

CANADA
PROVINCE OF QUEBEC
DISTRICT OF MONTREAL

N°: 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)

**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 in Schedules A,
B and C**

Petitioners-Debtors

and

ERNST & YOUNG INC.

Monitor

and

AURELIUS CAPITAL MANAGEMENT, LP,
having its head office at 535 Madison Avenue,
22nd Floor, New York, NY, 10022

and

**CONTRARIAN CAPITAL MANAGEMENT,
L.L.C.**

having its head office at 411 West Putnam
Avenue, Greenwich, CT 06830

Petitioner-Noteholders

**REPLY TO PETITIONERS-DEBTORS' CONTESTATION OF THE MOTION FOR
THE ISSUANCE OF AN ORDER DIRECTING BOWATER CANADA FINANCE
CORPORATION TO FILE AN ASSIGNMENT IN BANKRUPTCY OR
ALTERNATIVELY, AN ORDER SEEKING THE APPOINTMENT OF AN
INDEPENDENT AND DISINTERESTED THIRD PARTY TO INVESTIGATE, ASSERT,
PROTECT AND PURSUE THE CLAIMS AND REMEDIES OF BOWATER CANADA
FINANCE CORPORATION**

IN REPLY TO PETITIONERS-DEBTORS' CONTESTATION, AURELIUS CAPITAL MANAGEMENT, LP ("AURELIUS") AND CONTRARIAN CAPITAL MANAGEMENT, L.L.C. ("CONTRARIAN") RESPECTFULLY SUBMIT THE FOLLOWING:

1. Unless otherwise indicated, all capitalized terms in this reply (the "**Reply**") shall have the meaning attributed to them in the *Motion for the Issuance of an Order Directing Bowater Canada Finance Corporation to file an Assignment in Bankruptcy or Alternatively, an Order Seeking the Appointment of an Independent and Disinterested Third Party to Investigate, Assert, Protect and Pursue the Claims and Remedies of Bowater Canada Finance Corporation* (the "**Motion**") filed by Aurelius and by Contrarian, and in the Contestation.

I. Contestation Incorrectly Characterizes the Motion

2. The Petitioners-Debtors' Contestation incorrectly presents the purpose of the Motion and the remedies sought by Aurelius and Contrarian.
3. The Motion seeks an Order requiring the officers and directors of BCFC to file an assignment in bankruptcy under the BIA and other ancillary relief. Alternatively, Aurelius and Contrarian seek the appointment of an independent and disinterested third party at Petitioners-Debtors' cost to investigate, assert, protect and pursue the assets and liabilities of BCFC, including intercompany claims and claims against directors and officers of BCFC and to report its findings to BCFC's creditors and to this Honourable Court.
4. The remedies sought in the Motion are based, *inter alia*, on the following:
 - a) BCFC has no business to restructure, does not carry on any active business and has no employees;
 - b) BCFC's material liabilities consist of the Notes, and its material assets appear to consist of its preferred shares in BCHI and the Contribution Claim against BI, which its directors and officers should be actively seeking to maximize for the benefit of BCFC and its creditors;
 - c) There has been a consistent lack of transparency and unwillingness to provide information with respect to the internal corporate transactions in which BCFC has been involved which ultimately resulted in its owning the preferred shares of BCHI;
 - d) While admitting BCFC's insolvency, the Petitioners-Debtors have failed to provide any financial information to BCFC's creditors regarding BCFC's assets, liabilities and intercompany transactions;
 - e) Although the Petitioners-Debtors including BCFC have been under the protection of the CCAA for exactly one year, they have failed to justify the refusal to

provide any information other than to suggest that it is onerous and will be a distraction;

- f) BCFC has, to date, failed and refused to make full disclosure of the intercompany transactions or to investigate whether any of those transactions give rise to potential claims against either other Petitioners-Debtors or BCFC's officers and directors.

