CANADA

PROVINCE OF QUÉBEC
DISTRICT OF MONTRÉAL

No. : 500-11-036133-094

SUPERIOR COURT

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

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

ABITIBIBOWATER INC.,

And

ABITIBI-CONSOLIDATED INC.,

And

BOWATER CANADIAN HOLDINGS INC.,

And

the other Petitioners listed on Schedules "A", "B" and "C"

Petitioners

And

ERNST & YOUNG INC.,

Monitor

MOTION FOR APPROVAL OF A DIP FINANCING IN RESPECT OF THE ABITIBI PETITIONERS

TO THE HONOURABLE CLÉMENT GASCON J.S.C. OR ONE OF THE HONOURABLE JUDGES OF THE SUPERIOR COURT, SITTING IN COMMERCIAL DIVISION, IN AND FOR THE JUDICIAL DISTRICT OF MONTRÉAL, THE ABITIBI PETITIONERS RESPECTFULLY SUBMIT THE FOLLOWING:

1. **BACKGROUND**

1. On April 17, 2009 the Petitioners filed a *Petition for an Initial Order* pursuant to sections 4, 5 and 11 of the Companies' Creditors Arrangement Act (the "**CCAA**") and *Petition for the Issuance of a Recognition Order* pursuant to Section 18.6 of the CCCA (the "**Initial CCAA Petition**"), the whole as appears from the record of the Court in this docket. All capitalized terms not otherwise defined herein shall have the meaning ascribed thereto in the Initial CCAA Petition.

2. That same day, this Court issued an Initial Order (the "**Initial Order**") in respect of the Petitioners and on April 22, 2009, this Court issued an amended version of its Initial Order (the "**Amended Initial Order**"), the whole as appears from the record of the Court in this docket.

3. At the hearings before this Court on April 17 and 22, 2009, the Abitibi Petitioners advised the Court that they had received a proposal in connection with a potential debtor-in-possession financing ("**DIP financing**"), which would benefit from a loan guarantee by Investissement Québec ("**IQ**") authorized by the Government of Québec (the "**Québec Government**").

4. Since that time, negotiations have been completed in respect of: (a) a Letter Loan Agreement (the "**ACI DIP Agreement**"), between Bank of Montreal (the "**DIP Lender**"), as Lender and Abitibi-Consolidated Inc. ("**ACI**") and Donohue Corp. ("**DCorp**"), as Borrower, providing for a US$100,000,000 Super-Priority, Senior Secured Debtor-in-Possession Credit Facility (the "**ACI DIP Facility**"), a copy of the ACI DIP Agreement being communicated as **Exhibit R-1**; and (b) an offer of loan guarantee from IQ (the "**IQ Guarantee Offer**"), a copy of the IQ Guarantee Offer being communicated as **Exhibit R-2.**

5. The Abitibi Petitioners hereby seek:

   (a) an order authorizing the Abitibi Petitioners to enter into the ACI DIP Agreement and the IQ Guarantee Offer and other related orders (collectively the "**ACI DIP Orders**"); and

   (b) such amendments to the Amended Initial Order as are necessary to provide for the ACI DIP Orders or as have been requested in connection with the ACI DIP Facility;

   the whole as set forth in the conclusions of this Motion.

6. The ACI DIP Facility is in effect a bridge to the receipt of proceeds from the contemplated sales of the Manicouagan Power Company ("**MPCo**") and ACH Limited Partnership ("**ACH**") hydro assets (collectively, the "**Contemplated Sales**"), expected during the pendency of these proceedings and in any event by November 1, 2009.

7. If entered into pursuant to the orders herein sought, the Petitioners intend to repay the ACI DIP Facility from the proceeds of the Contemplated Sales or of other sales of non-core assets under consideration.

8. Further, if it appeared that such sales may not be in a position to close before November 1, 2009, the Petitioners would actively seek to refinance the ACI DIP Facility well in advance of its effective expiry date. It is anticipated that ACI will be better able to secure replacement DIP financing after it has had time to stabilize its post-petition operations and adequate time is given to permit lenders to conduct proper due diligence on the lending values of ACI's significant assets.

2. ABITIBI PETITIONERS' NEED FOR POST-PETITION FINANCING

9. The Abitibi Petitioners' need for DIP financing during the pendency of these proceedings is primarily to:

   (a) provide sufficient liquidity for normal working capital purposes; and

   (b) demonstrate to customers and suppliers that the ACI Group will continue to be able to meet its obligations during the course of the CCAA proceedings and thus assist in the re-establishment of more normalized trade credit terms.

10. The ACI Group is a substantial operation with significant working capital flows which are not predictable with precision. A Cash Flow Forecast for the ACI Group covering the 13-week period from April 26, 2009 to July 19, 2009 (the "**Cash Flow Forecast**") is attached to the Monitor's Third Report as Appendix "F". The Cash Flow Forecast contemplates an initial draw under the ACI DIP Facility of US$30 million to supplement current liquidity.

11. The Abitibi Petitioners have taken a sophisticated and reasonable approach to estimating the ACI Group's flow of working capital over the next 13 weeks, but actual changes in working capital may vary materially from the estimate and the likelihood of a material variance with respect to a specific week increases with the length of the forecast. The ACI DIP Facility is to be used to fund any unexpected or unforeseen liquidity requirements of the ACI Group.

12. As appears from the Cash Flow Forecast, even in weeks where there is a small cushion of available cash, it is often less than the Petitioners' payroll and is well within the margin of error inherent in any forecast of receipts and disbursements for an enterprise of this size and scope. Moreover, negative variances of only a few percentage points are sufficient to remove any cushion or margin of error and could place the Petitioners before the prospect of having insufficient funds to finance their post-petition obligations.

13. As a result, the Petitioners need access to the ACI DIP Facility to smooth out their cash flows and meet their post-petition obligations, even if the Petitioners' business performs largely as forecasted.

