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

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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 "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 SUPPLEMENTAL REPORT OF THE MONITOR

May 4, 2009

INTRODUCTION AND PURPOSE OF THIS REPORT

1. This is a second supplemental report to the Third Report of the Monitor dated April 27, 2009 (the "**Third Report**") in the CCAA Proceedings (the "**Second Supplemental Report**"). The purpose of this Second Supplemental Report is to report to this Honourable Court with respect to discussions with stakeholders regarding the terms upon which DIP financing for the Petitioners might be obtained.

2. The background with respect to the CCAA Proceedings is set forth in the Third Report.

3. Capitalized terms not defined in this Second Supplemental Report are as defined in the First Report of Ernst & Young Inc. dated April 16, 2009 (the "**First Report**"), the Second Report of the Monitor dated April 21, 2009, the Third Report and the Initial Order. All references to dollars are in U.S. currency unless otherwise noted.

TERMS OF REFERENCE

4. In preparing this 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 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.

5. Copies of the Monitor's Reports, including a copy of this Second Supplemental Report, all motion records and orders made in the CCAA Proceedings 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 Proceedings.

6. 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.

NEGOTIATIONS REGARDING THE PETITIONERS' DIP FACILITY

7. Concerns were raised by various stakeholders from the time that the Petitioners filed their Motion for Approval of DIP Financing in respect of the Abitibi Petitioners on April 27, 2009.

8. The Monitor became active in attempting to build a consensus amongst the stakeholders during an adjournment of the Court proceedings on Friday, May 1, 2009, first with representatives of the holders of the Senior Notes (the "**Senior Noteholders**") and the lenders under the Term Loan Facility (the "**Term Loan Lenders**"), and, subsequently, with the representatives of the entities claiming rights under the *Construction Lien Act* (Ontario) (the "**Statutory Lien Claimants**"). After Court on Friday, there was a mediation-type effort presided over by the Monitor to better understand the positions of the Senior Noteholders, the Term Loan Lenders and the Statutory Lien Claimants. The Monitor then met with the Petitioners to discuss these positions.

9. When the mediation session terminated on Friday, the Senior Noteholders and the Term Loan Lenders (collectively, the "**Secured Lenders**") were to continue discussions amongst themselves to resolve certain differences of opinion in an attempt to present a common view.

10. A conference call was arranged for noon on Sunday, May 3, 2009 with the Monitor and the Secured Lenders during which further views were exchanged. The Monitor then had further discussions with the Petitioners. The Monitor was also contacted by counsel for the *ad hoc* committee of unsecured bondholders (the "**Unsecured Creditors**"), who expressed their views on issues associated with the proposed DIP financing. The views of the Petitioners and, to some extent, the Unsecured Creditors, were communicated to the Secured Lenders on Sunday evening. Email submissions to the Petitioners and the

Monitor of proposed language were received on Sunday night and Monday morning from the Unsecured Creditors and the Secured Lenders.

11. Further discussions and meetings occurred commencing at 11 a.m. on Monday, May 4, 2009 involving the Monitor, the Petitioners, the Secured Lenders and the Unsecured Creditors.

12. There were divergent views amongst the stakeholders on certain key issues associated with the proposed DIP financing. It was not possible to find common ground on all of these key issues. At the time of writing this Second Supplemental Report, discussions are continuing in some cases and instructions are being sought in others. It is unknown whether and to what extent points of consensus have been or will be reached.

13. However, the Petitioners have advised the Monitor that they are submitting this afternoon a revised form of Motion for Approval of DIP Financing, the content of which has been disclosed to the Monitor, that incorporates elements of the discussions with the stakeholders in a manner that attempts to address certain of their competing concerns in a balanced fashion.

14. The Petitioners' proposal attempts to mitigate the effect of the priming charge, enhances information flow to the Secured Lenders and gives them notice of the amount and timing of advances under the proposed DIP financing.

RECOMMENDATION

15. The Monitor supports the Petitioners' amended Motion for Approval of DIP Financing.

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

APPENDIX "A"

ABITIBI PETITIONERS

1. Abitibi-Consolidated Inc.
2. Abitibi-Consolidated Company of Canada
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 Québec Inc.

APPENDIX "B"
BOWATER PETITIONERS

1. Bowater Canadian Holdings. Inc.
2. Bowater Canada Finance Corporation
3. Bowater Canadian Limited
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 Québec 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 Inc.
2. AbitibiBowater US Holding 1 Corp.
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

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Petitioners

and

ERNST & YOUNG INC.

Monitor

SECOND SUPPLEMENTAL REPORT OF THE MONITOR

ORIGINAL

O/file: ERNSTY-3 AF:jdr

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