Jefferies & Company, Inc.

Member SIPC

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Contestation of the Debtors' Amended Motion for the Approval of a Second DIP Financing

November 5, 2009

Jefferies

CONFIDENTIAL

Executive Summary

Introduction

1. Jefferies & Company, Inc. ("Jefferies") was retained on April 2, 2009, by the Ad-Hoc Committee of Term Loan Lenders (the "ACI Term Lenders") under the 364-day Credit and Guaranty Agreement dated April 1, 2008 (the "ACI Term Loan"), between the ACI Term Lenders and Abitibi Consolidated Company of Canada ("ACCC") and Abitibi-Consolidated Inc. ("ACI"), (collectively, "Abitibi" or the "Debtors") and certain of their affiliates. Subsequently, Jefferies has been engaged by Wells Fargo Bank, N.A., as successor administrative agent.

2. On April 16, 2009, AbitibiBowater Inc. ("ABH" or the "Company"), Bowater Inc. ("BI"), and certain of their direct and indirect U.S. and Canadian subsidiaries filed voluntary petitions in the United States Bankruptcy Court for the District of Delaware.

3. On April 17, 2009, ACI and its subsidiaries and Bowater Canadian Holdings Incorporated and its subsidiaries filed for and obtained protection from their creditors under the *Companies' Creditors Arrangement Act* (the "CCAA") pursuant to an order of the Superior Court.

4. On April 17, 2009, ACI and ACCC filed petitions for recognition under Chapter 15 of the U.S. Bankruptcy Code.

5. On August 3, 2009, the U.S. Bankruptcy Court granted the recognition orders under Chapter 15 of the U.S. Bankruptcy Code.

6. As of October 31, 2009, an estimated total claim of approximately $352.6 million was outstanding under the ACI Term Loan among ACCC and ACI, as borrowers, and certain subsidiaries and affiliates of ACI, as guarantors, and the lenders from time to time party thereto.(1)(2) The ACI Term Loan is primarily secured by accounts receivable and inventory and proceeds thereof of ACCC, ACI and Donohue Corporation ("DCorp") and their subsidiaries, and

(1) Estimated as $346.9 million principal plus $4.7 million of accrued interest and $1.0 million of professional fees and expenses.
(2) All references to dollars are in U.S. currency unless otherwise noted. All Canadian amounts have been converted based on an exchange rate of C$1.00 = USD$0.90, consistent with the exchange rate assumptions of the Debtors and Monitor. Proposed DIP Facility of C$230.0 million = USD$207.0 million.

also by the pledge of the stock or other equity interests of certain subsidiaries of DCorp and the real estate relating to the mill owned by Alabama River Newsprint Company.

Background

7. On May 6, 2009, the Debtors received approval for a $100.0 million senior secured debtor-in-possession credit facility (the "Current ACI DIP Facility"). To date, the Debtors have only drawn $54.8 million and have projected liquidity (cash plus undrawn DIP) of $126.6 million through the week ending January 24, 2010 under their current 13 week cash flow forecast. This does not include approximately $20.5 million of expected proceeds from the sale of ACI assets located in Lufkin, TX, ("Lufkin"), resulting in projected liquidity of $147.1 million.

8. On September 6, 2009, the Debtors reached an agreement for the sale of ACCC's 60% equity interest in the Manicouagan Power Company ("MPCo"), for gross proceeds of approximately $553.5 million (C$615.0 million), (the "MPCo Transaction").

9. On October 16, 2009, the Debtors filed a motion (the "Motion") seeking authorization for ACI and ACCC, as borrowers, to enter into a loan agreement with an unlimited liability company (the "ULC"), as lender, providing for a $207.0 million (C$230.0 million) super-priority secured, debtor-in-possession credit facility (the "Proposed DIP Facility"). The Debtors are proposing to draw the entire $207.0 million (C$230.0 million) commitment immediately, which will result in a pro forma cash balance of approximately $374.1 million (C$415.6 million). (3) The Proposed DIP Facility would entail a priming charge over the Debtors' Canadian assets.

10. The Proposed DIP Facility would be funded from a portion of the proceeds of the MPCo Transaction, with the remaining proceeds used to repay, among other things, the $54.8 million currently outstanding on the Current ACI DIP Facility. In addition, the ACI Term Lenders are subject to a priming charge from Directors and Administration Charges of $25.7 million (C$28.5 million). As such, the approval of the Proposed DIP Facility would result in aggregate priming of $287.5 million (C$319.4 million).

(3) See Pro Forma Cash Balance schedule at Paragraph 48.

11. Each month, the Debtors are required to provide the agent of the ACI Term Lenders a certificate (the "Asset Certificate") showing the value of inventory and accounts receivable securing the ACI Term Loan. Based on the August Asset Certificate, the ACI Term Lenders' collateral value was $458.7 million, of which $222.0 million was located in Canada and $236.7 was located in the U.S. and in the U.K. Based on the September Asset Certificate, the ACI Term Lenders' collateral declined further to $425.4 million (location of collateral by country for September has not been provided by the Debtors).

12. Based on the August Asset Certificate, the approval of the Proposed DIP Facility results in changing the ACI Term Lenders' position from $25.6 million oversecured to $115.9 million undersecured. Based on the September Asset Certificate, the ACI Term Lenders' position would likely be worse given the decrease in total collateral.

Collateral Position - August

Current Collateral Position			Collateral Position with Additional Priming Charges		
Canadian Collateral Value	$	222.0	Canadian Collateral Value	$	222.0
Directors and Administration Charges		(25.7)	Directors and Administration Charges		(25.7)
DIP Priming Amount		(54.8)	DIP Priming Amount		(261.8)
Net Canadian Collateral Value	$	141.5	Net Canadian Collateral Value	$	(65.5)
U.S. and U.K. Collateral Value		236.7	U.S. and U.K. Collateral Value		236.7
Term Loan	$	(352.6)	Term Loan	$	(352.6)
Collateral Cushion	**$**	**25.6**	**Collateral Cushion**	**$**	**(115.9)**
Excess Coverage		**7.3%**	**Excess Coverage**		**(32.9%)**

13. Based on Jefferies' review and analysis of the information provided by the Debtors, a DIP facility of C$130.0 million, instead of the C$230.0 million requested by the Debtors, would provide more than sufficient liquidity and give creditors the opportunity to review and diligence the Debtors' business plan.

Purpose

14. Jefferies has prepared this report in connection with the ACI Term Lenders' review of the Debtors' Motion to advise the Superior Court of:

(i). The terms and conditions, and impact, of the Debtors' Proposed DIP Facility;

(ii). The Debtors' forecast does not warrant the significant increase in the DIP facility to $207.0 million (C$230.0 million);

(iii). A C$130.0 million DIP facility is a reasonable alternative to the Proposed DIP Facility; and

(iv). The risk of harm to the ACI Term Lenders if the Proposed DIP Facility is approved.

Overview of Jefferies & Company, Inc.

