CANADA

PROVINCE OF QUEBEC
DISTRICT OF MONTRÉAL

No.: 500-11-036133-094

SUPERIOR COURT

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

IN THE MATTER OF THE PLAN OF COMPROMISE OR ARRANGEMENT OF:

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

And

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

And

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

And

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

Petitioners

And

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

Monitor

SIXTEENTH REPORT OF THE MONITOR

SEPTEMBER 21, 2009

INTRODUCTION

1. On April 17, 2009, Abitibi-Consolidated Inc. ("**ACI**") and its subsidiaries listed in Appendix "A" hereto (collectively with ACI, the "**ACI Petitioners**") and Bowater Canadian Holdings Incorporated ("**BCHI**") and its subsidiaries listed in Appendix "B" hereto (collectively with BCHI, the "**Bowater Petitioners**") (the ACI Petitioners and the Bowater Petitioners are collectively referred to herein as the "**Petitioners**") filed for and obtained protection from their creditors under the *Companies' Creditors Arrangement Act* (the "**CCAA**" and the "**CCAA Proceedings**") pursuant to an Order of this Honourable Court (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**"). On May 14, 2009, the Stay Period was extended until September 4, 2009 pursuant to an Order of this Honourable Court (the "**First Stay Extension Order**"). On September 4, 2009, the Stay Period was extended until December 15, 2009 pursuant to a further Order of this Honourable Court (the "**Second Stay Extension Order**").

3. On April 16, 2009, AbitibiBowater Inc. ("**ABH**"), Bowater Inc. ("**BI**"), and certain of their direct and indirect U.S. and Canadian subsidiaries, including BCHI and Bowater Canadian Forest Products Inc. ("**BCFPI**") (collectively referred to herein as "**U.S. Debtors**"), filed voluntary petitions (collectively, the "**Chapter 11 Proceedings**") for relief under Chapter 11 of the U.S. Bankruptcy Code, 11 U.S.C. §§ 101 et seq. (the "**U.S. Bankruptcy Code**") in the United States Bankruptcy Court for the District of Delaware (the "**U.S. Bankruptcy Court**"). On April 17, 2009, the U.S. Bankruptcy Court granted certain interim and final orders (the "**First Day Orders**") and set dates for the final hearing of the motions for which the U.S. Bankruptcy Court granted the interim orders.

4. The Petitioners are all subsidiaries of ABH (ABH, collectively with its subsidiaries, are referred to as the "**ABH Group**").

5. On April 17, 2009, ABH and the petitioners listed on Appendix "C" hereto (collectively with ABH, the "**18.6 Petitioners**") obtained Orders under Section 18.6 of the CCAA in respect of voluntary proceedings initiated under Chapter 11 and EYI was appointed as the information officer in respect of the 18.6 Petitioners.

6. On April 16, 2009, ACI and ACCC filed petitions for recognition under Chapter 15 of the U.S. Bankruptcy Code. On April 21, 2009, the U.S. Bankruptcy Court granted the recognition orders under Chapter 15 of the U.S. Bankruptcy Code.

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

BACKGROUND

8. ABH is one of the world's largest publicly traded pulp and paper manufacturers. It produces a wide range of newsprint and commercial printing papers, market pulp and wood products. The ABH Group owns interests in or operates 24 pulp and paper facilities, 29 wood products facilities and 32 recycling facilities located in Canada, the United States, the United Kingdom and South Korea.

9. Incorporated in Delaware and headquartered in Montreal, Quebec, ABH functions as a holding company and its business is conducted principally through four direct subsidiaries: BI, Bowater Newsprint South LLC ("**Newsprint South**") (BI, Newsprint South and their respective subsidiaries are collectively referred to as the "**BI Group"**), ACI (ACI and its subsidiaries are collectively referred to as the "**ACI Group**") and AbitibiBowater US Holding LLC ("**ABUSH**") (ABUSH and its respective subsidiaries are collectively referred to as the "**DCorp Group"**).

10. ACI is a direct and indirect wholly-owned subsidiary of ABH. ABH wholly owns BI which in turn, wholly owns BCHI which, in turn, indirectly owns BCFPI which carries on the main Canadian operations of BI.

11. ACCC, a wholly-owned subsidiary of ACI, and BCFPI hold the majority of ABH's Canadian assets and operations.

PURPOSE

12. This is the sixteenth report of the Monitor (the "**Sixteenth Report**") in the CCAA Proceedings, the purpose of which is to report to this Honourable Court with respect to:

(i) the Petitioners' request, as amended, for an Order:

(a) authorizing ACCC to sell the 60% interest it indirectly holds in the McCormick hydroelectric facility (the "**McCormick Hydroelectric Facility**") owned and operated by Manicouagan Power Company ("**MPCo**");

(b) approving the terms and conditions of the implementation agreement and the exhibits thereto (the "**Implementation Agreement**") between ACI, ACCC, MPCo, Alcoa Canada Ltee. ("**Alcoa Canada**") and Alcoa Ltd. (collectively, Alcoa Canada Ltee. and Alcoa Ltd. are referred to herein as "**Alcoa**") to which HQ Énergie Inc., a wholly owned subsidiary of Hydro Quebec (HQ Énergie Inc. and Hydro Quebec are collectively referred to herein as "**HQ**"), has intervened;

(c) authorizing and directing ACI and ACCC to implement and complete the transactions and steps (the "**Proposed Transactions**") as contemplated in the Implementation Agreement and as outlined in Exhibit A to the Implementation Agreement (the "**Step Plan**"), with such alterations, amendments, deletions or additions as the parties agree, with the consent of the Monitor, and to perform the obligations in the Implementation Agreement;

(d) declaring that (i) the proceeds from the Proposed Transactions, net of certain payments, holdbacks, reserves and deductions, and (ii) the shares of ULC (as defined later herein), shall constitute the proceeds of the disposition of ACCC's MPCo shares (collectively the "**MPCo Share Proceeds**");

(e) declaring that the MPCo Share Proceeds will be subject to a replacement charge (the "**MPCo Noteholder Charge**") in favour of US Bank, National Association as Indenture Trustee (the "**Trustee**") and Collateral Trustee for the benefit of the holders (the "**Senior Secured Noteholders**") of the 13.75% senior secured notes due April 1, 2011 (the "**Secured Notes**") with the same rank and priority as the security held by the Trustee in respect of the shares of MPCo held by ACCC;

(ii) the Monitor's review of the Proposed Transactions; and

(iii) the Monitor's recommendation regarding the Petitioners' motion in respect of the Proposed Transactions.

TERMS OF REFERENCE

13. In preparing this Sixteenth Report, the Monitor has been provided with and, in making comments herein, has relied upon unaudited financial information, the ABH Group's books and records, financial information and projections prepared by the ABH Group and discussions with management of the ABH Group and its advisers (the "**Management**"). The Monitor has not audited, reviewed or otherwise attempted to verify the accuracy or completeness of such information and, accordingly, the Monitor expresses no opinion or other form of assurance in

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

14. Capitalized terms not defined in this Sixteenth Report are as defined in the previous reports of the Monitor and the Initial Order. All references to dollars are in U.S. currency unless otherwise noted.

15. Copies of all of the Monitor's Reports, in both English and French, including a copy of this Sixteenth Report, and all motion records and Orders in the CCAA Proceedings will be available on the Monitor's website at www.ey.com/ca/abitibibowater. The Monitor has also established a bilingual toll-free telephone number that is referenced on the Monitor's website so that parties may contact the Monitor if they have questions with respect to the CCAA Proceedings.

16. Copies of all of the U.S. Bankruptcy Court's orders are posted on the website for Epiq Bankruptcy Solutions LCC (**"Epiq"**) at http://chapter11.epiqsystems.com/abitibibowater. The Monitor has included a link to Epiq's website from the Monitor's website.

BACKGROUND TO THE MPCo TRANSACTION

MPCo's Operations

17. MPCo owns and operates the McCormick Hydroelectric Facility, which is located on the Manicouagan River, in the Province of Quebec. The McCormick Hydroelectric Facility consists of a dam, seven hydroelectric-generating units with a total capacity of 335 MW and certain electricity transmission and distribution facilities.

18. MPCo has two main customers: i) Alcoa and ii) ACCC's Baie-Comeau newsprint mill (the "**Baie-Comeau Mill**") which, together, utilize approximately 98% of MPCo's generation capacity. MPCo also sells electricity to other small customers in the region, including the town of Baie-Comeau.

