# EXHIBIT R-16

March 2008 Confidential

# Supplemental Retirement Benefit Plans of Bowater Canadian Forest Products Inc.

## Report on the Actuarial Valuation for the Purpose of Establishing the Face Amount of the Letter of Credit as at March 31, 2008

MERCER

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Mercer (Canada) Limited

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## Appendices

# 1

# Introduction

## Report on the Actuarial Valuation

### To Bowater Canadian Forest Products Inc.

At your request, we have conducted an actuarial valuation of the liabilities as at March 31, 2008 in respect of certain Supplemental Retirement Plans of Bowater Canadian Forest Products Inc. The purpose of this valuation is to determine the face amount of the letter of credit as of such date. We are pleased to present the results of the valuation.

The Supplemental Retirement Plans covered by the letter of credit are:

1. Supplemental Retirement Benefit Plan for Grade 27 and under Employees of Bowater Canadian Forest Products Inc.
2. Supplemental Retirement Benefit Plan for Grade 28 and over Employees of Bowater Canadian Forest Products Inc.
3. Senior Executive Retirement Plan (SERP) of Bowater Canadian Forest Products.

These plans cover only members of the registered pension plans of the former Bowater Pulp and Paper Canada Inc.

For tax reasons U.S. taxpayers are not covered by the letter of credit unless they elect to be covered. We understand that U.S. taxpayers have been notified by Bowater Canadian Forest Products Inc. to this effect.

The Supplemental Retirement Plans as they apply to benefits covered by the letter of credit automatically provide benefits to members of the following registered plans:

- Employees' Retirement Plan (1988) of Bowater Canadian Forest Products Inc.
- Executive Staff Retirement Plan (1976) of Bowater Canadian Forest Products Inc.

- Supervisory Employees' Retirement Plan (1976) of Bowater Canadian Forest Products Inc.

who are impacted by the limits of the Income Tax Act. The terms of the Supplemental Retirement Plans require that certain benefits as described above be secured through a trust which is a Retirement Compensation Arrangement ("RCA") for the purpose of the Income Tax Act. The benefits to be secured are described in notices provided to affected members.

Based on the terms of the Supplemental Retirement Plans and on notices provided to active and vested terminated members, the letter of credit covers pensions in payment relative to benefits for service up to December 31, 2003 (December 31, 2002 for any member who elected to participate in the DC plan effective January 1, 2003), based on earnings up to December 31, 2003 taking into account the early retirement reductions that would have applied if termination or retirement had occurred on December 31, 2003 and also taking into account the maximum pension applicable at pension commencement.

In accordance with the RCA Trust Agreement between Avenor Inc. and Montreal Trust Company, the amount of the letter of credit shall be equivalent to Bowater Canadian Forest Products Inc.'s determination of its liabilities to beneficiaries. Such determination shall be based on actuarial valuations which the Trustee shall be under no obligation to review or assess.

In our opinion, the actuarial valuations for purposes of the letter of credit should be periodically made to reflect significant changes to circumstances and in any event no later than March 31, 2011. Bowater Canadian Forest Products Inc. is responsible for determining the appropriate date for the next valuation.

This valuation is based on the Supplemental Retirement Plan membership as of March 1, 2008. A summary of the membership data is provided in Appendix C.

This valuation reflects the provisions of the Supplemental Retirement Plans as at March 1, 2008. A summary of the plan provisions is provided in Appendix D.

Supplemental pension arrangements are not subject to minimum funding requirements as are imposed on registered pension arrangements. There is no widely accepted approach to selecting the actuarial methods and assumptions for valuations of supplementary pension plans. That being said, in our opinion, we have used actuarial methods and assumptions that are reasonable for the purpose of determining the face amount of the letter of credit given the purpose of the letter of credit.

Since the previous valuation as at June 1, 2005, liabilities correspond only to liabilities for pensions in payment, consistent with the notices provided to affected members. Potential liabilities for other members are shown for indication purposes. Changes in actuarial assumptions reflect the change in estimated annuity purchase rates since the previous valuation.

We have modified the valuation assumptions that were used for the prior valuation as at June 1, 2005. The assumptions used for purposes of this valuation are described in detail in Appendix B. All assumptions made for the purposes of the valuation were reasonable at the time the valuation was prepared.