Firm Overview

15. Jefferies, a major global securities and investment banking firm, has served companies and their investors for more than 45 years. Headquartered in New York City, with offices in more than 25 cities around the world, Jefferies provides clients with capital markets and financial advisory services, institutional brokerage, securities research and asset management. The firm provides investors with fundamental research and trade execution in equity, equity-linked, and fixed income securities, including corporate bonds, high yield bonds, US government and agency securities, repo finance, mortgage- and asset-backed securities, municipal bonds, whole loans and emerging markets debt, as well as commodities and derivatives. Jefferies offers companies capital markets, merger and acquisition, restructuring and other financial advisory services. Jefferies is the principal operating subsidiary of Jefferies Group, Inc.

16. Jefferies and its senior professionals have extensive experience in the reorganization and restructuring of companies, through both out-of-court and in-court proceedings. The employees of Jefferies' Recapitalization & Restructuring Group have advised debtors, creditors, equity constituencies, and acquirors in corporate reorganizations. Currently, the Recapitalization & Restructuring Group includes over 50 dedicated professionals located in three offices and is engaged on over 30 assignments. Since 2001, Jefferies has been involved in over 160 restructurings representing over $175 billion in restructured liabilities.

17. Jefferies' professionals also have significant experience in other Canadian transactions involving Nortel, Quebecor World, Pope & Talbot, Bell Canada, Microcell, Parmalat, Port

Townsend and Trident, among others. Additionally, Jefferies Recapitalization & Restructuring Group includes senior professionals who are members of the *Canadian Association of Insolvency & Restructuring Professionals* ("CAIRP").

18. Jefferies' professionals have also provided expert testimony in a number of restructurings, including: AMERCO, Atkins, Calpine, Cone Mills, ESA International, Exide Technologies, Extended Stay, Federal Mogul, Friedman's, Greate Bay Hotel & Casino, Loral Space and Communications, Pliant, Railworks, Resort at Summerlin, TelCove, Vlasic, and WCI Steel, among others.

Jefferies' Senior Professionals

Biography of Thomas C. Carlson

19. Thomas C. Carlson is a Managing Director in Jefferies' Recapitalization & Restructuring Group with over fifteen years providing corporate reorganization, crisis management and business turnaround services to management and debtors, senior creditors, unsecured creditors, and equity investors in both out-of-court and in-court reorganizations.

20. Mr. Carlson's engagement experiences include business valuations, distressed M&A, debt and equity financings, development and execution of business plans, development of pre-negotiated restructurings, evaluation, negotiation of debtor-in-possession and exit financing facilities. Select representative transactions include Pope & Talbot, Bally Total Fitness, Delphi, U-Haul, Brown Jordan, Tower Records and Cone Mills.

21. Prior to joining Jefferies, Mr. Carlson was a Project Manager at Zolfo Cooper, LLC, and a Senior Consultant in the Corporate Recovery Group at Price Waterhouse, LLP. Mr. Carlson earned a BA with Honors from Colgate University and an MBA from the Leonard N. Stern School of Business at New York University, where he graduated with dual concentrations in Finance and Accounting.

22. Mr. Carlson is a Certified Public Accountant, a Certified Insolvency and Reorganization Advisor and holds Series 7 and 63 securities licenses. Mr. Carlson has been admitted as an expert on

valuation and mergers and acquisitions in the bankruptcy courts of the Southern District of New York, the District of Delaware and the Eastern District of Missouri. He is a frequent speaker and author on recapitalization and restructuring topics.

Biography of Michael G. Stewart

23. Michael Stewart is a Senior Vice President in Jefferies' Recapitalization & Restructuring Group with over twelve years of restructuring experience. Prior to joining Jefferies, Mr. Stewart was a senior member of KPMG Canada's corporate restructuring practice.

24. Over his career, Mr. Stewart has worked on a diverse range of both debtor and creditor advisory transactions including Quebecor, Movie Gallery, AT&T Canada, Air Canada, Pope & Talbot, and Pliant, among others.

25. Mr. Stewart is a member of the *Canadian Association of Insolvency & Restructuring Professionals* and is a Chartered Accountant. Mr. Stewart received a Bachelor of Commerce degree with Honors from the University of Toronto.

Terms of Reference

26. The information herein contains certain financial information of ABH and its subsidiaries as provided by the Debtors and that is subject to significant uncertainties. Actual results may vary from the prospective financial information contained herein and such variances may be material. Jefferies makes no representation as to the accuracy of the information or the achievability of any projected results.

27. Jefferies has not audited, reviewed or compiled the accompanying information in accordance with Generally Accepted Auditing Standards. Jefferies expresses no opinion or other form of assurance on the information contained herein.

28. Some of the information contained herein is confidential information of ABH and is subject to a confidentiality agreement between Jefferies and ABH.

29. All references to dollars are in U.S. currency unless otherwise noted. All Canadian amounts have been converted based on an exchange rate of C$1.00 = USD$0.90, consistent with the exchange rate assumptions of the Debtors and Monitor.

Overview

Company Background

30. In October 2007, two of North America's largest organizations in the forest and wood products industry, ACI and BI, merged to create ABH. ABH is one of the world's largest pulp and paper manufacturers. 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, ACI and DCorp.

31. ABH produces a wide range of newsprint and commercial printing papers, market pulp and wood products. ABH is also among the world's largest recyclers of newspapers and magazines and has more third-party certified sustainable forest land than any other company in the world. It also operates power generation facilities. ABHs mills are located in the United States, Canada, the United Kingdom and South Korea.

32. ABH's annual revenue was approximately $6.8 billion for the year ending December 31, 2008.

Industry Background

33. The pulp and paper industry is a commodity market in which producers compete primarily on the basis of price. Recent prices for paper products have fluctuated significantly and may fluctuate significantly in the future, principally as a result of market conditions including supply and demand. Demand for forest products is generally correlated with global economic conditions and in particular, consumption of pulp and paper products is primarily driven by levels of advertising. In periods of economic weakness, reduced spending by consumers and businesses results in decreased demand for forest products, resulting in lower product prices and increased production downtime.

34. As a result of the significant weakening of the global economy in 2008 and the mature market for newsprint, North American demand for newsprint has declined over the last several years. The forest products industry continues to face significant challenges with respect to pricing and demand. Specifically, paper and pulp consumption has been adversely impacted by significant declines in circulation, advertising, other industry trends and global economic conditions. A significant contributing factor to these issues is the continuing overcapacity in the newsprint market and ongoing weakness in the U.S. housing market. Based on information provided by the Debtors, current forecasts for the industry include the following:

(i). RISI and PPPC project newsprint shipments to decline from 10.3 million tonnes in 2008 to 6.9 and 7.5 million tonnes in 2010, respectively; [4]

(ii). RISI projects demand for the commercial printing paper end markets to be relatively flat over the next five years; and

(iii). PPPC projects an increase in demand for market pulp during the next several years.

35. Since the commencement of these CCAA proceedings, ABH has announced production curtailments or mill idlings representing annual capacity reductions of approximately 1.3 million tonnes according to the Seventeenth Monitor's Report. The Debtors' competitors have also announced production curtailments.

36. ABH announced price increases of $35 per tonne for North American customers in September and October. According to a September 4, 2009 news release from RISI, all major newsprint producers in North America have announced similar price increases. The producers announcing price increases represent over 95% of the total North American newsprint market.

