petitioners' operations and value of their assets in order to facilitate the orderly restructuring of their enterprises without adding undue administrative burden to the process. In the Proposed Monitor's view, these thresholds are appropriate given the size of the Petitioners' operations.

Creditor Notification

144. The Proposed Monitor will send notice of the Initial Order to every known creditor of the Petitioners, other than employees, having a claim of more than CDN\$5,000, within 10 days. This threshold was established after taking into consideration the number of creditors and the balances owed to creditors by the Petitioners. The Proposed Monitor will post a copy of the Initial Order on its website and will provide copies to creditors as requested.

RESTRUCTURING ALTERNATIVES

145. The Petitioners have advised the Proposed Monitor that, at this time, it is not possible to present a comprehensive restructuring strategy. In the Proposed Monitor's view, this is not unusual at the outset of a complex multi-jurisdictional restructuring such as this.

146. The shape and direction of the ABH Group's restructuring will take some time to develop. It will require a thorough strategic review of the ABH Group's assets and operations as well as input from ABH and the Petitioners' various stakeholder groups.

147. The CCAA and Chapter 11 proceedings will provide an environment to stabilize the ABH Group's business and provide for the continuation of going concern operations.

148. Once the ABH Group's business has been stabilized, the Petitioners and the Proposed Monitor will be able to update this Honourable Court with respect to ABH's restructuring alternatives.

THE PROPOSED MONITOR'S ANALYSIS AND RECOMMENDATION

149. The Proposed Monitor believes that it is appropriate that the Petitioners be granted the benefit of protection under the CCAA. Such protection will enable them to stabilize operations while ACI seeks a longer term arrangement for the Securitization Program and negotiates the ACI DIP Financing so that the Petitioners can continue discussions with their key stakeholders regarding a restructuring under CCAA supervision in a manner that is in the best interests of their stakeholders.

150. In addition, the Proposed Monitor supports the need for the DIP Facility and the BI/BCFPI DIP Agreement in order to fund the operations of the BI Group and BCFPI and to stabilize their operations.

151. Further, the Proposed Monitor supports ACI's engagement of BMO Capital Markets as well as the continued use of the CMS.

152. Further to the Proposed Monitor's review of the proposed Initial Order, the Proposed Monitor supports the thresholds described therein, including:

- the Abitibi Administration Charge of CDN $6 million;
- the Bowater Administration Charge of CDN $2 million;
- the Abitibi D&O Charge of CDN $75 million;
- the Bowater D&O Charge of CDN $25 million;
- the BCFPI DIP Charge of $40 million;
- the Intercompany Charges to secure post-filing intercompany transactions;
- asset sales of $10 million or $50 million in the aggregate; and
- notice to creditors with outstanding balances of CDN$5,000 or more.

All of which is respectfully submitted this 16th day of April, 2009.

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

Per: Alex Morrison, CA, CIRP
Senior Vice President

APPENDIX "A"
ABITIBI PETITIONERS

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

APPENDIX "B"
BOWATER PETITIONERS

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

APPENDIX "C"
U.S. DEBTORS

1. AbitibiBowater Inc.
2. AbitibiBowater US Holding LLC
3. Donohue Corp.
4. Abitibi Consolidated Sales Corporation
5. Abitibi-Consolidated Alabama Corporation
6. Alabama River Newsprint Company
7. Abitibi-Consolidated Corporation
8. Augusta Woodlands, LLC
9. Tenex Data Inc.
10. AbitibiBowater US Holding 1 Corp.
11. Bowater Ventures Inc.
12. Bowater Incorporated
13. Bowater Nuway Inc.
14. Bowater Nuway Mid-States Inc.
15. Catawba Property Holdings LLC
16. Bowater Finance Company Inc.
17. Bowater South American Holdings Incorporated
18. Bowater America Inc.
19. Lake Superior Forest Products Inc.
20. Bowater Newsprint South LLC
21. Bowater Newsprint South Operations LLC
22. Bowater Finance II, LLC

23. Bowater Alabama LLC

24. Coosa Pines Golf Club Holdings, LLC

25. Bowater Canadian Forest Products Inc.

26. Bowater Canada Finance Corporation

27. Bowater Canadian Holdings Incorporated

28. Bowater Canadian Limited

29. AbitibiBowater Canada Inc.

30. Bowater Maritimes Inc.

31. Bowater LaHave Corporation

APPENDIX "D"
18.6 PETITIONERS

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

APPENDIX "E"
PARTNERSHIPS

1. Bowater Canada Finance Limited Partnership

2. Bowater Pulp and Paper Canada Holdings Limited Partnership

3. Abitibi-Consolidated Finance LP

APPENDIX "F"
ACI FORECAST

Abitibi-Consolidated Inc. ("ACI")
Weekly Cash Flow Forecast
5 Weeks Ended May 17, 2009
US$000s