II. Contestation Confirms the Immediate Need for the Requested Relief

- 5. Petitioner-Debtors' Contestation merely confirms the need for the appointment of a trustee in bankruptcy for BCFC or alternatively the appointment of another independent and disinterested third party to investigate, assert, protect and pursue the claims and remedies of BCFC and to report to BCFC's creditors and to this Honourable Court.
- 6. More than one year into the restructuring process, Petitioners-Debtors' Contestation demonstrates that (i) no one has assessed BCFC's assets; (ii) no effort has been made to review or provide the particulars of the intercompany transactions; (iii) no effort has been made to produce any documents pertaining to the intercompany transactions; (iv) no steps have been taken to prosecute BCFC's valuable Contribution Claim under s.135 of the *Companies Act* (Nova Scotia), which is a claim in excess of US\$600 million; (v) no steps have been taken to maximize the value of the preferred shares of BCHI that BCFC owns; and (vi) Petitioners-Debtors continue to claim they do not have the time to address these issues and that such issues are a distraction.
- 7. The Contestation further demonstrates that Petitioners-Debtors are not giving any consideration to the interests of BCFC during the course of the restructuring process: Petitioners-Debtors' assertion that the relief sought pursuant to the Motion could potentially trigger an Event of Default under the BI DIP Agreement (Exhibit D-3) is patently inaccurate, as BCFC is specifically carved out of any obligations as a Debtor or Guarantor under the BI DIP Agreement, as a result of the objections of Aurelius that there was no reason to include BCFC in the DIP as appears from the DIP Objection dated May 28, 2009 produced as **Exhibit R-15** and the DIP Order dated June 4, 2009 produced as **Exhibit R-16**.
- 8. Petitioners-Debtors make no attempt to dispute the characteristics of BCFC that Aurelius and Contrarian highlight as making conflicts more likely:
 - a) Petitioners-Debtors acknowledge that BCFC is not an operating company, carries on no trade, and is merely a special purpose financing entity, with no business to restructure under the CCAA;
 - b) While Petitioners-Debtors admit that BCFC's material assets consist of preferred shares of BCHI and an indirect equity interest in BCFPI they fail to disclose how BCFC came to acquire those interests;
 - c) BCFC's material assets are claims against or interests in related companies.

9. The Contestation does not indicate that anyone is advocating for BCFC, even in the days and weeks before Petitioners-Debtors file a plan of arrangement that will determine the ability of BCFC and its creditors to recover what is rightly due to them:
 - a) BCFC's directors and counsel have taken no steps to prosecute the Contribution Claim, realize on the preferred stock, or investigate BCFC's intercompany transactions;
 - b) Remarkably, one year into the CCAA proceedings, neither the Petitioners-Debtors nor the Monitor have provided any detailed information to BCFC's creditors with respect to BCFC's assets, liabilities and intercompany transactions;
 - c) Furthermore, there is no suggestion in the materials filed with the Contestation nor in the various Monitor's reports that BCFC will disclose all relevant and material information in order for BCFC's creditors to properly assess whether to approve an eventual plan of arrangement or whether bankruptcy would give rise to a better outcome.
10. Furthermore, while BCFC does not carry on any active business, Petitioners-Debtors' Contestation suggests that the investigation of the assets and liabilities of BCFC and all intercompany transactions having taken place in the last three years preceding the date of the Petition relating to BCFC will require a costly and extensive forensic investigation, which is even more disturbing given that BCFC should easily be able to produce documents relating to the likely very few intercompany transactions to which it was party.

III. Lack of Transparency Continues Unabated

11. Petitioners-Debtors' Contestation further demonstrates Petitioners-Debtors' lack of transparency in the CCAA proceedings with respect to BCFC and their failure to communicate all pertinent information to BCFC's creditors to allow them to consider and vote on an eventual plan of arrangement.
12. This lack of transparency is very disconcerting since it is Petitioners-Debtors' burden of proof to establish that the extraordinary protection and remedies available under the CCAA were and remain justified insofar as BCFC is concerned throughout the restructuring process.
13. Petitioners-Debtors do not in any way address how an eventual plan of arrangement could be jeopardized if BCFC is subject to BIA proceedings or an independent and disinterested third party is appointed to investigate assert, protect and pursue the assets and liabilities of BCFC including intercompany transactions and claims against the directors and officers of BCFC, and to report such findings to BCFC's creditors and to this Honourable Court.
14. In its capacity as a member of the official Unsecured Creditors Committee in the AbitibiBowater chapter 11 cases, the Indenture Trustee has not received any specific information relating to BCFC, details of its assets or liabilities or any information that

BCFC is prosecuting the Contribution Claim under s. 135 of the *Companies Act* (Nova Scotia), any Intercompany Claims or the Preferred Stock Claim.

15. Furthermore, the Indenture Trustee has not received any information relating to the issues raised in the Motion despite multiple request to meet, as appears from the Indenture Trustee counsel's letter of April 16, 2010 produced as **Exhibit R-17**.
16. The Indenture Trustee has reviewed the Motion and does not object to the relief being sought by Aurelius and Contrarian, as set out in the Indenture Trustee's counsel's letter dated April 16, 2010, **Exhibit R-17**.
17. The Petitioner-Noteholders reiterate the allegations and conclusions of the Motion.
18. The Petitioners-Noteholders respectfully submit that the Contestation should be dismissed and that the Motion should be granted, with costs.

WHEREFORE, MAY THIS HONOURABLE COURT:

DISMISS the Petitioners-Debtors' Contestation;

GRANT the Motion;

THE WHOLE WITH COSTS.

Montreal, April 16, 2010



FRASER MILNER CASGRAIN LLP

Attorneys for Petitioner-Noteholders Aurelius
Capital Management, LP and Contrarian Capital
Management, L.L.C.

