CANADA

PROVINCE OF QUÉBEC
DISTRICT OF MONTRÉAL

No. : 500-11-036133-094

SUPERIOR COURT

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

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

ABITIBIBOWATER INC.,

And

ABITIBI-CONSOLIDATED INC.,

And

BOWATER CANADIAN HOLDINGS INC.,

And

the other Petitioners listed herein

Petitioners

And

ERNST & YOUNG INC.,

Monitor

MOTION FOR THE ISSUANCE OF AN ORDER AUTHORIZING THE DISTRIBUTION OF CERTAIN PROCEEDS OF ASSETS SALES TO THE TRUSTEE FOR THE SENIOR SECURED NOTES

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

I. PREAMBLE

1. On April 17, 2009, this Honourable Court (the "**Court**") issued an order (as subsequently amended and restated, the "**Initial Order**") pursuant to the *Companies' Creditors Arrangement Act* (the "**CCAA**" and the "**CCAA Proceedings**") in respect of (i) Abitibi-Consolidated Inc. ("**ACI**") and subsidiaries thereof (the "**Abitibi Petitioners**")[1]; (ii) Bowater Canadian Holdings Inc. and subsidiaries and affiliates thereof (the "**Bowater Petitioners**")[2] and (iii) certain partnerships (the "**Partnerships**", and collectively with the Abitibi Petitioners and the Bowater Petitioners, the "**Petitioners**"[3]). Unless otherwise indicated, all capitalized terms herein shall have the meaning attributed to them in the Petitioners' *Petition for the Issuance of an Initial Order* (the "**CCAA Petition**") dated April 17, 2009, the whole as it appears more fully from the Court record.

2. Pursuant to the Initial Order, Ernst & Young Inc. (the "**Monitor**") was appointed as Monitor of the Petitioners and Partnerships under the CCAA.

3. On April 16, 2009, AbitibiBowater Inc. ("**ABH**"), Bowater Inc. and certain of their U.S. and Canadian subsidiaries (the "**U.S. Debtors**")[4] filed voluntary petitions for relief

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[1] The Abitibi Petitioners are Abitibi-Consolidated Inc., Abitibi-Consolidated Company of Canada, 3224112 Nova Scotia Limited, Marketing Donohue Inc., Abitibi-Consolidated Canadian Office Products Holdings Inc., 3834328 Canada Inc., 6169678 Canada Incorporated., 4042140 Canada Inc., Donohue Recycling Inc., 1508756 Ontario Inc., 3217925 Nova Scotia Company, La Tuque Forest Products Inc., Abitibi-Consolidated Nova Scotia Incorporated, Saguenay Forest Products Inc., Terra Nova Explorations Ltd., The Jonquière Pulp Company, The International Bridge and Terminal Company, Scramble Mining Ltd. and 9150-3383 Québec Inc. Abitibi-Consolidated (U.K.) Inc. was added to the Schedule of Abitibi Petitioner on November 10, 2009.

[2] The Bowater Petitioners are Bowater Canadian Holdings Incorporated., Bowater Canada Finance Corporation, Bowater Canadian Limited, 3231378 Nova Scotia Company, AbitibiBowater Canada Inc., Bowater Canada Treasury Corporation, Bowater Canadian Forest Products Inc., Bowater Shelburne Corporation, Bowater LaHave Corporation, St. Maurice River Drive Company Limited, Bowater Treated Wood Inc., Canexel Hardboard Inc., 9068-9050 Québec Inc., Alliance Forest Products (2001) Inc., Bowater Belledune Sawmill Inc., Bowater Maritimes Inc., Bowater Mitis Inc., Bowater Guérette Inc. and Bowater Couturier Inc.

[3] The Partnerships are Bowater Canada Finance Limited Partnership, Bowater Pulp and Paper Canada Holdings Limited Partnership and Abitibi-Consolidated Finance LP.

[4] The U.S. Debtors are: AbitibiBowater Inc., AbitibiBowater US Holding 1 Corp., AbitibiBowater US Holding LLC, AbitibiBowater Canada Inc., Abitibi-Consolidated Alabama Corporation, Abitibi-Consolidated Corporation, Abitibi-Consolidated Finance LP, Abitibi Consolidated Sales Corporation, Alabama River Newsprint Company, Augusta Woodlands, LLC, Bowater Alabama LLC, Bowater America Inc., Bowater Canada Finance Corporation, Bowater Canadian Forest Products Inc., Bowater Canadian Holdings Incorporated, Bowater Canadian Limited, Bowater Finance Company Inc., Bowater Finance II LLC, Bowater Incorporated, Bowater LaHave Corporation, Bowater Maritimes Inc., Bowater Newsprint South LLC, Bowater Newsprint South Operations LLC, Bowater Nuway Inc., Bowater Nuway Mid-States Inc., Bowater South American Holdings Incorporated, Bowater Ventures Inc., Catawba Property Holdings, LLC, Coosa Pines Golf Club Holdings LLC, Donohue Corp., Lake Superior Forest Products Inc. and Tenex Data Inc. On December 21, 2009, ABH LLC 1 and ABH Holding Company LLC (together, the "SPV Debtors") commenced Chapter 11 cases, which cases are jointly administered with the above-captioned U.S. Debtors.

under Chapter 11 of the *U.S. Bankruptcy Code* (the "**Chapter 11 Cases**") before the United States Bankruptcy Court for the District of Delaware (the "**Bankruptcy Court**"). On April 17, 2009, ABH and certain of its subsidiaries (collectively with ABH, the "**18.6 Petitioners**")[5] obtained orders under s. 18.6 of the CCAA in respect of the Chapter 11 Proceedings.