Week ended	**Notes**	**19-Apr-09**	**26-Apr-09**	**3-May-09**	**10-May-09**	**17-May-09**	**Total**
Cash Held in Bank		34,819	10,000	10,000	10,000	10,000	34,819
Cash Held in Lockboxes		29,101	23,069	12,610	9,288	35,756	29,101
Opening Cash		**63,920**	**33,069**	**22,610**	**19,288**	**45,756**	**63,920**
Receipts							
Total A/R Collections	1	34,675	36,152	48,189	58,886	54,382	232,285
Collections on Behalf of JV's	2	4,708	4,708	4,557	4,355	4,355	22,682
Other Inflows	3	1,933	1,933	1,933	1,933	1,933	9,666
Total Receipts		**41,316**	**42,794**	**54,679**	**65,174**	**60,670**	**264,633**
Disbursements							
Trade Payables	4	(18,000)	(32,819)	(22,065)	(21,059)	(21,059)	(115,003)
Capital Expenditures	5	(1,453)	(1,453)	(1,433)	(1,406)	(1,406)	(7,152)
Marine Freight Payments	6	(1,050)	(1,050)	(1,050)	(1,050)	(1,050)	(5,250)
Utility Payments	7	(4,000)	(10,240)	(16,686)	-	(4,000)	(34,926)
Payroll & Benefits	8	(2,311)	(1,961)	(10,477)	(1,971)	(8,310)	(25,031)
Joint Venture Remittances, Net	9	(10,000)	(10,038)	-	-	(24,467)	(44,505)
Restructuring & Other Items	10	(1,382)	(1,000)	(1,000)	(1,000)	(1,000)	(5,382)
Total Disbursements		**(38,197)**	**(58,562)**	**(52,711)**	**(26,486)**	**(61,293)**	**(237,249)**
Financing							
Securitization Inflows / (Outflows)	11	(33,972)	5,310	(5,290)	(12,220)	(10,395)	(56,567)
Total Change in Cash		(30,852)	(10,459)	(3,322)	26,468	(11,019)	(29,183)
Ending Cash Balance		**33,069**	**22,610**	**19,288**	**45,756**	**34,737**	**34,737**
Cash Held in Bank		10,000	10,000	10,000	10,000	10,000	10,000
Cash Held in Lockboxes		23,069	12,610	9,288	35,756	24,737	24,737
Securitization Schedule	12						
Allowable Receivable Pool Balance		139,926	145,235	139,945	127,725	118,251	118,251
Availability Adjustment	13	(3,636)	-	-	-	-	(3,636)
Amount Drawn Under Facility		160,811	139,926	145,235	139,945	127,725	160,811
Availability / (Required Repayment)		(24,522)	5,310	(5,290)	(12,220)	(9,474)	(46,196)
Fees & Expenses		(9,450)	-	-	-	(921)	(10,371)
Net Securitization Cash Flow		(33,972)	5,310	(5,290)	(12,220)	(10,395)	(56,567)

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

Abitibi Consolidated Inc. ("ACI")
Notes to Cash Flow Forecast
5 Weeks Ended May 17, 2009
US$000s

1. **Total A/R Collections** represent amounts estimated to be collected from ACI's customers. The timing of collections is based on ACI's collection terms with its customers and the latest sales forecast.
2. **Collections on Behalf of Joint Ventures** represent amounts estimated to be collected by ACI on behalf of its joint venture partners. ACI has agreements with its joint venture partners whereby ACI collects the joint venture partners accounts receivable (for a fee) and remits these funds to the joint venture in accordance with their agreement.
3. **Other Inflows** represent miscellaneous receipts, including, but not limited to such items as tax refunds or insurance proceeds, as estimated by ACI.
4. **Trade Payables** represent amounts estimated to be paid to suppliers for the purchase of ACI's raw materials, repairs and maintenance and other goods and services related to production.
5. **Capital Expenditures** represent amounts estimated to be paid pursuant to ACI's most recent capital expenditure budget.
6. **Marine Freight Payments** represent amounts estimated to be paid to ACI's outbound marine freight suppliers.
7. **Utility Payments** represent amounts estimated to be payable to ACI's hydroelectricity suppliers.
8. **Payroll and Benefits** represent estimated amounts for salaries, wages and current service pension costs.
9. **Joint Venture Remittances, Net** represent the estimated payment of accounts receivable funds collected by ACI on behalf of the respective joint venture, net of any collection/management fees.
10. **Restructuring and Other Items** represent amounts estimated by ACI for restructuring costs and other miscellaneous payments.
11. **Securitization Inflows/(Outflows)** represent the estimated net availability or repayment (including interest) of funds under ACI's Securitization Program.
12. The **Securitization Summary** represents ACI's estimated calculation of amounts owing or available under the Securitization Program based on the eligible accounts receivable (net of any fees, interest or allowances).
13. The **Availability Adjustment** represents an adjustment required to reflect the Company's estimated availability during the week ended April 19th.