19. The electricity sold by MPCo to ACCC and Alcoa is sold pursuant to power purchase agreements which expire in 2011. MPCo sells the electricity it produces to ACCC and Alcoa at a price that approximates MPCo's cost of production. This price is significantly below the current market price for electricity for large customers in the Province of Quebec.

MPCo's Ownership Structure

20. MPCo, which has not filed for protection in these CCAA Proceedings, is owned 60% by ACCC and 40% by Alcoa Canada. ACCC and Alcoa Canada entered into an agreement dated December 20, 1996 (the "**MPCo Shareholder Agreement**") which provides, among other things, for a right of first refusal ("**ROFR**") in favour of Alcoa Canada should ACCC wish to sell its 60% interest in MPCo (the "**ACCC MPCo Interest**") to a third party.

21. In addition, the Monitor has been advised by Management that the Caisse de dépôt et placement du Quebec ("**CDPQ**") and ACH Limited Partnership ("**ACH LP**") were also granted a ROFR in respect of the ACCC MPCo Interest as part of

a partnership agreement between ACCC and CDPQ in respect of certain hydroelectric generation facilities located in the Province of Ontario which are owned by ACH LP.

Regulatory Framework

22. Management has advised the Monitor that HQ, which is owned by the Province of Quebec, holds, subject to limited exceptions, exclusive rights for the distribution of electricity in the territory of the Province of Quebec. The McCormick Hydroelectric Facility is a "private electric power system" which allows it to distribute, as an exception to HQ's monopoly, electricity within a specified territory subject to certain regulations including limitations on electricity prices and restrictions with respect to exporting electricity outside Quebec. The Monitor's legal counsel has confirmed to the Monitor that Management's advice is accurate and in accordance with the relevant Quebec legislation.

23. MPCo is required to distribute electricity generated from the McCormick Hydroelectric Facility to each of its current customers (i.e. ACCC and Alcoa Canada), unless these customers choose to enter into a new distribution agreement with HQ. However, as such agreements with HQ would likely be at current market prices, which are much higher than the rates charged by MPCo, this is unlikely to occur.

Reasons for Sale of the ACCC MPCo Interest

24. Following the merger of ACI and BI on October 29, 2007, the Petitioners began a comprehensive review of the combined operations to reduce costs, improve profitability and generate liquidity.

25. As part of this review, the Petitioners decided to dispose of certain non-core assets, including the ACCC MPCo Interest.

26. Management has advised the Monitor that the following factors played a significant role in the decision to sell the ACCC MPCo Interest:

(i) MPCo's water rights on the Manicouagan River (the "**MPCo Water Rights**") will expire in 2011. The Quebec Government could renew the MPCo Water Rights for an additional period of 25 years, but Management has advised that such renewals typically would be subject to the fulfillment of certain terms and conditions to be negotiated with the Quebec Government; and

(ii) ACCC was advised, in 2007, by the Quebec Ministry of Natural Resources and Wildlife (the "**MNR**"), that one of the potential conditions for the renewal of MPCo Water Rights could be a significant capital investment in the Province of Quebec.

<u>The MPCo Sales Process</u>

27. In May 2008, CIBC World Markets Inc. ("**CIBC**") was retained to advise the Petitioners on the sale of the ACCC MPCo Interest.

28. Management and CIBC have advised the Monitor that the number of purchasers potentially interested in acquiring the ACCC MPCo Interest was limited to three potential third party purchasers (Alcoa, CDPQ and HQ) on account of the following factors:

(i) MPCo is only entitled to distribute its electricity on its territory to its existing grandfathered customers, thereby limiting the potential for expansion of its customer base;

(ii) MPCo would have to continue to supply both the Baie-Comeau Mill and Alcoa pursuant to its existing power purchase agreements at the current rates (which are below current market rates) unless ACCC and Alcoa agreed to a rate change;

(iii) the prices at which electricity may be sold by a private electric power system, such as MPCo, are subject to legislative limitations;

(iv) electricity generated by MPCo may not be exported outside of Quebec without the authorization of the Quebec government, thereby limiting MPCo's revenue potential;

(v) the MPCo Water Rights on the Manicouagan River expire in 2011 and there is no certainty that a potential purchaser could obtain a renewal. A renewal of the MPCo Water Rights would likely require significant capital investments by MPCo and/or its shareholders; and

(vi) Alcoa, ACH LP and CDPQ each had a ROFR in respect of the ACCC MPCo Interest and a ROFR tends to discourage potential purchasers from spending time and money on due diligence.

29. Accordingly, it was not likely, in CIBC's view and in Management's view, that a potential purchaser would be in a position to maximize the value of MPCo in the same manner as HQ, given the latter's ability to sell the electricity produced by MPCo to any third-party at market rates and HQ's likely success in obtaining the renewal of the MPCo Water Rights.

30. The Monitor was advised that, based on the above factors, CIBC, on behalf of ACCC, initiated discussions with HQ in respect of the ACCC MPCo Interest in November 2008.

31. Management and CIBC advised the Monitor that the notices required under the ACH LP partnership agreement in respect of the prospective sale were delivered to both ACH LP and CDPQ on December 5, 2008. According to Management, both ACH LP and CDPQ confirmed they would not exercise their rights under their respective ROFRs.

32. The Monitor was advised that a letter of intent (the "**LOI**") was executed with HQ on February 19, 2009 providing, *inter alia*, for the sale of the ACCC MPCo

Interest for gross proceeds of CDN$615 million and an exclusivity period in favour of HQ until March 23, 2009. A copy of the LOI is attached to the Petitioners' Motion material.

33. Upon the execution of the LOI, ACCC sent a notice to Alcoa providing Alcoa with the opportunity to purchase the ACCC MPCo Interest for CDN$615 million, in accordance with Alcoa's ROFR. On March 6, 2009, Alcoa confirmed that it would not exercise its right to purchase the ACCC MPCo Interest.

34. Since March 2009, HQ has worked to complete its due diligence in respect of MPCo and ACCC has worked with HQ to finalize the structure and terms of the transaction.

35. Soon after the commencement of these CCAA Proceedings, the Petitioners advised the Monitor of the status of the sale of the ACCC MPCo Interest. Since that initial meeting, the Monitor has been kept informed by the Petitioners and their financial and tax advisors in respect of the Proposed Transactions. The Monitor requested a number of meetings and conference calls with CIBC to understand the sales process, as well as with the Petitioners' tax advisors to understand and clarify tax issues described in this Report below.

36. In addition to the Petitioners' determination prior to the commencement of these CCAA Proceedings to sell the ACCC MPCo Interest, the Petitioners made it clear, during the process to secure the ACI DIP Facility, that the targeted source of funds to repay the ACI DIP Facility would be proceeds from the sale of MPCo. The ACI DIP Agreement that was approved by this Honourable Court on May 6, 2009 requires the ACI DIP Facility to be repaid by November 1, 2009. In addition, the ACI DIP Agreement requires that any proceeds received from the sale of MPCo are to be used to repay amounts outstanding under the ACI DIP Facility.

37. As a result of the above-noted factors, the Petitioners continued the process of negotiations with HQ and Alcoa to pursue the Proposed Transactions.

OVERVIEW OF THE PROPOSED TRANSACTIONS

Overview of Deal Structure

38. The Monitor was advised that, during the course of HQ's due diligence investigation, HQ required that the sale of the ACCC MPCo Interest, originally contemplated as a sale of shares, be structured as an asset sale so that HQ would not be indirectly liable, as the 60% shareholder of MPCo, for certain potential contingent liabilities. In addition, as HQ is a non-taxable entity, the Proposed Transactions were required to be structured by HQ to allow the net profits from the New LP (as defined later herein) to flow directly to HQ from the New LP without any deductions for taxes.

39. As a result of this structural change from a share sale to an asset sale, Alcoa's consent was required to the terms of the Implementation Agreement, as the MPCo assets were to be transferred out of MPCo to ACCC and then from ACCC to New LP.

40. Based on these parameters, the Petitioners and Alcoa negotiated the terms of the Implementation Agreement to which HQ has intervened.

41. Alcoa agreed that it would support an asset sale on the basis that it would not incur any direct or indirect cost, expense or liability as a result of the MPCo transaction, including any incremental tax exposure.

Summary of Key Terms of the Implementation Agreement

42. The Implementation Agreement, a copy of which is attached as an exhibit to the Petitioners' motion material, sets out the terms of the transactions to be carried out by ACCC, MPCo, HQ and Alcoa in order to effect the sale of the ACCC MPCo Interest to HQ and transfer the MPCo assets and power purchase agreements to a limited partnership to be held 60% by HQ and 40% by Alcoa.