II. ORDER SOUGHT

4. The Petitioners hereby seek an order approving a distribution to U.S. Bank, National Association, in its capacity as Trustee for the Senior Secured Notes (as defined below), of up to $34,499,735.89, plus any accrued interest thereon and minus any transaction costs and bank charges, representing the net proceeds from the sale of several assets formerly owned by the Petitioners (the "**Proposed Distribution**").

III. BACKGROUND

5. Abitibi-Consolidated Company of Canada ("**ACCC**") is the issuer of US$413 million 13.75% Senior Secured Notes due April 1, 2011 (the "**Senior Secured Notes**"), and the Abitibi Petitioners are guarantors (in such capacity, the "**Guarantors**") under a Trust Indenture dated as of April 1, 2008 (the "**Trust Indenture**"), copy of which was communicated as Exhibit SN-2 to the *Contestation of the Amended Motion for the issuance of an order authorizing the sale of Petitioner Abitibi-Consolidated Company of Canada's indirect interest in the McCormick Hydroelectric facility* filed with this Court by the holders of the Senior Secured Notes (the "**Senior Secured Noteholders**").

6. Wells Fargo Bank, National Association was the collateral trustee (the "**Collateral Trustee**") under a Collateral Trust Agreement dated as of April 1, 2008 (the "**Collateral Trust Agreement**", copy of which was communicated as Exhibit SN-2 to the Senior Secured Noteholders' *Contestation of the Amended Motion for the issuance of an order authorizing the sale of Petitioner Abitibi-Consolidated Company of Canada's indirect interest in the McCormick Hydroelectric facility*) and indenture trustee (the "**Notes Trustee**") under the Trust Indenture.

7. Wells Fargo Bank, National Association has been replaced as Notes Trustee under the Trust Indenture and as Collateral Trustee under the Collateral Trust Agreement by U.S. Bank, National Association.

8. To secure the obligations of ACCC and the Guarantors under the Senior Secured Notes, ACCC, ACI and the Guarantors granted security to the Collateral Trustee (the "**SSN Security**") which includes a Senior Secured Notes Hypothec and Issue of Debentures dated March 28, 2008.

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[5] The 18.6 Petitioners are AbitibiBowater Inc., AbitibiBowater US Holding 1 Corp., Bowater Ventures Inc., Bowater Incorporated, Bowater Nuway Inc., Bowater Nuway Mid-States Inc., Catawba Property Holdings LLC, Bowater Finance Company Inc., Bowater South American Holdings Incorporated, Bowater America Inc., Lake Superior Forest Products Inc., Bowater Newsprint South LLC, Bowater Newsprint South Operations LLC, Bowater Finance II, LLC, Bowater Alabama LLC and Coosa Pines Golf Club Holdings LLC.

9. The following assets (the "**Sold Assets**"), which were charged under the SSN Security, were sold in connection with the CCAA Proceedings:

    a) the Mackenzie Facility was sold to 1508756 Ontario Inc., as approved and authorized by the Court on March 23, 2010 (the "**Mackenzie Sale**");

    b) the St-Raymond sawmill was sold to 9213-3933 Québec Inc., as approved and authorized by the Court on December 11, 2009 (the "**St-Raymond Sale**");

    c) the Belgo pulp and paper mill was sold to Recyclage Arctic Beluga Inc., as approved and authorized by the Court on November 24, 2009 (the "**Belgo Sale**", and collectively with the Mackenzie Sale, the St-Raymond Sale and the Belgo Sale, the "**Assets Sales**");

10. The Monitor has reported to the Petitioners that it has been advised by its legal counsel that the Senior Secured Noteholders are entitled to a distribution of the proceeds of the Sold Assets.

11. As mentioned above, these Assets Sales have all been approved by way of orders issued by this Court (collectively, the "**Sales Approval Orders**"), and each such Assets Sales have now closed.

12. The Sales Approval Orders required that the proceeds of each Assets Sale, net of the payment of all outstanding taxes and all transaction-related costs (the "**Net Proceeds**") be remitted to the Monitor until the issuance of directions by this Court with respect to the allocation of said Net Proceeds.

13. Furthermore, the Sales Approval Orders provide that the Net Proceeds are charged as security to the benefit of the Senior Secured Noteholders, with the same priority as that which the Senior Secured Noteholders benefited from in respect of the relevant Sold Assets.