37. In the Debtors' presentation to financial advisors on September 16, 2009, they observed that the market for newsprint and paper products may be poised for recovery. After a trough in April, North American newsprint demand appears to have stabilized. As per the Monitor's

(4) RISI and PPPC are trade associations that provide news, prices, forecasts and analysis on the global forest products industry, including pulp and paper, tissue, wood products and timber. The Debtors rely on RISI and PPPC for projections and market data.

Nineteenth Report, the Debtors also recently announced additional U.S. Newsprint price increases for November and December.

MPCo Transaction

38. Manicouagan Power Corporation owns and operates the McCormick hydroelectric facility located on the Manicouagan River, in the Province of Quebec. MPCo is a joint venture between ACCC, which holds a 60% equity interest, and Alcoa Canada Ltd. ("Alcoa Canada"), which holds the remaining 40% interest.

39. On September 3, 2009, an agreement for the sale of ACCC's interest in MPCo to HQ (the “MPCo Transaction”) was entered into between ACI, ACCC, MPCo, and Alcoa Canada and Alcoa Ltd. (collectively, "Alcoa"). On September 29, 2009 the Superior Court issued an order authorizing the MPCo Transaction.

40. As detailed by the Monitor in the Nineteenth Monitor’s Report, the MPCo Transaction is not expected to close until the latter part of November or early December 2009.

41. Although the Debtors were required to complete the MPCo Transaction and repay the ACI DIP by November 1, 2009, Jefferies has been advised that an extension to December 15, 2009, has been granted by IQ Investissement Québec (the “Sponsor”), given the delay in closing.

42. As stated in the Nineteenth Report of the Monitor, the Debtors intend to apply the gross proceeds of $553.5 million (C$615.0 million) from the MPCo Transaction as follows, subject to certain adjustments:

Summary of MPCo Transaction Proceeds

	USD$	C$
Purchase Price	$ 553.5	$ 615.0
Payments and Adjustments from Purchase Price	(60.4)	(67.1)
Net Proceeds before Holdbacks and Reserves	493.1	547.9
HQ Holdback	(27.7)	(30.8)
ULC Reserve	(254.1)	(282.3)
Net Proceeds after Holdbacks	211.3	234.8
Repayment of Current ACI DIP Facility	(54.8)	(60.9)
Net Available Proceeds after Payment of Current ACI DIP Facility	**$ 156.5**	**$ 173.9**

Source: Nineteenth Report of the Monitor.

Current ACI DIP Facility

43. On May 6, 2009, the Debtors entered into a loan agreement between Bank of Montreal ("BMO"), as lender, and ACI and DCorp, as borrowers, providing the Debtors with a $100.0 million senior secured debtor-in-possession credit facility which included a guarantee by IQ, authorized by the Government of Quebec.

44. The Current ACI DIP Facility provides that a minimum availability of $12.5 million must be maintained at all times, such that the maximum amount which can be drawn is $87.5 million. The Debtors have only needed to draw $54.8 million of the Current ACI DIP Facility, resulting in current available liquidity of $32.7 million under the facility. (5)

45. The Current ACI DIP Facility must be repaid and shall terminate on the earliest of (i) April 30, 2010, being the maturity date, (ii) the effective date of the filing of a plan of arrangement in Canada or in the U.S., (iii) the acceleration of the Current ACI DIP Facility or occurrence of certain specified events of default (including the failure to repay the Current ACI DIP Facility by November 1, 2009) and (iv) the unenforceability of the Sponsor guarantee.

46. Jefferies has been advised that the Debtors have received an extension of the date for repayment of the Current ACI DIP Facility to December 15, 2009.

47. The Debtors expect to repay $54.8 million of the Current ACI DIP Facility with proceeds from the MPCo Transaction which will receive the benefit of an ACI priming charge. This will result in a total DIP priming charge of $261.8 million ($54.8 from the Current ACI DIP Facility and $207.0 million from the Proposed DIP Facility) and aggregate priming of $287.5 million.

The Proposed DIP Facility

Overview

48. The Debtors presented a Motion seeking the approval of the Proposed DIP Facility of $207.0 million (C$230.0 million) using a portion of the proceeds from the MPCo Transaction. The Debtors are seeking access to the entire commitment immediately, which would provide the

(5) As of October 25, 2009.

Debtors with incremental liquidity of $150.8 million (C$167.6 million) and a pro forma cash balance of $374.1 million (C$415.6 million) as of October 25, 2009. The incremental liquidity provided to the Debtors under the Proposed DIP Facility would be generated as follows:

Pro Forma Cash Balance	USD$	C$
Current Cash Balance (October 25, 2009)	$ 170.1	$ 189.0
Lufkin Proceeds	20.5	22.8
Proposed DIP Facility	207.0	230.0
Net Available Proceeds from MPCo Transaction	156.5	173.9
Senior Secured Notes Repayment	(180.0)	(200.0)
Net Repayment of Notes	(23.5)	(26.1)
Pro Forma Cash Balance for Proposed DIP Facility	**$ 374.1**	**$ 415.6**

49. With the ULC providing the DIP loan, the Debtors would effectively be providing themselves a loan from the MPCo proceeds. Correspondingly, the Proposed DIP Facility would entail very few restrictions on the use of the cash and would provide the Debtors until September 30, 2010 to file a CCAA plan, well beyond the Debtor's guidance for the first quarter of 2010. The Proposed DIP Facility would rank immediately after the Current ACI DIP Facility and would be interest-free and free from any fees, with the exception of the reimbursement of any reasonable expenses incurred by ULC and Alcoa related to the financing.

50. According to the Motion, the Proposed DIP Facility would provide subrogation rights to secured lenders to the extent that any secured lenders' collateral is used to satisfy claims of the Current ACI DIP Facility and the Proposed DIP Facility. The secured lender would be provided with a priming charge over all of the encumbered and unencumbered assets of the Debtors in Canada, up to a loss of the collateral used for the satisfaction of the aforementioned claims. In addition to subrogation rights over the encumbered assets, the Debtors have outlined certain unencumbered assets as a potential source of recovery:

(i). Hydro power generating facilities located in Chicoutimi and Jonquiere, in the Saguenay Region of the Province of Québec;

(ii). The Iroquois Falls pulp and paper mill;

(iii). Hydro assets that were expropriated in December 2008 by the Government of Newfoundland and Labrador;

(iv). Approximately 10,500 hectares of timberlands located in the Province of Québec and 63,424 hectares in the Province of Ontario; and

(v). 16 lumber facilities (1,924mmbf), 4 remanufacturing wood facilities and 2 engineered wood facilities.

51. Based on Jefferies' review and analysis of the Proposed DIP Facility:

(i). The Debtors' forecast does not warrant the significant increase in the DIP facility to $207.0 million (C$230.0 million);

(ii). A DIP facility of C$130.0 million is a reasonable alternative to the Proposed DIP Facility; and

(iii). The proposed subrogation rights do not provide sufficient additional collateral coverage and the ACI Term Lenders would risk being materially harmed.

