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 1900, in the City and District of Montréal, Province of Quebec, H3B 1X9;

Monitor

SIXTH REPORT OF THE MONITOR
May 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**"). The Stay Period was extended to September 4, 2009 by order of the Quebec Superior Court dated May 14, 2009.

3. On April 16, 2009, AbitbiBowater Inc. ("**ABH**"), Bowater Inc. ("**BI**"), and certain of their direct and indirect U.S. and Canadian subsidiaries, including BCHI, 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, 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 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 and granted a recognition order under Section 18.6 of the CCAA in respect of the Interim DIP Order issued on April 17, 2009 by the U.S. Bankruptcy Court.

PURPOSE

8. This is the sixth report (the "**Sixth Report**") of the Monitor in the CCAA Proceedings. The purpose of the Sixth Report is to report to this Honourable Court with respect to:

   (i) the status of the Chapter 11 Proceedings;

   (ii) the Amended and Restated Securitization Program (as defined herein) to finance the accounts receivable of the ACI Group and the DCorp Group (as defined herein);

   (iii) the motion brought by the DCorp Group for an order from the U.S. Bankruptcy Court granting an adequate protection charge on certain assets of the DCorp Group which have been secured by liens and security interests with respect to the obligations of Abitibi-Consolidated Company of Canada ("**ACCC**") to lenders (the "**ACCC Term Lenders**") under the 364-day senior secured term loan in the amount of $347 million (the "**Term Loan Facility**") which is guaranteed by ACI and certain of its subsidiaries and by Donohue Corp ("**DCorp**") and certain entities comprising the DCorp Group;

   (iv) the proposed administrative priority claim that the U.S. Debtors intend to seek from the U.S. Bankruptcy Court with respect to any cash advances made by the Petitioners to any of the U.S. Debtors;

   (v) the engagement of a Chief Restructuring Officer by ABH and ACI; and

   (vi) the status of municipal property and business taxes.

TERMS OF REFERENCE

9. 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 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.

10. Capitalized terms not defined in this Sixth 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.

11. Copies of all of the Monitor's Reports, in both English and French, including a copy of this Sixth 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.

12. 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

13. 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.

14. 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**").

15. 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.

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

17. On April 17, 2009 this Honourable Court issued the Initial Order which, among other things, declared that the Petitioners are debtor companies to which the CCAA applies and granted certain relief to the Petitioners while they prepare one or more plans of arrangement pursuant to the CCAA.

THE CHAPTER 11 PROCEEDINGS

18. The Monitor has been advised that the following final orders were granted in the Chapter 11 Proceedings with respect to the U.S. Debtors on May 15, 2009:

(i) a final order prohibiting utility providers from altering, refusing or discontinuing services to the U.S. Debtors;

(ii) an order approving a settlement agreement concerning a power supply contract and subsequent lawsuit between Bowater Alabama LLC and Alabama Power Company; and

(iii) an order establishing procedures and approving restrictions on certain transfers of interest in the U.S. Debtors' estates *nunc pro tunc* to the Petition Date.

19. The U.S. Debtors have filed a motion in the Chapter 11 Proceedings for an interim order authorizing the Amended and Restated Securitization Program (as defined herein), granting adequate protection to the ACCC Term Lenders and certain other related relief. This motion is scheduled in the Chapter 11 Proceedings for May 27, 2009 and is described in greater detail below.

20. The U.S. Debtors have also filed a motion for a final order authorizing the continued use of the existing cash management system, the continuation of certain intercompany transactions and granting administrative priority status to post-petition intercompany claims. This motion is scheduled in the Chapter 11 Proceedings for June 4, 2009 and is described in greater detail below.

THE EXISTING SECURITIZATION PROGRAM

21. As described in the Monitor's First and Fifth Reports, the ACI Group participates in a securitization program (the "**Existing Securitization Program**") with Citibank, N.A. (London Branch) ("**Citibank**"), as the lead arranger and administrative agent, to help fund the working capital requirements of the ACI Group and the DCorp Group. Under the Existing Securitization Program, Citibank has agreed to purchase receivables in an aggregate amount of up to $210 million.

22. The ACI Group's only other significant source of liquidity is the ACI DIP Facility in the amount of $100 million which was approved by this Honourable Court on May 6, 2009.

Overview of the ACI Group's Sales and Receivables Collection Processes

23. ACCC carries on the main operations within the ACI Group in Canada. ACCC sells its products to ACI which in turn sells the products to either:

(i) Abitibi Consolidated Sales Corporation ("**ACSC**"), a DCorp Group entity which in turn sells the products (at market value less a small commission) to U.S. domiciled customers generating a receivable between ACSC and the customer;

(ii) directly to Canadian domiciled customers or to certain internationally domiciled customers (non-European) (i.e., these sales are not done through ACSC); or

(iii) Bridgewater Paper Company Limited ("**Bridgewater**"), a U.K. company which in turn sells the products to European domiciled customers. ACI receivables from Bridgewater are excluded from the Existing Securitization Program.

24. Paragraphs 25 to 34 below provide an overview of the mechanics of how the Existing Securitization Program operates in order to provide context for the Amended and Restated Securitization Program and the adequate protection provisions which are provided in the U.S. Debtors' motion to the U.S. Bankruptcy Court. The Existing Securitization Program provides funding for the accounts receivable of both the ACI Group and the DCorp Group. However, as most of DCorp Group's mill operations are idle, the vast majority of the receivables financed by the Existing Securitization Program are generated by the ACI Group.

U.S. Domiciled Sales

25. An example of how the Existing Securitization Program is administered by the ACI Group is set forth below based upon a sale by ACSC to a U.S. customer.

26. ACCC records an intercompany receivable when it sells inventory to ACI (the "**ACCC Receivable**"). ACI then records an intercompany receivable (the "**ACI Receivable**") when it sells the inventory to ACSC at its market value less a small commission. ACSC records the sale of inventory (originating from ACCC) to customers and records the corresponding trade receivable (the "**ACSC Trade Receivable**").

27. Pursuant to the Existing Securitization Program, ACSC sells the ACSC Trade Receivable to Abitibi-Consolidated U.S. Funding Corp., a non-Chapter 11 filing special purpose entity (defined as "**ACUSFC**" in previous Monitor's reports but defined herein as "**ACI Funding**" to be consistent with the Petitioners' motion materials). ACI Funding pays ACSC for the receivables it purchases: (i) from cash collected from accounts receivable, (ii) from proceeds received from Citibank as a result of the sales of an undivided interest in such accounts receivable, (iii) by increasing the amount of a note payable owed to ACSC (up to a limit) (the "**Deferred Purchase Note**") or (iv) by increasing the capital in ACI Funding which ACSC owns.

Theoretical Illustration

28. The following is an illustrative example of the collateral formula under the Existing Securitization Program.

29. For each receivable sold by ACSC to ACI Funding, ACI Funding receives from Citibank approximately 45 cents on the dollar (an illustrative margin rate under the Existing Securitization Program) of an ACSC Trade Receivable as a result of the sale of an undivided interest in the ACSC Trade Receivable. ACI Funding retains the balance (approximately 55 cents on the dollar) as a residual interest in the ACSC Trade Receivable. In consideration for the transfer of the ACSC Trade Receivable to ACI Funding, ACI Funding pays 45 cents of cash on each dollar of the ACSC Trade Receivable to ACSC and the balance with a Deferred Purchase Note. ACSC then repays to ACI a portion of the ACI Receivable at the same rate (45 cent on the dollar). ACI, in turn, repays the ACCC Receivable at the same rate. The remaining intercompany receivable balances remain outstanding until the ACSC Trade Receivable is ultimately collected from the customer.

