CANADA	**SUPERIOR COURT**
PROVINCE OF QUEBEC **DISTRICT OF MONTRÉAL**	Commercial Division *Sitting as a court designated pursuant to the Companies' Creditors Arrangement Act, R.S.C., c. C-36, as amended*
No.: 500-11-036133-094	

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

ABITIBIBOWATER INC., a legal person incorporated under the laws of the State of Delaware, having its principal executive offices at 1155 Metcalfe Street, in the City and District of Montréal, Province of Quebec, H3B 5H2;

And

ABITIBI-CONSOLIDATED INC., a legal person incorporated under the laws of Canada, having its principal executive offices at 1155 Metcalfe Street, in the City and District of Montréal, Province of Quebec, H3B 5H2;

And

BOWATER CANADIAN HOLDINGS INC., a legal person incorporated under the laws of the Province of Nova Scotia, having its principal executive offices at 1155 Metcalfe Street, in the City and District of Montréal, Province of Quebec, H3B 5H2;

And

the other Petitioners listed on Appendices "A", "B" and "C";

Petitioners

And

ERNST & YOUNG INC., a legal person under the laws of Canada, having a place of business at 800 René-Lévesque Blvd. West, Suite 1900, in the City and District of Montréal, Province of Quebec, H3B 1X9;

Monitor

THIRTY-NINTH REPORT OF THE MONITOR

April 23, 2010

INTRODUCTION

1. On April 17, 2009, Abitibi-Consolidated Inc. ("**ACI**") and its subsidiaries listed in Appendix "A" hereto (collectively with ACI, the "**ACI Petitioners**") and Bowater Canadian Holdings Incorporated ("**BCHI**") and its subsidiaries and affiliates listed in Appendix "B" hereto (collectively with BCHI, the "**Bowater Petitioners**") (the ACI Petitioners and the Bowater Petitioners are collectively referred to herein as the "**Petitioners**") filed for and obtained protection from their creditors under the *Companies' Creditors Arrangement Act* (the "**CCAA**" and the "**CCAA Proceedings**") pursuant to an Order of this Honourable Court (the "**Initial Order**"). Pursuant to an Order of this Honourable Court dated November 10, 2009, Abitibi-Consolidated (U.K.) Inc., a subsidiary of ACI, was added to the list of ACI Petitioners.

2. Pursuant to the Initial Order, Ernst & Young Inc. ("**EYI**") was appointed as monitor of the Petitioners (the "**Monitor**") under the CCAA and a stay of proceedings in favour of the Petitioners was granted until May 14, 2009 (the "**Stay Period**"). The Stay Period has been extended until June 18, 2010 pursuant to further Orders of this Honourable Court.

3. On April 16, 2009, AbitibiBowater Inc. ("**ABH**"), Bowater Inc. ("**BI**"), and certain of their direct and indirect U.S. and Canadian subsidiaries, including BCHI and Bowater Canadian Forest Products Inc. ("**BCFPI**") (collectively referred to herein as "**U.S. Debtors**"), filed voluntary petitions (collectively, the "**Chapter 11 Proceedings**") for relief under Chapter 11 of the U.S. Bankruptcy Code, 11 U.S.C. §§ 101 et seq. (the "**U.S. Bankruptcy Code**") in the United States Bankruptcy Court for the District of Delaware (the "**U.S. Bankruptcy Court**").

4. BCHI, Bowater Canada Finance Corporation, Bowater Canadian Limited, AbitibiBowater Canada Inc., BCFPI, Bowater LaHave Corporation and Bowater Maritimes Inc. have commenced both CCAA Proceedings and Chapter 11

Proceedings and are referred to herein collectively as the "**Cross-Border Petitioners**" and are also included in the definition of "**Petitioners**".

5. The Petitioners are all subsidiaries of ABH (ABH, collectively with its subsidiaries, are referred to as the "**ABH Group**").

