

CANADA

SUPERIOR COURT

PROVINCE OF QUÉBEC
DISTRICT OF
MONTREAL

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

No.: 500-11-036133-094

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

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

And

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

And

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

And

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

Petitioners

And

ERNST & YOUNG INC., a legal person under the laws of Canada, having a place of business at 800 René-Lévesque Blvd. West, Suite 2000, in the City and District of Montréal, Province of Quebec, H3B 1X9;

Monitor

THIRD REPORT OF THE MONITOR

April 27, 2009

INTRODUCTION

1. On April 17, 2009, Abitibi-Consolidated Inc. (“**ACI**”) and its subsidiaries listed in Appendix “A” hereto (collectively with ACI, the “**Abitibi Petitioners**”) and Bowater Canadian Holdings Incorporated (“**BCHI**”) and its subsidiaries listed in Appendix “B” hereto (collectively with BCHI, the “**Bowater Petitioners**”) (the Abitibi Petitioners and the Bowater Petitioners are collectively referred to herein as the “**Petitioners**”) filed for and obtained protection from their creditors under the *Companies’ Creditors Arrangement Act* (the “**CCAA**” and the “**CCAA Proceeding**”) pursuant to an Order of this Honourable Court (the “**Initial Order**”).
2. Pursuant to the Initial Order, Ernst & Young Inc. (“**EYI**”) was appointed as monitor of the Petitioners (the “**Monitor**”) under the CCAA and a stay of proceedings in favour of the Petitioners was granted until May 14, 2009 (the “**Stay Period**”).
3. On April 16, 2009, AbitibiBowater Inc. (“**ABH**”), Bowater Inc. (“**BI**”) and certain of their direct and indirect U.S. and Canadian subsidiaries, including BCHI and Bowater Canadian Forest Products Inc. (“**BCFPI**”) (collectively referred to herein as the “**U.S. Debtors**”), filed voluntary petitions (collectively, the “**Chapter 11 Proceedings**”) for relief under Chapter 11 of the U.S. Bankruptcy Code, 11 U.S.C. §§ 101 et seq. (the “**U.S. Bankruptcy Code**”) in the United States Bankruptcy Court for the District of Delaware (the “**U.S. Bankruptcy Court**”). On April 17, 2009, the U.S. Bankruptcy Court granted various first day motions, entered certain final and interim orders (the “**First Day Orders**”) and set dates for the final hearing of the motions for which the U.S. Bankruptcy Court granted interim orders, as more particularly described in the Second Report.
4. The Petitioners and the U.S. Debtors are all subsidiaries of ABH (ABH, collectively with its subsidiaries, the “**ABH Group**”).
5. On April 17, 2009, ABH and the petitioners listed on Appendix “C” hereto (collectively with ABH, the “**18.6 Petitioners**”) obtained Orders under Section 18.6 of the CCAA in respect of voluntary proceedings initiated under Chapter 11 and

EYI was appointed as the information officer in respect of the 18.6 Petitioners (the **“Information Officer”**).

6. On April 16, 2009, ACI and ACCC filed petitions for recognition under Chapter 15 of the United States Bankruptcy Code. On April 21, 2009, the U.S. Bankruptcy Court granted the recognition orders under Chapter 15 of the U.S. Bankruptcy Code.
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 third report (the **“Third Report”**) of the Monitor in the CCAA Proceeding. The purpose of this Third Report is to report to this Honourable Court with respect to:
 - (i) the current liquidity and cash flow forecasts of ACI and BCFPI;
 - (ii) ACI’s request for an Order approving a debtor-in-possession (**“DIP”**) financing agreement in the amount of \$100 million; and
 - (iii) the Petitioners’ requests for an Order confirming that they are entitled to suspend past service contributions or special payments to their respective defined benefit pension plans during the Stay Period.

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 (“CICA”) Handbook, has not been performed. Future-oriented financial information referred to in this Report was prepared by the ABH Group based on Management’s estimates and assumptions. Readers are cautioned that, since these projections are based upon assumptions about future events and conditions, the actual results will vary from the projections, even if the assumptions materialize, and the variations could be significant.

10. Capitalized terms not defined in this Third Report are as defined in the First Report of Ernst & Young Inc. dated April 16, 2009 (the “**First Report**”), the Second Report of the Monitor dated April 21, 2009 (the “**Second Report**”) and the Initial Order. All references to dollars are in U.S. currency unless otherwise noted.
11. Copies of the Monitor’s Reports, including a copy of this Third Report, all motion records and orders made in this CCAA Proceeding and further reports of the Monitor will be available on the Monitor’s website at www.ey.com/ca/abitibibowater. The Monitor has also established a toll free telephone number, that is referenced on the Monitor’s website so that parties may contact the Monitor if they have questions with respect to the CCAA Proceeding.
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. Abitibi-Consolidated Company of Canada ("**ACCC**"), a wholly-owned subsidiary of ACI, and BCFPI hold the majority of ABH's Canadian assets and operations.

DIP FINANCING – THE ACI GROUP

17. The ACI Group participates in a securitization program (the "**Securitization Program**") to help fund the working capital requirements of the ACI Group and the DCorp Group.
18. As reported in the First Report, while it was anticipated that the ACI Group would have sufficient short term liquidity under the Securitization Program, the ACI

Group needed to secure new DIP financing to have sufficient liquidity for the duration of the CCAA Proceeding.