After checking with representatives of Bowater Canadian Forest Products Inc., to the best of our knowledge there have been no subsequent events which, in our opinion, would have a material impact on the results of the valuation.

In our opinion, for the purpose of determining the face amount of the letter of credit as at March 31, 2008,

- the data on which the valuation is based are sufficient and reliable,
- the assumptions are, in aggregate, appropriate, and
- the methods employed in the valuation are appropriate.

Respectfully submitted,

Louise Coderre
Fellow of the Society of Actuaries
Fellow of the Canadian Institute of Actuaries

March 14, 2008
Date

Christian Rousseau
Fellow of the Society of Actuaries
Fellow of the Canadian Institute of Actuaries

March 14, 2008
Date

# 2

## Determination of Liabilities

### Valuation Results

The trust agreement does not specify the assumptions and methods to be used for purposes of the valuation of the liabilities. For purposes of the valuation, we have used assumptions and methods which are representative of a hypothetical wind-up situation on the valuation date.

When conducting a wind-up valuation, we determine whether or not a pension plan's assets exceed its liabilities on a termination basis estimated as at the valuation date. The values of the plan's assets and liabilities on a termination basis are related to the values calculated as though the plan were wound up and settled on that date.

The liabilities as of March 31, 2008 for retirees and beneficiaries in receipt of a pension amount to $25,849,048 Cdn. plus a provision for expenses amounting to $150,000.

In determining the face amount of the letter of credit, this amount can be reduced by the refundable tax balance with CRA, which is $2,934,192 on March 31, 2008 based on information provided by Royal Trust. Thus, the face amount of the letter of credit can be set at $23,064,856 as of March 31, 2008.

The liabilities will change over time. Using the same assumptions, and assuming no deaths during the following one year period, the liabilities as of March 31, 2009 for retirees and beneficiaries in receipt of a pension on March 31, 2008 would be $24,990,058 Cdn.

For tax reasons, the above liabilities exclude pensions in payment for two U.S. taxpayers which are valued at $2,404,484 Cdn. as of March 31, 2008, and $2,266,333 as of March 31, 2009.

However, the liabilities after March 31, 2008 will increase on account of active members who retire after that date and vested terminated members who elect to start receiving their pensions after that date. Thus, the face amount of the letter of credit could increase in the future.

The following potential liabilities are given as an indication of future increases.

The potential liabilities determined as of March 31, 2008 for vested terminated members amount to $72,064 Cdn. (including $24,872 for two members aged 54 or over).

Also as an indication, the potential liabilities determined as of March 31, 2008 for current active members amount to $1,406,978 Cdn. (including $572,455 for members aged 54 or more on March 31, 2008). The actual additional liability for retiring members will vary according to the date of retirement, the applicable maximum pension at retirement and the form of payment of pension elected.

Under separate cover, we provide results on an individual basis for vested terminated members and active members, allowing Bowater Canadian Forest Products Inc. to adjust the amount of the letter of credit as required if these members start receiving a pension prior to the next valuation.

The refundable tax will also change after March 31, 2008. The projected refundable tax account balance at March 31, 2009 was estimated at $3,308,996.

Also, the liabilities upon an actual wind-up would depend on the market conditions applicable for the settlement of the liabilities at that time. Future liabilities will also vary in accordance with changes in such market conditions.

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# Actuarial Opinion

**Actuarial Opinion
with Respect to the Actuarial Valuation
of the
Supplemental Retirement Plans of
Bowater Canadian Forest Products Inc.
for the Purpose of Establishing the Face Amount of the
Letter of Credit as of March 31, 2008**

Based on the results of this valuation, I hereby certify that, as at March 31, 2008,

- The liabilities as of March 31, 2008 for pensions in payment amount to $25,849,048 excluding two U.S. taxpayers, plus a provision for expenses of $150,000.
- The wind-up liabilities used to determine the face amount of the letter of credit do not exclude any benefit required to be included for purposes of the letter of credit based on the terms of the Supplemental Retirement Plans and the notices provided to affected members by Bowater.
- The letter of credit face amount as of March 31, 2008 should correspond to the liabilities reduced by the refundable tax balance. Thus, the letter of credit face amount as of March 31, 2008 can be set at $23,064,856.
- The letter of credit face amount will need to be adjusted thereafter as vested terminated members and active members start drawing pensions and additional liabilities to be covered by the letter of credit are incurred, and as retiree liabilities

decrease. The refundable tax will also increase in the future as additional amounts are contributed. Estimated amounts of additional liabilities and increase in refundable tax are provided for indication purposes in this report.