30. Again, for illustrative purposes, when the ACSC Trade Receivable is collected from the customer the funds are deposited in an ACI Funding lockbox controlled by Citibank. From the deposit (i) Citibank repays itself the 45 cents on the dollar that it paid to ACI Funding and (ii) the balance of the funds are used to reduce ACI Funding's residual interest in the ACSC Trade Receivable. ACI Funding then pays the remaining 55 cents on the dollar to ACSC which reduces the Deferred Purchase Note or ACSC's equity in ACI Funding. ACSC, in

turn, repays to ACI the balance of the ACI Receivable which is in turn used to repay the balance of the ACCC Receivable.

Canadian and Certain Internationally Domiciled (Non-European) Sales

31. Accounts receivable generated from the sale of inventory by ACI to its Canadian and certain internationally domiciled (non-European) customers are transferred by ACI to ACI Funding directly as described below, and do not flow through ACSC.

32. ACCC records an intercompany receivable when it sells inventory to ACI (the "**ACCC Canadian Receivable**"). ACI then records the sale of inventory (originating from ACCC) to customers and records the corresponding trade receivable (the "**ACI Trade Receivable**").

33. Pursuant to the Existing Securitization Program, ACI sells the ACI Trade Receivable to ACI Funding for cash at essentially the face value of the ACI Trade Receivable (less a small discount).

34. As indicated, ACI is effectively paid in full for the direct sale of its receivables to ACI Funding. As a result, in practice, ACSC receives very little cash from the Existing Securitization Program, but rather an increase in the Deferred Purchase Note or an increase in the capital of ACI Funding which ACSC owns .

Daily Operation of the Existing Securitization Program

35. Since the sale of receivables by ACI and ACSC to ACI Funding and the cash collection of trade receivables through the lockboxes occur on a continuous basis, the Existing Securitization Program computes the amount available to the ACI Group on a net basis (much like a traditional asset based loan). ACI prepares a daily accounts receivable pool calculation which gives rise to an eligible receivable pool after deducting various ineligible receivable amounts and reserves. If the balance of the accounts receivable pool (the "**Base Amount**") is less than the purchases made under the Existing Securitization Program (the "**Purchase Balance**"), then cash deposits from accounts receivable collections are paid to Citibank or, if the cash deposits are insufficient, ACI makes a payment to Citibank for the difference until the Purchase Balance is equal to the Base Amount. If the Base Amount is greater than the Purchase Balance, then cash deposits from customer receivable collections

are paid to ACCC or ACI or, if the cash deposits are insufficient, Citibank makes a payment to ACCC or ACI for the difference until the Purchase Balance is equal to the lesser of the Base Amount or the contractual limit of $210 million under the Existing Securitization Program.

36. Effectively, all trade accounts receivable from sales of ACCC's inventory either through ACI or ACSC, with the exception of sales to Bridgewater, are sold to ACI Funding as part of the Existing Securitization Program.

37. As described in the First Report and the Supplemental Third Report of the Monitor, the ACI Group and the DCorp Group entered into a waiver which enabled the ACI Group and the DCorp Group to continue to use the Existing Securitization Program for a period of no more than 45 days following the issuance of the Initial Order and the filing of the Chapter 11 Proceedings. As a result, the ACI Group commenced a process to secure a longer term arrangement with a replacement financial institution to continue to fund the equivalent of the Existing Securitization Program on a more permanent basis during these CCAA Proceedings.

THE AMENDED AND RESTATED SECURITIZATION PROGRAM

38. The Monitor has been advised that the ACI Group and the DCorp Group have entered into engagement letters with Citibank and Barclays Capital Inc. ("**Barclays**") wherein Citibank and Barclays have agreed to provide a partial commitment for financing under an amended securitization program (the "**Amended and Restated Securitization Program**") pursuant to a term sheet and to arrange the remaining financing with other lenders.

39. The Amended and Restated Securitization Program would provide the ACI Group and the DCorp Group with up to $300 million of liquidity subject to the collateral formula and the amount of accounts receivable which will be eligible under the terms of the Amended and Restated Securitization Program.

40. The ACI Group has filed a motion in the CCAA Proceedings seeking the approval of this Honourable Court to enter into the Amended and Restated Securitization Program and the DCorp Group has filed a motion in the Chapter 11 Proceedings seeking the approval of the U.S. Bankruptcy Court of the Amended and Restated Securitization Program. The

consummation of the Amended and Restated Securitization Program will be subject to syndication and finalization of definitive documentation

41. The Monitor has been advised that the Amended and Restated Securitization Program is substantially similar to the Existing Securitization Program, subject to certain exceptions. The material terms of the Amended and Restated Securitization Program are summarized below:

TERM	DESCRIPTION
Purchase Limit	$300 million
Interest Rate	LIBOR + 7.5% (3% LIBOR floor); Base Rate + 6.5% (4% Base Rate floor)
Guarantors	The DCorp Group entities (except ACI Funding). ACI will be a party to a guarantee and undertaking agreement to provide certain representations and covenants, but will not be a guarantor.
Termination Date	The earliest of (a) the date that is 364 days after the Closing Date, (b) the substantial consummation of a plan of reorganization filed in any of the U.S. Chapter 11 Proceedings that is confirmed pursuant to an Order entered by the U.S. Bankruptcy Court (or a corresponding Order shall be entered by the Canadian Court) and (c) a declaration of termination following an event of termination (as described in the Amended and Restated Securitization Program) (the "**Termination Date**").
Fifteen Month Extension Option	ACI Funding may extend the Termination Date from 364 days to 15 months upon satisfaction of certain terms and conditions. Interest rate – additional 1.0% incremental margin.
Eighteen Month Extension Date	ACI Funding may extend the Termination Date from 15 months to 18 months upon satisfaction of certain terms and conditions. Interest rate – additional 1.0% incremental margin.
Fees	An upfront fee of $9.95 million and a standby fee of 1.5%.

TERM	DESCRIPTION
Availability	Based upon an asset based borrowing base formula.

42. The Monitor has compared the total liquidity available under the Existing Securitization Program to the net liquidity which will be available under the Amended and Restated Securitization Program and has determined that the net liquidity is comparable under the Amended and Restated Securitization Program over the forecast period. Since the Amended and Restated Securitization Program is a $300 million facility, it will provide incremental liquidity versus the Existing Securitization Program (which is a $210 million facility) should the ACI Group's net working capital expand due to increasing sales revenue. This will provide the ACI Group with additional financing flexibility if market conditions improve or working capital levels need to expand during the CCAA Proceedings.

43. The Petitioners have advised the Monitor that they received two other proposals to provide a post-petition financing facility to replace the Existing Securitization Program and, after analyzing all three proposals, determined that the Amended and Restated Securitization Program offered, on balance, the best terms and pricing. A summary of the three proposals was prepared by BMO Nesbit Burns Inc. ("**BMO Capital Markets**") and reviewed and considered by the Board of Directors and the Citibank proposal was approved.

44. Although the Monitor was not directly involved in the process to replace the Existing Securitization Program, the Monitor has reviewed the proposals received and has reviewed BMO Capital Markets' analysis of the proposals. The Monitor agrees with BMO Capital Markets' recommendation. The Monitor also participated in the Board of Directors' meeting to consider the proposals.

45. Based on the Monitor's review of the current ACI Group's cash flow forecast, it would appear that the Amended and Restated Securitization Program, together with the ACI DIP Facility, will provide the ACI Group and the DCorp Group with sufficient liquidity to continue to operate their businesses.