19. In order to address their financing needs during this CCAA Proceeding, ACI and Donohue Corporation (“**Donohue**”) (ACI and Donohue are collectively referred to herein as the “**Borrowers**”) have entered into a Letter Loan Agreement (the “**ACI DIP Agreement**”) with Bank of Montreal as lender (the “**ACI DIP Lender**”) and Investissement Quebec (“**IQ**”) as guarantor (the “**Sponsor**”). The financing to be provided pursuant to the ACI DIP Agreement is also to be guaranteed by certain of ACI’s wholly-owned subsidiaries including ACCC, Donohue Recycling Inc. and the subsidiaries listed in the attached Appendix “E” (collectively, the “**Subsidiary Guarantors**”).
20. The Monitor has reviewed a draft of the ACI DIP Agreement. The ACI DIP Lender will provide a senior secured super-priority DIP credit facility in the amount of \$100 million to the Borrowers (the “**ACI DIP Facility**”) provided that the aggregate amount of funds that may be made available to Donohue does not exceed \$10 million. Notwithstanding the foregoing, the Borrowers will be required to maintain, at all times, a minimum availability of \$12.5 million under the ACI DIP Facility. As such, the net incremental liquidity provided by the ACI DIP Facility is projected to be \$87.5 million.
21. The proceeds of the ACI DIP Facility will be used for working capital and for other general corporate purposes of the Borrowers and the Subsidiary Guarantors. The proceeds of the ACI DIP Facility are not permitted to be used (i) to make advances to ACI’s subsidiaries or affiliates other than the Subsidiary Guarantors or, until the U.S. DIP Order (as defined below) has been obtained, to Donohue (except as described below); or (ii) to repay, either directly or indirectly, any existing obligations pursuant to the Securitization Program or any replacement thereof.
22. The Monitor understands that the Sponsor has stipulated the terms and conditions under which it is prepared to provide a \$100 million guarantee in respect of the ACI DIP Facility (the “**Sponsor Guarantee**”). Without the Sponsor Guarantee, it is

unlikely that ACI would be able to raise DIP financing with similar terms and conditions in the current credit market.

23. Other significant terms of the ACI DIP Agreement are as follows:

- ***Effectiveness and Initial Availability Conditions*** – the ACI DIP Lender’s obligation to advance the ACI DIP Facility is conditional upon, among other things (the “**Initial Availability Conditions**”):
 - (i) an order of this Honourable Court in this CCAA Proceeding satisfactory to the Lender and the Sponsor approving and authorizing the ACI DIP Facility and the super-priority liens (discussed below) (the “**CCAA DIP Order**”);
 - (ii) the execution and delivery of the DIP loan documents; and
 - (iii) a signed order in council of the Government of Quebec authorizing the Sponsor to grant the Sponsor Guarantee.

In addition, Donohue will not be able to borrow under the ACI DIP Facility (\$10 million of the total ACI DIP Facility) until such time as it obtains an order of the U.S. Bankruptcy Court satisfactory to the Lender and the Sponsor approving and authorizing the ACI DIP Facility and the super-priority liens (discussed below) (the “**U.S. DIP Order**”);

- ***Manner of Borrowing*** – the ACI DIP Facility will be available by way of monthly borrowings to be disbursed in accordance with a draw schedule based on the Borrowers’ cash flow forecast. The Borrowers shall have the option to borrow at the LIBOR Rate, subject to certain terms and conditions, or at the U.S. Base Rate;
- ***Interest Payments*** – each LIBOR borrowing will bear interest at the LIBOR Rate plus 1.75% (with a floor LIBOR Rate of 3%) and any U.S. Base Rate borrowing will bear interest at the U.S. Base Rate plus 0.75%. Interest will accrue daily and will be paid monthly in arrears. In the event of a failure to make any payments when due, as a late charge, interest will accrue at an

annual rate equal to the interest rate otherwise applicable plus 2% per annum;

- ***Undrawn Fee*** – the Borrower shall pay to the ACI DIP Lender a fee at the rate of 0.525% per annum on the average daily undrawn portion of the ACI DIP Facility, payable in arrears on the last business day of each month and upon termination of the ACI DIP Facility;
- ***ACI DIP Lender Fees*** – the Borrowers shall pay to the ACI DIP Lender:
 - (i) upon the execution and delivery of the ACI DIP Agreement, a fee of 1% of the amount of the ACI DIP Facility;
 - (ii) upon the Effective Date, being the date upon which all of the Initial Availability Conditions have been satisfied or waived, a fee of 1% of the amount of the ACI DIP Facility; and
 - (iii) a fee of 1% of the amount of the ACI DIP Facility if any obligations remain outstanding as of the Expected Prepayment Date (as defined in the ACI DIP Agreement) of November 1, 2009;
- ***Sponsor Fees*** – the Borrowers shall pay to the Sponsor:
 - (i) an upfront fee in the amount of \$656,250 upon the acceptance by ACI of the ACI DIP Agreement; and
 - (ii) a guarantee fee of 1.75% of the ACI DIP Facility upon the Effective Date and on each anniversary of the Effective Date;
- ***Expenses*** – the Borrowers shall assume all reasonable legal and other out-of-pocket expenses incurred by the ACI DIP Lender and the Sponsor in connection with the execution, maintenance and enforcement of the ACI DIP Agreement and the other DIP loan documents;