2.1. Selling and Collections Cycle

14. The business of the ACI Group currently generates revenues of about US$170 million per month and those sales are made on credit terms typically ranging from 7 to 180 days. As at March 31, 2009, the ACI Group's total accounts receivable (including trade and non-trade receivables) was about US$492 million. The ACI Group currently finances a portion of its accounts receivable through the Securitization Program which, from the ACI Group's perspective, effectively partially funds new accounts receivable in accordance with a formula provided for in the RPA.

15. As a result, the collections expected in any particular week are a function of the composition of the sales at various times during the last six months, customer behaviour (customers tend to pay near the beginning or end of the month) and the formula provided for in the RPA. Furthermore, while customer credit performance has generally been good in the current economic circumstances, the increased prevalence of customer bankruptcies (e.g. Quebecor World Inc., Tribune Co.), exposes the ACI Group to the risk that a customer becomes insolvent (which immediately makes any receivable ineligible in the funding formula set out in the RPA) and the collection is delayed to the time when the ACI Group realizes on a claim under the ACI Group's accounts receivable insurance policy.

2.2. Production and Payments Cycle

16. As at March 31, 2009, the ACI Group had outstanding accounts payable (including trade and non-trade payables) of about US$401 million. Supplier payables that were outstanding on the filing date will not be paid in the ordinary course and will be subject to compromise. However, the ACI Group continues to do business with a large number of those suppliers (in excess of 1,400) and the payment terms upon which those goods and services will continue to be supplied are being or will need to be renegotiated in the post-filing context.

17. The ACI Group's ability to re-establish trade credit over time is expected to be related to the ACI Group's ability to demonstrate that it has sufficient liquidity to operate its business and meet its obligations.

18. The ACI Group's liquidity requirements associated with the production and payments cycle will be a function of:

    (a) the ACI Group's operating schedule, which will vary in response to management's assessment of actual and projected market conditions and normal seasonality in the business;

    (b) the actual timing of payments to suppliers will likely be closely related to the nature and timing of specific purchase orders; and

(c) the time between the production of inventory and the sale of inventory will vary over the course of the year. As a point of reference, as at March 31, 2009, total inventory amounted to about US$275 million.

2.3. Potential Future Increase in Working Capital Level

19. During the latter part of 2008 and the first quarter of 2009, significant downtime was taken by the ACI Group in response to a decline in customer demand. As a result, trade accounts receivable have declined from about US$554 million at the end of October 2008 to US$403 million at the end of March 2009. Any recovery in demand, some of which may arise from customers who have run their inventory down to acceptable levels, will likely result in an increase in working capital requirements. A portion of the increased requirements may be eligible for funding through the existing Securitization Program or a successor accounts receivable financing arrangement (should one be approved by further order of this Court and of the U.S. Bankruptcy Court at a subsequent date) but the remainder would need to be funded with internally generated funds or through a loan.

20. Any recovery in demand would require a build-up in working capital to service such incremental demand. If ACI lacked access to financing to permit it to finance an increase in working capital, it would be at risk of losing market share and causing damage to its business. Such loss of market share and business could in turn impact adversely upon the Petitioners' efforts to fashion a restructuring plan which will maximize values for all stakeholders.

2.4. Current Available Liquidity

21. As appears from the Cash Flow Forecast, the ACI Group anticipates having a positive cash balance as low as US$28.1 million. The ACI Group is of the view that it is prudent to supplement this relatively low level of liquidity and that interim financing of the order contemplated by the ACI DIP Facility would be appropriate.

22. The Abitibi Petitioners therefore submit that interim financing of the order contemplated by the ACI DIP Facility will be required to provide for the foregoing and maintain operations at the current level. Having regard to the size of the ACI Group's business, the Petitioners submit that this level of liquidity will permit them to stabilize it and operate with a cushion sufficient to enable them to respond to changing business conditions.

23. The ACI DIP Facility is beneficial to the Abitibi Petitioners, to the creditor body as a whole and to the larger community of stakeholders. The ACI DIP Facility will allow the Abitibi Petitioners and the ABH Group to continue operations as a going concern and preserve value to the benefit of their creditors, employees and other stakeholders.

2.5. Consequences of Failure to Secure Adequate DIP Financing

24. The Abitibi Petitioners and the ABH Group have a viable business and a strong basis for a successful restructuring despite the current liquidity crisis they are facing.

25. Without the ACI DIP Facility, the Abitibi Petitioners would: (a) lack access to sufficient operating credit to maintain normal operations and respond to any recovery in demand of Products; (b) be significantly impaired in their ability to operate in the ordinary course; and (c) face an increase in the risk of unexpected interruptions in the business should unanticipated shortfalls in cash flow occur.

26. Should working capital deficiencies result in any interruption of the business operations of the ACI Group, such interruption could result in permanent losses in market shares and thus drastically depreciate the value of the business and assets of the Abitibi Petitioners. In addition, an interruption of the ACI Group's business would certainly give rise to large number of claims in damages representing significant potential liabilities, which would significantly dilute recoveries for creditors.

27. The Monitor is of the view that the ACI DIP Facility is required to stabilize its operations and to ensure that it has adequate cash reserves to fund operating disbursements and payroll costs, the whole as set out in the Monitor's Third Report.

3. ABITIBI PETITIONERS' EFFORTS TO OBTAIN POST-PETITION FINANCING

28. Beginning in March 2009, the ACI Group, through its financial advisor BMO Nesbitt Burns Inc. ("**BMO Nesbitt Burns**"), initiated a process to arrange for the post-petition financing in the event that their recapitalization efforts failed. The financing process had three objectives:

   (a) arrange for an interim extension to the existing Securitization Program (the "**Interim Securitization**");

   (b) arrange for DIP financing for ACI to provide additional liquidity; and

   (c) arrange for an accounts receivable facility to replace the Interim Securitization (the "**New A/R Facility**").