6. On April 17, 2009, ABH and the Petitioners listed on Appendix "C" hereto (collectively with ABH, the "**18.6 Petitioners**") obtained Orders under Section 18.6 of the CCAA in respect of voluntary proceedings initiated under Chapter 11 and EYI was appointed as the information officer in respect of the 18.6 Petitioners.

7. On April 16, 2009, ACI and ACCC filed petitions for recognition under Chapter 15 of the U.S. Bankruptcy Code. On April 21, 2009, the U.S. Bankruptcy Court granted the recognition orders under Chapter 15 of the U.S. Bankruptcy Code.

8. On April 22, 2009, the Court amended the Initial Order to extend the stay of proceedings to the partnerships listed in Appendix "D" hereto (the "**Partnerships**").

BACKGROUND

9. ABH is one of the world's largest publicly traded pulp and paper manufacturers. It produces a wide range of newsprint and commercial printing papers, market pulp and wood products. The ABH Group owns interests in or operates pulp and paper facilities, wood products facilities and recycling facilities located in Canada, the United States, the United Kingdom and South Korea.

10. 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 ("**Newsprint South**") (BI, Newsprint South and their respective subsidiaries are collectively referred to as the "**BI Group**"), ACI (ACI and its subsidiaries are collectively referred to as the

"**ACI Group**") and AbitibiBowater US Holding LLC ("**ABUSH**") (ABUSH and its respective subsidiaries are collectively referred to as the "**DCorp Group**").

11. ACI is a direct and indirect wholly-owned subsidiary of ABH.

12. ABH wholly owns BI which in turn, wholly owns BCHI which, in turn, indirectly owns BCFPI which carries on the main Canadian operations of BI.

13. ACCC, a wholly-owned subsidiary of ACI, and BCFPI hold the majority of ABH's Canadian assets and operations.

PURPOSE

14. This is the thirty-ninth report of the Monitor (the "**Thirty-Ninth Report**") in the CCAA Proceedings, the purpose of which is to report to this Honourable Court with respect to the motion (the "**Motion**") brought by the Petitioners for an Order:

    (a) authorizing and approving the execution by ACI and ACCC (together, the "**Vendors**") and 4513541 Canada Inc. (the "**Purchaser**") of:

        (i) an Indenture (the "**Indenture**"), a copy of which is attached to the Motion as Exhibit R-1;

        (ii) a General Security Agreement (the "**GSA**"), a copy of which is attached to the Motion as Exhibit R-1a; and

        (iii) a Mortgage (the "**Mortgage**"), a copy of which is attached to the Motion as Exhibit R-1b;

    (b) vesting the Vendors' right, title and interest[1] in and to the Non-Core Properties (as defined herein) in and to the Purchaser; and

    (c) appointing EYI as receiver (the "**Receiver**") pursuant to Section 243 of the *Bankruptcy and Insolvency Act* (the "**BIA**") of the property, assets and

[1] ACI is the registered owner and ACCC is the beneficial owner of the Non-Core Properties.

undertakings of the Purchaser. The Receiver will only be permitted to take possession of the Non-Core Properties (as defined herein) once it files a certificate confirming that it has entered into satisfactory arrangements with all relevant environmental authorities.

TERMS OF REFERENCE

15. In preparing this Thirty-Ninth Report, the Monitor has been provided with and, in making comments herein, has relied upon unaudited financial information, the ABH Group's books and records, financial information and projections prepared by the ABH Group and discussions with management of the ABH Group and its advisers (the "**Management**"). The Monitor has not audited, reviewed or otherwise attempted to verify the accuracy or completeness of such information and, accordingly, the Monitor expresses no opinion or other form of assurance in respect of such information contained in this Thirty-Ninth Report. Some of the information referred to in this Thirty-Ninth Report consists of forecasts and projections. An examination or review of the financial forecast and projections, as outlined in the Canadian Institute of Chartered Accountants Handbook, has not been performed. Future-oriented financial information referred to in this Thirty-Ninth Report was prepared by the ABH Group based on Management's estimates and assumptions. Readers are cautioned that, since these projections are based upon assumptions about future events and conditions, the actual results will vary from the projections, even if the assumptions materialize, and the variations could be significant.