- In our opinion, for the purpose of determining the face amount of the Letter of Credit as of March 31, 2008,

  – the data on which the valuation is based are sufficient and reliable,

  – the assumptions are, in aggregate, appropriate,

  – the methods employed in the valuation are appropriate.

- With the exception that this report does not include a going-concern valuation, which is not required to determine the face amount of the letter of credit, this report has been prepared, and our opinions given, in accordance with accepted actuarial practice.

- All assumptions made for the purposes of the valuation were reasonable at the time the valuation was prepared.

Louise Coderre
Fellow of the Society of Actuaries
Fellow of the Canadian Institute of Actuaries

March 14, 2008
Date

Christian Rousseau
Fellow of the Society of Actuaries
Fellow of the Canadian Institute of Actuaries

March 14, 2008
Date

# Appendix A

## Trust Fund Assets

### Sources of Plan Asset Data

A portion of the benefits provided by the Supplemental Retirement Plans is backed by a letter of credit, which is held by a trust fund, which is in turn characterized as a Retirement Compensation Arrangement.

The refundable tax balance provided by Royal Trust including the January 2008 remittance is $2,934,192. This amount represents the balance on March 31, 2008 for valuation purposes.

We have projected the refundable tax account balance to March 31, 2009, by including the expected increase in the refundable tax account in respect of the March 31, 2008 letter of credit fee. We have relied on information provided by Bowater Canadian Forest Products Inc. that the expected fee for the letter of credit will be approximately 1.625% of the letter of credit face amount.

Details of the projection are as follows:

**Projected Refundable Tax Account Balance**

| | |
|---|---|
| Refundable Tax Account Balance at March 31, 2008 | $2,934,192 |
| PLUS | |
| Projected increase in refundable tax account, in respect of March 31, 2008 letter of credit fee: | |
| 1.625% x $23,064,856 | $374,804 |
| Projected Refundable Tax Account Balance at March 31, 2009 | $3,308,996 |

**Appendix B**

## Actuarial Methods and Assumptions

To determine the wind-up and projected wind-up liability, the benefits valued are those that would have been paid had the Supplemental Retirement Plans been wound up on the expiry date of the letter of credit. No benefits required to be covered by the letter of credit based on the terms of the plans and the notices given to affected members were excluded from our calculations.

For pre-2004 retirees and their beneficiaries, the wind-up liability corresponds to the commuted value of the pension they are currently receiving which is not paid from the registered plans using the assumptions described below. For retirements from January 1, 2004, the liability is limited to the portion of the pension attributable to service up to December 31, 2003 (or to December 31, 2002 for any member who elected to participate in the DC plan effective January 1, 2003) and earnings to December 31, 2003, taking into account the early retirement conditions that would have applied on December 31, 2003, the maximum pension applicable in the year of retirement and the actual form of payment of the pension.

The wind-up liability for non-retired members provided in this report for indication purposes is determined as follows.

For active members aged 55 or over, the pension is assumed to be payable immediately starting on the valuation date.

Active members aged less than 55 are assumed to receive a total pension from both the registered plan and the Supplemental Retirement Plan payable from age 65 but also subject to the partial pre-retirement indexation (50% of CPI increase from date of termination to age 55) for benefits for service from January 1, 2001.

Pensions for active members correspond to the total pension defined under the Supplemental Retirement Plans for service up to December 31, 2003 based on earnings to December 31, 2003 taking into account the early retirement conditions that would have applied upon termination or retirement on December 31, 2003, less the pension payable from the registered plan. To this effect, the pension payable from the registered plan is determined on the basis of the maximum pension in effect for retirements in 2008 ($2,333.33 per year of pensionable service) and was not reduced on account of the registered plan possibly not being solvent.