43. Many of the steps set out in the Implementation Agreement are necessary in order to utilize some of ACCC's tax attributes to shelter some of the gains and, as discussed earlier in this Sixteenth Report, to allow the net profits from the New LP (as defined below) to flow directly to HQ from the New LP without any liability for taxes.

44. The Implementation Agreement, which is subject to the approval of the Monitor and this Honourable Court, sets out the terms and conditions of the Proposed Transactions, of which the following are most significant:

(i) ACCC will acquire Alcoa's 40% interest in MPCo in exchange for a promissory note;

(ii) MPCo will be wound up into ACCC;

(iii) ACCC will cause all of the assets and liabilities (except for certain excluded liabilities) of MPCo to be transferred to a newly-formed Quebec limited partnership ("**New LP**");

(iv) an unlimited liability company ("**GP**") will be formed and will be the general partner of New LP holding a 0.001% interest in the New LP. ACCC will become the 99.999% limited partner of New LP;

(v) ACCC will sell to HQ a 59.9994% interest in New LP and its rights in the MPCo power purchase agreements for gross proceeds of CDN$615 million;

(vi) ACCC will repay the promissory note issued to Alcoa referred to in step (i) above by way of a transfer of a 39.9996% interest in New LP to Alcoa; and

(vii) ACCC will transfer a 60% and 40% interest in GP to HQ and Alcoa, respectively, for nominal consideration.

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

46. The parties to the Proposed Transactions have agreed to use reasonable commercial efforts to finalize all of the legal documentation to implement the Proposed Transactions by September 30, 2009 and to close the Proposed Transactions by October 15, 2009. If the Proposed Transactions have not closed by December 31, 2009, any party may terminate any of its obligations to complete the Proposed Transactions.

Estimated Net Proceeds from the Proposed Transactions

47. As previously discussed in this Sixteenth Report, the Purchase Price is subject to a number of payments, holdbacks, reserves and deductions as provided for in the Implementation Agreement.

48. The following table details the Monitor's understanding of the amounts of the significant payments, holdbacks, reserves and deductions from the Purchase Price:

	CDN$millions	Ref.
Purchase Price	**$615.0**	
Payments and Adjustments from Purchase Price:		
Outstanding Balance Among ACCC/BCFPI and HQ	(31.3)	Para. 51
Reimbursement of Alcoa's taxes payable at closing	(25.0)	Para. 56
ACCC's Estimated Transaction Costs	(10.0)	Para. 58
Other Estimated Adjustments	(2.0)	Para. 59
Amounts owed to ACCC/BCFPI by MPCo, HQ or Alcoa	2.1	Para. 60
Pre-filing amounts payable by the ACI Group to Alcoa and MPCo	(0.9)	
Total Payments and Adjustments from Purchase Price	**(67.1)**	
Net Proceeds before Holdbacks and Reserves	**547.9**	
Less:		
HQ Holdback	(30.8)	Para. 62
ULC Reserve	(282.3)	Para. 63
Net Proceeds After Holdbacks and Before Payment of ACI DIP Facility	**234.8**	
Payments:		
Repayment of ACI DIP Facility (assuming fully drawn at US$87.5 million)	(97.2)	Para. 66
Net Proceeds After Payment of ACI DIP Facility	**$137.6**	

49. Subsequent to the closing of the Proposed Transactions, New LP shall repay a CDN$10 million loan owed by MPCo to ACCC (see paragraph 67 of this Sixteenth Report).

50. The following paragraphs describe each of the significant deductions, reserves, holdbacks and payments from the Purchase Price.

Outstanding Balances Among ACCC/BCFPI and HQ

51. The Implementation Agreement requires that the intercompany payables among ACCC/BCFPI and HQ, ACCC and Alcoa, and ACCC and MPCo are to be settled at closing of the Proposed Transactions, which the Monitor understands includes

pre-CCAA filing amounts. The Petitioners' motion has estimated the pre-filing amount at approximately CDN$31.3 million as described in the table below:

Outstanding Balances Between ACCC/BCFPI and HQ	
Debtor	**CDN$ millions Pre-CCAA liability**
ACCC	22.7
BCFPI	8.6
	31.3

52. The Monitor notes that it is highly unusual in a CCAA proceeding to have such significant levels of pre-filing obligations satisfied in full other than through a plan of arrangement. Furthermore, it is also unusual that an unsecured obligation of one of the entities, BCFPI, is being satisfied by proceeds of the sale of the assets of a subsidiary (MPCo) of a separate filed entity (ACCC).

53. However, the Monitor was advised by Management that the payment of the intercompany payables was imposed as an essential condition by HQ in order to enter into the MPCo transaction.

54. Although this aspect of the Proposed Transactions is unusual, the Monitor notes that HQ could have achieved the same net economic terms had it simply required, in order to complete the transaction, a lower Purchase Price on account of all pre-transaction outstanding liabilities, including the pre-filing liabilities stayed as a result of the filing by the Petitioners.

55. Further, the Monitor notes that, to the extent ACCC pays a liability on behalf of BCFPI (approximately CDN$9 million), ACCC will benefit from the intercompany charge described in the Initial Order.

Reimbursement of Alcoa's Taxes Payable

56. Alcoa will not be receiving any proceeds from the Proposed Transactions. However, Alcoa agreed to proceed with the Proposed Transactions on the basis that it would not suffer or incur any negative tax consequences as a result of the Proposed Transactions unless the amount of such taxes was fully reimbursed to it prior to or concurrently with the implementation of the Proposed Transactions. As a result, the Implementation Agreement provides that:

    (i) ACCC or ACI will pay or cause to be paid to Alcoa approximately CDN$25.0 million in respect of the taxes which Alcoa will incur as a result of the Proposed Transactions;

    (ii) ACCC and ACI will indemnify Alcoa and MPCo from any tax that may result from the Proposed Transactions; and

    (iii) a favourable ruling from the U.S. Internal Revenue Service will be issued or favourable opinions from Alcoa's and ACCC's tax advisors that the Proposed Transactions will constitute a tax-free reorganization for U.S. tax purposes.

57. In addition, Alcoa indicated that it would require, as a condition of the MPCo sale, that approximately CDN$75 million be retained in a wholly-owned unlimited liability company to be incorporated by ACCC ("**ULC**") to satisfy any potential tax plus an additional CDN$5 million for other indemnities, the whole as specifically set forth in the Implementation Agreement. This amount is included in the CDN$282.3 million ULC Reserve (as defined herein). The Implementation Agreement provides for a further CDN$1.0 million to be added to the ULC Reserve in the event that MPCo does not receive a favourable U.S. tax ruling or the required tax opinions with respect to same on or before the closing of the Proposed Transactions.

ACCC's Estimated Transaction Costs

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

Other Estimated Adjustments

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

Amounts Owed to ACCC/BCFPI

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

Estimated Net Amounts Owed to/(from) ACCC
As at September 30, 2009
(CDN $ milllions)

	Total	
HQ electricity purchases from BCFPI	4.4	
MPCo payable to ACCC	1.0	
ACCC payable to MPCo for electricty purchases for the Baie-Comeau mill	(0.7)	
MPCo cost sharing dispute with HQ - re: Lac Ste Anne	(2.1)	ACCC 60% equity share
Alcoa payable to MPCo for electricity purchases	0.7	ACCC 60% equity share
MPCo outstanding line of credit	(1.1)	ACCC 60% equity share
	2.1	

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

HQ Holdback

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

ULC Reserve

63. HQ and Alcoa believe that a potential pension liability may exist with respect to the *Régime de retraite à prestations déterminées des employés non syndiqués d'Abitibi-Consolidated Inc. and the Régime complémentaire de retraite des employés non syndiqués de Donohue Inc.* (the "**Pension Plans**") maintained by ACI for the benefit of current and former non-unionized employees of ACI, ACCC and MPCo.