THE ADEQUATE PROTECTION MOTION

46. As described in the Monitor's First Report and noted above, the ACI Group and the DCorp Group operate an integrated cash management system (the "**CMS**"). The CMS is the vehicle for transferring funds between the entities within the ACI Group and the DCorp Group. Essentially, funds are collected in separate concentration accounts from various deposit accounts in Canada, the United States and Europe and are then transferred to various disbursement and payroll accounts to pay ongoing business expenses as required. The ABH Group also uses the CMS to support the significant intercompany transactions among the ABH Group entities.

47. DCorp and certain of its subsidiaries have guaranteed certain indebtedness of the ACI Group, including the indebtedness under the Term Loan Facility.

48. The Term Loan Facility is secured primarily by the personal (moveable) property (including accounts receivable and inventory) of ACCC, ACI and other guarantors and by a charge on substantially all of the personal (moveable) property of DCorp and its subsidiaries (including accounts receivable, inventory and equipment), the pledge of the stock or other equity interests of certain subsidiaries of DCorp and the real estate relating to the mill owned by Alabama River Newsprint Company. In addition to the accounts receivable and inventory collateral, the Term Loan Facility is secured by a pledge of the shares or other equity interests of the DCorp Group entities.

49. As reported in the Monitor's Fifth Report, on April 17, 2009, certain of the ACCC Term Lenders filed a limited objection to the U.S. Debtors' motion for approval of the continuation of the Existing Securitization Program in the U.S. Bankruptcy Court. During the initial hearings on the approval of the continuation of the Existing Securitization Program, the ACCC Term Lenders argued that the Petitioners sought to utilize the DCorp Group's collateral (the "**U.S. Pre-Petition Collateral**") of the ACCC Term Lenders without providing adequate protection under the U.S. Bankruptcy Code.

50. In response to this objection, the U.S. Debtors entered into discussions with the ACCC Term Lenders regarding the entry of an adequate protection order in the Chapter 11 Proceedings.

Such an order would impact the ACI Group due to the consolidation of the CMS as between the ACI Group and the DCorp Group.

51. In order to resolve the limited objection of the ACCC Term Lenders, the DCorp Group agreed to provide certain forms of adequate protection to the ACCC Term Lenders during the 45 day period from April 16, 2009 to June 1, 2009 or until the Existing Securitization Program is replaced (the "**Initial Adequate Protection Period**").

52. During the Initial Adequate Protection Period, the ACCC Term Lenders were granted replacement liens on post-petition assets of the DCorp Group of the same nature, scope and type as the assets that comprised the U.S. Pre-Petition Collateral (the "**Replacement Liens**"). During the Initial Adequate Protection Period, the ACCC Term Lenders were also granted first priority liens on, and security interests in, all unencumbered assets of the DCorp Group and junior liens on encumbered assets of the DCorp Group (the "**Additional Liens**"). Such Replacement Liens and Additional Liens were intended to protect the ACCC Term Lenders to the extent of any diminution in the value of the U.S. Pre-Petition Collateral during the Initial Adequate Protection Period. The ACCC Term Lenders were also granted a super-priority administrative expense claim that includes, among other things, pre- and post-petition interest that is due or will become due to the extent that it is not paid.

53. Upon the refinancing of the Existing Securitization Program, the DCorp Group has agreed to make an adequate protection payment in the amount of approximately $11 million (the "**Interim Payment**"), plus the fees and expenses of certain professionals to the ACCC Term Agent which accrued during the Initial Adequate Protection Period. It is the Monitor's understanding that the Interim Payment was agreed to by the U.S. Debtors before the full implications of the effect of this payment on the ACI Group, through the operation of the Existing Securitization Program and the CMS, were appreciated.

54. In its motion for an order authorizing entry into the Amended and Restated Securitization Program, DCorp Group is seeking an order from the U.S. Bankruptcy Court providing additional adequate protection to the ACCC Term Lenders beyond the Initial Adequate Protection Period (the "**Adequate Protection**").

55. The Monitor has been advised that DCorp will be providing the Adequate Protection, in part, by establishing a bank account in the name of DCorp (the "**Adequate Protection Account**") which shall be subject to a first-priority lien in favour of the ACCC Term Agent. As discussed in the following paragraph, the DCorp Group will deposit in the Adequate Protection Account on the sixteenth day of each month, with the first deposit due as of April 15, 2009 (the "**Petition Date**"), an amount equal to 43.4% (the "**U.S. Percentage**") of the interest payable on the aggregate principal amount of the Term Loan Facility, at the non-default rate of interest provided for in the Term Loan Facility (the "**Monthly Deposit**").

56. As the Interim Payment, described in the previous paragraphs, of approximately $11 million will have been paid to the ACCC Term Lenders representing 100% of the interest payable on the Term Loan Facility, the U.S. Debtors are proposing in their motion that an amount equal to 56.6% (the "**Non-U.S. Percentage**") of the Interim Payment shall be deemed an advance payment of the Monthly Deposits in respect of the U.S. Percentage beginning on the Petition Date and thereafter. The DCorp Group shall only commence making Monthly Deposits payments at such time as the cumulative Monthly Deposits owed by the DCorp Group exceed the amount of the advance payment[1]. The ACCC Term Agent will also receive payment on account of the reasonable fees and expenses of certain professionals arising from and after the Petition Date.

57. The basis for the Monthly Deposit and the U.S. Percentage is outlined in the "Declaration of Steven Zelin in Support of Debtor's Motion for an Order Authorizing a Replacement Securitization Program Granting Adequate Protection and Other Related Relief" (the "**Declaration**") which is attached as Appendix "E" to this Sixth Report. As set out in the Declaration, the 43.4% allocation used in the calculation of the Monthly Deposit represents an estimate of the pro rata value of the ACCC Term Lenders collateral located in the U.S. as a percentage of the total collateral securing the Term Loan Facility based upon the borrowing base certificate as at March 31, 2009. The Monitor has been advised that this is how the Petitioners calculated the U.S. Percentage. The purpose of the Monthly Deposit based on the

[1] Therefore, the Monthly Deposits will effectively commence in August 2009 based on the following:

$11,000,000 x 56.6% [the Non-U.S. Percentage] = $6,226,000 (represents the credit of the Monthly Deposit)

$6, 226,000 ÷ ($3,324,000 [the estimated monthly interest on the Term Loan Facility] x 43.9% [the U.S. Percentage]) = 4.3 months

U.S. Percentage was to provide adequate protection to the ACCC Term Lenders on collateral located in the U.S. in respect of the Chapter 11 Proceedings. It does not provide adequate protection to the ACCC Term Lenders with respect to the collateral located in Canada that is subject to the CCAA Proceedings.

58. The Monitor has reviewed the calculation of the U.S. Percentage. The largest asset located in the U.S. that is included in the collateral base of the Term Loan Facility is the residual value in the Existing Securitization Program held by ACI Funding and owned by ACSC. Although this system is not perfect, including by virtue of the fact that it uses a percentage from a particular point in time to approximate the relevant contribution of the U.S. Debtors' assets versus the Petitioners' assets that fluctuates on a daily basis, it does represent an attempt by the Petitioners to recognize that there are both U.S. and Canadian assets and issues involved, including various stakeholders with competing rights and interests. Further, the Monitor notes that the Petitioners are not seeking court approval in the CCAA Proceedings of the Monthly Deposit adequate protection and U.S. Percentage payment mechanism.