The pension from the Supplemental Retirement Plans for service in 2003 is reduced on account of indexation of the maximum pension from the registered plan until the original corresponding uncapped pension amount is attained.

The normal form of payment of the pension provided in the Supplemental Retirement Plan is reflected.

We have not included any provision for additional benefits due to change in control.

For vested terminated members, the liability is the commuted value of the pension payable from the Supplemental Retirement Plan from age 65 assuming the normal form of payment is elected. For terminations from January 1, 2004, the liability is limited to the portion of the pension attributable to service up to December 31, 2003 and earnings to December 31, 2003 and taking into account the early retirement conditions that would have applied on December 31, 2003, taking into account the maximum pension applicable in the year of termination.

The wind-up liability in this report is determined based on the assumptions described below:

| | |
|---|---|
| Mortality rates: | Before retirement: Nil<br>After retirement: UP94 projected to 2015 |
| Discount rate:<br>(taking into account the tax adjustment) | 50% of 4.25% p.a. based on the estimated discount rate which would be used for the purchase of annuities on March 11, 2008 (4.41%), rounded down to 4.25% |
| Future Inflation | 2.2% p.a. |
| Earnings and YMPE | Based on actual pensionable earnings and YMPE up to December 31, 2003 |
| Form of pension for active members under registered plan and Supplemental Retirement Plan | Life with 5 year guarantee. |
| Family composition | For purposes of applying the maximum pension for pre-1992 service for active members, we have assumed 100% of members have a spouse, with a 3 year age difference. |
| Estimated wind-up expenses | $150,000 |

In this projected wind-up valuation, the employment of each member is assumed to continue through to the valuation date at which time the member is assumed to terminate employment.

For information purposes, the exchange rate used to convert U.S. dollar liabilities into Canadian dollars is 1.00.

Appendix C

# Membership Data

## Analysis of Membership Data

The actuarial valuation is based on membership data of March 31, 2008, based on March 1, 2008 membership provided by Bowater Canadian Forest Products Inc.

We have applied tests for internal consistency of the data. These tests were applied to the basic information (date of birth, date of hire, date of membership, sex, etc.), pensionable earnings, credited service and pension to retirees. The results of these tests were satisfactory.

Membership data is summarised below.

**Membership Data at March 31, 2008**

| | |
|---|---|
| **Active Members** (1) | |
| ▪ Number | 27 |
| ▪ Average 2003 Base Salary | $139,200 |
| ▪ Average STIP target 1996-1997-1998 | 11.3% |
| ▪ Average AIP target 2001-2002-2003 | 23.1% |
| ▪ Average 2003 base salary + 50% paid bonus in 2003 | $159,600 |
| ▪ Average Years of Pensionable Service to December 31, 2003 | 17.4 years |
| ▪ Average Age | 52.9 years |
| **Vested terminated Members** | |
| ▪ Number | 4 |
| ▪ Average Monthly Pension Payable at age 65 from Supplemental Retirement Plan under normal form potentially covered by letter of credit | $129 |
| ▪ Average Age | 52.8 years |
| **Retired Members** | |
| a) *Termination or retirements since July 1, 1995* | |
| ▪ Number | 26 |
| ▪ Average monthly pension from Supplemental Retirement Plan covered by letter of credit | $3,500 |
| ▪ Average Age | 67.2 years |

**Membership Data at March 31, 2008 (cont'd)**

| | |
|---|---|
| **Retired Members (cont'd)** | |
| *b) Terminations or retirements between July 16, 1993 and July 1, 1995* | |
| ▪ Number | 8 |
| ▪ Average Monthly Pension Payable from Supplemental Retirement Plans covered by letter of credit | $2,440 |
| ▪ Average Age | 72.5 years |
| *c) Terminations or retirements before July 16, 1993* | |
| ▪ Number | 19 |
| ▪ Average Monthly Pension Payable from Supplemental Retirement Plans covered by letter of credit | $1,620 |
| ▪ Average Age | 81.7 years |
| *d) U.S. taxpayers (not included above)* | |
| ▪ Number | 2 |
| ▪ Average Monthly Pension Payable from Supplemental Retirement Plans not covered by letter of credit | $12,400 |
| ▪ Average Age | 80.7 years |

(1) the Supplemental Retirement Plan for grades 27 and under applies to all members of the registered plans who are potentially affected by the tax limits. The list of 27 members includes those who have been designated as potentially affected by the tax limits in the registered plan as of December 31, 2006. The potential Supplemental Retirement Plan liability is actually nil as of March 31, 2008 for 19 of the 27 members.