64. As a result, the Implementation Agreement requires that ULC will hold, in the form of "Permitted Investments" described in the Implementation Agreement, approximately CDN$202.3 million, corresponding to the amount of the estimated potential contingent pension liabilities, as well as CDN$80 million for the Alcoa tax reserve and other costs (the "**ULC Reserve**"), subject to a potential increase of $1.0 million in the event that MPCo does not receive a favourable U.S. tax ruling or a favourable opinion with respect to same on or before the closing of the Proposed Transactions. Management has advised that it expects to receive either the opinion or the ruling prior to the closing of the Proposed Transactions. ULC's obligation to hold such funds as "Permitted Investments" will terminate as follows:

(i) coincident with the successful completion of the restructuring of ACCC under the CCAA, as to CDN$202.3 million (representing the estimated amount of the potential contingent pension liabilities)[1];

(ii) 90 days following the expiration of the latest date on which taxes may be assessed or reassessed upon Alcoa in respect of the Proposed Transactions, as to CDN$75 million, unless a successful "real-time audit" is performed. However, if any claims against Alcoa, MPCo or New LP have been made or threatened for any matters other than pension liabilities, then the amount of such claims must continue to be retained until the claims have been resolved; and

(iii) upon certain other occurrences provided for in the Implementation Agreement, as to CDN$5 million. However, if any claims against Alcoa, MPCo or New LP have been made or threatened for any matters other than pension liabilities, then the amount of such claims must continue to be retained until the claims have been resolved.

65. The Petitioners' motion requests that the ULC Reserve be held in trust for ULC by the Monitor, subject to further orders of this Honourable Court, for the purpose of indemnifying Alcoa (and certain Alcoa related parties) and MPCo (and certain MPCo related parties) in respect of potential pension and tax liabilities.

Repayment of the ACI DIP Facility

66. The Petitioners are required to repay the ACI DIP Facility by November 1, 2009. The ACI DIP Agreement also requires that any proceeds received from the sale of MPCo are to be used to repay amounts outstanding under the ACI DIP Facility.

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

The Monitor has assumed, for illustrative purposes in the table in paragraph 48, that the full amount (US$87.5 expressed as CDN$97.2 million) of the available ACI DIP Facility will be drawn as at the closing date of the Proposed Transactions.

Repayment of ACCC Loan to MPCo

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

Security Interest in ULC Reserve

68. The ULC will grant Alcoa a first ranking hypothec on the assets held by the ULC under the Implementation Agreement to secure the performance of the indemnification obligations of ACCC, ACI and ULC in respect of potential pension, tax and other liabilities which will benefit Alcoa and certain of its affiliates, New LP, GP, the directors and officers of each company and the directors and officers of MPCo.

69. As described earlier in this Sixteenth Report, the MPCo Share Proceeds (the cash components of which the Monitor believes will correspond approximately to the balance reflected in the table in Paragraph 48 of this Report and which also includes the shares of the ULC) will be subject to the replacement MPCo Noteholder Charge.

70. As described in the Petitioners' motion, the Petitioners propose that the replacement MPCo Noteholder Charge will include the equity of the ULC but not attach to the ULC Reserve comprising the assets of the ULC. However, the rights of the Trustee on behalf of the Senior Secured Noteholders will be entitled to be subrogated to the first ranking charge on all assets of the ACI Group as contemplated by paragraph 61.10 of the Second Amended Initial Order, described in more detail below.

71. Furthermore, the ULC shall provide to the Trustee on behalf of the Senior Secured Noteholders, concurrently with the completion of the Proposed Transactions, a guarantee (the "**ULC Subordinated Guarantee**") of the payment of the Secured Notes.

72. The Implementation Agreement contemplates that the ULC Reserve could be invested in "Permitted Investments", including in a new DIP loan to ACCC or ACI. However, the amended motion as filed by the Petitioners indicates that the Petitioners may not borrow any portion of the ULC Reserve without the approval of this Honourable Court. Other "Permitted Investments" provided for in the Implementation Agreement include cash or cash equivalents and such other assets as may be agreed to by ACCC and Alcoa, acting reasonably, as discussed in more detail later in this Sixteenth Report.

MONITOR'S COMMENTS ON THE MPCo TRANSACTION

Sales Process

73. The Petitioners' sales process for the ACCC MPCo Interest was limited as CIBC approached only one potential purchaser. The Monitor has discussed the sales process with the Petitioners and CIBC to understand the reasons for the narrow focus of the sales process.

74. The first step in any sales process is determining the potential purchasers for the asset to be sold given the unique characteristics of the asset, the market in which the asset is situated and any external factors which may deter or attract potential purchasers.

75. It was apparent from a review of the particular circumstances surrounding the ACCC MPCo Interest, including the ROFRs which had been granted to three different parties, the regulatory environment, the restrictions on pricing and the sale of electricity and the significant risk that the expiry of the MPCo Water Rights could disrupt the power production at MPCo indefinitely, that the market for the ACCC MPCo Interest would be severely limited.

76. It is the Monitor's view, based on these factors and the information provided by the Petitioners and CIBC, that HQ is likely the only potential third party purchaser for the ACCC MPCo Interest other than Alcoa or CDPQ, each of which have elected not to exercise their respective acquisition rights or any competitor to ACCC that could be interested in acquiring the Baie-Comeau Mill. However, since ownership of the Baie-Comeau Mill is part of ACCC's longer term strategic plan, the Petitioners have advised that they did not consider selling the Baie-Comeau Mill.

<u>MPCo Purchase Price</u>

77. As the sale of the ACCC MPCo Interest was not widely canvassed in the market, in order to assess the reasonableness of the Purchase Price as contemplated in the Proposed Transactions, the Monitor has performed certain financial analyses as outlined below.

78. These analyses were performed on a total enterprise value ("**TEV**") basis based on the most current internal financial statements for MPCo made available to the Monitor, being as at July 31, 2009. TEV is defined as the fair market value of an entity's equity plus interest-bearing debt less cash and cash equivalents. The

Monitor calculated the TEV for MPCo, as implied by the Proposed Transactions, as follows:

MPCo's Estimated TEV at 100% (in CDN$ Millions)		
Price for ACCC's 60% interest in MPCo's equity	$	615
Gross-up to 100% of MPCo's equity value		1,025
Add: Interest-bearing debt as at July 31, 2009		10
Less: Cash on hand as at July 31, 2009		(4)
MPCo's TEV at 100%	**$**	**1,031**

79. For the purposes of the analyses performed by the Monitor, the Monitor utilized the 2011 MPCo financial forecast based on the assumption that 2011 is more reflective of a future "steady state" for MPCo. The MPCo power purchase agreements with ACCC and Alcoa expire in 2011, allowing MPCo to potentially bring the price for its electricity to market rates, subject to certain restrictions discussed earlier in this Sixteenth Report.

80. The analyses performed by the Monitor included: (i) a compilation of trading multiples for comparable public companies and income funds; (ii) a review of transaction multiples from comparable acquisitions of hydroelectric power generating assets; and (iii) a discounted cash flow analysis ("**DCF**") and related sensitivity analysis.

Trading Multiples

81. The Monitor compiled trading multiples for comparable public companies and income funds in Canada as at August 31, 2009.

82. The Monitor was unable to find direct comparables given that MPCo is solely focused on hydroelectric power generation, is a single plant operation, operates in a highly regulated environment as a "private electric power system" and is considerably smaller in terms of revenue and earnings before interest, taxes,

depreciation and amortization ("**EBITDA**") than most public companies and income funds in the sector.

83. However, the public companies and income funds which were used were sufficiently comparable to provide some guidance with respect to the estimated value of MPCo.

84. MPCo's level of maintainable EBITDA was estimated to be approximately CDN$111 million using the forecast EBITDA for 2011 based on the assumption that 2011 is more reflective of future "steady state" for MPCo's level of earnings.

85. On the basis of MPCo's forecast EBITDA in 2011 and the determination of MPCo's TEV at 100%, the implied TEV / EBITDA multiple for the Proposed Transactions is calculated as follows:

(in CDN$ Millions)	TEV / EBITDA
MPCo's TEV at 100%	$ 1,031
EBITDA - Level in 2011 assumed maintainable	111
Implied MPCo transaction multiple	9.28x

86. As presented in Appendix "E", the Monitor observed that TEV / EBITDA multiples for comparable public companies and income funds averaged 7.94x and had a median of 8.23x, on the basis of 2011 EBITDA estimates for the identified comparable public companies and income funds.

87. This indicates that MPCo's TEV / EBITDA multiple of 9.28x, based on the Purchase Price contemplated in the Proposed Transactions and on the assumed level of maintainable EBITDA in 2011 of CDN$111 million, compares favourably to the compiled trading multiples.

Transaction Multiples

88. The Monitor also reviewed information on precedent comparable industry transactions involving the acquisition of hydroelectric power generating assets

located in Canada. Only completed deals and deals that were done for cash during the last five years were included in the analysis. Attached as Appendix "F" is a schedule of the comparable industry transactions.