59. The Replacement Liens and the Additional Liens shall remain in place in respect of the assets of the DCorp Group.

60. As indicated in the Monitor's Fifth Report, the ACI Group funds any operating losses incurred by the DCorp Group as the DCorp Group has limited separate funding sources other than through the Existing Securitization Program or the Amended and Restated Securitization Program. As a result, the DCorp Group's requirement to make the Monthly Deposit will be funded from cash generated from the Amended and Restated Securitization Program that would otherwise be used to repay intercompany receivables to ACI for inventory purchases or otherwise make advances to ACI. The effect of this will be that ACI will have a greater net intercompany receivable from ACSC than otherwise if the Monthly Deposits had not been required.

61. The Monitor notes that although this impacts ACI's cash position, the requirement to replace the Existing Securitization Program is critical to the ability of the ACI Group to fund its operations during the CCAA proceedings.

62. The Monitor will monitor and report on the level of the intercompany balances as between the ACI Group and DCorp Group as these CCAA proceedings progress.

ADMINISTRATIVE PRIORITY CLAIM

63. Given that the ACI Group funds the operating losses incurred by the DCorp Group, including the DCorp Group's interest payments to the ACCC Term Lenders, the interim order being sought in respect of the adequate protection for the ACCC Term Lenders provides that, to the extent the ACI Group makes an intercompany transfer to the DCorp Group to satisfy the Interim Payment, or otherwise as adequate protection of the ACCC Term Lenders, the ACI Group shall have an administrative priority claim against the DCorp Group.

64. The Monitor has been advised by the U.S. Debtors that the final Cash Management Order which the U.S. Debtors will seek from the U.S. Court will provide that all cash advances made by the Canadian Petitioners to the U.S. Debtors, including those by the ACI Group to the DCorp pursuant to the CMS, will be granted administrative priority claim status in the Chapter 11 Proceedings.

CHIEF RESTRUCTURING OFFICER

65. The Monitor has been advised by the Petitioners that ABH and ACI intend to enter into a CRO engagement letter (the "**CRO Engagement Letter**") with 7088418 Canada Inc. (the "**CRO Co**") and Mr. Bruce Robertson (the "**CRO**"), the sole shareholder, President and Chief Executive Officer of CRO Co, to perform the role of Chief Restructuring Officer of each of ABH and ACI to assist the ABH Group with its restructuring process. The Petitioners have advised that the CRO Engagement Letter is subject to approval by the U.S. Bankruptcy Court.

66. The Monitor views the engagement of Mr. Robertson as the CRO as a positive development in the CCAA Proceedings and the Chapter 11 Proceedings as Mr. Robertson is experienced and knowledgeable in restructurings of large organizations. Mr. Robertson will provide assistance to the ABH Group as it begins the process of communicating restructuring options to stakeholders and developing restructuring initiatives.

67. The Monitor has reviewed the terms of the CRO Engagement Letter and is of the view that such terms are reasonable having regard to similar engagements in other CCAA proceedings. The Monitor has been informed by ABH that the costs associated with the engagement of the CRO Co will be evenly divided between ABH and ACI.

PROPERTY AND BUSINESS TAXES

68. Further to representations made in Court on May 14, 2009 with respect to the status of ACI's property and business taxes, the Monitor has been working with the Petitioners to gather the relevant data. The tax records are maintained at the mill level for each municipality in Ontario and Quebec and comprise hundreds of tax rolls. The Petitioners are in the process of collecting the data and summarizing it with the assistance of the Monitor and are working expeditiously on this matter in light of the importance to the affected municipalities.

RECOMMENDATIONS

69. The Monitor recommends the Court authorize the Petitioners to enter into the Amended and Restated Securitization Program.

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

Greg Adams, CA, CIRP
Senior Vice President

John F. 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"
DECLARATION OF STEVEN ZELIN

APPENDIX "E'

IN THE UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF DELAWARE

In re:	)	Chapter 11
ABITIBIBOWATER INC., *et al.*,[1]	)	Case No. 09-11296 (KJC)
Debtors.	)	(Joint Administration Pending)

DECLARATION OF STEVEN ZELIN IN SUPPORT OF DEBTORS' MOTION FOR AN ORDER PURSUANT TO SECTIONS 105, 362(d), 363(b)(l), 363(c), 363(f), 363(l), 363(m), 364(c), 364(e) AND 365 OF THE BANKRUPTCY CODE (1) AUTHORIZING ENTRY INTO AN AMENDED AND RESTATED GUARANTEED RECEIVABLES PURCHASE FACILITY AND AUTHORIZING THE SALE OF RECEIVABLES AND RELATED RIGHTS THERETO, (2) AUTHORIZING ABITIBI CONSOLIDATED SALES CORPORATION TO CAUSE PAYMENT OF CERTAIN FEES PURSUANT TO THE ENGAGEMENT LETTERS, (3) MODIFYING THE AUTOMATIC STAY, (4) AUTHORIZING THE USE OF CASH COLLATERAL, (5) GRANTING SUPERPRIORITY ADMINISTRATIVE EXPENSE CLAIMS, (6) GRANTING ADEQUATE PROTECTION, (7) SCHEDULING HEARINGS AND (8) GRANTING OTHER RELATED RELIEF

STEVEN ZELIN, pursuant to 28 U.S.C. § 1746, declares:

1. I am a Senior Managing Director of Blackstone Advisory Services L.P. ("**Blackstone**"), a subsidiary of The Blackstone Group, L.P., a global alternative asset manager and provider of financial advisory services listed on the New York Stock Exchange that

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1 The Debtors in these cases, along with the last four digits of each Debtor's federal tax identification number, are: AbitibiBowater Inc. (6415), AbitibiBowater US Holding 1 Corp. (N/A), AbitibiBowater US Holding LLC (N/A), AbitibiBowater Canada Inc. (N/A), Abitibi-Consolidated Alabama Corporation (4396), Abitibi-Consolidated Corporation (9050), Abitibi-Consolidated Finance LP (4528), Abitibi Consolidated Sales Corporation (7144), Alabama River Newsprint Company (7247), Augusta Woodlands, LLC (9050), Bowater Alabama LLC (7106), Bowater America Inc. (8645), Bowater Canada Finance Corporation (N/A), Bowater Canadian Forest Products Inc. (N/A), Bowater Canadian Holdings Incorporated (N/A), Bowater Canadian Limited (N/A), Bowater Finance Company Inc. (1715), Bowater Finance II LLC (7886), Bowater Incorporated (1803), Bowater LaHave Corporation (N/A), Bowater Maritimes Inc. (N/A), Bowater Newsprint South LLC (1947), Bowater Newsprint South Operations LLC (0168), Bowater Nuway Inc. (8073), Bowater Nuway Mid-States Inc. (8290), Bowater South American Holdings Incorporated (N/A), Bowater Ventures Inc. (8343), Catawba Property Holdings, LLC (N/A), Coosa Pines Golf Club Holdings LLC (8702), Donohue Corp. (9051), Lake Superior Forest Products Inc. (9305) and Tenex Data Inc. (5913). The Debtors' corporate headquarters are located at, and the mailing address for each Debtor is, 1155 Metcalfe Street, Suite 800, Montreal, Quebec H3B 5H2, Canada.

maintains offices at 345 Park Avenue, New York, New York 10154. I submit this declaration in support of the Motion (the "**Motion**") of AbitibiBowater Inc. and its affiliated debtors and debtors-in-possession in the above-captioned cases (each a "**Debtor**," and collectively, the "**Debtors**") for an Order: (1) authorizing entry into an amended and restated guaranteed receivables purchase facility; (2) authorizing the sale of receivables and related rights pursuant to an amended and restated securitization program (the "**Amended and Restated Securitization Program**"); (3) authorizing payment of certain fees pursuant to that certain engagement letter (the "**Engagement Letter**") dated May 6, 2009 by and between Citibank, N.A. ("**Citibank**"), Abitibi-Consolidated Inc. ("**ACI**") and Abitibi-Consolidated U.S. Funding Corp. ("**ACI Funding**"); (4) modifying the automatic stay; (5) authorizing the use of cash collateral; (6) granting superpriority administrative expense claims; (7) granting adequate protection; (8) scheduling hearings on this motion to consider entry of an interim order (the "**Interim Order**"), and consider entry of a final order; and (9) granting other related relief. Except as otherwise noted, I have personal knowledge as to all of the information set forth below.