APPENDIX "G"
BCFPI FORECAST

Bowater Canadian Forest Products Inc.
CCAA Cash Flow
5 Week Period Ended May 17, 2009
US$000s

Week Ended		19-Apr-09	26-Apr-09	3-May-09	10-May-09	17-May-09	Total
Receipts	**Notes**						
Trade Receipts	**1, 11**	9,230	12,549	17,604	16,716	12,720	68,819
Total Receipts		9,230	12,549	17,604	16,716	12,720	68,819
Disbursements							
Trade Payables	**2**	(15,016)	(9,838)	(13,641)	(8,546)	(8,546)	(55,586)
Intercompany SG&A Allocation	**3**	(510)	(510)	(494)	(472)	(472)	(2,458)
Freight	**4**	(473)	(1,090)	(1,039)	(971)	(971)	(4,545)
Payroll and Benefits	**5**	(4,595)	(1,199)	(5,203)	(1,196)	(4,593)	(16,786)
Capital Expenditures	**6**	(467)	(467)	(460)	(452)	(452)	(2,297)
Interest	**7**	-	-	(852)	-	(338)	(1,190)
Restructuring Costs	**8**	(2,260)	(260)	(260)	(260)	(260)	(3,300)
Total Disbursements		**(23,321)**	**(13,364)**	**(21,949)**	**(11,897)**	**(15,631)**	**(86,162)**
Cash Flow from Operations		**(14,091)**	**(814)**	**(4,345)**	**4,819**	**(2,911)**	**(17,343)**
Bank Balance, Opening		3,214	29,123	28,309	23,963	28,782	3,214
New DIP Facility Inflow (the Canadian Term Loan)	**9**	40,000	-	-	-	-	40,000
Cash Flow		(14,091)	(814)	(4,345)	4,819	(2,911)	(17,343)
Bank Balance, Closing	**10**	**29,123**	**28,309**	**23,963**	**28,782**	**25,872**	**25,872**
Current Revolving Credit Facility							
Current Credit Facility Balance, Opening		94,337	94,337	94,337	94,337	94,337	94,337
Current Credit Facility Drawings / (Repayments)		-	-	-	-	-	-
Current Balance, Closing		**94,337**	**94,337**	**94,337**	**94,337**	**94,337**	**94,337**
Intercompany A/R Balance	**11**						
Ending Balance		51,140	53,833	53,887	53,171	53,698	53,698

Amounts in the above table are subject to rounding errors from the underlying balances

Bowater Canadian Forest Products Inc. ("BCFPI")
Notes to CCAA Cash Flow
5 Week Period Ended May 17, 2009
US$000s

1. **Trade Receipts** are based on BCFPI's estimate of collection terms and BCFPI's latest sales forecast.
2. **Trade Payables** represent payments for raw materials, repairs and maintenance, utilities and other production items.
3. **Intercompany SG&A Allocation** represents expenses incurred by BCFPI's parent company on behalf of BCFPI which are charged to BCFPI pursuant to its normal process for the allocation of such costs. These intercompany SG&A costs are assumed to be settled in cash on a weekly basis.
4. **Freight** represents disbursements in respect of costs to deliver product to customers.
5. **Payroll and Benefits** represent amounts paid to employees for salaries and wages (including the related withholdings), pension payments and other benefits due under employee benefit programs. The forecast assumes that only those pension payments in respect of current service costs will be paid.
6. **Capital Expenditures** are costs scheduled to be made in accordance with agreements with BCFPI's various capital equipment suppliers and reflect requirements pursuant to BCFPI's most recent capital expenditure budget.
7. **Interest** represents interest costs for the company's senior secured revolving facility, the existing secured term loan and the new DIP facility.
8. **Restructuring Costs** represent costs related to the restructuring including transaction fees related to the new DIP facility.
9. The forecast assumes that a term loan of $40 million will be available to BCFPI pursuant to a new DIP facility. Further details regarding the BI and BCFPI credit facility can be found in the Report of the Proposed Monitor.
10. The cash flows included in the forecast include only those BCFPI mills in Canada. No funding or dividends from foreign subsidiaries are included in the forecast.
11. The intercompany accounts receivable balance represents pre-filing and post-filing sales to customers in the United States by BCFPI through Bowater America Inc. This amount is assumed not to be stayed and is collected by BCFPI from Bowater America Inc. in the normal course.