- ***Reporting*** - The Borrowers shall provide to each of the ACI DIP Lender and the Sponsor:
 - (i) on the last business day of each week, a rolling cash flow forecast detailing the consolidated cash receipts and cash disbursements of the Borrowers and their respective subsidiaries on a weekly basis for the next 13 weeks;
 - (ii) on the fifth business day of each week, the combined weekly cash flow results of the Borrowers and the respective subsidiaries for the previous week; and
 - (iii) any financial information that is provided to this Honourable Court;
- ***Voluntary and Mandatory Prepayments*** – the Borrowers may make voluntary prepayments of the ACI DIP Facility at any time without premium or penalty. The Borrowers are required to apply 100% of the net cash proceeds of:
 - (i) asset sales of the Borrowers and Subsidiary Guarantors (other than sales of eligible accounts receivable directly or indirectly pursuant to the Securitization Program or any replacement thereof, or sales of timberlands);
 - (ii) insurance proceeds in the case where the insured property is considered a total loss;
 - (iii) proceeds received from a governmental authority in respect of any expropriation claim; and
 - (iv) any direct or indirect sale of the Borrowers' interest in the assets of Manicouagan Power Company ("MPCo");
- ***Covenants*** – the Borrowers and each of their respective subsidiaries covenant and agree that they shall not permit to exist any loans or advances to or guarantee an obligation of any other person except loans or advances made between ACI, Donohue and any Subsidiary Guarantor, and loans or

advances made by ACI, Donohue or a Subsidiary Guarantor to Donohue or Bridgewater Paper Company Limited for an amount not exceeding \$30,000,000 at all times;

- *Court-Appointed Officer's Process* – the Borrowers shall ensure that the CCAA DIP Order provides the following (the “**Court-Appointed Officer's Process**”):
 - (i) that if the Monitor has actual notice that (a) the Borrowers have not repaid all of their outstanding obligations under the ACI DIP Facility by November 1, 2009; or (b) a Specified Event of Default (as defined below) has occurred and is continuing, then the Monitor shall file with this Honourable Court (and the U.S. Bankruptcy Court, if necessary) a certificate confirming such occurrence (the “**Monitor's Certificate**”);
 - (ii) for the appointment of Raymond Chabot Inc. as court-appointed officer (the “**Court-Appointed Officer**”) and that such appointment will take effect immediately and automatically upon the filing of the Monitor's Certificate. The Court-Appointed Officer shall have complete and unfettered access to the books and records, the financial and business information and the assets of the Borrowers and the Subsidiary Guarantors in order to enable it to submit to this Honourable Court a proposed plan for the realization of the Borrowers' and Subsidiary Guarantors' assets, or any part thereof, under the supervision of this Honourable Court or otherwise, in order to provide for the repayment of the ACI DIP Facility; and
 - (iii) that the Court-Appointed Officer and its legal counsel shall benefit from any and all protections granted to the Monitor and its legal counsel pursuant to the Initial Order.

- ***Specified Events of Default*** – the specified events of default include the following (each, a “**Specified Event of Default**”):
 - (i) the failure of the Borrowers to pay principal amounts when due and any interest or other amount when due;
 - (ii) any of the orders of this Honourable Court or of the U.S. Bankruptcy Court are stayed, vacated or cease to be in full force and effect or are modified or amended in a manner that may have a material adverse effect on the ACI DIP Facility;
 - (iii) a Canadian bankruptcy (or equivalent U.S. filing) of ACI, Donohue or any of their respective subsidiaries (other than Bridgewater UK);
 - (iv) termination of the Securitization Program without replacement or a default thereunder that is not waived;
 - (v) invalidity of any DIP loan document (other than the Sponsor Guarantee); and
 - (vi) the failure of the Borrowers to repay the ACI DIP Facility by November 1, 2009;
- ***Remedies*** – notwithstanding that a Court-Appointed Officer’s Process may have commenced, upon the occurrence of a Specified Event of Default or a Termination Event (defined below) the ACI DIP Lender shall have the right to exercise all customary remedies, including the right to realize upon the Collateral;
- ***Term*** – all borrowings under the ACI DIP Facility will be paid in full and the ACI DIP Facility will terminate at the earliest of (each, a “**Termination Event**”):
 - (i) April 30, 2010 (however, the ACI DIP Facility must be repaid by November 1, 2009);
 - (ii) the effective date of a CCAA or Chapter 11 Plan;

- (iii) the acceleration of the ACI DIP Facility or upon the occurrence of a Specified Event of Default (including the failure to pay the ACI DIP Facility by November 1, 2009); and
 - (iv) upon any actual or asserted invalidity, impairment or unenforceability of the Sponsor Guarantee.
- 24. The amount borrowed by the Borrowers under the ACI DIP Facility will be secured by, among other things, a Court-ordered super-priority charge (the “**ACI DIP Charge**”) on all of the property of ACI, Donohue (if advances are made to it) and the Subsidiary Guarantors, ranking in priority to all other liens, charges and security interests, but subordinate to:
 - (i) the ACI Administration Charge of up to \$6 million as provided for in the Initial Order;
 - (ii) the Abitibi D&O Charge up to \$22.5 million as provided for in the Initial Order; and
 - (iii) the security interests securing the Securitization Program or any replacement thereof.
- 25. The ACI DIP Facility will have effective security on all of the property of ACI and the Subsidiary Guarantors in priority to the amounts outstanding with respect to the 364-day senior secured term loan due March 30, 2009 (the “**Term Loan Facility**”) and the 13.75% senior secured notes due April 1, 2011 (the “**Senior Notes**”).