MY BACKGROUND AND QUALIFICATIONS

1. I have an MBA in Finance from New York University's Stern School of Business and BS in accounting from the University at Albany.

2. I joined Blackstone in 1998. Prior to joining Blackstone, I was with Ernst and Young LLP in its restructuring advisory group from 1988 to 1998 and was made a partner in the group from 1994. I joined Ernst and Young LLP as an auditor in 1984.

3. I have advised numerous public and private companies and stakeholders in complex restructurings, including Apex Silver Mines Ltd., Delphi Corporation, Enron Corporation, Ford Motor Company, General Motors Corporation, Goodyear Tire & Rubber

Company, Iridium LLC, The Pacific Lumber Company / Scotia Pacific Company LLC, SemGroup, L.P., and Xerox Corporation, to name a few.

4. In connection with engagements in which I have been involved, I have advised distressed companies in connection with identifying potential sources of financing and negotiating the terms of such financing.

5. As a finance and restructuring professional, I closely follow developments in the financial markets and, in particular, the credit markets, and keep abreast of the terms of current financing transactions in distressed and bankruptcy situations.

BLACKSTONE'S QUALIFICATIONS

6. The Blackstone Group, L.P. is a leading global alternative asset manager and provider of financial advisory services listed on the New York Stock Exchange (ticker symbol BX). Blackstone's restructuring and reorganization advisory operation is one of the leading advisers to companies and creditors in restructurings and bankruptcies.

7. Blackstone professionals have extensive experience working with financially troubled companies in complex financial restructurings. Since 1991, Blackstone has advised on more than 175 distressed situations, both in and out of bankruptcy proceedings, involving more than $700 billion of total liabilities.

8. Blackstone's professionals have been retained as investment bankers and financial advisors in many troubled company situations, including among others Apex Silver Mines Ltd., Delta Air Lines, Inc., Delphi Corporation, Enron Corporation, Flying J Inc, Global Crossing Limited, Ford Motor Company, General Motors Corporation, Vencor, Inc., Lyondell Chemical Company, The Pacific Lumber Company / Scotia Pacific Company LLC, R.H. Macy & Company, Inc., and SemGroup, L.P.

9. On or about February 23, 2009, Blackstone was engaged to provide investment banking and financial advisory services to the Debtors in connection with their restructuring efforts. Blackstone, among other advisory services, has (a) analyzed the Debtors' current liquidity and projected cash flow; (b) assisted the Debtors in evaluating their restructuring and other strategic alternatives; (c) helped the Debtors prepare for a potential chapter 11 filing; and (d) as part of that preparation for a possible chapter 11 filing, conducted or participated in the Debtors' comprehensive search to obtain debtor-in-possession financings for the Bowater Group[2] and the Donohue Group on the most competitive terms and conditions available to the Debtors.

10. I have been involved in the Company's deliberations with regard to obtaining a replacement of its existing securitization facility with Citibank, and I am familiar with the terms of the various proposals for that replacement facility considered by the Company. I also advised the Company as the Company analyzed and developed a level of adequate protection to protect the interests of the ACCC Term Lenders, as discussed below.

THE PRE AND POSTPETITION FINANCING STRUCTURES OF THE ABITIBI GROUP AND THE DONOHUE GROUP

11. The proposed postpetition capital structure of the Abitibi Group and the Donohue Group will mirror the prepetition capital structure. Prepetition, the Abitibi Group entered into a credit facility extended to a Canadian borrower and secured by assets located in Canada and, as described below, in the United States. Specifically, ACI's Canadian subsidiary, Abitibi-Consolidated Company of Canada (**"ACCC"**) is a borrower under a credit agreement, dated April 1, 2008, that provides for a 364-day senior secured term loan (the "**ACCC Term**

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[2] Capitalized terms used but not defined herein shall have the meanings ascribed to them in the Motion.

Loan," the administrative and collateral agent thereunder the "**ACCC Term Agent**," and the lenders thereunder, the "**ACCC Term Lenders**"). As of the Petition Date, an aggregate principal amount of approximately $347 million[3] was outstanding under the ACCC Term Loan. ACCC is the primary obligor under the ACCC Term Loan, and ACCC's Canadian parent, ACI, and certain of its Canadian affiliates, as well as the Donohue Group (comprised of affiliates of ACCC in the United States), have guaranteed ACCC's obligations under the ACCC Term Loan. In the case of guarantees provided by the Donohue Group, these guarantees are secured by a pledge of various assets of the Donohue Group, as described more fully in the Motion. The ACCC Term Loan is governed by a borrowing base,[4] whereby the ACCC Term Lenders receive periodic reporting of the value, as defined in the ACCC Term Loan, of certain assets pledged as collateral to support the ACCC Term Loan.

12. In addition, prepetition, the Abitibi Group and the Donohue Group participated in a receivables securitization program (the "**Existing Securitization Program**") funded through ACI Funding, a non-debtor special purpose vehicle, to finance working capital requirements. The Existing Securitization Program operates as follows: ACI (part of the Abitibi Group) and Abitibi Consolidated Sales Corporation ("**ACSC**") (part of the Donohue Group) originate accounts receivable. As "originators," ACI sells, and ACSC contributes, those receivables to ACI Funding. ACI Funding pays ACI in cash for the receivables using money from (a) collections on previously sold accounts receivable owned by ACI Funding, and (b) proceeds from the Existing Securitization Program. ACI Funding pays for substantially all of the receivables it purchases from ACSC using a Deferred Purchase Note (as defined in the PCA) or

3 All monetary figures are presented in U.S. dollars unless specifically noted otherwise.

4 The most recent borrowing base certificate delivered by ACCC is attached to the Motion as Exhibit 2 (the "**Borrowing Base Certificate**").

return of capital contributions to ACSC. The maximum outstanding balance of the Deferred Purchase Note is $35,000,000. The Deferred Purchase Note is pledged as collateral to the ACCC Term Agent. Under the Existing Securitization Program, Citibank has committed to purchase receivables from ACI Funding in an aggregate principal amount of up to $210 million.

13. To generate accounts receivable, ACI and ACSC sell inventory that constitutes collateral of the ACCC Term Lenders. Upon the creation of accounts receivable as proceeds of the sale of inventory and immediate sale of the accounts receivable to ACI Funding, any lien held by the ACCC Term Lenders is automatically released (in accordance with the Intercreditor Agreement described in the Motion). The accounts receivable subsequently are collected through various lockboxes subject to blocked account control agreements in favor of Citibank. Funds from the lockboxes are transferred daily into accounts controlled by Citibank that serve to concentrate customer payments on receivables in United States and Canadian dollars.

14. To obtain advances under the Existing Securitization Program, the Company provides Citibank with periodic reports. Based on these reports, the parties calculate advances based on an advance rate cap and the total amount of capital available under the program. Citibank advances any additional available capital to ACI Funding for ACI Funding to purchase new receivables from ACI and ACSC. The proceeds from the Existing Securitization Program are transferred into certain of the Abitibi and Donohue Groups' operating accounts located in the U.S. and Canada that are subject to blocked account control agreements in favor of the ACCC Term Agent. Such proceeds are used to fund operations.