3.1. Interim Securitization and New A/R Facility

29. As appears from the Initial Order, the Waiver Agreement to the Securitization Program was approved by this court. The Waiver Agreement provides for a 45 day period from April 17, 2009 within which the ACI Group may implement a New A/R Facility. The ACI Group is in constructive discussions with respect to such New A/R Facility and expects to be in a position to seek the necessary

approvals for such a facility within the time provided by the Interim Securitization.

3.2. DIP Financing

30. A number of parties offered or were contacted to consider providing DIP financing to the ACI Group. This included certain lenders under the Term Loan Facility who entered into confidentiality arrangements on April 14, 2009 and certain holders of the Senior Secured Notes who entered into confidentiality arrangements on April 19, 2009. Discussions were held with each of the potential financing providers or their advisors to outline the ACI Group's needs and to share views on structure.

31. Prospective DIP financing providers were granted access to a virtual data room containing legal and financial information with respect to the ACI Group's affairs to enable them to conduct due diligence. As of the date hereof, three (3) term sheets were submitted by prospective DIP financing providers. No term sheet was received from holders of Senior Secured Notes.

32. The DIP Lender did not have access to the data room and was not part of the original group which was solicited to provide DIP financing.

3.3. IQ Loan Guarantee Authorized by the Québec Government

33. On April 17, 2009, the Québec Government announced by news release that Investissement Québec had been authorized to issue a temporary loan guarantee for a maximum amount of US$100 million (the "**IQ Loan Guarantee**") for the ACI Group to pursue its operations and see to its reorganization. On the same day, the Company responded to the Quebec Government announcement, stating it appreciated the confidence in its restructuring initiatives and the ongoing demonstration of support and collaboration and that the supplemental funds will support business continuity by providing additional short-term liquidity. Copies of such news releases are communicated as **Exhibit R-3**.

34. The ACI Group understands that loan guarantees are a common form of IQ financial assistance and that these loan guarantees are intended to facilitate the financing of businesses by having financial institutions lend funds in reliance upon them, thereby limiting their credit exposure accordingly.

35. The ACI Group understands that: (a) following the announcement by the Québec Government that IQ was authorized to issue the IQ Loan guarantee, other than as disclosed below, no financial institution has indicated that it was prepared to provide the necessary DIP financing; and (b) at the ACI Group's request, the DIP Lender, being BMO Nesbitt Burns' parent, was then asked and agreed to do so.

36. BMO Nesbitt Burns: (a) was not involved in the negotiation of the financial terms upon which the ACI DIP Facility and the IQ Loan Guarantee are to be provided by the ACI DIP Lender and IQ respectively; (b) did not make a recommendation

to the Board of Directors of ABH or ACI as to selection of the DIP Lender; and (c) was not present during such portions of any Board of Directors meetings when such matters were decided.

4. ACI DIP FACILITY

37. The ACI DIP Facility consists of a US$100 million commitment (subject to minimum availability of US$12.5 million to be maintained at all times) that is not subject to any syndication conditions.

38. The proposed fee structure, which encompasses both the returns to the DIP Lender and (only for a portion of the Upfront) IQ, is as follows:

- Upfront fees: 4.4%
- Interest rate: LIBOR + 1.75% (subject to 3.0% LIBOR floor) (*US base rate option also available*)
- Undrawn fee: 0.525% per annum

39. Other significant features of the ACI DIP Facility are as follows:

(a) a facility of up to US$10 million may be made available to DCorp provided it obtains, at its option, the appropriate orders from the US Bankruptcy Court as contemplated in the ACI DIP Agreement (DCorp does not currently anticipate taking steps in order to draw on this facility);

(b) borrowings by ACI and DCorp under the ACI DIP Facility would be guaranteed by certain other Abitibi Petitioners and secured by a first priority charge (the "**ACI DIP Charge**") granted on a post-petition super priority basis on all present and after-acquired property, including proceeds from the sale of property of the ACI Group and DCorp Group;

(c) conditions precedent to disbursements must be met to the satisfaction of both the DIP Lender and IQ;

(d) the ACI DIP Charge would be subordinated to: (i) the ACI Administration Charge; (ii) the Abitibi D&O First Tranche (the terms of which are to be amended in the manner set forth in the conclusions of this Motion); and (iii) the interest of the Securitization Agent in the accounts receivable sold under the Securitization Program;

(e) because the maximum amount of US$100 million provided for in the IQ Loan Guarantee is in respect of principal and interest, a minimum availability of US$12.5 million is required to be maintained at all times under the ACI DIP Facility;

(f) the Borrowers may make voluntary prepayments of the ACI DIP Facility at any time, and must make certain mandatory prepayments of the ACI DIP Facility with the net cash proceeds of: (i) asset sales (including the sale of MPCo), subject to certain exceptions; (ii) insurance proceeds in certain cases; and (iii) proceeds received in respect of expropriation claims; and

(g) borrowings must be repaid in full at the earliest of (i) the acceleration of the ACI DIP Facility or occurrence of a specified event of default (including failure to repay the ACI DIP Facility by November 1, 2009); (ii) the effective date of a CCAA or Chapter 11 plan; and (iii) the unenforceability of the IQ Loan Guarantee.

40. The ACI DIP Agreement requires among others the issuance of orders from this Court providing for Raymond Chabot Inc. to be appointed as Court Appointed Officer in the event certain specified events of default occur (including as stated above failure to repay the ACI DIP Facility by November 1, 2009) and for such Court Appointed Officer to submit to this Court a proposed plan in order to ensure the repayment of outstanding obligations under the ACI DIP Facility. The specific orders requested from this Court in this regard are set forth in the conclusions of this Motion. As stated previously, the Petitioners intend to repay the ACI DIP Facility from the proceeds of the Contemplated Sales, failing which they will actively seek to refinance it well in advance of November 2009.

5. OTHER DIP FINANCING PROPOSALS RECEIVED

41. Two other DIP financing proposals were received for the ACI Group.

5.1. DIP Financing Proposal No. 1

42. DIP financing proposal No. 1 contemplates a facility available for one year and consisting of two tranches:

(a) a term tranche equal to US$200 million (the "**Term Tranche**") (availability subject to a borrowing base and an estimated US$20 million reserve), plus the principal amount of a guarantee that would be sought from IQ; and

(b) a roll-up tranche of up to US$401 million (the "**Roll-Up Tranche**").