The Debtors' Forecast Does Not Warrant the Significant Increase in the DIP Facility

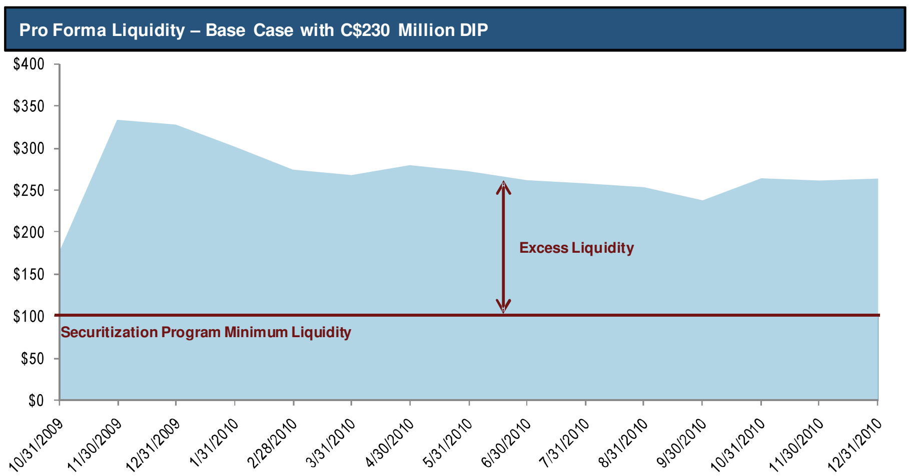
Amount of the Proposed DIP Facility is Not Based on Debtors' Liquidity Needs

52. The Debtors have asserted that the primary reason for the amount of the Proposed DIP Facility is based on the Debtors' liquidity needs. However, the Debtors' decision to seek a DIP of C$230.0 million is not a result of a "bottom's up" or "needs-based" forecasting approach but rather represents the available free cash from the MPCo Transaction after holdbacks and reserves.

53. The Proposed DIP Facility would also provide the Debtors with more liquidity than they reasonably need at this time. Pursuant to the Debtors' base case forecast, the Debtors need $71.3 million (C$79.2 million) through 2010, well below the $207.0 million (C$230.0 million) that would be provided by the Proposed DIP Facility.

54. The Monitor concurs that the Debtors do not need the full $207.0 million (C$230.0 million) until much later in the second half of 2010, if at all. [(6)]

55. Based on the above, the Debtors <u>want</u> as much liquidity as they can extract from the MPCo Transaction, but do not <u>need</u> such a large sum at this time. In evaluating the DIP amount based on the liquidity requirements of the Debtors, a smaller and more reasonable DIP facility would provide the Debtors with sufficient liquidity.



56. In April, the Debtors determined that a much smaller DIP facility of $100.0 million would provide sufficient liquidity. To date, the Debtors have only needed to draw $54.8 million of this much smaller DIP facility and have a current cash balance of $170.1 million as of October 25, 2009.

57. However, the Debtors are now suggesting that DIP facility of more than twice the amount of the Current ACI DIP Facility is needed despite the absence of material changes since April that would warrant such a substantial increase. Further, the Debtors' liquidity situation has improved materially and the overall industry environment has stabilized since April. Additionally, the Debtors' ability to operate without disruption after six months after the CCAA filing should provide customers and key vendors with greater confidence in the Debtors' operations.

58. The Debtors' base case forecast reflects the most likely financial results over the next fifteen months. In developing the forecast with assistance from the Monitor, the forecast consists of

(6) See paragraph 51 of the Nineteenth Monitors Report, which indicates that "Assuming the ULC DIP is approved, the ACI Group is projected to have sufficient liquidity through 2010 (although some of this liquidity may not be required by the ACI Group until the latter half of 2010)."

reasonable assumptions which already accounts for many of the factors that the Debtors have cited as a reason for the Proposed DIP Facility, including intra-month working capital variances and securitization cash flows.

59. However, in support of the Proposed DIP Facility, the Debtors rely on two hypothetical downside cases. The downside cases only represent illustrative sensitivities to the base case, which is more representative of the Debtors' expected financial results through 2010. The mere possibility of a downside case should not be the key determinant of the amount of the Debtors' DIP financing. Moreover, the Debtors conveniently omitted any upside cases to balance the range of possibilities.

60. Later in this report, Jefferies will outline the terms for an alternative DIP facility of C$130.0 million, which will provide the Debtors with more than enough liquidity in the near-term and allow for future borrowings as needed. This alternative will provide key stakeholders with an opportunity to review the Debtors' business plan and assess long-term liquidity needs.

Debtors Have Sufficient Liquidity

61. The Debtors' argument in support of the Proposed DIP Facility is based on the premise that they are facing a liquidity crisis. However, the forecast provided by the Debtors in the Motion and in subsequent forecasts distributed to the ACI Term Lenders show that the Debtors have ample liquidity into 2010, even in the Debtors' worst case scenario.

62. The Debtors' have a cash balance of $170.1 million as of October 25, 2009. Under the Proposed DIP Facility, the Debtors would have a pro forma cash balance of $374.1 million (C$415.6 million). The forecasts provided by the Debtors also fail to include an additional $20.5 million in expected proceeds from the sale of Lufkin, which the Debtors have repeatedly advised would close in the next month. (7)

63. In addition to the Lufkin sale, the Debtors have also outlined a number of initiatives to generate incremental liquidity beyond what is currently forecasted. In presentations to creditors on July 23, 2009 and September 16, 2009, the Debtors outlined detailed plans to generate incremental

(7) The ACI Term Lenders have asserted that the Lufkin proceeds are subject to their liens and adequate protection in the U.S.

liquidity through additional overhead reductions, indefinite idling of mills, price increases and additional asset sales. The Debtors estimated the impact of these items to be at least $115.0 million in the aggregate with $75.0 million and $40.0 million in annualized EBITDA contribution from the Newsprint and CPP initiatives, respectively.

64. The incremental liquidity from these initiatives coupled with existing availability under the Current ACI DIP Facility provides the Debtors with liquidity well in excess of amounts shown in Debtors' projections.

Incremental Liquidity of $150.8 million is Unwarranted

65. In the Motion, the Debtors raised a number of concerns which they claim support the need for $150.8 million in incremental liquidity. These include: the (i) impact of liquidity on a covenant in their existing securitization facility in the U.S.; (ii) the impact of foreign exchange rates; and, (iii) variability in the Debtors' forecasts. Based on Jefferies' review and analysis, a DIP amount which is significantly less than the Proposed DIP Facility would provide sufficient liquidity to address each of these concerns.

Securitization Program's Liquidity Covenant

66. The Debtors' U.S. based accounts receivable securitization program (the "Securitization Program") has a Minimum Cumulative Consolidated EBITDAR covenant (the "Minimum EBITDAR Covenant") which is tested on a quarterly basis. If the Debtors fail to comply with the Minimum EBITDAR Covenant it would not be a default provided they maintain "daily average liquidity of $100.0 million for the most recent four week calendar period ending prior" to the date the financial statement is delivered (the "Applicable Date"). In addition, the Debtors' liquidity on the Applicable Date must be $75.0 million.

67. Given the decrease in their EBITDA, the Debtors contend that $100.0 million of additional liquidity from the Proposed DIP Facility is required to ensure compliance under the Securitization Program's EBITDAR covenant. As the Debtors' worst case cash flow projections show compliance with current testing period (which is on or around November 15, 2009), the

next time the Minimum EBITDAR Covenant will be tested is 105 days after the fiscal year end of December 31, 2009, thus providing the Debtors with relief from the covenant until April 2010.