15. Financing available under the Existing Securitization Program at any time is limited by the outstanding balance of the eligible receivables, the size of the total reserves

under the program and other factors. As a result of such limitations, ACI Funding owns substantial accounts receivable against which Citibank does not advance funds. According to the Borrowing Base Certificate, the equity of ACI Funding, owned by ACSC and pledged to the ACCC Term Agent, had a value of $181.4 million as of March 31, 2009.

16. The Abitibi and Donohue Groups need to maintain this receivables financing structure postpetition. At the "first day" hearing, the Bankruptcy Court entered an order permitting the Debtors to continue the Existing Securitization Program for a 45-day period postpetition. The Debtors now seek the Court's approval of the proposed Amended and Restated Securitization Program to continue to provide liquidity to the Abitibi Group and the Donohue Group. The operation of the Existing Securitization Program is substantially the same as the operation of the proposed Amended and Restated Securitization Program, and the description above of the Existing Securitization Program is illustrative of the Amended and Restated Securitization Program.

17. Recently, the Abitibi Group also obtained incremental post-bankruptcy financing secured, on a priming basis, by certain assets of ACI and ACCC located in Canada. More specifically, ACCC has sought and obtained approval from the Quebec Superior Court of Justice (Commercial Division) (the "**Canadian Court**") in its proceeding under Canada's Companies' Creditors Arrangement Act (the "**CCAA Proceeding**") of a $100,000,000 Super-Priority Senior Secured Debtor-in-Possession Credit Facility (the "**ACI DIP**"), pursuant to an order of the Canadian Court dated May 6, 2009. (*See Reasons for Judgment on Abitibi Petitioners' Motion for Approval of a DIP Financing (#39) and Second Amended Initial Order*, attached to the Motion as Exhibit 4 (the "***ACI DIP Order***").) The ACI DIP is subject to a minimum availability of $12,500,000 to be maintained at all times, leaving $87,500,000

available for working capital and other general corporate purposes. (*Id.* at ¶ 10.) However, pursuant to its terms, proceeds cannot be used to repay amounts outstanding under the existing securitization program. (*Id.*) The first tranche available under the ACI DIP is $30,000,000; the ACI DIP must be repaid by the earlier of November 1, 2009, or the filing of a reorganization plan in either Canada or the United States. (*Id.* at ¶¶ 10; 29.)

THE NEED FOR A NEW FINANCING FACILITY
FOR THE ABITIBI GROUP AND THE DONOHUE GROUP

18. The Existing Securitization Program will terminate on June 1, 2009, pursuant to an Event of Termination that is triggered 45 days after the Petition Date. Termination of the Existing Securitization Program, without refinancing or replacement, would result in extraordinary harm to the Debtors.

19. If the Existing Securitization Program terminates, it will immediately unwind, permitting Citibank to apply all current and future amounts collected in the securitization lock box accounts to the approximately $124,000,000[5] of capital currently extended to the Abitibi and Donohue Groups pursuant to the program. In other words, unwinding of the Existing Securitization Program will leave the Abitibi and Donohue Groups without enough cash to operate their businesses.

20. Neither the ACI DIP nor the Amended and Restated Securitization Program could, individually, provide the Abitibi and Donohue Groups with sufficient liquidity to maintain operations in the ordinary course. Both facilities are required to provide the Abitibi and Donohue Groups with necessary liquidity. *See* Fifth Report of the Monitor, *In re AbitibiBowater, Inc.*, No. 500-11-036133-094 (S.C. Montreal May 13, 2009), attached to the Motion as Exhibit 3 (**"Fifth Monitor's Report"**) ¶ 52: ("The [18 week cash flow forecast ending

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5 Amount as of May 15, 2009.

September 6, 2009] indicates that [ACI and its subsidiaries have] sufficient liquidity resources under the [Extended] Securitization Program, or [an amended securitization program], and the DIP Facility to meet its operational needs and post-filing obligations during the period of the [forecast].").

21. Thus, the Abitibi and Donohue Groups' need for access to the entire amount financed by the proposed Amended and Restated Securitization Program is vital and immediate. Without replacement financing upon termination of the Existing Securitization Program, the Abitibi and Donohue Groups will run out of money.

THE COMPETING PROPOSALS

22. Beginning in March 2009, the Company began soliciting proposals to replace the Existing Securitization Program. After extensive discussions with various financial institutions, along with certain of the ACCC Term Lenders, the Company secured three competing proposals for financing of up to $300 million.

23. The Company's existing securitization provider, Citibank, proposed a facility (the "**Citibank Proposal**"). The Company also received a proposal from a second major financial institution (the "**First Alternate Proposal**"). Finally, the Company received several iterations of a proposal from certain of the ACCC Term Lenders (the "**ACCC Term Lenders' Proposal**"). The ACCC Term Lenders' Proposal that was considered by the Company's Board of Directors on April 28, 2009, as described below, proposed a multiple draw term loan facility or receivables purchase agreement financing of up to $300 million with a "roll-up" of the ACCC Term Lenders' loans (i.e., a conversion of some or all of the ACCC Term Loan into a postpetition, superpriority secured loan).

24. Set forth below is a chart outlining the interest rates, fees and maturity dates associated with each of the three proposals considered by the Company's Board of Directors on April 28, 2009:

	CITIBANK PROPOSAL	FIRST ALTERNATE PROPOSAL	ACCC TERM LENDERS' PROPOSAL
Facility Size	$300 million	$300 million	$300 million
Interest Rate	L+750 bps (3.0% floor) Base Rate + 650 bps (4.0% floor) First Extension of Maturity: additional 1.0% incremental margin Second Extension of Maturity: additional 1.0% incremental margin (total for two extensions of 2.0%)	L+650 bps (3.5% floor) Base Rate + 550 bps (4.5% floor) First Extension of Maturity: additional 1.0% incremental margin Second Extension of Maturity: additional 1.0% incremental margin (total for two extensions of 2.0%)	L+1000 bps (3.5% floor)
Facility Fees (Arranger /Upfront /Exit)	$9.95 million (inclusive of fees subsequently agreed with Barclays as syndication agent)	$21 million	$22.6 million
Standby Fee	1.5%	2.0%	1.5%
Total all-in cost	$32.5 million	$43.0 million	$51.1 million
Maturity	One year, with two – three month extension options	One year, with two – three month extension options	One year

25. The most recent revised proposal from the ACCC Term Lenders, received on May 11, 2009, is still less advantageous to the Company than the Citibank Proposal: it consists of a $200 million multiple draw term loan facility or receivables purchase agreement, with a $100 million uncommitted incremental facility with terms, conditions and fees to be mutually determined. The $200 million facility carries an interest rate of LIBOR plus 7.5% with a 3.5% floor, and can be extended beyond its one year maturity for two three month periods upon

payment of 1.0% for each extension, with an all-in cost of $32.1 million (excluding fees for the $100 million uncommitted incremental facility). This facility also calls for a "roll up" of the ACCC Term Lenders' loans. Even with the improved financial terms of the revised proposal, the ACCC Term Lenders' Proposal remains incomplete, leaving many basic terms, including the ultimate structure of the facility, "TBD." Moreover, pursuing the Citibank Proposal in the compressed time period remaining presents less execution risk than the ACCC Term Lenders' Proposal. It is also my understanding, on information and belief, that the loan "roll up" proposed by the ACCC Term Lenders would not likely be approved by the Canadian Court in the CCAA Proceeding.