16. Capitalized terms not defined in this Thirty-Ninth Report are as defined in the previous reports of the Monitor and the Initial Order. All references to dollars are in U.S. currency unless otherwise noted.

17. Copies of all of the Monitor's Reports, in both English and French, including a copy of this Thirty-Ninth Report, and all motion records and Orders in the CCAA Proceedings will be available on the Monitor's website at www.ey.com/ca/abitibibowater. The Monitor has also established a bilingual toll-

free telephone number that is referenced on the Monitor's website so that parties may contact the Monitor if they have questions with respect to the CCAA Proceedings.

18. Copies of all of the U.S. Bankruptcy Court's orders are posted on the website for Epiq Bankruptcy Solutions LCC ("**Epiq**") at http://chapter11.epiqsystems.com/abitibibowater. The Monitor has included a link to Epiq's website from the Monitor's website.

THE NON-CORE PROPERTIES

19. On December 4, 2008, ABH announced the closure of the Petitioners' last remaining operating mill in the Province of Newfoundland and Labrador (the "**Province**") effective March, 2009.

20. On December 16, 2008, the Province introduced and passed the *Abitibi-Consolidated Rights and Assets Act,* S.N.L. 2008, c. A-1.01 (the "**Abitibi Act**"). The Abitibi Act had the effect of expropriating most of the assets of the Petitioners located in the Province.

21. The Abitibi Act did not affect the following properties (collectively, the "**Non-Core Properties**"):

    (a) the site of former shipping and storing operations situated in Botwood (the "**Botwood Site**" or "**Botwood**"); and

    (b) the site of former pulp and paper operations at a mill situated in Stephenville (the "**Stephenville Mill**" or "**Stephenville**").

The Botwood Site

22. The Botwood Site refers to an area around the town of Botwood where the Petitioners formerly had a storage and shipping operation relating to its pulp and paper operations at the Grand Falls-Windsor mill. The Botwood Site also served

as a transportation hub for mining operations by ASARCO, a corporation unrelated to the Petitioners or their predecessors.

23. The Monitor understands that the Province retained the services of Conestoga-Rovers and Associates ("**CRA**"), environmental consultants, to undertake environmental site assessments at the Botwood Site and the Stephenville Mill, among others, on the basis that the Province could not be certain when, if at all, the Petitioners would fulfill their obligations to provide the assessment reports requested by the Province or whether the Petitioners would fulfill their obligations to remediate the contamination identified by the Province.

24. CRA prepared an environmental site assessment report for the Province in respect of the Botwood Site in November 2009 (the "**Botwood Report**"). The Botwood Report outlines ten potential areas of concern with respect to the Botwood Site.

<u>The Stephenville Mill</u>

25. The Petitioners have advised the Monitor that operations at the Stephenville Mill were shut down in December 2005. Between approximately 2006 and 2008, the Petitioners completed a decommissioning and demolition program that included the demolition of the majority of the main mill buildings and related infrastructure. The Petitioners have advised the Monitor that since the closure of the Stephenville Mill, they have expended approximately $2 million in environmental assessments and site clean-up.

26. The Petitioners also advised the Monitor that substantial portions of the Stephenville Mill served as the Harmonville Base of the United States Air Force ("**USAF**") between 1941 and 1966. During that time, several fuel storage and dump sites for by-products of the USAF base were established.

27. In addition, the Petitioners advised the Monitor that in the late 1960's, the Province passed legislation which allowed for the construction of a kraft linerboard mill in Stephenville which was taken over and operated by a Crown corporation, Labrador Linerboard Limited, from 1972 to 1977. The Stephenville

Mill was ultimately closed in 1979 when it was purchased by the Petitioners and converted to a pulp and paper mill that remained in production until its closure in 2005.