IMPACT OF THE ACI DIP FACILITY ON SECURED CREDITORS

- 26. ACI’s ability to maintain its operations as a going concern is fundamental to preserving the value of the collateral pledged to the secured lenders, as well as for preserving value for other stakeholders of ACI, including employees and unsecured creditors.
- 27. As an example, if ACI does not have sufficient funds to maintain operations during the CCAA Proceeding, then the value of its plant and equipment assets will be

severely impaired. Many of ACI Group's mills produce positive cash flow from operations, which means a purchaser of the mill or future investors in ACI would likely value the plant and equipment on a "multiple of cash flow" basis. However, if the ACI Group's mills are not operating because they do not have adequate liquidity to maintain operations, it is likely that the value of the mills' plant and equipment assets will be impaired significantly and be valued on the basis of their liquidation break up value.

28. An interruption of operations and supply to customers would likely result in loss of ACI customers and market share, which would further depreciate the value of the business and the plant assets.
29. Further, if the ACI Group was not able to maintain operations, there would likely also be an impact on the collateral value of the working capital assets, including the collectability of accounts receivable and the realizable value of raw material and other inventories.
30. Such an outcome would likely have a dramatic negative impact on employees, retirees and local communities, as well as ACI's ability to ultimately implement a restructuring plan.

Term Loan Facility

31. As described in the First Report, the Term Loan Facility is in the approximate amount of \$347 million. The Term Loan Facility is secured primarily by the personal (moveable) property (including accounts receivable and inventory) of ACCC, ACI and other guarantors and by a first lien (charge) on substantially all of the personal (moveable) property of Donohue and its subsidiaries (including accounts receivable, inventory and equipment), the pledge of the stock or other equity interests of certain subsidiaries of Donohue and by the real estate relating to the mill owned by Alabama River Newsprint Company.
32. As described in the First Report, ACCC files, on a monthly basis, a borrowing base certificate with the Term Loan Agent. The Monitor has reviewed the borrowing

base certificate issued by ACCC for the month of March, 2009. As summarized below, the certificate indicates a collateral value of \$407 million for the ACCC inventory and accounts receivable. This reflects a surplus collateral value of \$60.4 million as at March, 2009, when compared to the outstanding loan balance of \$347 million.

		\$US (Millions)
Amount outstanding under the Term Loan Facility		<u>\$346.9</u>
<i>Collateral calculation:</i>		
Net eligible accounts receivable		
• Net eligible accounts receivable including equity value in Securitization Program	\$232.9	
• Advance rate	<u>85%</u>	\$197.9
Net eligible inventory		
• Net eligible inventory	\$299.1	
• Advance rate	<u>70%</u>	<u>\$209.4</u>
Total collateral per borrowing base certificate		<u>\$407.3</u>
Collateral borrowing base less amount outstanding		<u>\$60.4</u>

33. In addition to the accounts receivable and inventory collateral included in the borrowing base certificate, the Term Loan Facility is secured by a pledge of the shares or other equity interests of the DCorp Group entities.

Senior Notes

34. As at March 31, 2009, approximately \$413 million was outstanding in respect of the Senior Notes with accrued interest thereon of approximately \$28 million.
35. The Senior Notes are guaranteed by several affiliates, including ACI and Donohue and certain of their subsidiaries, and are secured by mortgages on certain pulp and paper mills owned by ACCC and by:

- (i) a pledge of ACCC's 60% interest in MPCo which owns a 335 MW hydroelectric facility. ABH made a public announcement on March 13, 2009 that it signed a non-binding agreement in principle with Hydro-Quebec for the sale of the facility for gross proceeds of CDN \$615 million. Management advised the Monitor that it expects that ACCC's net proceeds from the sale will be approximately \$390 million. ACCC is continuing negotiations in connection with the MPCo sale; and
 - (ii) a pledge of ACCC's 75% equity interest in ACH which owns eight hydroelectric facilities located in Ontario. On December 22, 2008, ABH announced that it had accepted a proposal to sell its equity interest in ACH to a major unaffiliated industrial energy producer. Management advised the Monitor that the resulting gross proceeds (excluding expenses) to ACI are projected to be approximately CDN \$197.5 million. As part of the transaction, the buyer would also assume CDN \$250 million of ACH debt. It is expected that ACCC's net proceeds from the sale will be approximately \$148 million. The proposal is non-binding and is subject to due diligence, among other terms and conditions. While it is expected that a definitive agreement may be reached in the second quarter of 2009, no assurances can be provided as to when or if a definitive agreement will be executed.
36. In addition to ACH and MPCo, as previously stated, the Senior Notes are secured by the fixed assets of certain pulp and paper facilities of ACCC and its subsidiaries with a net book value of approximately \$1.4 billion.
37. The Senior Notes are also secured by liens on certain other equipment of ACCC and the Subsidiary Guarantors.

REQUIREMENT FOR ACI DIP FINANCING

38. The ACI DIP Facility represents sizeable (\$100 million) DIP financing for the Borrowers at a cost that is favourable in the context of current credit market conditions. The interest rate of LIBOR + 1.75% represents a current interest rate of

approximately 4.75%, which is lower than what may typically be obtained for this type of financing.

39. The ACI DIP Lender Fees of 1% on the execution of the ACI DIP Agreement and 1% on closing will aggregate approximately \$2 million. The Sponsor Fees of \$656,250 on acceptance of the ACI DIP Agreement and the guarantee fees of 1.75% payable on closing will aggregate approximately \$2.4 million. It is the Monitor's view that the aggregate of the ACI DIP Lender Fees and the Sponsor Fees are not unreasonable for this type of financing.
40. In assessing the reasonability of the ACI DIP Facility, the Monitor has considered both the necessity of ACI raising the financing to stabilize its operations and preserve its business as a going concern, and the impact the financing will have on the ACI Group's stakeholders, including the Senior Notes and the Term Loan Facility.
41. The importance of securing the ACI DIP Facility is demonstrated by ACI's cash flow forecast, which is described in detail below.