43. Only a portion of the facility would be available on an interim basis pending the date of entry of final orders.

44. The Term Tranche was intended to replace the Interim Securitization (the current amount of which is US$210 million) and provide incremental liquidity. The Roll-Up Tranche, which provides no liquidity, was intended to enable holders of the existing Term Loan Facility to exchange up to US$347 million of such obligations on the basis of US$1.00 of existing obligations for US$1.1567 of loans under the Roll-Up Tranche.

45. The Term Tranche was to be provided a first priority perfected senior priming lien on all assets of the ACI Group and DCorp (including their respective subsidiaries). The Roll-Up Tranche would have a priority junior to the Term Tranche but senior to the existing Term Loan Facility, and the Roll-Up Tranche would not prime the Senior Secured Notes on any collateral securing such Senior Secured Notes.

46. The proposal was subject to a guarantee to be sought and obtained from IQ in respect of some portion of the Term Tranche.

47. The proposed facility would have been a multiple draw term loan facility and its financial terms were as follows:

- Upfront fees: 5.0% plus up to US$54 million in roll-up premium
- Interest rate: LIBOR + 10% subject to 3.5% LIBOR floor
- Undrawn fee: 0.5%
- Exit fees: 2.5%

48. Another proposal has been received from the same source in connection with the New A/R Facility to be entered into in replacement of the Interim Securitization which, if selected and implemented, would coexist with the ACI DIP Facility. The ACI Group is reviewing this proposal with its advisors as part of the New A/R Facility process.

5.2. DIP Financing Proposal No. 2

49. Another DIP financing proposal was received which would have been executed on a "best efforts" basis and therefore did not represent a firm commitment.

50. The facility was a 12-month facility with the ability to extend for up to two 3-month terms (with additional fees and interest rate increases applicable). The initial amount would have been US$100 million (with the potential to increase the facility by a further US$100 million in the future subject to syndication and the payment of fees). The facility would have to be fully-drawn at closing. The ACI Group is of the view that this facility would not be available until the New A/R Facility was put in place.

51. The initial proposal was subsequently amended to increase the pricing and its terms were as follows:

- Upfront fees: 8% - 9% + a work fee (amount to be determined)
- Interest rate: LIBOR + 7.0% - 8.0% subject to 3.5% LIBOR floor
- Exit fees: 1% - 2%

52. The facility contemplated a first ranking lien on all of the fixed assets (but not working capital assets) of the ACI Group and its wholly-owned subsidiaries.

6. SELECTION OF DIP FINANCING PROPOSAL

53. Several factors were considered in assessing the DIP financing proposals that were received, including their fee and interest structure, amounts and terms, as well as any borrowing base, "roll-up" or priming considerations. The conditionality and expected timing of implementation were also considered.

54. All DIP financing proposals contemplated priming one or both of the Term Loan Facility and the Senior Secured Notes. There appears to be no willingness of market participants to take second lien risk on the assets of the ACI Group in the context of a DIP financing because of a combination of factors:

    (a) the nature of the current economic and capital market conditions are such that there is a reduced supply of capital available for providing DIP financing;

    (b) given the increased demand for this type of financing, DIP lenders can be more selective in the risk they are prepared to take, even where as demonstrated below there is substantial collateral value against which a loan might be secured on a junior-ranking basis.

55. After consideration and review by ABH and the ACI Group in consultation with their advisors, it was determined that it would be in the best interest of ABH, the ACI Group and all stakeholders to enter into the ACI DIP Agreement.

56. As stated above, BMO Nesbitt Burns, a subsidiary of the ACI DIP Lender: (a) did not make a recommendation to the Board of Directors of ABH or ACI as to selection of the DIP Lender; and (b) was not present during such portions of any Board of Directors meetings when such matters were decided.

7. POSITION OF EXISTING SECURED CREDITORS

57. The assets of the ACI Group fall into three categories:

    (a) assets pledged in favour of the Senior Secured Notes;

    (b) assets pledged in favour of the Term Loan Facility; and

    (c) unpledged assets.

7.1. Senior Secured Notes

58. As of March 31, 2009, an amount of about US$441 million (consisting of US$413 in principal and about US$28 million in accrued interest) was outstanding under the Senior Secured Notes.

59. The Senior Secured Notes are primarily secured by the following:

(a) mortgages on 11 pulp and paper mills located in Canada and the United Kingdom;

(b) a pledge of the ACI Group's 60% equity interest in MPCo;

(c) pledges of the ACI Group's 75% equity interests in ACH and Abitibi-Consolidated Hydro Inc.; and

(d) substantially all of the equipment and intellectual property of ACCC, ACI and the other guarantors (other than DCorp and its restricted subsidiaries).

60. The Senior Secured Notes were issued in April 2008. In order to comply with provisions in the ACI Group Notes, the principal amount thereof represented no more than 10% of the Consolidated Net Tangible Assets of the ACI Group (as that expression is defined in the indentures relating to such ACI Group Notes).

61. The estimated value of the assets securing the Senior Secured Notes is in excess of US$1.3 billion as compared to an amount owing of about US$441 million. This estimate includes:

(a) a value of about US$657 million for the MPCo and ACH equity interests based on *bona fide* non-binding letters of intent with two separate arm's length parties, both of which proposed transactions have been publicly announced; and

(b) a value, excluding working capital, of about US$746 million for 9 of the pulp and paper mills that are located in Canada and are operating (the Bridgewater Mill is located in the United Kingdom and the Grand Falls mill in Newfoundland is closed). This estimate is based on applying a conservative multiple to management's 2009 projected "Earnings before interest, taxes, depreciation and amortization". For this purpose, a multiple lower than observed trading multiples for publicly traded companies that are producers of newsprint was selected.