89. The Monitor referred to multiple databases for the purposes of compiling this information, including Mergerstat, Merger Market, the Financial Post and Capital IQ.

90. In most cases the acquired assets were privately owned, therefore complete financial data was not always available, but the Monitor was able to perform an analysis based on the implied multiple of TEV over the acquired power-generating capacity, as measured in mega watts ("**MW**") ("**TEV/MW**").

91. Based on the implied TEV for MPCo of approximately CDN$1.0 billion (as described above), the implied TEV/MW for MPCo would be CDN$3.1 million per MW based on MPCo's operating capacity of 335 MW.

92. The Monitor calculated the implied TEV/MW multiple for the Proposed Transactions as follows:

(in CDN$ Millions)		TEV / MW
MPCo's TEV at 100%		$1,031
Operating capacity in MW	÷	335
Implied multiple of TEV / MW		**$3,077**

93. As presented in Appendix "F", the median and average TEV/MW multiples based on recent precedent industry transactions are CDN$1.6 million/MW and CDN$1.8 million/MW, respectively. Therefore, the TEV/MW multiple implied by the Proposed Transactions of CDN$3.1 million MW compares favourably.

Discounted Cash Flow

94. A DCF analysis was also used to calculate the fair market value of MPCo based on the net present value of its expected future cash flows over the forecast period

ending in 2023. The projected cash flows, together with the residual value of MPCo at the end of the forecast period, were present-valued to the assumed transaction date resulting in an estimate of the hypothetical fair market value of MPCo as at September 30, 2009.

95. A copy of MPCo's financial forecast for the period ending December 31, 2023 is attached as Appendix "G". This forecast was used in preparing the DCF analysis and the significant assumptions in the MPCo forecast include, but are not limited to:

(i) it is assumed that MPCo will continue to operate at its current theoretical capacity of 335 MW before consideration of line losses (losses of generated power occurring during transmission) which are assumed to be consistent with prior years;

(ii) pursuant to the existing power purchase agreements in place between MPCo, ACCC and Alcoa, ACCC will continue to purchase approximately 25% of generated power and Alcoa will purchase the remaining 75% until the expiry of said agreements in 2011;

(iii) during the period between September 30, 2009, the assumed closing of the Proposed Transactions, and December 31, 2010, it is assumed that ACCC will become subject to HQ's rate for large corporations and Alcoa will continue to benefit from current prices until the end of its power purchase agreement with MPCo;

(iv) the HQ rate for large corporations is assumed to increase by 1% in April 2010 and then at an assumed inflationary rate of 2% per year thereafter; and

(v) certain fixed and variable costs of sales and administrative expenses are assumed to grow at the assumed inflationary rate of 2% year.

96. The Monitor has provided a schedule with the more significant assumptions in respect of the DCF and tables summarizing the possible range of values for the ACCC MPCo Interest, with varying multiples and discount rates and sensitivities, in Appendix "H".

97. Based on the DCF analysis, the Purchase Price of CDN$615 million for the ACCC MPCo Interest falls within a reasonable range of the estimated values from the DCF calculation summarized in Appendix "H".

Summary

98. Based on the compiled trading multiples, the review of transaction multiples and the DCF analysis as discussed above, the Monitor is of the view that a Purchase Price of CDN$615 million for ACCC's MPCo Interest is reasonable based on the assumptions, forecasts and other financial information provided to the Monitor.

ULC Reserve

99. An integral part of the Proposed Transactions is the CDN$282.3 million in the ULC Reserve of which CDN$202.3 million corresponds to the amount of the estimated potential contingent pension liabilities and CDN$80 million in respect of the tax reserve, closing costs and other costs.

Pension Reserve

100. Management has advised the Monitor that MPCo has one active employee who participates in the Pension Plans, which are maintained primarily for the benefit of current and former employees of ACI and ACCC. As discussed in the following paragraphs of this Report, the structure of the Pension Plans may potentially render each of ACI, ACCC and MPCo solidarily (jointly and severally) liable for the obligations of each employer under the Pension Plans. Accordingly, in the Implementation Agreement, Alcoa has required full indemnification from ACI and ACCC in respect of Contingent Pension Liabilities

(as defined in the Implementation Agreement) and has required that the amount of CDN$202.3 million (the "**Pension Reserve**") be retained and held by the ULC to secure the indemnification obligations under the Implementation Agreement. The amount of the Pension Reserve represents the most recent actuarial estimate of the potential Contingent Pension Liabilities as prepared by Mercer (Canada) Ltd., which the Monitor has reviewed.

101. The Monitor's legal counsel has reviewed the Implementation Agreement and documentation relating to the Pension Plans and has advised the Monitor that, whatever the merits of the position, it is not unreasonable for a purchaser to consider that MPCo may be potentially solidarily liable for the obligations of each of the three employers, including MPCo, under the Pension Plans and under the *Supplemental Pension Plans Act* (Quebec). This would be the case whether the sale is structured as a sale of shares or assets.

102. Pursuant to the asset sale structure required by the purchaser and adopted for the Proposed Transactions, and as provided for in the Implementation Agreement, on the transfer of the MPCo assets to the New LP, all potential liabilities relating to the Pension Plans are excluded from the sale and retained by ACCC. In addition, the Implementation Agreement provides for full indemnification of the Alcoa Indemnified Persons and the MPCo Indemnified Persons (as defined in the Implementation Agreement) by ACCC and ACI in connection with any Contingent Pension Liabilities.

103. The Monitor has been advised by its legal counsel that it is reasonable to conclude that the Proposed Transactions raise legal issues relating to the Contingent Pension Liabilities. In order to protect the Alcoa Indemnified Persons and the MPCo Indemnified Persons from such potential exposure, the Implementation Agreement provides for the retention, continued holding and investment of the Pension Reserve by the ULC. Based on the advice of its counsel, the Monitor is of the view that the retention, holding and investment by the ULC of the Pension Reserve pursuant to the terms of the Implementation Agreement is a reasonable

mechanism in the circumstances to protect the Alcoa Indemnified Persons and the MPCo Indemnified Persons from the potential liability in particular since the amount of the Pension Reserve is equal to the maximum estimated exposure under the Contingent Pension Liabilities.

Tax Payments and Reserves

104. The Monitor requested Ernst & Young LLP's tax group to review the $25 million tax payment to Alcoa and the reasonableness of the CDN$75 million tax reserve. Based on a review of the estimates prepared by the Petitioners and their tax advisor, the Monitor is of the view that the CDN$25 million indemnity payment on closing is reasonable and that the CDN$75 million tax reserve, while conservative, is not unreasonable.

Impact on ACCC

105. ACCC owns and operates a newsprint mill in Baie-Comeau, Quebec with capacity to produce 574,000 tons of newsprint per annum.

106. MPCo sells 25% of the electricity it generates to the Baie-Comeau Mill at the cost of generation. The cost of this electricity is substantially less than electricity purchased by ACCC from other sources and lower than the current market price for large corporations in the Province of Quebec.

107. If the Proposed Transactions are approved by this Honourable Court, ACCC will have to purchase the portion of its power requirements currently provided by MPCo from New LP at market rates. As a result, ACCC's annual costs to operate the Baie-Comeau Mill may be increased by approximately CDN$28 million in 2010. The impact beyond fiscal 2010 cannot be reasonably estimated because it is contingent upon assumptions regarding the new power purchase agreements that would need to be negotiated between MPCo and ACCC in the absence of the Proposed Transactions and several other factors, including Alcoa's future power needs in the Baie-Comeau region.

108. ACCC has advised the Monitor that it will continue to invest in the Baie Comeau Mill to improve its productivity and efficiency to help mitigate the increased power costs that will result from the MPCo sale. After the closing of the Proposed Transactions, the Petitioners have advised that a special committee comprised of management and union representatives will evaluate future investment projects at the Baie-Comeau Mill.

109. Although there will be an impact on the Baie-Comeau Mill operating costs, Management has advised the Monitor that the Baie-Comeau Mill is still cost competitive even with the higher cost of power and that the mill is an important part of the Petitioners' long term strategy given its location on the St. Lawrence Seaway, which is ideal for exporting to overseas markets (which is an area the Petitioners are focusing on as a growth area for newsprint sales).

<u>Impact on Senior Noteholders</u>

110. As described earlier in this Sixteenth Report, the Petitioners are required to repay the ACI DIP Facility by November 1, 2009 and the "Mandatory Prepayments" section of the ACI DIP Agreement requires that any proceeds received from the sale of MPCo must be used to repay amounts outstanding under the ACI DIP Facility.