OVERVIEW OF ACI's WEEKLY CASH FLOW FORECAST

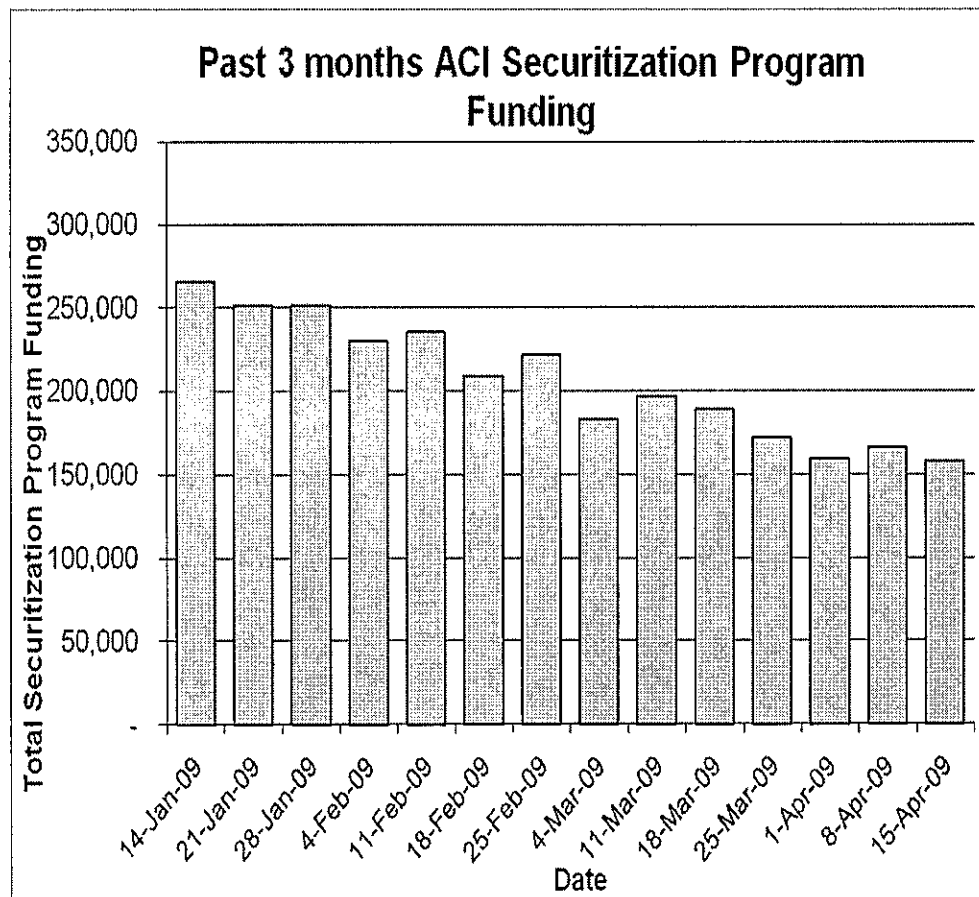
42. Attached as Appendix "F" to this Third Report is a copy of the ACI cash flow forecast for a total of 13 weeks through to the week ending July 19, 2009 (the "**ACI Forecast**"), which has recently been updated by ACI with the assistance of the Monitor.
43. The ACI Forecast demonstrates ACI's projected net liquidity position, both with and without the ACI DIP Facility in place.
44. Also included as Appendix "G" to this Third Report is a copy of the BCFPI cash flow forecast for the 13-week period ending July 19, 2009 (the "**BCFPI Forecast**"), which has also recently been updated by BCFPI with the assistance of the Monitor.
45. The ACI Forecast and the BCFPI Forecast exclude the payment of any past service pension contributions, which would otherwise approximate \$8.5 million per month

and \$4.7 million per month, respectively, and which will be subject to a further hearing by this Honourable Court.

46. As seen in Appendix “F”, without the ACI DIP Facility, ACI is forecast to have a positive cash balance as low as \$28.1 million for the week ending April 26, 2009. The cash position is projected, if the underlying assumptions are achieved, to increase during the forecast period to \$70.7 million by the week ending July 19, 2009.
47. The Monitor’s view is that a cash balance in the range of \$28.1 million is not sufficient for an organization of the scale and size of ACI. A reasonable cash reserve is required to ensure that ACI can meet each of its fixed weekly and bi-monthly payroll commitments and to purchase the supplies and materials necessary to keep its mills operational. As an example, on an average weekly basis during the forecast period, ACI is forecasting disbursements of \$45.5 million per week. Payroll is made either weekly or bi-monthly and in certain weeks will exceed \$10 million. A cash balance of only \$28.1 million is not sufficient to ensure the ability to fund these disbursements and, in particular, the Monitor notes that the payroll disbursements alone during the week ending May 3, 2009 are in the range of \$10.5 million, leaving minimal room for forecast variances related to the projected cash position.
48. If ACI experiences any negative variance in its forecast, including timing differences with respect to sales, accounts receivable collections or supplier payment requirements, it will be unable to pay its ongoing operations as required of a debtor under a CCAA stay of proceedings.
49. In particular, the ACI Forecast is subject to a number of assumptions, summarized in the First Report, that, if not achieved, could cause material variances in the ACI Forecast. In particular, one of the more significant assumptions that may impact on ACI’s forecast net cash position is the projection of net cash flow from the Securitization Program. Estimating the cash flow ACI receives from (or remits to) the Securitization Program is complex and requires numerous assumptions regarding future sales, accounts receivable collections and estimates of the amount

of future ineligible receivables (including estimating the ageing of receivables and the amount of accounts receivable by customers in specific countries, as there are certain country concentration restrictions in calculating how much cash flow is available from the Securitization Program). As a result, in analyzing the ACI Forecast, a certain level of cash reserve is required to provide for potential variations in the forecast.