68. As such, the Debtors are effectively borrowing $100.0 million on the Securitization Program at a cost of L + 750bps, or $10.5 million annually, for which the Debtors are getting no benefit as the cash is essentially trapped on the balance sheet to remain in compliance with the covenant.

69. The Debtors have advised Jefferies that they have not had any conversation with Citibank, the Securitization Program's lender, with regards to amending this covenant, nor had any conversations with other lenders to refinance the Securitization Program.

70. Given the oversecured position of the Securitization Program and the borrowing cost estimated to maintain a $100.0 minimum cash balance, Jefferies believes the Debtors should use the time from now until April to engage in conversations with Citibank about amending the Securitization Program and to explore other financing alternatives.

Impact of Foreign Exchange

71. The Debtors have maintained that fluctuations in the U.S. and Canadian exchange rate significantly impact their cash flows. This is due to the fact that the Debtors generate a majority of their revenues in U.S. dollars but pay expenses in Canadian dollars.

72. Based on discussions with senior management of the Debtors, they are unable to employ traditional currency hedges to deal with the impact of exchange rate fluctuations. However, they have historically mitigated the impact of foreign exchange by aggressively managing production between U.S. and Canadian facilities (*e.g.*, shifting production to U.S. facilities to offset the weakening U.S. dollar). The Debtors also have the ability to increase U.S. denominated pricing to offset the impact of unfavorable foreign exchange movements, as evidenced by the Debtors' recently announced price increase of $25 per tonne in November and December. While the Debtors' financial advisor, BMO, has made sensational claims about the impact of foreign exchange rates, the actual net impact on the Debtors' cash flows indicate a much different story.

73. According to BMO, the impact of a $0.01 change in the Canadian dollar has an approximately $16.0 million annual impact to the Debtors' liquidity. However, over the six months of the CCAA proceedings, the Canadian dollar has appreciated by approximately $0.12 versus the U.S. dollar. Using the Debtors' assumption and a half year convention, the net cash outflow from the change in the Canadian dollar would have been approximately $48.0 million.

74. Based on the Debtors' actual performance since the petition date, they generated a total net cash outflow of approximately $87.7 million. Embedded in that total cash outflow is $82.9 million from restructuring expenses, adequate protection payments, and securitization outflows, leaving a net cash outflow of only $4.8 million despite the Debtors' assumption that the foreign exchange impact would be approximately $48.0 million.

Analysis of Foreign Exchange Assumption

Debtors Foreign Exchange Impact Assumption	**USD$**		**C$**	
Change in the Canadian dollar	$	0.12	$	0.12
Assumed Liquidity Impact per $0.01 per BMO		16.0		17.8
Implied Six Month Impact of Foreign Exchange [1]	$	48.0	$	53.3

Reconciliation of Cash Flows From Petition Date				
Total Net Cash Outflow (Petition Date - October 18, 2009)	$	(87.7)	$	(97.4)
Less: Restructuring and Other Items		(17.4)		(19.3)
Less: Interest / Financing Fees / Adequate Protection		(44.7)		(49.7)
Less: Securitization Outflows		(20.8)		(23.1)
Other Cash Outflows	**$**	**(4.8)**	**$**	**(5.3)**

Source: Debtors' Receipts and Disbursements Schedules and Conversations with Debtors.
(1) $16.0 million impact for average change of $0.06 over 6 months.

75. The Debtors provided an illustrative foreign exchange scenario for quarterly liquidity projections through 2010. This scenario assumes parity in exchange rates and looks at the impact of foreign exchange movements in isolation to advance the Debtors argument that additional liquidity is needed in the event that foreign exchange consumes all of the liquidity, an event which is not supported by empirical evidence.

76. Even the Monitor questions the relevance of the Debtors' foreign exchange claims. As discussed in paragraph 64 of the Nineteenth Monitors Report, "ACI has advised the Monitor that it believes if the conditions which underlie the Parity Forecast were to occur, it may be possible that additional newsprint selling price increases would be achievable in U.S. dollars,

which would offset some of the negative cash flow impact which arises from selling to customers who are invoiced in U.S. dollars. This is not reflected in the Parity Forecast."

77. Thus, based on the actual performance of the Debtors, it is clear that the Debtors' argument regarding the impact of foreign exchange is overstated given the complexities affecting the Debtors financial results.

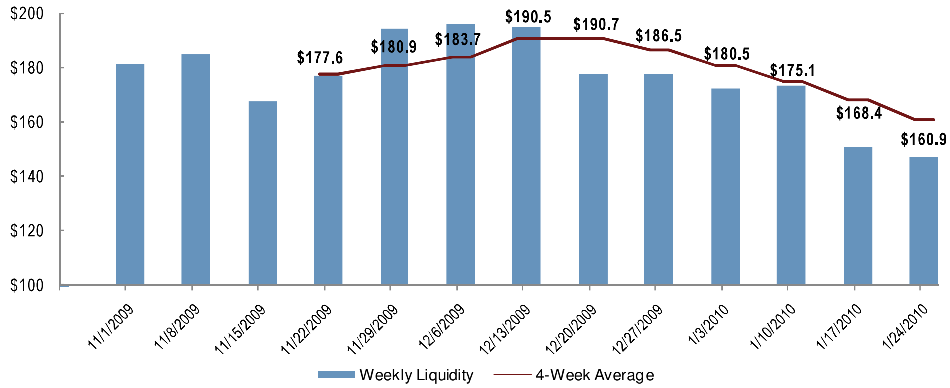
Forecasting Variability

78. The Debtors discuss concern over their ability to forecast within a reasonable range. They contend that the nature of their business warrants a $40.0 million excess liquidity reserve for potential working capital requirements. The Debtors rely on this argument as support for the Proposed DIP Facility, citing the potential impact of increases in working capital on the liquidity constraints of the Securitization Program.

79. Based on a review of the changes in the Debtors working capital, the ACI Term Lenders suggest that this forecasting variability should be of lesser concern.

80. The potential variability in the Debtors' forecasts has no impact on the Securitization Program's liquidity constraints for two reasons. First, including the $20.5 million in Lufkin proceeds, the Debtors' forecast through January 24, 2010 shows that it will end the period with $147.1 million in liquidity, sufficient given the Debtors' maximum variance of $40.0 million. Second, the fact that the liquidity covenant is a four week average takes into consideration the variability in cash flows of the Debtors' business and allows for the impact of any short-term variances to reverse. As a result, the Debtors' concerns about working capital variances are grossly overstated.

ACI Projected Liquidity (4-Week Average)



Source: 13 Week Cash Flow dated October 30, 2009. Includes $20.5 million of Lufkin proceeds beginning in 11/29/2009

81. The Motion for the Proposed DIP Facility indicates that the Debtors will need the additional liquidity to provide for additional working capital. Up to this point in the CCAA proceeding, the Debtors have incurred changes in cash balances of nearly $40.0 million within a month. However, the Debtors have only needed to draw $54.8 million of the Current ACI DIP Facility.