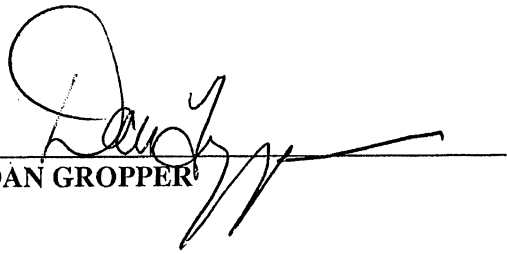
AFFIDAVIT

I, the undersigned, DAN GROPPER, Managing Director, exercising my profession at 535 Madison Avenue, 22nd Floor, New York, New York, USA 10022, solemnly declare as follows:

1. I am a duly authorized representative of Aurelius Capital Management, LP;
2. The facts alleged in the present *Reply to Petitioners-Debtors' Contestation of the Motion for the Issuance of an Order directing Bowater Canada Finance Corporation to File an Assignment in Bankruptcy or Alternatively, an Order Seeking the Appointment of an Independent and Disinterested Third Party to Investigate, Assert, Protect and Pursue the Claims and Remedies of Bowater Canada Finance Corporation* are true.

AND I HAVE SIGNED:

MALESSA SMITH
NOTARY PUBLIC-STATE OF NEW YORK
No. 01SM6160103
Qualified in New York County
My Commission Expires January 29, 2011


DAN GROPPER

SOLEMNLY AFFIRMED before me at
New York, this 16th day of April, 2010



AFFIDAVIT

I, the undersigned, ETHAN SCHWARTZ, exercising my profession at 411 West Putnam Avenue, Greenwich, CT 06830, solemnly declare as follows:

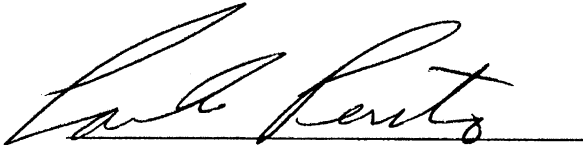
3. I am a duly authorized representative of Contrarian Capital Management, L.L.C.;
4. The facts alleged in the present *Reply to Petitioners-Debtors' Contestation of the Motion for the Issuance of an Order directing Bowater Canada Finance Corporation to File an Assignment in Bankruptcy or Alternatively, an Order Seeking the Appointment of an Independent and Disinterested Third Party to Investigate, Assert, Protect and Pursue the Claims and Remedies of Bowater Canada Finance Corporation* are true.

AND I HAVE SIGNED:



ETHAN SCHWARTZ

Ethan Schwartz only
SOLEMNLY AFFIRMED before me at *Greenwich*
Greenwich, CT, this 16th day of April, 2010



my Commission Expires 10/31/2011

CANADA
PROVINCE OF QUEBEC
DISTRICT OF MONTREAL

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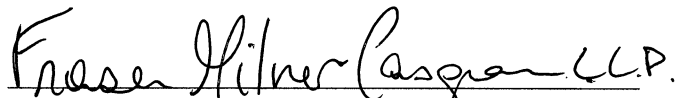
Petitioner-Noteholders

AMENDED LIST OF EXHIBITS

Exhibit R-1 *En liasse*, Purchase Agreement and an Indenture Agreement, dated as of
October 31, 2001;

- Exhibit R-2 *En liasse*, Charts of BAH, ACID and BI (produced with the Petition);
- Exhibit R-3 Bowater Entities Bond Indebtedness (produced with the Petition);
- Exhibit R-4 BCFC Notes Prospectus dated December 10, 2001;
- Exhibit R-5 *En liasse*, BHPI Consolidated statements for the year ended December 31, 2001 and 2000;
- Exhibit R-6 Order of the Supreme Court of Nova Scotia dated May 17, 2002;
- Exhibit R-7 BCFPI Management's Discussion and Analysis of Financial Condition and Results of Operations dated April 26, 2007;
- Exhibit R-8 BCHI Resolution dated January 19, 2007;
- Exhibit R-9 BCFPI Interim Financial Statements, Three and Six Months Ended June 30, 2007;
- Exhibit R-10 Letter from Aurelius dated September 2, 2009 addressed to the Directors of BCFC;
- Exhibit R-11 Letter from the Monitor to Aurelius dated October 5, 2009;
- Exhibit R-12 Letter to the Monitor dated September 15, 2009 requesting financial information;
- Exhibit R-13 Letter to the Monitor dated October 29, 2009 reiterating the request for financial information;
- Exhibit R-14 Monitor's letter dated November 12, 2009 to Aurelius's former attorneys;
- Exhibit R-15 DIP Objection dated May 28, 2009;
- Exhibit R-16 DIP Order dated June 4, 2009;
- Exhibit R-17 Letter of the Indenture Trustee counsel's letter dated April 16, 2010.

Montreal, April 16, 2010


FRASER MILNER CASGRAIN LLP
Attorneys for Petitioner-Noteholders
Aurelius Capital Management, LP and
Contrarian Capital Management, L.L.C.

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Me Louis Dumont (N/d : 541555-2)

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Independent and Disinterested Third Party to Investigate,
Assert, Protect and Pursue the Claims and Remedies of
Bowater Canada Finance Corporation, Affidavits, Amended
list of exhibits, Exhibits R-15 to R-17**

ORIGINAL



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