A description of the approach to deriving these value estimates is communicated as **Exhibit R-4**.

7.2. Term Loan Facility

62. As of March 31, 2009, an amount of about US$350 million (consisting of US$347 in principal and about US$3 million in accrued interest) was outstanding under the Term Loan Facility.

63. The most recent borrowing base certificate issued pursuant to the Term Loan Facility indicates that, as at March 31, 2009, the book value of eligible inventories and accounts receivable was about US$532 million. This represents a surplus in

excess of US$182 million. A copy of such certificate is communicated as **Exhibit R-5**.

64. As referred to in paragraphs 167 and 313 of the Initial CCAA Petition, the Term Loan Facility is primarily secured by:

(a) a first ranking charge on certain movable property, corporeal and incorporeal, including: monies, instruments, inventory, claims, securities, insurance and receivables of Bridgewater, Cheshire Recycling Ltd. (U.K.), ACCC, ACI and 13 other guarantors, all of which are subsidiaries of ACCC, in all cases except if charged in connection with the Senior Secured Notes such as in respect of equipment, intellectual property and capital stock of certain subsidiaries; and

(b) a first ranking charge on substantially all of the movable property (including receivables, inventory and equipment) of DCorp and certain of its subsidiaries, a pledge of shares or other interests in the DCorp Group entities, and a mortgage over the real estate property related to the Alabama River Newsprint Mill.

65. The borrowing base certificate does not take into account:

(a) the pledge of the currently idled Alabama River newsprint mill with a capacity of 265,000MT;

(b) the unsecured claims held by the lenders under the Term Loan Facility against the DCorp Group entities that own the partnership interest (52.5%) in the Augusta Newsprint Mill which has 423,000MT of production capacity and all of DCorp's recycling operations; and

(c) the unsecured claims held by the lenders under the Term Loan Facility against entities within the ACI Group.

7.3. Unpledged Assets

66. The ACI Group also holds substantial unpledged assets the value of which is estimated to be in excess of US$450 million. Such assets include the following:

(a) hydro power generating facilities with 162MW of capacity situated in Chicoutimi, Jonquière and Bésy, in the Saguenay Region of the Province of Québec. The nature of these assets being similar to the MPCo assets, based upon a multiple per MW similar to that implied by the non-binding purchase price of the ACI Group's interest in MPCo (US$2.5 million/MW), the value of these facilities is estimated at about US$401 million; and

(b) 131,504 hectares of timberlands located in the Province of Québec and 63,424 hectares in the Province of Ontario. However, no value has been included for any of these timberlands, other than 123,000 hectares of Québec timberlands the Company is currently in discussions to sell at a price of C$60 million (US$49 million) (the proceeds of which are not required by the ACI DIP Agreement to be applied to the prepayment of the ACI DIP Facility);

67. No account is taken in the value of US$450 million referred to above in respect of the following other significant unpledged assets:

(a) the Iroquois Falls pulp and paper mill, which has an annual production capacity of 276,000 MT;

(b) the hydro assets that were expropriated in December 2008 by the Government of Newfoundland and Labrador (direct compensation in excess of C$300 million is being sought for the fair market value of all expropriated rights and assets); and

(c) 16 lumber facilities (1,924mmbf), 4 remanufacturing wood facilities and 2 engineered wood facilities which have substantial capacity but are currently operating well below such capacity and are projected to generate slightly negative EBITDA in 2009.

8. CONCLUSIONS

68. As appears from the foregoing and the Monitor's Third Report, the benefits of authorizing the ACI DIP Facility outweigh the inconveniences, if any, suffered by the creditors of the Petitioners. While the current challenging credit market conditions and customary DIP financing practices have required charges over pre-existing security interests, the Petitioners have substantial equity in the assets pledged to secured lenders in addition to having substantial assets with conservatively estimated values far in excess of the amount subject to the ACI DIP Facility. The Petitioners therefore submit that there is no reasonable prospect of actual prejudice to their secured creditors.

69. For the reasons set forth above, the Abitibi Petitioners believe it is both appropriate and necessary that the relief being sought be granted. With such relief, the Abitibi Petitioners will be able to restructure their business and affairs to maximize long term value for the benefit of all stakeholders.

70. Considering:

(a) the urgency of the situation;

(b) the necessity for the Abitibi Petitioners to obtain the credit facilities provided for in the ACI DIP Facility in order to finance their operations and the Restructuring (as defined in the Initial Order);

(c) the conditions precedent to the disbursement of advances under the ACI DIP Facility;

(d) the interest of the Abitibi Petitioners and their stakeholders; and

(e) the notices given for the presentation of this Petition, which Petitioners submit to be proper and sufficient;

the Petitioners respectfully submit and request that execution notwithstanding appeal be granted in respect of the ACI DIP Orders.

71. The Abitibi Petitioners respectfully request that the Amended Initial Order be amended to include such modifications or amendments as are necessary to include and provide for the ACI DIP Orders and the Loan Guarantee Orders.

72. The Petitioners respectfully submit that this Petition should be granted in accordance with its conclusions.

73. The present Petition is well founded in fact and in law.

WHEREFORE, MAY THIS COURT:

1. **GRANT** this Motion For Approval of a DIP Financing in Respect of the Abitibi Petitioners (the "**Motion**").

2. **EXEMPT** Abitibi-Consolidated Inc. ("**ACI**") and the Petitioners listed on Schedule "A" hereto (collectively with ACI, the "**Abitibi Petitioners**") from having to serve this Motion and from any notice of presentation.