28. CRA prepared an environmental site assessment report for the Province in respect of the Stephenville Mill in November 2009 (the "**Stephenville Report**"). The Stephenville Report outlines twenty-one potential areas of concern with respect to the Stephenville Mill.

The Environmental Liabilities

29. The Petitioners have advised the Monitor and the Monitor understands that the Non-Core Properties are subject to potential environmental liability and, as a result, are of very little value to the Petitioners and their stakeholders. Such potential environmental liabilities are related to events which occurred prior to the commencement of the CCAA Proceedings and the issuance of the Initial Order.

30. In addition, the Petitioners have advised the Monitor that the Non-Core Properties are not required for future operations.

31. However, the *Environmental Protection Act*, S.N.L. 2002, c. E-14.02 (the "**EPA**") imposes liability on the Petitioners with respect to these potential environmental liabilities as a current or former owner or occupier of the Non-Core Properties.

32. On November 12, 2009, the Province, acting through the Minister of Environment and Conservation, issued five Ministerial Orders pursuant to Section 99 of the EPA (the "**EPA Orders**") against the Petitioners. The Monitor notes that the Petitioners issued Notices of Appeal with respect to the EPA Orders on January 11, 2010 pursuant to s. 107 of the EPA and such appeals were dismissed on February 8, 2010.

33. The EPA Orders are in relation to five properties: three of which have been expropriated pursuant to the Abitibi Act and two of which are the Non-Core Properties. As explained in greater detail in the Thirty-Fourth Report of the

Monitor dated February 19, 2010 (the "**Thirty-Fourth Report**"), all five sites are either no longer owned by the Petitioners or no longer used by the Petitioners in their business.

34. The EPA Orders require that the Petitioners submit a detailed Remediation Action Plan in respect of all of the sites, complete approved site remediation actions and close all landfills and lagoons/impoundments associated with such sites, all within certain specified timelines (some of which have passed).

35. The Petitioners are of the view that the sale of the Non-Core Properties to the Purchaser will crystallize the potential environmental liabilities and allow the Petitioners to adequately address any claims resulting therefrom in their CCAA plan of arrangement.

36. As set forth in the Thirty-Fourth Report, the Monitor has not performed any independent assessment of the potential remediation costs that might be applicable in respect of any of the sites. The Monitor is aware, however, that both the Province and the Petitioners have engaged environmental experts to investigate and assess the potential remediation required and, as a result of such work, both experts have formed preliminary estimates of the potential costs involved. The Monitor has been advised by the Petitioners that these estimates are subject to confidentiality restrictions and have not changed since the issuance of the Thirty-Fourth Report.

37. As set forth in greater detail in the Thirty-Fourth Report, it is not possible to give an accurate assessment of the potential remediation costs for the Non-Core Properties at this time. The Monitor and its counsel did have discussions with the Petitioners and its environmental consultant, Amec Earth Environmental Inc. ("**Amec**"), and with counsel for the Province in an effort to find an appropriate description of the estimated range of potential remediation costs for the benefit of the Court and other stakeholders.

38. Based on the Monitor's discussions with Amec (at the time of the issuance of the Thirty-Fourth Report) and the Petitioners, and subject to the qualifications expressed above, the Monitor agrees with the Petitioners that the potential environmental liability related to the Non-Core Properties is estimated to be material and in the range of tens of millions of dollars.

THE SALE OF THE NON-CORE PROPERTIES

The Indenture

39. The Indenture contemplates the sale of all of the Vendors' rights, title and interest in and to the Non-Core Properties to the Purchaser, on an "as is, where is" basis.

40. The Purchaser is a wholly-owned indirect subsidiary of ABH and was incorporated in 2009 under the *Canada Business Corporations Act*, R.S.C. 1985, c. C-44.

41. The purchase price for the Non-Core Properties will be the sum of $1,000 satisfied by the issuance of a non-interest bearing promissory note (the "**Purchaser Note**"), subject to adjustments in the event of a sale. The Purchaser Note shall be secured by the GSA and the Mortgage.