14. As of the date hereof, the Monitor holds in trust $34,499,735.89 of Net Proceeds out of the Assets Sales, divided as follows (below numbers include accrued interest on the Net Proceeds until May 31, 2010):

    a) $29,862,269.80 of Net Proceeds out of the Mackenzie Sale;

    b) $2,868,219.02 of Net Proceeds out of the St-Raymond Sale; and

    c) $1,769,247.07 of Net Proceeds out of the Belgo Sale;

15. The Proposed Distribution will substantially reduce the interest cost to the Petitioners in respect of the Senior Secured Notes. As the Senior Secured Notes carry an interest rate of 13.75% per year (a further 2% per year being claimed but remaining in dispute), repayment of approximately $34,499,735.89 to the Senior Secured Noteholders at this time will result in substantial savings to the Petitioners in respect of interest which would otherwise have to be repaid upon emergence from

CCAA proceedings of approximately $395,309.47 per month or $4,743,713.68 per year (these figures exclude accrued interest on the proceeds or default interest that may be claimed by the Senior Secured Notes).

16. The Petitioners expect that the Senior Secured Notes will be paid in full no later than CCAA emergence, and the Senior Secured Noteholders are unaffected by the CCAA Plan.

IV. GROUNDS FOR THIS MOTION

17. The Petitioners submit that the Proposed Distribution will be beneficial to all stakeholders having regard to the interest savings to be realized and to the security and priority of the claim of the Trustee of the Senior Secured Notes over the Net Proceeds.

18. As appears from the foregoing, the benefits of authorizing the Proposed Distribution clearly outweigh the prejudice, if any, suffered by the creditors of the Petitioners.

19. Indeed, the Proposed Distribution will result in substantial savings for the Petitioners including, without limitation, a substantial reduction in interest payments.

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

21. Considering the interest of the Petitioners and their stakeholders and the notices given for the presentation of this motion, which the Petitioners submit to be proper and sufficient, the Petitioners respectfully request that execution notwithstanding appeal be granted in respect of the order to be issued on this motion.

22. The Petitioners respectfully submit that this motion should be granted in accordance with its conclusions.

23. The present motion is well founded in fact and in law.

WHEREFORE, MAY THIS COURT:

1. **GRANT** this *Motion for the Distribution of Certain Proceeds of Assets Sales to the Trustee for the Senior Secured Notes* (the "**Motion**").

2. **EXEMPT**, if applicable, the Petitioners from having to serve this Motion and from any notice or delay of presentation.

3. **AUTHORIZE** the Petitioners and the Monitor, upon the expiration of the appeal period on the present order, to make a distribution to U.S. Bank National Association in its capacity as Trustee for the Senior Secured Notes of $34,499,735.89, plus any accrued interest thereon up to and including the date of distribution and minus

transaction costs and bank charges, said distribution representing the net proceeds of the sales authorized by this Court on November 24, 2009 (Belgo assets), on December 11, 2009 (St-Raymond assets) and on March 23, 2010 (Mackenzie assets).

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

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

Montréal, July 15, 2010

Stikeman Elliott LLP

Stikeman Elliott LLP
Attorneys for the Petitioners

AFFIDAVIT

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

1. I am Chief Restructuring Officer of AbitibiBowater Inc. and I am duly authorized for the purposes hereof on behalf of all Petitioners;

2. All the facts alleged in the *Motion for the Distribution of Certain Proceeds of Assets Sales to the Trustee for the Senior Secured Notes* are true.

AND I HAVE SIGNED

BRUCE ROBERTSON

Solemnly declared before me at Montréal, on the 15th day of July, 2010

Commissioner for oaths

Commissioner of Oaths
STEPHANIE PEREIRA
174752
For All Judicial Districts of Quebec

#10569974 v4

NOTICE OF PRESENTATION

TO : SERVICE LIST

TAKE NOTICE that the *Motion for the Distribution of Certain Proceeds of Assets Sales to the Trustee for the Senior Secured Notes* will be presented for adjudication before one of the Honourable Judges of the Superior Court, sitting in practice in and for the District of Montreal, in the **Montreal Court House, 1 Notre-Dame St. East**, on **July 21, 2010**, at **9:00 a.m.** in **Room 15.09**.

DO GOVERN YOURSELVES ACCORDINGLY.

Montréal, July 15, 2010

Stikeman Elliott LLP

STIKEMAN ELLIOTT LLP
Attorneys for Petitioners

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

N°. 500-11-036133-094

CANADA
PROVINCE OF QUEBEC
DISTRICT OF MONTRÉAL

In the matter of Plan of Compromise or Arrangement of:

ABITIBIBOWATER INC. *et al*

Petitioners

- and -

ERNST & YOUNG INC.

Monitor

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

MOTION FOR THE ISSUANCE OF AN ORDER AUTHORIZING THE DISTRIBUTION OF CERTAIN PROCEEDS OF ASSETS SALES TO THE TRUSTEE FOR THE SENIOR SECURED NOTES

ORIGINAL

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