50. The chart below demonstrates the variability on the amount of funding available from the Securitization Program over the past three months. As illustrated in this chart, there is a substantial amount of volatility in the Securitization Program funding. From a prudent business perspective, this emphasizes the need for the ACI Group to have cash reserves to offset the impact of any reduction in funding from the Securitization Program in order to be able to meet its payroll and operating disbursement requirements.



51. In addition, it is too early in this CCAA Proceeding to fully assess the impact the filing will have on the timing of the collections of accounts receivable and the timing of payments to suppliers for post-filing goods and services. These factors will also impact on the ACI Group's cash flow needs over the upcoming weeks.
52. In order to stabilize its operations, it is important for ACI to be able to demonstrate to its customers, key vendors and employees that it has sufficient financial resources to operate without disruption during the restructuring process.
53. As set out in the ACI Forecast, with the inclusion of the ACI DIP Facility, ACI's cash position is forecast to range from \$53.7 million to \$96.0 million during the forecast period, assuming \$30 million of the ACI DIP Facility is drawn during the forecast period.
54. As mentioned herein, the ACI DIP Agreement contains a provision requiring the immediate and automatic appointment of Raymond Chabot Inc. as the Court-Appointed Officer upon the occurrence of certain events and the filing of a Monitor's Certificate in relation to such event. The Court-Appointed Officer is thereupon to have access to the books, records and information of the Borrowers and all Subsidiary Guarantors and is to prepare a plan for the realization of assets to ensure the repayment of the outstanding obligations under the ACI DIP Agreement. One of the triggering events includes if the ACI DIP Facility is not repaid in full by November 1, 2009.
55. It is the view of the Monitor that the provisions of the ACI DIP Agreement regarding the Court-Appointed Officer's Process are not customary in loans of this nature. The Monitor is further of the view that such a provision creates a degree of uncertainty which is not helpful for the Petitioners at this time. However, this provision is a requirement of the Sponsor.
56. The Petitioners have advised the Monitor that they intend to repay the ACI DIP Facility from the proceeds of asset sales either pending (such as MPCo or ACH Hydro assets) or under consideration. Further, the Petitioners have advised the Monitor that, should it appear that such sales may not be in a position to close

before November 1, 2009, the Petitioners will actively seek to refinance the ACI DIP Facility well in advance of its expiry date. It is anticipated that ACI will be better able to secure replacement DIP financing after it has had time to stabilize its operations and secured adequate time to enable lenders to conduct proper due diligence on the values of ACI's significant assets.

PENSION PLANS AND PAST SERVICE CONTRIBUTIONS

57. As previously discussed in this Third Report, ACI's aggregate past service pension plan funding for its defined benefit pension plans is approximately \$8.5 million per month or \$102.4 million per annum.
58. The ACI Forecast attached as Appendix "F" hereto does not include disbursements for past service pension funding. Based on the Monitor's review of ACI's cash flow projections, it would appear that ACI does not have sufficient liquidity to fund an aggregate of \$102.4 million of past service pension contributions per annum without substantially consuming its liquidity reserves, including the \$100 million ACI DIP Facility, thereby leaving it with little flexibility or margin of error in the event of negative cash flow variances or operating contingencies.
59. Similarly, BCFPI's aggregate past service pension plan funding for its defined benefit pension plan is approximately \$4.7 million per month or \$56.9 million per annum.
60. Based on the BCFPI forecast which is attached as Appendix "G" hereto, BCFPI's net cash position is forecast to be \$17.7 million as at July 19, 2009, assuming no past service pension contributions are made. It does not appear that BCFPI has sufficient liquidity to fund past service contributions without risking its ability to continue to operate.

RECOMMENDATION

61. The terms of the ACI DIP Agreement that require an automatic Court-Appointed Officer's Process are unusual; however, the Petitioners have advised the Monitor that they intend to repay the ACI DIP Facility from the proceeds of asset sales or will refinance the ACI DIP Facility in advance of its expiry date, before such process would take effect.
62. The Monitor is of the view that ACI needs to raise DIP financing in order to stabilize its operations and to ensure that it has adequate cash reserves to fund its operating disbursements and payroll costs. The ACI DIP Facility provides ACI with significant funding of \$100 million on financial terms and conditions that are competitive, given the current capital market conditions and, accordingly, the Monitor recommends that the ACI DIP Facility be approved.
63. The Monitor is also of the view that ACI and BCFPI do not have sufficient liquidity to fund the aggregate past service pension contributions; therefore, the payments should be suspended at this time.

All of which is respectfully submitted.

ERNST & YOUNG INC.

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

A handwritten signature in black ink, appearing to read "Alex Morrison", with a long horizontal flourish extending from the end of the name.