111. Paragraph 61.10 of the Second Amended Initial Order provides, in part, that the Senior Secured Noteholders, the lenders under the Term Loan Facility (the "**ACCC Term Lenders**") and McBurney Corporation, McBurney Power Limited and MBB Power Services Inc. (collectively, the "**Lien Holder**") that hold valid security over assets that are subject to the charge granted by this Honourable Court in respect of the ACI DIP Facility (an "**Impaired Secured Creditor**" and "**Existing Security**", respectively) shall be subrogated to the ACI DIP Charge to the extent of the lesser of:

(i) any net proceeds from the Existing Security including from the sale or other disposition of assets and/or cash that is subject to the Existing

Security of such Impaired Secured Creditor that is used directly to pay the ACI DIP Facility (including by any means of realization) on account of principal, interest or costs in whole or in part as determined by the Monitor (subject to adjudication by the Court in the event of any dispute); and

(ii) the unpaid amounts due and/or becoming due and/or owing to the Impaired Secured Creditor that are secured by its Existing Security.

112. Paragraph 61.10 of the Second Amended Initial Order goes on to state that, in the event that more than one Impaired Secured Creditor is subrogated to the ACI DIP Charge, such impaired Secured Creditors shall rank *pari passu* as subrogees, rateably in accordance with the extent to which each of them is subrogated to the ACI DIP Charge. The allocation of the burden of the ACI DIP Charge amongst the assets and creditors shall be determined by subsequent application to the Court, if necessary.

113. The Monitor participated in the negotiations between the Senior Secured Noteholders, the ACCC Term Lenders and the Lien Holder with respect to the wording of Paragraph 61.10 of the Second Amended Initial Order. It is the view of the Monitor that, at the time the language was negotiated, it was the intention of the parties that, should a transaction be entered into which resulted in the Petitioners divesting their interest in MPCo and any proceeds of such divestiture were used to repay the ACI DIP Facility, the Impaired Secured Creditor, in this case the Trustee for the benefit of the Senior Secured Noteholders, would be subrogated to the ACI DIP Charge over all property of the Abitibi Petitioners.

114. It is the view of the Monitor that the intention of the affected parties in respect of Paragraph 61.10 of the Second Amended Initial Order was that the Senior Secured Noteholders should be subrogated to the ACI DIP Charge to the extent that any net proceeds generated from the Proposed Transactions are used to repay the ACI DIP Facility, subject to the determination of the validity, perfection and opposability of the security held by the Trustee in respect of the Secured Notes.

The Monitor's legal counsel is currently reviewing the security held by the Senior Secured Noteholders and is of the preliminary view that it is valid and enforceable over the MPCo shares.

115. The Monitor also notes that the amended motion sought by the Petitioners seeks to grant a replacement MPCo Noteholder Charge over the net cash proceeds of the Proposed Transactions, with such proceeds to be held by the Monitor, as well as over the shares of the ULC.

116. The Monitor has noted, from the contestation (the "**Contestation**") filed by the *ad hoc* committee of Senior Secured Noteholders and the Trustee, that they seek security directly against the ULC Reserve to be held by the ULC, rather than on the shares of the ULC, which shares will be owned by ACCC. The Monitor notes that the Proposed Transactions are complex and highly structured, including a grant of security on the ULC Reserve in favour of the Alcoa Indemnified Parties and the MPCo Indemnified Parties.

117. Accordingly, any additional security to be granted could potentially affect Alcoa's interest and any consent by Alcoa to a second ranking charge would likely require a formal subordination or intercreditor agreement which would need to be finalized on a timely basis.

118. However, the Monitor is of the view that additional protection of the interests of the Trustee and the Senior Secured Noteholders could be given by way of the Court ordering that the ULC is not to incur any further liabilities, except as may be approved by the Court on appropriate notice to the stakeholders, including the Trustee and the *ad hoc* committee of Senior Secured Noteholders. An exception to this, as a practical matter, would be ordinary course charges, such as bank fees, associated with the investment of the funds in investment grade merchantable securities.

119. In addition, the Monitor suggests that it is reasonable for the Petitioners to be required to take reasonable steps to seek to have a subordinate charge on the

assets of the ULC granted, together with any necessary subordination and/or intercreditor agreements, provided that this be done within the existing timelines contemplated for the closing of the transaction so as not to delay the repayment of the ACI DIP Facility as required.

120. The Monitor notes that, at the time of the approval of the ACI DIP Agreement, the Petitioners advised that they would seek alternate DIP financing if it appeared that a payment from a disposition of the ACCC MPCo Interest could not occur before the repayment deadline.

121. The Petitioners have advised that, since the Proposed Transactions generate sufficient net proceeds to repay the ACI DIP Facility and since it appears possible to close the Proposed Transactions prior to the repayment deadline, the Petitioners have not taken steps to secure alternate sources of DIP financing.

122. The Monitor notes that the Petitioners were unable to obtain the ACI DIP financing by the date of the Initial Order and, in fact, found it very difficult to do so at all. The Monitor notes that, although there has been some improvement of an otherwise tight credit market, the overall financial position of the Abitibi Petitioners has not improved and the general condition of the forestry industry sector has also not improved since the date of the Initial Order.

123. The Monitor questions whether replacement DIP financing would be available from third party sources, but confirms that neither the Monitor nor the Petitioners have made any enquiries in that regard in light of the successful conclusion of the negotiations regarding the Proposed Transactions and the realistic possibility of a timely closing thereof.

124. As the Monitor reported in its Third Report, the Trustee for the Senior Secured Noteholders holds security on certain assets of the Abitibi Petitioners other than ACCC's equity in MPCo. The information contained in the Third Report regarding the value of such security was based upon book values for such collateral as reflected in the books and records of the Abitibi Petitioners. While

the Monitor and the financial advisors for the Senior Secured Noteholders are working to develop a better understanding of the value of these additional assets, the Monitor does not have sufficient information to provide any further advice in this regard at this time nor is such examination expected to be finalized prior to the anticipated closing of the Proposed Transactions.

125. The Monitor notes that the Contestation of the Trustee and the *ad hoc* committee of Senior Secured Noteholders refers to a confiscation of their collateral and a change in the *status quo*. From the Monitor's perspective, a different view of the Proposed Transactions is that the Petitioners are attempting to convert assets to cash on the best available terms in the circumstances by way of transactions whereby they will give a replacement charge on the net proceeds (net of potential creditor claims, reserves, holdbacks and transaction costs) to be received by ACCC. The replacement charge is proposed to have the same priority as the existing security in favour of the Trustee for the Senior Secured Noteholders granted by ACCC in respect of MPCo. Any use of the proceeds, other than the acknowledged requirement to pay the ACI DIP Facility, the obligations to create the transaction holdbacks and reserves and the obligation to pay the transaction costs, are subject to a requirement for further Court approval.

126. The Monitor notes that the Trustee for the Senior Secured Noteholders only holds security over the equity of MPCo and not security on the assets of MPCo. From the Monitor's perspective, it does not seem unreasonable or unfair that the replacement MPCo Noteholder Charge should be a charge on the net proceeds, rather than the gross proceeds, of the transaction. In the Monitor's view, the difference between the gross and net proceeds is attributable either to potential creditor claims at the MPCo level (approximately $202 million of which is for potential contingent pension liabilities, which, if successful, would rank ahead of the charge on the equity of MPCo since it is a potential debt claim directly against MPCo) or to costs associated with the overall transaction (for example, the tax indemnity for Alcoa and the other reserves and transaction costs).

127. However, the Monitor notes that there is a possibility that the ULC Reserve may be invested in a number of ways, including as an additional DIP loan to the Abitibi Petitioners or certain other Permitted Investments, including such other investments as may be agreed between ACI and Alcoa. In light of the significant stakeholder interest in the net ULC Reserve (after payment of all proper indemnity claims against them, if any) it may be appropriate to require that any such investments, other than investments in investment grade marketable securities, be approved by the Court on appropriate notice to the affected stakeholders in addition to being approved by ACI and Alcoa.

RECOMMENDATION

128. It is the Monitor's view that the Petitioners have acted in good faith and with due diligence in their efforts to sell the ACCC MPCo Interest and that, while the sales process was limited in scope, due to the nature of the assets and the limited number of likely buyers, the Monitor concurs with the Petitioners and their advisers that HQ is the only likely potential third party purchaser for the ACCC MPCo Interest other than Alcoa and CDPQ, each of which did not exercise their respective acquisition rights.