3. **AMEND** the Amended Initial Order issued by this Court on April 22, 2009 in this matter as follows:

   (i) after Paragraph 61 of the Amended Initial Order, add the following paragraphs:

   __ACI DIP Financing__

[61.1] ***ORDERS*** *that the Abitibi Petitioners are hereby authorized and empowered to enter into, obtain and borrow under a credit facility provided pursuant to a "Letter Loan Agreement US$100,000,000 Super-priority, Senior Secured Debtor-in-Possession Credit Facility" among Abitibi and Donohue Corp., as borrowers, and the Bank of Montreal, as lender (the "**ACI DIP Lender**") (the "**ACI DIP Agreement**") and to enter into the offer of loan guarantee from Investissement Québec ("**IQ**") (the "**IQ Guarantee Offer**"), in each case substantially in the forms communicated as Exhibits R-1 and R-2 in support of the Motion for Approval of DIP Financing in Respect of the Abitibi Petitioners dated April 27, 2009 (subject to such non-material amendments and modifications as the parties may agree with a copy thereof being provided in advance to the Monitor), provided that borrowings under such credit facility shall not exceed the principal amount*

of US$100 million, unless permitted by further Order of this Court, and the ACI DIP Agreement and the IQ Guarantee Offer are hereby approved.

[61.2] ***ORDERS*** *that the Abitibi Petitioners are hereby authorized and empowered to execute and deliver the ACI DIP Agreement and the IQ Guarantee Offer, as well as such commitment letters, fee letters, credit agreements, mortgages, charges, hypothecs and security documents, guarantees, mandate and other definitive documents (collectively with the ACI DIP Agreement and the IQ Guarantee Offer, the "****ACI DIP Documents****"), as are contemplated by the ACI DIP Agreement or the IQ Guarantee Offer or as may be reasonably required by the ACI DIP Lender or IQ pursuant to the terms thereof, and the Abitibi Petitioners are hereby authorized and directed to pay and perform all of their indebtedness, interest, fees, liabilities and obligations to the ACI DIP Lender or IQ under and pursuant to the ACI DIP Documents as and when the same become due and are to be performed, notwithstanding any other provision of this Order.*

[61.3] ***ORDERS*** *that all of the Property of the Abitibi Petitioners is hereby charged by a movable and immovable hypothec, mortgage, lien and security interest to the extent of the aggregate amount of CDN$200 million (such hypothec, mortgage, lien and security interest, together with any other hypothec, mortgage, lien or security interest created or contemplated by the DIP Documents, the "****ACI DIP Charge****") in favour of the ACI DIP Lender and IQ as security for all obligations of the Abitibi Petitioners to the ACI DIP Lender and IQ with respect to all amounts owing, including principal, interest and the ACI DIP Expenses (as defined hereinafter) and all obligations required to be performed under or in connection with the ACI DIP Documents. The ACI DIP Charge shall have the priority established by paragraphs 89 and 91 hereof.*

[61.4] ***ORDERS*** *that, notwithstanding any other provision of this Order, the Abitibi Petitioners shall pay to the ACI DIP Lender when due all amounts owing (including principal, interest, fees and expenses, including without limitation, all fees and disbursements of counsel and all other advisers to or agents of the ACI DIP Lender and IQ on a full indemnity basis (the "****ACI DIP Expenses****") under the ACI DIP Documents and shall perform all of their other obligations to the ACI DIP Lender and IQ pursuant to the ACI DIP Documents and this Order.*

[61.5] ***ORDERS*** *that the claims of the ACI DIP Lender and IQ pursuant to the ACI DIP Documents shall not be compromised or arranged pursuant to the Plan or these proceedings and the ACI DIP Lender and IQ, in such capacities, shall be treated as an unaffected creditor in these proceedings and in any Plan or any proposal filed by any Abitibi Petitioner under the BIA.*

[61.6] ***ORDERS*** *that the ACI DIP Lender may:*

(a) *notwithstanding any other provision of this Order, take such steps from time to time as it may deem necessary or appropriate to register, record or perfect the ACI DIP Charge and the ACI DIP Documents in all jurisdictions where it deems it to be appropriate; and*

(b) *notwithstanding the terms of paragraphs 10 and 11 hereof, upon the occurrence of a Specified Event of Default or a Termination Event (as each such term is* *defined in the ACI DIP Documents), refuse to make any advance to the Abitibi Petitioners and terminate, reduce or restrict any further commitment to the Abitibi Petitioners to the extent any such commitment remains, set off or consolidate any amounts owing by the ACI DIP Lender to the Abitibi Petitioners against any obligation of the Abitibi Petitioners to the ACI DIP Lender, make demand, accelerate payment or give other similar notices, or to apply to this Court for the appointment of a receiver, receiver and manager or interim receiver, or for a bankruptcy order against the Abitibi Petitioners and for the appointment of a trustee in bankruptcy of the Abitibi Petitioners, and upon the occurrence of an event of default under the terms of the ACI DIP Documents, the ACI DIP Lender shall be entitled to seize and retain proceeds from the sale of any of the Property of the Abitibi Petitioners and the cash flow of the Abitibi Petitioners to repay amounts owing to the ACI DIP Lender in accordance with the ACI DIP Documents and the DIP Lender's Charge.*

[61.7] ***ORDERS*** *that the foregoing rights and remedies of the ACI DIP Lender under this paragraph shall be enforceable against any trustee in bankruptcy, interim receiver, receiver or receiver and manager of the Abitibi Petitioners or the Property of the Abitibi Petitioners, the whole in accordance with and to the extent provided in the ACI DIP Documents.*

[61.8] ***ORDERS*** *that the ACI DIP Lender shall not take any enforcement steps under the ACI DIP Documents or the ACI DIP Charge without providing a five (5) business days (the "**Notice Period**") written enforcement notice of a default thereunder to the Abitibi Petitioners and the Monitor. Upon expiry of such Notice Period, and notwithstanding any stay of proceedings provided herein, the ACI DIP Lender shall be entitled to take any and all steps and exercise all rights and remedies provided for under the ACI DIP Documents and the ACI DIP Charge and otherwise permitted at law, the whole in accordance with applicable provincial laws, but without having to send any notices under Section 244 of the BIA. For greater certainty, the ACI DIP Lender may issue a prior notice pursuant to Article 2757 CCQ concurrently with the written enforcement notice of a default mentioned above.*