THE BASES FOR THE COMPANY'S APPROVAL OF THE ENTRY INTO THE PROPOSED CITIBANK SECURITIZATION FACILITY

26. On April 28, 2009, the Company's Board of Directors considered the three existing competing proposals. BMO Capital Markets ("**BMO**"), the Abitibi Group's financial advisor in the CCAA Proceeding, presented an analysis to the Board comparing the three proposals. I was present for the presentation and thoroughly reviewed BMO's analysis. After the presentation, management recommended, with BMO's and Blackstone's concurrence, that the Citibank Proposal was the most advantageous of the three proposals. After discussion, the Board unanimously decided that the Company should take steps to finalize Citibank's proposed securitization facility as expeditiously as possible. The Citibank Proposal was chosen because of its significantly lower cost and the definitive margining rates offered by Citibank, as well as the stability and certainty provided by transitioning to a replacement financing facility with the provider (Citibank) of the Existing Securitization Program in an extremely compressed time period.

THE AMENDED AND RESTATED SECURITIZATION PROGRAM IS FAIR AND REASONABLE

27. It is Blackstone's opinion that the pricing, fees, interest rates, and other terms and conditions of the Amended and Restated Securitization Program are fair, reasonable and advantageous to the Company, particularly in light of the lower cost, liquidity provided, and the extremely short period of time available to close on the new facility prior to the June 1, 2009 termination of the Existing Securitization Program. The Amended and Restated Securitization Program provides the Abitibi and Donohue Groups with the continued liquidity that is crucial to their ability to fund their operating, working capital, and capital expenditure needs going forward. In Blackstone's opinion, under the present circumstances, the Amended and Restated Securitization Program is the most attractive financing vehicle available to replace the Existing Securitization Program.

THE COMPANY HAS OFFERED SUFFICIENT ADEQUATE PROTECTION OF THE ACCC TERM LENDERS' INTERESTS IN ASSETS OF THE CHAPTER 11 AND CHAPTER 15 DEBTORS

28. The ACCC Term Lenders made secured loans to ACCC, a Canadian corporation, guaranteed by ACI and other Canadian affiliates and secured by certain assets located in Canada, as well as certain assets of ACI and ACCC located in the United States. The Donohue Group provided guarantees of the obligations of ACCC under the Term Loan Agreement, secured by certain inventory, net accounts receivable, and other assets located in the United States.

29. Based on the Borrowing Base Certificate, attached hereto as Exhibit 1 (the "**Collateral Analysis**") is a preliminary analysis of the assets pledged to secure the ACCC Term Loan. The Collateral Analysis summarizes the value of assets listed on the Borrowing Base Certificate (eligible inventory and accounts receivable, including the equity value of ACI

Funding) and divides these assets between the Donohue Group and the Abitibi Group (including assets attributable to the Abitibi Group's Bridgewater operations located in the United Kingdom).

30. As set forth in the Collateral Analysis, the combined value of the collateral included on the Borrowing Base Certificate of the Donohue and Abitibi Groups pledged to secure the ACCC Term Loan is approximately $435.6 million. Of this total value, approximately $188.9 million (43.4%) of collateral is attributable to the Donohue Group and approximately $246.7 million (56.6%) of collateral is attributable to the Abitibi Group.

31. The Collateral Analysis does not include values for the assets of Alabama River Newsprint Company, an idled newsprint mill, and Abitibi-Consolidated Corporation (the recycling business) that are pledged to secure the ACCC Term Loan. Values attributable to these assets are not included as part of the Borrowing Base Certificate and the Donohue Group has not undertaken appraisals of this collateral. However, the operations at Alabama River Newsprint Company and the recycling business have negative cash flow, and losses from operation of these businesses are funded directly by the Abitibi Group pursuant to intercompany transfers in the ordinary course. The monthly cash intercompany transfers made by the Abitibi Group to the Donohue Group are approximately $1.5 million per month.

32. ACSC's ownership of a 52.5% partnership interest in Augusta Newsprint Company, a non-debtor joint venture, is also excluded from the Collateral Analysis because the partnership interest is not pledged as collateral to secure the ACCC Term Loan.

33. It is my understanding that the Donohue Group does not have assets outside of the United States, and ACI and ACCC, both Chapter 15 Debtors, do not have any current or fixed assets located in the United States other than amounts on deposit in certain bank

accounts which had approximately $7 million on deposit as of the Petition Date. Accordingly, for the purposes of the Collateral Analysis, the assets of the Donohue Group (43.4% of the aggregate collateral value) represent assets located in the United States and the assets of ACI/Bridgewater (56.6% of the aggregate collateral value) represent assets located outside of the United States.

34. The distinction between collateral pledged by Chapter 11 Debtors (the Donohue Group) and Chapter 15 Debtors (ACI and ACCC) located in the United States on the one hand, and collateral pledged by Chapter 15 Debtors and non-Debtors (the Abitibi Group) located in Canada and the rest of the world on the other hand, is important in light of a recent decision rendered by the Canadian Court. Ruling on a request of the ACCC Term Lenders for adequate protection of their secured interests in collateral in connection with approval of the ACI DIP in the CCAA Proceeding, the Canadian Court concluded that the ACCC Term Lenders' request was "unfounded, and in fact questionable", noting that "the U.S. concept of an Adequate Protection Charge is seldom, if ever, applied in Canadian Courts". (*See ACI DIP Order*, at ¶¶ 43-44.) Relying in part on the Third Report of the Monitor in the CCAA Proceeding, dated April 27, 2009 (citing to the Borrowing Base Certificate that includes collateral in both the United States and Canada but excludes the value of certain fixed asset collateral located in the United States), the Canadian Court noted that even the liquidation value of the ACCC Term Lenders' inventory and accounts receivable collateral reflected a borrowing base margin of $60.4 million over the outstanding loan balance of $347 million. (*Id.* at ¶ 33.) In denying the ACCC Term Lenders' request for adequate protection, the Canadian Court concluded that "outside of the liquidation scenario, the margin is even bigger." (*Id.* at ¶ 34.)

35. To the extent the ACCC Term Lenders have a pledge of, and security interest in, collateral located in the United States, the Debtors are seeking approval to use this collateral and offering the ACCC Term Lenders adequate protection to protect against any diminution in value during the Chapter 11 and Chapter 15 Cases of the ACCC Term Lenders' interest in collateral located in the United States.

36. In connection with the Debtors' request at the First Day Hearing to obtain authority to continue the Existing Securitization Program postpetition, the Debtors and certain ACCC Term Lenders agreed to an adequate protection package to protect the ACCC Term Lenders against diminution in the value of their interest in the collateral pledged by the Donohue Group during the limited period prior to refinance of the Existing Securitization Program (the "**Interim Period**"). This adequate protection package, as more fully described in the April 17th Transcript attached as Exhibit 8 to the Motion (the "**Interim Adequate Protection**"), provides the ACCC Term Lenders with the following liens and claims to the extent of diminution during the Interim Period, subject to the carve-out for professional fees and superpriority claims of Citibank arising in connection with the Existing Securitization Program: replacement liens on postpetition assets of the Donohue Group consistent with the prepetition collateral of the ACCC Term Lenders; first priority liens on unencumbered assets of the Donohue Group on which liens can be granted; junior liens on assets of the Donohue Group encumbered by prepetition liens; and a superpriority administrative expense claim as described more fully below. As additional adequate protection, the Donohue Group agreed to pay the reasonable fees and expenses of certain professionals to the ACCC Term Agent accrued during the Interim Period and to provide a budget for the Interim Period.

37. As part of the agreement on Interim Adequate Protection, the Donohue Group agreed that the ACCC Term Lenders' superpriority administrative expense claim would include an allowed claim in an amount equal to interest accrued on the ACCC Term Loan through the Petition Date and interest accrued at the default rate on the ACCC Term Loan during the Interim Period. The Donohue Group has agreed to make an adequate protection payment in the amount of the allowed portion of this superpriority claim upon the refinancing of the Existing Securitization Program, which is expected to be approximately $11 million (the "**Interim Payment**").