Per: Alex Morrison, CA, CIRP
Senior Vice President

APPENDIX “A”
ABITIBI PETITIONERS

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

APPENDIX “B”
BOWATER PETITIONERS

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

APPENDIX “C”
18.6 PETITIONERS

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

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”
SUBSIDIARY GUARANTORS

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

APPENDIX “F”
ACI FORECAST

Abitibi-Consolidated Inc. ("ACI")
Weekly Cash Flow Forecast
19 Weeks Ended July 19, 2009
US\$000s

Notes	26-Apr-09	3-May-09	10-May-09	17-May-09	24-May-09	31-May-09	7-Jun-09	14-Jun-09	21-Jun-09	28-Jun-09	5-Jul-09	12-Jul-09	19-Jul-09	Total
Week ended														
Cash Held in Bank	57,391	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	57,391
Cash Held in Lockboxes	22,571	22,766	43,695	60,371	48,372	54,115	52,085	61,363	64,316	70,056	69,590	74,234	80,108	22,571
Opening Cash	79,962	32,766	53,695	70,371	58,372	64,115	62,085	71,363	74,316	80,056	79,590	84,234	90,108	79,962
Receipts														
Total A/R Collections	30,037	44,916	42,085	59,803	41,328	61,025	34,800	46,840	37,621	31,702	47,704	38,014	33,810	550,664
Collections on Behalf of JVs	4,708	4,557	4,355	4,355	4,355	4,355	5,385	5,385	5,385	5,385	5,116	5,008	5,008	63,356
Other Inflows	1,933	1,933	1,933	1,933	1,933	1,933	1,933	1,933	1,933	1,933	1,933	1,933	1,933	25,131
Total Receipts	36,678	51,406	48,372	66,091	47,616	67,313	42,118	54,159	44,940	39,020	54,753	45,955	40,750	639,152
Disbursements														
Trade Payables	(42,664)	(21,912)	(20,909)	(20,909)	(20,909)	(28,909)	(22,655)	(22,655)	(22,655)	(22,655)	(21,503)	(21,027)	(21,027)	(310,549)
Capital Expenditures	(1,453)	(1,453)	(1,456)	(1,456)	(1,456)	(1,456)	(1,453)	(1,453)	(1,453)	(1,453)	(1,407)	(1,388)	(1,388)	(18,507)
Marine Freight Payments	(1,050)	(1,050)	(1,050)	(1,050)	(1,050)	(1,050)	(1,050)	(1,050)	(1,050)	(1,050)	(1,050)	(1,050)	(1,050)	(13,650)
Utility Payments	(14,200)	(5,866)	(3,400)	(7,400)	(7,400)	(7,400)	(3,400)	(7,400)	(7,400)	(7,400)	(4,543)	(3,400)	(7,400)	(86,429)
Payroll & Benefits	(1,961)	(10,477)	(1,971)	(9,310)	(1,971)	(10,765)	(1,953)	(7,937)	(2,303)	(7,937)	(4,893)	(7,619)	(2,212)	(70,111)
Joint Venture Reimbursements, Net	(600)	(3,238)	-	(24,467)	(4,289)	(5,089)	(5,305)	(5,305)	(5,305)	(6,105)	(3,039)	(4,933)	(4,933)	(78,807)
Restructuring & Other Items	(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)	(13,000)
Total Disbursements	(63,128)	(50,796)	(29,736)	(64,543)	(38,025)	(65,619)	(38,657)	(46,641)	(41,207)	(47,641)	(37,234)	(40,417)	(39,009)	(591,052)
Financing														
Securitization Inflows / (Outflows)	(20,746)	(5,275)	(1,941)	(13,546)	(3,847)	(13,587)	4,017	(4,385)	2,006	(291)	(4,275)	335	4,191	(57,323)
DIP Drawings / (Repayments)	-	30,000	-	-	-	(738)	-	-	-	-	-	-	-	30,000
DIP Interest & Fees	-	(4,405)	-	-	-	-	-	-	-	(155)	-	-	-	(4,659)
Total Change in Cash	(47,195)	20,929	18,876	(11,958)	5,743	(2,031)	9,278	2,953	5,740	(9,066)	13,244	5,874	5,932	16,078
★ Ending Cash Balance (with ACI DIP Facility Draws)	32,766	53,695	70,371	58,372	64,115	62,085	71,363	74,316	80,056	70,990	84,234	90,108	96,040	96,040
★ Ending Cash Balance Excluding DIP	32,766	28,101	44,777	32,779	38,522	36,629	45,907	48,660	54,600	45,688	58,933	64,806	70,739	70,739
Securitization Schedule														
Allowable Receivable Pool Balance	136,827	131,551	129,610	116,990	113,143	99,556	103,573	99,930	101,936	101,645	97,371	98,374	102,585	102,585
Interest & Fees	-	-	-	(926)	-	-	-	(722)	-	-	-	(686)	-	(2,316)
Amount Drawn Under Facility	157,572	136,827	131,551	129,610	116,990	113,143	99,556	103,573	99,930	101,645	101,645	97,371	98,374	157,572
Availability / (Required Repayment)	(20,746)	(5,275)	(1,941)	(13,546)	(3,847)	(13,587)	4,017	(4,385)	2,006	(291)	(4,275)	335	4,191	(57,323)