129. Furthermore, based on the Monitor's analysis of the Proposed Transaction and the Monitor's analysis of the estimated value of the ACCC MPCo Interest, the Monitor has concluded that:

(i) the Purchase Price for the ACCC MPCo Interest appears to be fair and reasonable, based on the analysis of trading multiples, transaction multiples and the DCF as performed by the Monitor;

(ii) the completion of the Proposed Transactions will allow the Petitioners to repay the ACI DIP Facility in accordance with the ACI DIP Agreement on a timely basis;

(iii) the Proposed Transactions will generate estimated net proceeds before holdbacks and reserves of approximately CDN$547.9 million, of which up to CDN$97.2 million will be used to repay the ACI DIP Facility;

(iv) the ULC Reserve of approximately CDN$282.3 million and the net cash proceeds (estimated to be CDN$137.6 million) will be held in trust by the Monitor pending further order of this Honourable Court; and

(v) the MPCo Share Proceeds will be subject to the MPCo Noteholders Charge in favour of the Trustee for the benefit of the Senior Secured Noteholders.

130. Accordingly, the Monitor recommends that this Honourable Court grant the Petitioners' motion for an Order:

(a) authorizing the Petitioners to sell the ACCC MPCo Interest;

(b) approving the terms and conditions of the Implementation Agreement;

(c) authorizing and directing the Petitioners to implement and complete the Proposed Transactions with such alterations, amendments, deletions or additions as the parties agree, with the consent of the Monitor, and to perform the obligations in the Implementation Agreement;

(d) declaring that (i) the proceeds from the Proposed Transactions, net of certain payments, holdbacks, reserves and deductions and (ii) the shares of ULC, shall constitute the MPCo Share Proceeds;

(e) declaring that the MPCo Share Proceeds will be subject to the MPCo Noteholder Charge with the same rank and priority as the Senior Notes Security held by the Trustee in respect of the shares of MPCo held by ACCC;

(f) declaring that the order approving the above also direct that the ULC shall not incur any liability or obligations (subject to the minor exceptions noted above) without further approval of the Court on appropriate notice to the service list; and

(g) declaring that no investment of the ULC Reserve be made, permitted or otherwise, other than in investment grade marketable securities, except with the prior approval of the Court on reasonable notice to the service list.

All of which is respectfully submitted.

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

Per:

Alex Morrison, CA, CIRP
Senior Vice President

Ken Brooks, MBA
Senior Vice President

John Barrett, CA, CIRP
Vice President

APPENDIX "A"
ABITIBI PETITIONERS

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

APPENDIX "B"
BOWATER PETITIONERS

1. Bowater Canada Finance Corporation
2. Bowater Canadian Limited
3. Bowater Canadian Holdings. Inc.
4. 3231378 Nova Scotia Company
5. AbitibiBowater Canada Inc.
6. Bowater Canada Treasury Corporation
7. Bowater Canadian Forest Products Inc.
8. Bowater Shelburne Corporation
9. Bowater LaHave Corporation
10. St-Maurice River Drive Company Limited
11. Bowater Treated Wood Inc.
12. Canexel Hardboard Inc.
13. 9068-9050 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 US Holding 1 Corp.
2. AbitibiBowater Inc.
3. Bowater Ventures Inc.
4. Bowater Incorporated
5. Bowater Nuway Inc.
6. Bowater Nuway Mid-States Inc.
7. Catawba Property Holdings LLC
8. Bowater Finance Company Inc.
9. Bowater South American Holdings Incorporated
10. Bowater America Inc.
11. Lake Superior Forest Products Inc.
12. Bowater Newsprint South LLC
13. Bowater Newsprint South Operations LLC
14. Bowater Finance II, LLC
15. Bowater Alabama LLC
16. Coosa Pines Golf Club Holdings, LLC

APPENDIX "D"

PARTNERSHIPS

1. Bowater Canada Finance Limited Partnership

2. Bowater Pulp and Paper Canada Holdings Limited Partnership

3. Abitibi-Consolidated Finance LP

APPENDIX "E"

TEV / EBITDA Multiples for Comparable Public companies and Income Funds

Name	TEV as at August 31, 2009	Estimated 2011 EBITDA	TEV / EBITDA 2011(e)
Power			
TransAlta Corp.	7,680	1,094	7.02x
Brookfield Renewable Power Fund	1,929	310	6.22x
EPCOR Power L.P.	1,788	203	8.81x
Atlantic Power Corporation	1,443	152	9.49x
Northland Power Income Fund	776	147	5.28x
Algonquin Power Income Fund	724	93	7.78x
Macquarie Power & Infrastructure Income Fund	531	60	8.85x
Innergex Power Income Fund	520	47	11.06x
Boralex Power Income Fund	330	49	6.73x
Average			7.92x
Median			7.78x
Diversified Power and Pipeline			
TransCanada Corp.	40,402	4,911	8.23x
Fortis Inc.	10,471	1,157	9.05x
ATCO Ltd.	7,393	1,228	6.02x
Emera Inc.	5,064	585	8.66x
Average			7.99x
Median			8.45x
Overall			
Average			7.94x
Median			8.23x

Source: Capital IQ

APPENDIX "F"

Comparable Industry Transactions

In CDN$ Millions

Date	Purchaser Name	Target Name	Target Location	% Acquired	TEV	MW	TEV / MW
06-Jul-09	Great Lakes Hydro Income Fund	Various hydro assets owned by Brookfield Asset Management Inc.	Canada	100%	$945,000,000	387	$2,441,860
31-Jul-08	AltaGas Income Trust	Nova Green Power Inc.	B.C.	100%	$40,000,000	115	$347,826
11-Jun-08	Boralex Inc.	Ocean Falls Hydro Plant	B.C.	100%	$19,000,000	15	$1,266,667
22-Apr-08	Innergex Power Income Fund	IHI Hydro Inc.	Quebec	100%	$14,481,924	13	$1,113,994
22-Nov-07	Canadian Hydro Developers, Inc.	Le Nordais	Quebec	100%	$120,750,000	99	$1,219,697
14-May-07	Taylor NGL Limited Partnership	Highwater Power Corporation	B.C.	100%	$9,100,000	17	$535,294
06-Jun-06	Great Lakes Hydro Income Fund	Carmichael Falls Station owned by Brookfield Asset Management Inc.	Ontario	100%	$56,309,000	19	$2,963,632
16-Sep-05	Innergex Power Income Fund	Innergex II Income Fund	Quebec	100%	$100,400,000	50	$2,008,000
25-Mar-04	Innergex Power Income Fund	Hydro Windsor Inc.	Ontario	100%	$21,000,000	6	$3,618,182
23-Jul-04	EPCOR Power LP	Hydro Investment Corporation	B.C.	100%	$122,463,000	56	$2,186,839
Average							$1,790,199
Median							$1,637,333

Sources include: Mergerstat, Merger Market, Financial Post and Capital IQ

Appendix G
MPCo Financial Forecast

In CDN$ '000s

Year		2009 [1], [2]	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
SUMMARY OF MAJOR ASSUMPTIONS																
Distribution		335	335	335	335	335	335	335	335	335	335	335	335	335	335	335
Conversion factor @ 24/365		8,760	8,760	8,760	8,784	8,760	8,760	8,760	8,784	8,760	8,760	8,760	8,784	8,760	8,760	8,760
Theoretical capacity in MWh (000's)		2,935	2,935	2,935	2,943	2,935	2,935	2,935	2,943	2,935	2,935	2,935	2,943	2,935	2,935	2,935
Line loss assumption	5.2%	5.2%	5.2%	5.2%	5.2%	5.2%	5.2%	5.2%	5.2%	5.2%	5.2%	5.2%	5.2%	5.2%	5.2%	5.2%
Auxiliary services	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%
Line losses and auxilary services		158	158	158	159	158	158	158	159	158	158	158	159	158	158	158
Available capacity in MWh		2,776	2,776	2,776	2,784	2,776	2,776	2,776	2,784	2,776	2,776	2,776	2,784	2,776	2,776	2,776
ACCC allocation%, before line-loss allocation		25.1%	25.1%	60.0%	60.0%	60.0%	60.0%	60.0%	60.0%	60.0%	60.0%	60.0%	60.0%	60.0%	60.0%	60.0%
Alcoa allocation%, before line-loss allocation		74.9%	74.9%	40.0%	40.0%	40.0%	40.0%	40.0%	40.0%	40.0%	40.0%	40.0%	40.0%	40.0%	40.0%	40.0%
ACCC allocation in MWh		697	697	1,666	1,670	1,666	1,666	1,666	1,670	1,666	1,666	1,666	1,670	1,666	1,666	1,666
Alcoa allocation in MWh		2,079	2,079	1,110	1,113	1,110	1,110	1,110	1,113	1,110	1,110	1,110	1,113	1,110	1,110	1,110
ACCC pricing per MWh		$44.51	$44.97	$45.76	$46.68	$47.61	$48.56	$49.53	$50.52	$51.54	$52.57	$53.62	$54.69	$55.78	$56.90	$58.04
Alcoa pricing per MWh		$3.24	$3.24	$45.76	$46.68	$47.61	$48.56	$49.53	$50.52	$51.54	$52.57	$53.62	$54.69	$55.78	$56.90	$58.04