82. Based on the information provided by the Debtors, ACI clearly has sufficient liquidity and operating flexibility to manage its business and remain compliant with its lenders throughout the forecast period. The ACI Term Lenders agree that a DIP facility of some amount is warranted, but until sufficient information is provided, there is no immediate and clear need for a $207.0 million (C$230.0 million) DIP facility and the substantial increase in liquidity.

A C$130.0 million DIP is a Reasonable Alternative to the Proposed DIP Facility

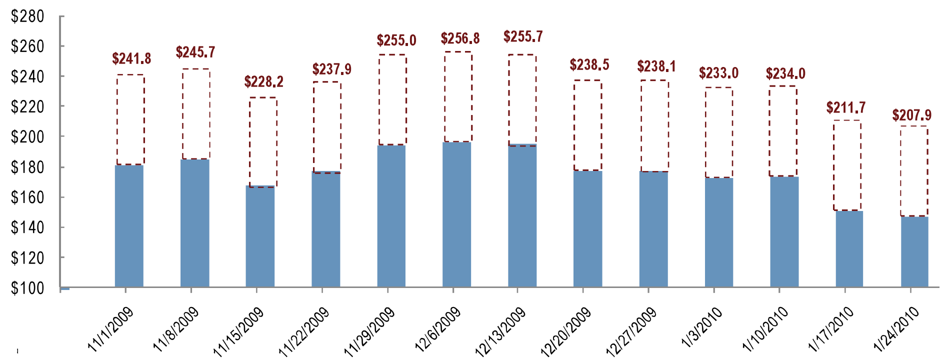
83. As an alternative to the Proposed DIP Facility, Jefferies believes a C$130.0 million DIP facility will provide the Debtors with sufficient liquidity based on the information provided by the Debtors. A fully drawn C$130.0 million DIP facility would provide the Debtors with net liquidity from the DIP of $93.5 million (C$103.9 million) and incremental liquidity of $60.8 million (C$67.6 million) above the Current ACI DIP Facility.

Incremental Liquidity to the Debtors

		USD$		C$
Net MPCo Proceeds after Holdbacks	$	211.3	$	234.8
Senior Secured Notes Repayment		(180.0)		(200.0)
Excess Proceeds to Repay Current ACI DIP Facility		31.3		34.8
Current Amount Outstanding on the ACI DIP Facility		(54.8)		(60.9)
Excess Proceeds		(23.5)		(26.1)
New Alternative Proposed DIP Facility		117.0		130.0
Net Available Liquidity to the Debtors	**$**	**93.5**	**$**	**103.9**
Current Available Liquidity		32.7		36.3
Incremental Liquidity to the Debtors	**$**	**60.8**	**$**	**67.6**

84. As a result, the Debtors' projected liquidity through January 24, 2010, would be $207.9 million.

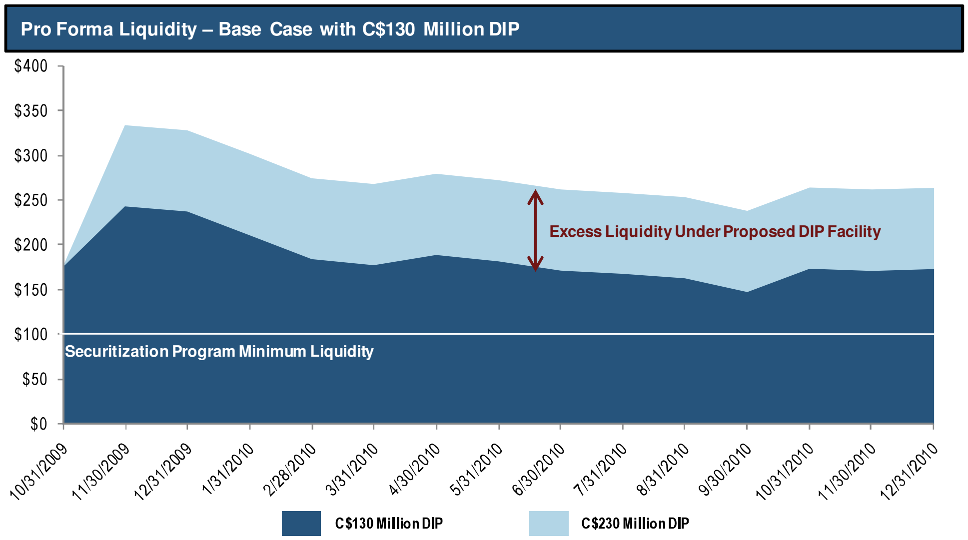
ACI Projected Liquidity with C$130 Million DIP Facility



Source: 13 Week Cash Flow dated October 30, 2009. Includes $20.5 million of Lufkin proceeds beginning in 11/29/2009.

Incremental liquidity provided with a C$130 million DIP.

85. Approving a C$130.0 million DIP facility is consistent with the Monitor's observation that the Debtors do not have an immediate need for such a large amount of liquidity as provided by the Proposed DIP Facility. In addition, a C$130.0 million DIP facility allows the Debtors to meet their covenant and operating requirements while creditors can have an opportunity to review and diligence the Debtors' business plan.



Balance of the Proceeds Would Be Held by the Monitor

86. Under the alternative C$130.0 million DIP facility, the balance of the Proposed DIP Facility of C$100.0 million would be held by the Monitor. During that period, the Debtors can provide their stakeholders with an opportunity to review and diligence their multi-year business plan and determine at that time if the incremental C$100.0 million is warranted. Additionally, the proceeds would be available for future borrowings by the Debtors, without any incremental cost or penalty.

ACI Term Lenders Would be Materially Harmed by the Proposed DIP Facility

ACI Term Lender Collateral Overview

87. The ACI Term Lenders' collateral is predominantly comprised of accounts receivable and inventory and proceeds thereof. The ACI Term Loan credit agreement requires the Debtors to provide a monthly report that shows the value of the working capital collateral net of certain reserves.

88. Since the commencement of the CCAA proceedings, the excess coverage provided by the ACI Term Lenders' collateral has deteriorated by approximately 110%.

Excess Collateral Deterioration

	April 2009	August 2009	September 2009
Accounts Receivable	$ 253.2	$ 269.2	$ 243.2
Inventory	198.3	189.5	182.2
Total Book Value, net of Reserves	$ 451.5	$ 458.7	$ 425.4
Directors and Administration Charges	(25.7)	(25.7)	(25.7)
Priming Amount	-	(54.8)	(54.8)
Term Lenders' Claim [(1)]	(346.9)	(352.6)	(352.6)
Excess Coverage	**$ 78.9**	**$ 25.6**	**$ (7.7)**
Change in Excess Coverage since April 2009		*(67.5%)*	*(109.7%)*

Source: Current Asset Amount Certificates.

(1) Estimated claim.

89. Based on the August Asset Certificates, the value of the ACI Term Lenders' collateral is approximately $458.7 million. This calculation is based on the formulas included in the Asset Certificate and does not factor in additional reserves likely required to reflect lower recoveries in a liquidation scenario. Cash has also been excluded from the calculation of the ACI Term Lenders' collateral given that a liquidation scenario would likely occur after the disbursement of most, if not all of ACI's cash. Based on the September Asset Certificate, the ACI Term Lenders' position has deteriorated given a further decrease in total collateral to $425.4 million.