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

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

1. **Opening Cash** in the forecast includes cash on hand and money in lockboxes.
2. **Total A/R Collections** represent amounts estimated to be collected from ACI's customers. The timing of collections is based on ACI's collection terms with its customers and the latest sales forecast.
3. **Collections on Behalf of Joint Ventures** represent amounts estimated to be collected by ACI on behalf of its joint venture partners. ACI has agreements with its joint venture partners whereby ACI collects the joint venture partners accounts receivable (for a fee) and remits these funds to the joint venture in accordance with their agreement.
4. **Other Inflows** represent miscellaneous receipts, including, but not limited to such items as tax refunds or insurance proceeds, as estimated by ACI.
5. **Trade Payables** represent amounts estimated to be paid to suppliers for the purchase of ACI's raw materials, repairs and maintenance and other goods and services related to production.
6. **Capital Expenditures** represent amounts estimated to be paid pursuant to ACI's most recent capital expenditure budget.
7. **Marine Freight Payments** represent amounts estimated to be paid to ACI's outbound marine freight suppliers.
8. **Utility Payments** represent amounts estimated to be payable to ACI's hydroelectricity suppliers.
9. **Payroll and Benefits** represent estimated amounts for salaries, wages and current service pension costs.
10. **Joint Venture Remittances, Net** represent the estimated payment of accounts receivable funds collected by ACI on behalf of the respective joint venture, net of any collection/management fees.
11. **Restructuring and Other Items** represent amounts estimated by ACI for restructuring costs and other miscellaneous payments.
12. **Securitization Inflows/(Outflows)** represent the estimated net availability or repayment (including interest) of funds under ACI's Securitization Program.
13. The **DIP Drawings/(Repayments)** and the **DIP Interest & Fees** represent cash flows related to ACI's new \$100 million DIP term loan. This term loan may be drawn in increments to enable the Company to maintain a minimum \$50 million cash balance.
14. The **Securitization Summary** represents ACI's estimated calculation of amounts owing or available under the Securitization Program based on the eligible accounts receivable (net of any fees, interest or allowances).
15. The **Interest & Fees** represent interest and fees related to the Securitization Program.

APPENDIX “G”
BCFPI FORECAST

Bowater Canadian Forest Products Inc.
CCAA Cash Flow
13 Week Period Ended July 19, 2009
US\$000s

Week Ended	24-Apr-09	3-May-09	10-May-09	17-May-09	24-May-09	31-May-09	7-Jun-09	14-Jun-09	21-Jun-09	28-Jun-09	5-Jul-09	12-Jul-09	19-Jul-09	Total
Receipts														
1, 11	10,611	17,820	13,293	18,287	11,733	15,918	11,045	11,967	11,839	13,295	14,516	13,684	13,593	177,602
Total Receipts	10,611	17,820	13,293	18,287	11,733	15,918	11,045	11,967	11,839	13,295	14,516	13,684	13,593	177,602
Disbursements														
2	(14,269)	(10,102)	(6,507)	(6,507)	(6,507)	(10,507)	(12,373)	(12,373)	(12,373)	(12,373)	(10,579)	(9,862)	(9,862)	(140,222)
3	(510)	(494)	(472)	(472)	(472)	(472)	(517)	(517)	(517)	(517)	(479)	(464)	(464)	(6,366)
4	(1,090)	(1,039)	(971)	(971)	(971)	(971)	(1,223)	(1,223)	(1,223)	(1,223)	(1,338)	(1,384)	(1,384)	(15,014)
5	(1,199)	(5,203)	(1,166)	(4,593)	(1,199)	(5,202)	(1,199)	(2,576)	(3,217)	(2,576)	(3,825)	(2,574)	(3,215)	(37,771)
6	(487)	(460)	(452)	(452)	(452)	(452)	(467)	(467)	(467)	(467)	(459)	(452)	(452)	(5,959)
7	(2,260)	(849)	(260)	(260)	(260)	(849)	(260)	(260)	(260)	(260)	(1,028)	(260)	(260)	(3,430)
8	(19,825)	(10,407)	(11,896)	(15,294)	(12,195)	(18,743)	(16,038)	(17,416)	(18,394)	(17,416)	(17,563)	(14,596)	(15,637)	(214,143)
Total Disbursements	(19,214)	(587)	1,436	3,033	(462)	(2,825)	(4,993)	(5,449)	(6,555)	(4,121)	(3,447)	(1,312)	(2,044)	(35,540)
Cash Flow from Operations	14,314	45,100	44,513	45,949	45,982	48,519	45,694	40,701	35,253	28,698	24,576	21,129	19,817	14,314
9	40,000	-	-	-	-	-	-	-	-	-	-	-	-	40,000
New DIP Facility Inflow (the Canadian Term Loan)	(9,214)	(587)	1,436	3,033	(462)	(2,825)	(4,993)	(5,449)	(6,555)	(4,121)	(3,447)	(1,312)	(2,044)	(38,540)
Cash Flow	45,100	44,513	45,949	48,982	45,519	45,694	40,701	35,253	28,698	24,576	21,129	19,817	17,773	17,773
Bank Balance, Closing														
10	94,337	94,337	94,337	94,337	94,337	94,337	94,337	94,337	94,337	94,337	94,337	94,337	94,337	94,337
Current Revolving Credit Facility														
Current Credit Facility Balance, Opening	94,337	94,337	94,337	94,337	94,337	94,337	94,337	94,337	94,337	94,337	94,337	94,337	94,337	94,337
Current Credit Facility Drawings / (Repayments)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Current Balance, Closing	94,337	94,337	94,337	94,337	94,337	94,337	94,337	94,337	94,337	94,337	94,337	94,337	94,337	94,337
Intercompany A/R Balance														
11	55,192	54,928	56,279	54,640	55,591	54,451	57,000	59,024	61,071	62,301	63,106	64,271	65,479	65,479
Ending Balance														

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

Bowater Canadian Forest Products Inc. ("BCFPI")

Notes to CCAA Cash Flow

13 Week Period Ended July 19, 2009

US\$000s

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