SUMMARY P&L

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue															
Revenue from ACCC	31,026	31,351	76,225	77,962	79,304	80,890	82,508	84,389	85,842	87,558	89,310	91,345	92,918	94,776	96,671
Revenue from Alcoa	6,726	6,726	50,817	51,975	52,870	53,927	55,005	56,259	57,228	58,372	59,540	60,897	61,945	63,184	64,448
Line rental income	270	270	270	350	357	364	371	379	386	394	402	410	418	427	435
Total revenue for MPCo	38,022	38,348	127,311	130,287	132,531	135,181	137,885	141,027	143,456	146,325	149,251	152,652	155,281	158,387	161,554
Cost of Sales															
Labour	2,038	2,079	2,120	2,162	2,206	2,250	2,295	2,341	2,388	2,435	2,484	2,534	2,584	2,636	2,689
Maintenance materials	1,091	1,112	1,135	1,157	1,180	1,204	1,228	1,253	1,278	1,303	1,329	1,356	1,383	1,411	1,439
Water storage - Manic 5	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000
Water storage - Lac Ste-Anne	500	500	500	500	500	500	500	500	500	500	500	500	500	500	500
Water rights	6,084	6,206	6,330	6,457	6,586	6,717	6,852	6,989	7,129	7,271	7,417	7,565	7,716	7,871	8,028
Water power	558	569	1,872	1,909	1,948	1,987	2,026	2,067	2,108	2,150	2,193	2,237	2,282	2,328	2,374
Taxes	1,688	1,722	1,756	1,791	1,827	1,864	1,901	1,939	1,978	2,017	2,058	2,099	2,141	2,184	2,227
Insurance	459	468	477	487	497	507	517	527	538	548	559	570	582	594	605
Capital taxes	180	184	-	-	-	-	-	-	-	-	-	-	-	-	-
Other expenses	250	255	260	265	270	276	281	287	292	298	304	310	317	323	329
Total cost of sales	13,847	14,094	15,450	15,729	16,014	16,304	16,600	16,902	17,210	17,524	17,845	18,171	18,505	18,845	19,192
Administrative expenses	712	726	741	756	771	786	802	818	834	851	868	885	903	921	939
EBITDA	23,463	23,528	111,121	113,803	115,747	118,092	120,483	123,307	125,411	127,950	130,539	133,595	135,873	138,621	141,423
EBITDA margin	*62%*	*61%*	*87%*	*87%*	*87%*	*87%*	*87%*	*87%*	*87%*	*87%*	*87%*	*88%*	*88%*	*88%*	*88%*
Depreciation	2,227	2,481	2,841	3,101	3,354	3,619	3,782	3,896	4,051	4,251	4,448	4,641	4,838	5,039	5,243
EBIT	21,236	21,047	108,279	110,702	112,393	114,473	116,701	119,412	121,360	123,699	126,090	128,954	131,035	133,582	136,179
EBIT margin	*56%*	*55%*	*85%*	*85%*	*85%*	*85%*	*85%*	*85%*	*85%*	*85%*	*84%*	*84%*	*84%*	*84%*	*84%*

APPENDIX "H"

DCF Analysis

Year		2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Terminal Value
Assumed closing at the end of		September															
Discount period		*0.125*	*0.750*	*1.750*	*2.750*	*3.750*	*4.750*	*5.750*	*6.750*	*7.750*	*8.750*	*9.750*	*10.750*	*11.750*	*12.750*	*13.750*	*14.25*
Revenue		9,506	38,348	127,311	130,287	132,531	135,181	137,885	141,027	143,456	146,325	149,251	152,652	155,281	158,387	161,554	
EBIT		5,309	21,047	108,279	110,702	112,393	114,473	116,701	119,412	121,360	123,699	126,090	128,954	131,035	133,582	136,179	
Less: Cash taxes		(1,519)	(5,565)	(30,025)	(29,049)	(29,476)	(30,008)	(30,648)	(31,448)	(32,014)	(32,660)	(33,324)	(34,121)	(34,707)	(35,418)	(36,143)	
Add: Depreciation, as per MPCo plan		557	2,481	2,841	3,101	3,354	3,619	3,782	3,896	4,051	4,251	4,448	4,641	4,838	5,039	5,243	
Less: Change in non-cash net working capital		83	(26)	(7,311)	(243)	(183)	(217)	(221)	(257)	(198)	(235)	(239)	(278)	(215)	(254)	(259)	
Cash flows from operations		4,429	17,937	73,785	84,510	86,087	87,867	89,614	91,603	93,199	95,055	96,975	99,196	100,952	102,949	105,021	
Less: Capex, as per MPCo plan		(2,887)	(15,668)	(13,178)	(7,613)	(12,591)	(8,620)	(4,441)	(4,644)	(7,791)	(8,174)	(7,641)	(7,794)	(7,950)	(8,109)	(8,271)	
Unlevered free cash flows		1,542	2,269	60,607	76,897	73,496	79,247	85,173	86,959	85,408	86,881	89,334	91,403	93,002	94,840	96,750	
Discount factor, based on WACC of	8.50%	0.990x	0.941x	0.867x	0.799x	0.736x	0.679x	0.626x	0.577x	0.531x	0.490x	0.451x	0.416x	0.383x	0.353x	0.326x	
Period discounted free cash flows		1,526	2,134	52,544	61,444	54,126	53,789	53,282	50,137	45,385	42,551	40,325	38,027	35,661	33,517	31,513	

Summary (in CDN$ '000s)	EBITDA Multiple	Perpetual Growth
Cumulative period discounted free cash flows	595,963	595,963
Add: Terminal value	420,116	495,324
TEV	1,016,079	1,091,287
Less: Interest-bearing debt as at July 31, 2009	(10,000)	(10,000)
Add: Cash on hand as at July 31, 2009	4,111	4,111
Equity value	1,010,190	1,085,397
ACCC equity interest	60%	60%
FMV of ACCC's equity interest	606,114	651,238
Rounded	**606,000**	**651,000**

Terminal Value - EBITDA Multiple (in CDN$ '000s)	
EBITDA in 2023	141,423
Terminal EBITDA multiple	9.5x
Future value of terminal value	1,343,518
Discount period	14.25
Discount factor	0.313x
Present value of terminal value	420,116

Sensitivity Analysis (in CDN$ '000s)

		Terminal Value EBITDA Multiple			
		8.5x	9.5x	10.5x	11.5x
	8.00%	607,000	635,000	663,000	692,000
Discount Rate	8.50%	580,000	606,000	633,000	659,000
	9.00%	554,000	579,000	604,000	629,000
	9.50%	530,000	553,000	576,000	600,000

Terminal Value - Perpetual Growth Rate (in CDN$ '000s)		
EBITDA in 2023		141,423
Perpetual growth rate		2.00%
Sustainable EBITDA level in 2024+		144,251
Less: Cash taxes on EBITDA, without any tax shield	26.9%	(38,804)
Less: Change in non-cash net working capital		n.m.
Less: Estimated perpetual capex, based on 2023 +	2.00%	(8,436)
Add: Tax shield on perpetual capex		1,100
Teminal year free cash flow		98,112
Perpetual growth rate		2.00%
WACC		8.50%
Capitalization rate		15.4x
Future value of Terminal value free cash flows		1,509,413
Add: Future value of the ending UCC balance		11,303
Future value of the terminal value amount		1,520,717
Discount period		13.75
Discount factor		0.326x
Present value of terminal value		495,324

Sensitivity Analysis (in CAD '000s)

		Perpetual Growth Rate			
		1.5%	2.0%	2.5%	3.0%
	8.0%	681,000	709,000	742,000	781,000
Discount Rate	8.5%	629,000	651,000	677,000	708,000
	9.0%	584,000	602,000	623,000	648,000
	9.5%	544,000	559,000	576,000	596,000