Current Asset Amount Certificate

Accounts Receivable	August 2009	September 2009
Book Value of Trade Accounts Not Subject to ACSC Securitization	$ 44.7	$ 41.3
Residual Value of Accounts Receivable Subject to ACSC Securitization	172.1	158.6
Book Value of Non-Trade Accounts Receivable	153.9	131.9
Reserves	(54.0)	(45.7)
Total Accounts Receivable	$ 316.7	$ 286.1
Advance Rate	85.0%	85.0%
Book Value of Accounts Receivable Net of Reserves	**$ 269.2**	**$ 243.2**
Inventory		
Raw Materials	$ 41.7	$ 49.2
Finished Goods	117.8	103.6
Mill Stores	111.3	107.6
Total Inventory	**$ 270.8**	**$ 260.4**
Advance Rate	70.0%	70.0%
Book Value of Inventory Net of Reserves	**$ 189.5**	**$ 182.2**
Total Book Value Net of Reserves	**$ 458.7**	**$ 425.4**

Source: September 2009 Current Asset Amount Certificate.

90. Based on the August Asset Certificate, the collateral amount provides only $25.6 million excess coverage over the ACI Term Lenders' claim which is subject to a priming charge of $25.7 million in Directors and Administration Charges and $54.8 million outstanding under the Current ACI DIP Facility.

Current ACI DIP Facility				
		USD$		C$
ACI Receivables [1]	$	77.7	$	86.4
ACI Inventory [1]		144.3		160.3
Canadian Collateral Value	$	222.0	$	246.7
Directors and Administration Charges		(25.7)		(28.6)
DIP Priming Amount		(54.8)		(60.9)
Net Canadian Collateral	$	141.5	$	157.3
Donohue Receivables [1]		146.1		162.4
Donohue Inventory [1]		30.4		33.8
Bridgewater Receivables [1]		45.3		50.4
Bridgewater Inventory [1]		14.9		16.5
Term Loan [2]		(352.6)		(391.8)
Collateral Cushion	**$**	**25.6**	**$**	**28.5**
Excess Coverage		**7.3%**		**7.3%**

(1) Per Debtors' Schedule.
(2) Estimated claim.

<u>Priming of the ACI Term Lenders' Collateral</u>

91. If the Debtors' request for the Proposed DIP Facility is approved, all of the ACI Term Lenders' Canadian collateral would be consumed by a priming charge of $287.5 million and their excess collateral coverage would be eliminated entirely. As a result, the ACI Term Lenders would be left with only $236.7 million of collateral to satisfy a total claim of $352.6 million, which results in a $115.9 million deficit. In addition, the ACI Term Lenders are adversely affected by the $65.5 million in additional priming charges in excess of their Canadian collateral. This is due to the fact that the ACI Term Lenders would not be able to exercise their subrogation rights until the entire priming charge is satisfied.

Proposed DIP Facility				
		USD$		C$
ACI Receivables [1]	$	77.7	$	86.4
ACI Inventory [1]		144.3		160.3
Canadian Collateral Value	$	222.0	$	246.7
Directors and Administration Charges		(25.7)		(28.6)
DIP Priming Amount [2]		(261.8)		(290.9)
Priming Charge in excess of Canadian Collateral [3]	$	(65.5)	$	(72.7)
Donohue Receivables [1]		146.1		162.4
Donohue Inventory [1]		30.4		33.8
Bridgewater Receivables [1]		45.3		50.4
Bridgewater Inventory [1]		14.9		16.5
Total Remaing Collateral	$	236.7	$	263.0
Term Loan [4]		(352.6)		(391.8)
Collateral Cushion	**$**	**(115.9)**	**$**	**(128.8)**
Excess Coverage		**(32.9%)**		**(32.9%)**

(1) Per Debtors' Schedule.
(2) Assumes exchange rate of C$1.00 = USD$0.90 on C$230 million Proposed DIP Facility plus $54.8 million for Current ACI DIP.
(3) Net additional Canadian collateral that will be used to repay the Proposed DIP Facility.
(4) Estimated claim.

92. The Debtors' claim that there would be sufficient assets available to the ACI Term Lenders pursuant to the subrogation rights included in the Motion. However, the Debtors have not provided sufficient evidence in support of the value and marketability of the other assets that would be subject to subrogation.

93. Based on the information available to the ACI Term Lenders, it is impossible to determine if they would recover the full amount of their claim under a subrogation scenario. As a result, given the current value of the ACI Term Loan collateral, the ACI Term Lenders would be materially harmed by the Proposed DIP Facility. In accordance with current language of the Proposed DIP Facility, all of the ACI Term Lenders' collateral would be used by another creditor's subrogation and thus the ACI Term Lenders would need to rely on unsecured claims in order to receive recovery.

94. The Debtors assert that the ACI Term Lenders' total collateral value may be higher based on the potential value of certain items identified in the Motion. These include the: (i) U.S. adequate protection charge; (ii) pledge of Alabama River mill; (iii) unsecured claims in Augusta Partnership interests; and (iv) unsecured claims against the ACI Group. The Term Lenders believe that the Debtors' assessment of the collateral is flawed for a number of reasons.

Collateral Type	Collateral Value	Comments
Accounts Receivables [1]	$269.2 million	Per August Current Asset Amount Certificate
Inventory [1]	$189.5 million	Per August Current Asset Amount Certificate
Adequate Protection Charge [2]	--	The adequate protection charge provides replacement liens only to the extent there is a negative impact on U.S. (DCorp) collateral
Pledge of Alabama River mill [2]	--	Mill is currently idled with de minimis collateral value
Unsecured Claims in Augusta Partnership Interest [2]	--	Asset is currently subject to litigation in the U.S. Bankruptcy Court, with value significantly in question as a result
Unsecured Claims against the ACI Group [2]	--	As secured creditors, relying on unsecured claims implies that the ACI Term Lenders are already impaired
Total Collateral	$458.7 million	

(1) August Current Asset Amount Certificate and supporting schedules.
(2) As referenced in the Debtors' DIP Motion, paragraph 31.

Adequate Protection Charge in U.S.

95. The Debtors refer to the Term Lenders' "adequate protection" charge in the U.S. case as providing an additional source of recovery. This is simply not true. The adequate protection charge in the U.S. case provides for replacement liens on U.S. assets of DCorp only.

Pledge of Alabama River Mill

96. The Alabama River Mill referred to by the Debtors in the Motion is idled with a value that remains unclear. The idled mill is not expected to become operational according to the Debtors and may have obligations associated with its idled status that exceed any potential value.

97. In the current environment with producers seeking to eliminate excess capacity, idled mills have minimal value beyond the value of the underlying real estate net of closure and demolition costs. Without the benefit of a full appraisal for the property, it is impossible to ascribe more than a de minimis recovery value for the mill. More importantly, the Debtors will need to be certain that there are no potential environmental and labor-related claims at the mill before any value from a sale can be realized.

Unsecured Claims in Augusta Partnership Interests

98. The Debtors contend that the "unsecured" claims in the Augusta partnership could provide additional support for the ACI Term Lenders' claim. This argument is flawed for two reasons.