Appendix D

## Summary of Plan Provisions

The following compares the main provisions of the Supplemental Retirement Plans applicable to service before 2003 with those applicable to service from 2003.

The Supplemental Retirement Plans for service before January 1, 2003 for the employees of the former BPPC do not include the improvement in early retirement benefits made under the registered plans as of January 1, 2003; however for members of the plans for grades 27 and under and grades 28 and over, the total pension is determined taking into account the improved early retirement reduction on earnings producing the maximum pension in the registered plan, and the non-improved early retirement benefits (6% per year reduction before age 60 if 15 years of service), for excess earnings.

The pension formulas, pensionable earnings and unreduced early retirement provisions are as follows:

| | **Pension formula** | **Unreduced early retirement age and service applicable** (1) | **Pensionable earnings** | **Normal form of payment** |
|---|---|---|---|---|
| Members of the Senior Executive Retirement Plan (SERP) of former BPPC | 2% last 36 months (4), (6) | 60 + 15 (2) | Base salary + 50% target bonus (5) | J&S 60% |
| Other former BPPC employees (gr. 28+) | - to 2003: 1.6% last 36 months (6) | 60 + 15 (2) | Base salary + 50% target bonus (5) | Life with 5 year guarantee |
| | - from 2003: 1.6% to YMPE/2% excess Best 60 consecutive months | 58 + 20 (3) | Base salary + 50% paid bonus | Life with 5 year guarantee |
| Members of the Senior Executive Retirement Plan (SERP) of former BPPC | 2% last 36 months (4), (6) | 60 + 15 (2) | Base salary + 50% target bonus (5) | J&S 60% |
| Other former BPPC employees (gr. 28+) | - to 2003: 1.6% last 36 months (6) | 60 + 15 (2) | Base salary + 50% target bonus (5) | Life with 5 year guarantee |
| | - from 2003: 1.6% to YMPE/2% excess Best 60 consecutive months | 58 + 20 (3) | Base salary + 50% paid bonus | Life with 5 year guarantee |

(1) conditions shown are those applicable to retirements from active service
(2) reduction of total pension if 15 years of service is 6% per year prior to age 60 if retirement occurs before age 58. For retirement at age 58 or 59 for members of the plans for grades 27 and under and grades 28 and over, improved reduction on total pension based on earnings producing the maximum pension under the registered plan is 3% per year prior to age 60, and non-improved reduction (6% per year prior to age 60) applies on excess earnings.
(3) reduction of total pension for service from 2003 if 20 years of service is 6% per year prior to age 58
(4) 1.6% for additional prior service
(5) using average 1996-1997-1998 STIP target for pre-1999 service
(6) less pension from prior employer when prior service recognized

Appendix E

## Employer Certification

With respect to the report on the actuarial valuation of the Supplemental Retirement Plans of Bowater Canadian Forest Products Inc., for the purpose of establishing the face amount of the letter of credit as of March 31, 2008, I hereby certify that, to the best of my knowledge and belief:

- a copy of the official plan documents and of all amendments made up to March 31, 2008, were provided to the actuary and are accurately described in Appendix D;
- the membership data provided to the actuary and summarized in Appendix C, includes a complete and accurate description of every person who is entitled to benefits under the terms of the plans, and
- all subsequent events that may have an impact on the results of the valuation have been communicated to the actuary.

March 14, 2008
Date

[signature]
Signed

William G. Harvey
Name

ONE PAGE OF EXHIBIT R-16

IS FILED

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SUPERIOR COURT
(Commercial Division)

N°. 500-11-036133-094

CANADA
PROVINCE OF QUÉBEC
DISTRICT OF MONTRÉAL

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

ABITIBIBOWATER INC. AND AL.

Petitioners

-and-

ERNST & YOUNG INC.

Monitor

BS0350 Our file: 041053-1170

EXHIBIT R-16

ORIGINAL


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