[61.9] ***ORDERS*** *that, subject to further order of this Court, no order shall be made varying, rescinding, or otherwise affecting paragraphs 61.1 to 61.9 hereof, the approval of the ACI DIP Documents or the ACI DIP Charge unless either (a) notice of a motion for such order is served on the Petitioners, the Monitor, the ACI DIP Lender, IQ and the Court Appointed Officer (as defined below) by the moving party and returnable within seven (7) days after the party was provided with notice of this Order in accordance with paragraph 70(a) hereof or (b) the ACI DIP Lender apply for or consent to such order.*

(ii) amend paragraph 89 and 95 of the Initial Order as follows:

[89] ***DECLARES*** *that the priorities of the Abitibi Administration Charge, Abitibi D&O Charge, ACI Inter-Company Advances Charge and* [...] <u>*the ACI DIP Charge*</u> *(collectively, the "**Abitibi CCAA Charges**"), as between them with respect to any Property of the Abitibi Petitioners to which they apply, shall be as follows:*

(a) *first, the Abitibi Administration Charge;*

(b) *second, the Abitibi D&O Charge, up to a maximum of $22.5 million (the "**Abitibi D&O First Tranche**");*

(c) *third, [...] the ACI DIP Charge;*

(d) *fourth, the ACI Inter-Company Advances Charge; and*

(e) *fifth, the Abitibi D&O Charge in respect of the balance of amounts, if any, secured thereby (the "**Abitibi D&O Second Tranche**").*

*[95] **DECLARES** that the CCAA Charges and the rights and remedies of the beneficiaries of such Charges, as applicable, shall be valid and enforceable and shall not otherwise be limited or impaired in any way by: (i) these proceedings and the declaration of insolvency made herein; (ii) any application for a bankruptcy order filed pursuant to the BIA in respect of the Petitioners or any bankruptcy order made pursuant to any such petition or any assignment in bankruptcy made or deemed to be made in respect of the Petitioners; (iii) proceedings taken by any of the Petitioners under Chapter 11 of Title 11 of The United States Code; (iv) any negative covenants, prohibitions or other similar provisions with respect to borrowings, incurring debt or the creation of Encumbrances or the granting of financial assistance between affiliated companies, contained in (y) any federal or provincial statute or (z) any agreement, lease, sub-lease, offer to lease or other arrangement which binds the Petitioners (a "Third Party Agreement"), and notwithstanding any provision to the contrary in any Third Party Agreement:*

a) the creation of any of the CCAA Charges shall not create or be deemed to constitute a breach, by the Petitioners, of any Third Party Agreement to which they are a party; and

b) any beneficiary of the CCAA Charges shall not be held liable against any Person whatsoever as a result of any breach of any Third Party Agreement caused by or resulting from the creation of the CCAA Charges.

(iii) amend paragraphs 52 and 53 of the Initial Order as follows:

*[52] **DECLARES** that, as security for the obligation of the Abitibi Petitioners to indemnify the Directors of the Abitibi Petitioners pursuant to paragraph 51 hereof, the Directors of the Abitibi Petitioners are hereby granted a hypothec on, mortgage of, lien on and security interest in the Property of the Abitibi Petitioners (other than the Property subject to the Securitization Program Agreements) to the extent of the aggregate amount of $75 million (the "**Abitibi D&O Charge**"), having the priority established by paragraphs 89 and 91 hereof. Such Abitibi D&O Charge shall not constitute or form a trust. [...] Notwithstanding any language in any applicable policy of insurance to the contrary, (a) such Abitibi D&O Charge shall only apply to the extent that the Directors of the Abitibi Petitioners (collectively, the "**Abitibi Respondent Directors**") do not have coverage under any directors' and officers' insurance, which shall not be excess insurance to the Abitibi D&O Charge [...] or to the extent that such coverage is insufficient to pay amounts indemnified in accordance with paragraph 51 of this Order*

and (b) no insurer shall be entitled to be subrogated to or claim the benefit of the Abitibi D&O Charge.

[53] ***DECLARE*** *that, as security for the obligation of the Bowater Petitioners to indemnify the Directors of the Bowater Petitioners pursuant to paragraph 51 hereof, the Directors of the Bowater Petitioners are hereby granted a hypothec on, mortgage of, lien on and security interest in the Property of the Bowater Petitioners to the extent of the aggregate amount of $25 million (the "**Bowater D&O Charge**"), having the priority established by paragraphs 90 and 91 hereof. Such Bowater D&O Charge shall not constitute or form a trust.* [...] *Notwithstanding any language in any applicable policy of insurance to the contrary, (a) such Bowater D&O Charge shall only apply to the extent that the Directors of the Bowater Petitioners (collectively, the "**Bowater Respondent Directors**") do not have coverage under any directors' and officers' insurance, which shall not be excess insurance to the Bowater D&O Charge* [...] *or to the extent that such coverage is insufficient to pay amounts indemnified in accordance with paragraph 51 of this Order and (b) no insurer shall be entitled to be subrogated to or claim the benefit of the Bowater D&O Charge.*

(iv) after paragraph 77 of the Amended Initial Order, add the following paragraphs:

Court Appointed Officer

[77.1] ***ORDERS*** *that upon having actual notice that (i) ACI has not repaid all outstanding obligations under the ACI DIP Facility by November 1, 2009 (the "**Expected Prepayment Date**") or (ii) a Specified Event of Default has occurred and is then continuing, the Monitor shall file with this Court a report containing a certificate (the "**Monitor's Certificate**") confirming such occurrence.*

[77.2] ***ORDERS AND DECLARES*** *that upon the filing of the Monitor's Certificate, Raymond Chabot Inc. shall be immediately and automatically appointed as court appointed officer (the "**Court Appointed Officer**") with the powers and duties set forth below.*

[77.3] ***ORDERS AND DECLARES*** *that upon the taking into effect of its appointment, the Court Appointed Officer shall have complete and unfettered access to the books and records of the Abitibi Petitioners, to their financial and business information and, generally, to all of their assets, in order to enable the Court Appointed Officer to submit to this Court, as soon as can be reasonably expected, a proposed plan for the realization of the property of the Abitibi Petitioners (or any such petitioners) or any part thereof, under this Court's supervision or otherwise, as may be necessary in order to ensure the repayment of outstanding obligations under the ACI DIP Facility.*