99. First, the Augusta partnership is subject to significant litigation in the US cases that could render it worthless to the Debtors. Second, the reference to an "unsecured" claim as a source of recovery implies that the ACI Term Lenders would be undersecured.

100. As a result, it is not possible to determine the current value (if any) of a contingent claim on the Augusta partnership, and ascribing any value to an unsecured claim would imply the ACI Term Lenders' collateral is already impaired as to render them an unsecured creditor.

Unsecured Claims against the ACI Group

101. Again, the Debtors assertion that an unsecured claim against the ACI Group provides value available to the ACI Term Lenders is misguided for the same reason as the unsecured claims in the Augusta partnership. As a secured lender, the ACI Term Lenders should not have to rely on a potential unsecured claim when determining the value of their collateral.

<u>Monitors' Assumptions Regarding ACI Term Lenders' collateral</u>

102. The Monitor has concluded that the ACI Term Lenders are overcollateralized as a result of the amount on the August Asset Certificate and the cash currently held by ACI and DCorp. In addition, the Monitor suggests that the Proposed DIP Facility would not have a material negative impact on the ACI Terms Lenders given the proposed subrogation rights.

103. The Monitor's assessment that the ACI Term Lenders would have sufficient collateral coverage in a subrogation scenario is largely based on its view that there appears to be sufficient value in the unpledged assets of ACI. In the Nineteenth Monitor's Report, the Monitor included a range of illustrative values for the Hydro Saguenay and Timberlands. The Monitor's analysis is based on numerous assumptions regarding future projections developed by the Monitor and does not consider the limited market for the underlying assets. Indeed, as seen with the MPCo

Transaction, the sales process for these assets would likely be extremely difficult given the limited universe of buyers and the regulations associated with such assets.

104. Furthermore, determining the value of the assets in a subrogation scenario is further complicated by the significant regulatory issues and limited number of potential buyers for such assets. As detailed by the Monitor in the Sixteenth Monitor's Report, the MPCo sale process took well over a year and "interest was limited as CIBC approached only one potential purchaser." Furthermore, "it was apparent from a review of the particular circumstances surrounding the ACCC MPCo interest, including the ROFRs which had been granted to three different parties, the regulatory environment, the restrictions on pricing and the sale of electricity and the significant risk that the expiry of the MPCo Water Rights could disrupt the power production at MPCo indefinitely, that the market for the ACCC MPCo interest would be severely limited."

105. The complexities of the MPCo sale would likely be present in the sale of the other assets given the considerable legal and regulatory issues associated with such transactions. Additionally, the value of the Debtors' mills and other assets would be severely depressed given the capacity reductions and plant closures by other industry participants. Thus, the realizable value of the assets in a sale process could be considerably less than what is represented by the Monitor in Appendices H and I of the Nineteenth Monitor's Report and there can be no assurance that the value of the assets in a subrogation would be sufficient for the ACI Term Lenders.

106. In addition, Jefferies believes that the following considerations must be taken into account by the Monitor:

(i). *Collateral value based on the August Asset Certificate*: Under the aggregate priming of $287.5 million, the ACI Term Lenders' position would change from being oversecured by $25.6 million to undersecured by $115.9 million. In addition, the ACI Term Lenders would be further impacted by $65.5 million, which is the priming charge in excess of their Canadian collateral. This is due to the fact that the ACI Term Lenders would not be able to exercise their subrogation rights until the entire priming charge is satisfied. Furthermore, in a liquidation scenario, it is unlikely that the ACI Term Lenders would recover any cash.

(ii). *Subrogation rights granted under the Proposed DIP Facility:* Jefferies has not been provided with any third party appraisals of the Hydro Saguenay and Timberlands assets. Jefferies has had only a very limited opportunity to diligence the assets.

(iii). *Increase in working capital assets:* Given the Debtor's forecasting challenges, Jefferies believes that the ACI Term Lenders cannot rely on forecasted working capital as a source of recovery.

(iv). *Adequate protection payments:* The ACI Term Lenders are entitled to adequate protection in the form of replacement liens on U.S. (DCorp) collateral.

(v). *Value of collateral outside of priming charge:* Per the Debtors' schedules, approximately half of the ACI Term Lenders' collateral is outside of the Proposed DIP Facility priming charge. However, when factoring in the priming charge, the ACI Term Lenders' are undersecured by $115.9 million.

(vi). *Proposed DIP Facility is required to continue to operate its business:* Based on the Debtors' own projections, the Debtors have sufficient liquidity under the current ACI DIP Facility and do not need such significant incremental liquidity.

<u>ACI Term Lenders May Not Receive a Full Recovery in a Subrogation Scenario</u>

107. If the Proposed DIP Facility is approved, the ACI Term Lenders' collateral will be subject to a substantial priming charge of at least $287.5 million which would eliminate all the ACI Term Lenders' excess coverage. Additionally, the working capital assets of the ACI Term Lenders are the most likely collateral to be liquidated first to pay any claims under the priming charge. As a result, the ACI Term Lenders' collateral would be used to satisfy the claims associated with the Current ACI DIP Facility and the Proposed DIP Facility.

108. According to the Motion, the claims from the Current ACI DIP Facility and the Proposed DIP Facility would be entitled to the secured lenders' collateral ahead of any existing liens / charges (subject to certain carve outs). To the extent a secured lender's collateral is used to satisfy these claims, the secured lender would be provided with the same priming charge to the extent of the loss of collateral.

109. The Debtors claim that this is sufficient to protect the ACI Term Lenders in the event their collateral is liquidated to repay the super-priority claims mentioned above. In support of this contention, the Debtors rely on the value of other assets, which consist mostly of difficult to value property, plant and equipment. Given the nature of these assets and the lack of sufficient evidence supporting their value and marketability, it is not clear that the ACI Term Lenders will be sufficiently protected in a subrogation scenario.

110. In order to understand the true impact of the Proposed DIP Facility and potential protections afforded by the subrogation provision, the ACI Term Lenders have made repeated requests of the Debtors to provide information regarding the value of the assets that would be available in a subrogation scenario.

111. Given the lack of information provided by the Debtors, the ACI Term Lenders submit that no reliable valuation of the subrogation rights can be calculated. At a minimum, independent appraisals would need to be prepared in order to determine a market and liquidation value. Given that the Debtors have not provided appraisals or valuations, we have no direct information regarding the liquidation value of the Debtors' assets available in a subrogation scenario.

112. Even before the Debtors' request for the Proposed DIP Facility, it was unclear whether the ACI Term Lenders would be able to receive a full recovery under a subrogation scenario. Given the absence of a long-term business plan, the ACI Term Lenders cannot determine the extent to which the Debtors' business and assets will continue to deteriorate. Similarly, the ACI Term Lenders cannot understand the need for such a substantial increase in liquidity at this point.

Conclusion

113. Based on the review and analysis performed by the ACI Term Lenders, it is inappropriate for the Debtors to receive approval for a C$230.0 million DIP, due to, among other things:

(i). The Debtors' own financial projections indicate that a C$230.0 million DIP facility is unwarranted;

(ii). The unreasonableness of the timing and size of the Proposed DIP Facility; and

(iii). The material adverse effect on the ACI Term Lenders.

Alternatively, a C$130.0 million DIP facility is reasonable under the circumstances.