38. In exchange for the Debtors' continued use of the ACCC Term Lenders' collateral during the Chapter 11 and Chapter 15 Cases, the Debtors propose to provide the ACCC Term Lenders with an adequate protection package to protect the ACCC Term Lenders against any potential diminution in the value of their interests in collateral located in the United States, including the following elements (which will be subject to the carve-out for professionals' fees and will not include liens and claims against avoidance actions or the proceeds thereof):

(a) Liens. The ACCC Term Agent (for the benefit of the ACCC Term Lenders) will continue to have postpetition liens on the assets of the Donohue Group, consistent with the Interim Adequate Protection agreement.

(b) Cash Deposits. As discussed above, the Donohue Group proposes to provide adequate protection with respect to assets located in the United States which assets represent 43.4% of the aggregate collateral securing the ACCC Term Loan based upon the March 31st borrowing base certificate. The Donohue Group will establish a bank account at Wells Fargo, N.A. in the name of Donohue Corp. (the "**Adequate Protection Account**"), subject to a first priority lien in favor of the ACCC Term Agent. In exchange for continued use of collateral located in the United States, the Donahue Group will deposit, on a monthly basis, an amount equal to 43.4% of the interest payable to the ACCC Term Lenders into the Wells Fargo, N.A. account (the "**Monthly Deposit**"). Given the payment to the ACCC Term Lenders of the Initial Payment, the first of such Monthly Deposits will commence in the month upon which the aggregate Monthly Deposits would have exceeded the Initial Payment as if the payment of the Monthly Deposits began as of the Petition Date.

(c) Superpriority Claims. The ACCC Term Agent (for the benefit of the ACCC Term Lenders) will be granted a superpriority administrative expense claim against the Donohue Group in the amount of diminution in value of the ACCC Term Lenders' interests in the collateral.

(d) Professional Fees. The ACCC Term Agent will receive current payment of the monthly, reasonable fees and expenses arising from and after the Petition Date of the following advisors: (i) one financial advisor (payment of monthly fees only); (ii) one US restructuring counsel; (iii) one Delaware counsel; and (iv) one Canadian counsel; and (v) one counsel with respect to documentation of appointment of Wells Fargo, N.A. as Successor Administrative Agent and Collateral Agent.

(e) Reporting. The Donohue Group will provide monthly reporting of a rolling 13-week cash flow forecast to the ACCC Term Agent.

39. It is Blackstone's opinion that, in the event of any diminution in the value of the ACCC Term Lenders' interests in their collateral located in the United States, the above-described proposal consisting of substantial cash deposits, liens, claims, professional fees and reporting will adequately protect the ACCC Term Lenders.

40. In addition to providing liens on additional assets in the form of substantial cash deposits, the protections described above will enable the ACCC Term Lenders to actively protect their interests during these Chapter 11 and Chapter 15 Cases. First, the periodic reporting to be provided by the Debtors will allow the ACCC Term Agent to monitor the value of their collateral and the overall health of the Donohue Group. Second, the monthly reasonable fees and expenses of the ACCC Term Agent's professionals will be funded, so that the ACCC Term Agent will be able to continue to monitor the value of their collateral and to seek additional or different adequate protection in the future.

41. The adequate protection package offered to the ACCC Term Lenders is sufficient notwithstanding the absence of current pay interest. In addition to all of the reasons discussed above, the Collateral Analysis indicates that the ACCC Term Lenders are undersecured in the United States. As undersecured creditors of the Donohue Group, the ACCC Term Lenders are not entitled to current payment of interest from the Donohue Group and, in this context, the issue of payment of interest to the ACCC Term Lenders should be deferred to discussions on a plan of reorganization.

The foregoing is true and correct.

Dated: New York, New York
May 18, 2009

/s/ Steven Zelin
STEVEN ZELIN

Exhibit 1

Collateral Analysis

PRELIMINARY COLLATERAL ANALYSIS FOR ACCC TERM LOAN

(Analysis based on March 31, 2009 Borrowing Base Certificate)
($ in USD millions, except where noted)

			Analysis as of March 31, 2009			
			Consolidated	Donohue Group	Abitibi Group (includes Bridgewater)	Comments
I.	**Net Eligible Inventory**					
	a. Spare Parts Inventory		$137.5			
	Less: Obsolete / Non Saleable		(44.0)			
	Spare Parts Inventory, net		93.5			
	b. Raw Materials		77.5			
	c. Finished Goods / WIP		180.4			
	Total		$351.3	$75.9	$275.4	
	Adjustments:					
	i. Inventory not owned by credit parties		(32.6)	(16.3)	(16.3)	Estimate
	ii. Inventory in-transit, other		(19.4)	(9.7)	(9.7)	Estimate
	iii. Rent Reserve for warehouses not includec		(0.3)	(0.3)	0.0	
	Net Eligible Inventory		$299.1	$49.6	$249.5	
	Inventory Adjusted for Advance Rate	70.0%	**$209.4**	**$34.7**	**$174.6**	
II.	**Net Eligible Accounts Receivable**					
	a. Trade A/R not owned by ACI Funding		$58.2	$0.0	$58.2	Only includes A/R from Bridgewater
	b. Residual Value of ACI Funding (equity owned by ACSC)		181.4	181.4	0.0	See calculation in note 4
	c. Non-trade A/R excludes Affiliates, Gov't Authorities		39.5	0.0	39.5	Estimate
	Total		$279.2	$181.4	$97.8	
	Adjustments:					
	i. A/R subject to offset		(13.0)		(13.0)	
	Net Eligible Accounts Receivable		$266.2	$181.4	$84.7	
	A/R Adjusted for Advance Rate	85.0%	**$226.2**	**$154.2**	**$72.0**	
III.	**Augusta Newsprint Company**		--	--		see note 1
IV.	**Alabama River Newsprint Company**		--	--		see note 2
V.	**Abitibi-Consolidated Corporation (Recycling)**		--	--		see note 3
	Total		$435.6	$188.9	$246.7	

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PRELIMINARY COLLATERAL ANALYSIS FOR ACCC TERM LOAN

Notes to Analysis

1) ACCC Term Agent do not have a lien in ACSC's partnership interest in Augusta Newsprint Company. Partnership interest has not been appraisec
2) Negative $20 million of EBITDA before SG&A; funded by ACSC (per ACI cash flow model (4/27/09)).
3) Recycling delivers raw materials to ACI. Does not appear to have material value on standalone basis
4) ACSC Securitization Calculation (Value of Equity of ACI Funding owned by ACSC)

Accounts receivable sold to ACI Funding as of 3/31/09 in Cdn$ per Balance shee		$493.2
Fx difference in Cdn$ (corrected in April 2009)		0.9
Adjusted Accounts receivable sold to ACI Funding as of 3/31/09 in Cdn$ per Balance shee		$494.1
US$ Gross Receivables Pool Balance	$0.8258 fx rate	408.1
Less: Unapplied cash		(15.9)
US$ A/R Sold to ACI Funding		$392.2
Amount advanced by Citigroup pursuant to Existing Securitization Progran		(171.7)
Value of Equity in ACI Funding		$220.5
Fees paid by ACI Funding to be distributed to Originators (ACI and ACSC		(10.5)
Allowance for doubtful accounts		(11.1)
Taxes and other		(4.1)
Corrections to Shareholder's equity booked in April 200!		(13.4)
Residual Value of ACI Funding (equity owned by ACSC)		**$181.4**