[77.4] ***ORDERS AND DECLARES*** *that the Court Appointed Officer shall not incur any liability or obligation as a result of its appointment and the fulfillment of its powers and duties or the provisions of this Order, save and except any liability or obligation arising from a breach of its duties to act honestly, in good faith and with due diligence, and no action or other proceedings shall be commenced against the Court Appointed Officer relating to its appointment, its conduct as Court Appointed Officer or the carrying out* *the provisions of any order of this Court, except with prior leave of this Court, on at least seven days notice to the Court Appointed Officer and its counsel.*

[77.5] ***ORDERS*** *that the Petitioners shall pay the fees and disbursements of the Court Appointed Officer, the Court Appointed Officer's legal or other advisers, incurred in connection with or with respect to the Restructuring, whether incurred before or after this Order, and shall provide each with a reasonable retainer in advance on account of such fees and disbursements, if so requested.*

(v) amend paragraph 76 of the Amended Initial Order as follows:

[76] ***DECLARES*** *that the Monitor, the Court Appointed Officer, the Monitor's legal counsel, the Court Appointed Officer's legal counsel, the Abitibi Petitioners' legal counsel and other advisers, as security for the professional fees and disbursements incurred both before and after the making of this Order by the Abitibi Petitioners in respect of these proceedings, the Plan and the Restructuring, in addition to the retainers referred to paragraph 75 hereof, be entitled to the benefit of and are hereby granted a hypothec on, mortgage of, lien on, and security interest in the Property of the Abitibi Petitioners (other than the Property subject to the Securitization Program Agreements) to the extent of the aggregate amount of $6 million (the "**Abitibi Administration Charge**"), having the priority established by paragraphs 89 and 91 hereof.*

4. **ORDER** the provisional execution of this Order notwithstanding any appeal and without the necessity of furnishing any security.

THE WHOLE WITHOUT COSTS, save and except in case of contestation.

Montréal, April 27, 2009

Stikeman Elliott LLP

Stikeman Elliott LLP
Attorneys for the Petitioners

SCHEDULE "A"

ABITIBI PETITIONERS

1. Abitibi-Consolidated Inc.
2. Abitibi-Consolidated ACI Group of Canada
3. 3224112 Nova Scotia Limited
4. Marketing Donohue Inc.
5. Abitibi-Consolidated Canadian Office Products Holdings 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 ACI Group
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 ACI Group
17. The International Bridge and Terminal ACI Group
18. Scramble Mining Ltd.
19. 9150-3383 Québec Inc.

SCHEDULE "B"

BOWATER PETITIONERS

1. Bowater Canadian Holdings Inc.
2. Bowater Canada Finance Corporation
3. Bowater Canadian Limited
4. 3231378 Nova Scotia ACI Group
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 ACI Group Limited
11. Bowater Treated Wood Inc.
12. Canexel Hardboard Inc.
13. 9068-9050 Québec Inc.
14. Alliance Forest Products (2001) Inc.
15. Bowater Belledune Sawmill Inc.
16. Bowater Maritimes Inc.
17. Bowater Mitis Inc.
18. Bowater Guérette Inc.
19. Bowater Couturier Inc.

SCHEDULE "C"

18.6 CCAA 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 ACI Group 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

SCHEDULE "D"

PARTNERSHIPS

1. Bowater Canada Finance Limited Partnership
2. Bowater Pulp and Paper Canada Holdings Limited Partnership
3. Abitibi-Consolidated Finance LP

AFFIDAVIT

I, the undersigned, Allen Dea, having my principal place of business at Suite 800, 1155 Metcalfe Street, Montréal, Quebec, H3B 5H2 solemnly declare the following:

1. I am the Vice President, Secretary of Abitibi-Consolidated Inc. and the Vice President, Treasurer of AbitibiBowater Inc.;

2. All the facts alleged in the *Motion for approval of a DIP Financing in respect of the Abitibi Petitioners* are true.

AND I HAVE SIGNED

ALLEN DEA

Solemnly declared before me at Montréal,
on the 27th day of April, 2009

Commissioner for oaths

Danielle Tremblay
126,246

NOTICE OF PRESENTATION

TO : SERVICE LIST

TAKE NOTICE that the *Motion for Approval of DIP Financing in Respect of the Abitibi Petitioners* will be presented for adjudication before one of the Honourable Judges of the Superior Court, sitting in practice in and for the District of Montreal, in Room **16.12** of the **Montreal Court House, 1 Notre-Dame St. East**, on **May 1, 2009**, at **9:15 am** in the forenoon, or so soon thereafter as counsel may be heard.

DO GOVERN YOURSELVES ACCORDINGLY.

Montreal, April 27, 2009

Stikeman Elliott LLP

STIKEMAN ELLIOTT LLP
Attorneys for Petitioners

SUPERIOR COURT
Commercial Division
(Sitting as a court designated pursuant to the *Companies' Creditors Arrangement Act*)

N°. 500-11-036133-094

CANADA
PROVINCE OF QUEBEC
DISTRICT OF MONTRÉAL

In the matter of Plan of Compromise or Arrangement of:

ABITIBIBOWATER INC. *et al*

Petitioners

- and -

ERNST & YOUNG INC.

Monitor

BS0350 **n/dos.:** 041053-1170

MOTION FOR APPROVAL OF A DIP FINANCING IN RESPECT OF THE ABITIBI PETITIONERS

ORIGINAL

Me Guy P. Martel (514) 397-3163
Fax : (514) 397-3493

STIKEMAN ELLIOTT
Stikeman Elliott S.E.N.C.R.L., s.r.l. AVOCATS
40e Étage
1155, boul. René-Lévesque Ouest
Montréal, Canada H3B 3V2