

CANADA

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

Monitor

SECOND REPORT OF THE MONITOR
April 21, 2009

INTRODUCTION

1. On April 17, 2009, 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**”) (the Abitibi 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 Proceeding**”) pursuant to an Order of this Honourable Court (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**”).
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 the “**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 the First Day Orders (as defined herein).
4. The Petitioners and the U.S. Debtors are all subsidiaries of ABH (ABH, collectively with its subsidiaries, 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 (the “**Information Officer**”).
6. On April 16, 2009, ACI and ACCC filed petitions for recognition under Chapter 15 of the United States Bankruptcy Code. On April 21, 2009, the U.S. Bankruptcy

Court granted the recognition orders under Chapter 15 of the U.S. Bankruptcy Code.

PURPOSE

7. This is the second report (the “**Second Report**”) of the Monitor in the CCAA Proceedings. The purpose of this Second Report is to report to this Honourable Court with respect to:
- (i) an update on the Chapter 11 Proceedings; and
 - (ii) the status of the BI/BCFPI DIP Agreement (as defined herein).

TERMS OF REFERENCE

8. In preparing this Second 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 (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 Second 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 Second 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.
9. Capitalized terms not defined in this Second Report are as defined in the Report of Ernst & Young Inc. dated April 16, 2009 (the “**First Report**”) and the Initial Order. All references to dollars are in U.S. currency unless otherwise noted.

10. A copy of this Second Report, all motion records in this CCAA Proceeding and further reports of the Monitor will be available on the Monitor's website at www.ey.com/ca/abitibibowater. The Monitor has also established a 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 Proceeding.

BACKGROUND

11. 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.
12. 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**").
13. 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.
14. Abitibi-Consolidated Company of Canada ("**ACCC**"), a wholly-owned subsidiary of ACI, and BCFPI hold the majority of ABH's Canadian assets and operations.

STATUS OF THE CHAPTER 11 PROCEEDINGS

First Day Orders

15. On April 16, 2009, the U.S. Debtors filed voluntary petitions under Chapter 11 of the U.S. Bankruptcy Code in the U.S. Bankruptcy Court.
16. On April 17, 2009, the U.S. Bankruptcy Court granted various first day motions, entered certain final and interim orders (the “**First Day Orders**”) and set dates for the final hearing of the motions for which the U.S. Bankruptcy Court granted interim orders. The Monitor notes, in particular, the following First Day Orders have been granted:
 - (i) an interim order authorizing the U.S. Debtors to continue to use their existing consolidated cash management systems and bank accounts to continue performing ordinary course inter-company transactions, granting administrative priority status to post-petition intercompany claims and granting a limited and interim waiver of the deposit guidelines set forth in Section 345 of the U.S. Bankruptcy Code;
 - (ii) an interim order authorizing the U.S. Debtors to continue selling accounts receivable and related rights pursuant to the amended Securitization Program;
 - (iii) an interim order authorizing the U.S. Debtors to pay employee obligations such as pre-petition wages, salaries and other compensation, reimbursable employee expenses and employee medical and similar benefits;
 - (iv) an order authorizing, but not obligating, the U.S. Debtors to pay pre-petition amounts owing to certain critical vendors and administrative claimholders;
 - (v) an order authorizing payment of the pre-petition claims of shippers, warehousemen and other lien claimants;

- (vi) an order authorizing, but not obligating, the U.S. Debtors to pay certain pre-petition customer and broker obligations and to continue pre-petition customer and broker programs in the ordinary course;
 - (vii) an interim order prohibiting utility service providers from discontinuing or altering service to the U.S. Debtors;
 - (viii) an order authorizing, but not directing, the U.S. Debtors to pay certain pre-petition sales, use, franchise and property taxes, licensing fees and similar obligations;
 - (ix) an interim order approving post-petition financing, authorizing use of cash collateral, granting liens and providing super priority administrative expense status, granting adequate protection, modifying the automatic stay and scheduling a final hearing with respect to the BI/BCFPI DIP Agreement (as defined herein);
 - (x) an order authorizing the U.S. Debtors to continue insurance coverage obtained prior to the filing of the petition and to maintain post-petition financing arrangements for certain insurance premiums;
 - (xi) an order authorizing the retention of Epiq Bankruptcy Solutions LLC (“Epiq”) as notice, claims and balloting agent to the U.S. Debtors; and
 - (xii) an order directing the joint administration of the U.S. Debtors’ cases for procedural purposes in the District of Delaware.
17. Copies of all of the U.S. Bankruptcy Court’s orders are posted on the website for Epiq at <http://chapter11.epiqsystems.com/abitibibowater>. The Monitor has included a link to Epiq’s website from the Monitor’s website.

Chapter 15 Recognition Orders

18. As stated above, 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.

DIP FINANCING – THE BI GROUP

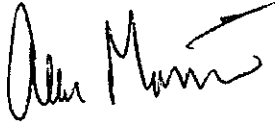
19. As set forth in the First Report, ABH, BI and BCFPI entered into a DIP Financing Agreement (the “**BI/BCFPI DIP Agreement**”) with Fairfax Financial Holdings Limited as the initial lender and such lenders as may be party thereto from time to time (collectively, the “**BI/BCFPI DIP Lender**”).
20. The Monitor has confirmed that the BI/BCFPI DIP Agreement was fully executed on April 21, 2009.

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All of which is respectfully submitted.

ERNST & YOUNG INC.

**in its capacity as the Court-Appointed Monitor
of the Petitioners**

A handwritten signature in black ink, appearing to read "Alex Morrison", with a stylized flourish at the end.

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”

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