42. In the event that the Non-Core Properties (or any portion thereof) are sold to a third party by the Purchaser or by the Receiver, the net proceeds generated by such a sale will be used to repay the Purchaser Note.

43. Recourse for any amount owed under the Purchaser Note shall be limited to the Non-Core Properties (or the proceeds generated by the sale thereof) and shall be subordinated to:

(a) the costs of complying with any orders issued in respect of the Non-Core Properties (or which may hereafter be issued in respect of any conditions existing at the time of transfer) under the EPA;

(b) any costs which would have priority pursuant to Section 18.1 of the CCAA or Section 14.06(7) of the BIA; and

(c) the costs of the receiver appointed in respect of the Purchaser.

Treatment of Environmental Claims

44. Once the Non-Core Properties have been transferred to the Purchaser, the Petitioners have advised the Monitor that they will notify the relevant environmental authorities of their potential claims as set forth in the Claims Order issued by this Honourable Court dated February 23, 2010, and will be invited to submit a proof of claim at that time. Once filed, these environmental claims will be reviewed and determined in the same manner as other claims against the Petitioners and will rank as unsecured claims in the estate of the relevant Petitioner. The holders of environmental claims will also maintain their claims secured against the relevant properties, if any, under Section 11.8(8) of the CCAA.

THE APPOINTMENT OF THE RECEIVER

45. In the Motion, the Petitioners are also seeking the appointment of the Receiver in respect of the Non-Core Properties.

46. The Petitioners have advised the Monitor and the Monitor understands that, as a condition to the Receiver taking possession of the Non-Core Properties, the Receiver must first reach satisfactory arrangements with the relevant environmental authorities prior to its taking possession of the Non-Core Properties. Provided that this condition is met, the Receiver will have the power to, among other things, safeguard the Non-Core Properties and proceed to develop a plan for the sale thereof or to negotiate and reach an accommodation on a remediation plan with the relevant environmental authorities.

47. The draft Order appended to the Motion also provides that, in the event that the Receiver determines that it is unable to sell the Non-Core Properties to a third

party purchaser, or reach an accommodation on a remediation plan in respect thereof within a reasonable period of time, the Receiver may abandon the Non-Core Properties, as permitted under the BIA, on notice to the relevant environmental authorities.

48. The Petitioners have agreed to provide the Receiver with financing up to a maximum amount of CDN$600,000, which shall be used to cover (i) estimated fees and disbursements of the Receiver for an initial period of 12 months; and (ii) reasonable costs of conservation, environmental studies and any urgent, currently unforeseen, remediation work required to stabilize the Non-Core Properties while negotiations are undertaken for the long term remediation and disposition of such properties in consultation with the relevant environmental authorities. However, the Receiver will not institute any such conservation steps, studies or remediation work absent a satisfactory arrangement with the relevant environmental authorities.

RECOMMENDATIONS

49. The Monitor is of the view that the sale of the Non-Core Properties to the Purchaser is consistent with the Petitioners' overall restructuring initiatives, including disposing of non-strategic assets and reducing carrying-costs.

50. The Monitor is also of the view that, if ownership of the Non-Core Properties is not transferred to another entity prior to emergence from the CCAA Proceedings, the Petitioners will be burdened with the potential environmental liabilities associated with the Non-Core Properties after emergence.

51. The sale of the Non-Core Properties and the appointment of the Receiver is also an effective means by which the Petitioners can deal with environmental claims associated with such properties in their plan of arrangement.

All of which is respectfully submitted.

ERNST & YOUNG INC.
in its capacity as the Court Appointed Monitor
of the Petitioners

Per:

Alex Morrison, CA, CIRP
Senior Vice President

Greg Adams, CA, CIRP
Senior Vice President

APPENDIX "A"

ABITIBI PETITIONERS

1. Abitibi-Consolidated Company of Canada
2. Abitibi-Consolidated Inc.
3. 3224112 Nova Scotia Limited
4. Marketing Donohue Inc.
5. Abitibi-Consolidated Canadian Office Products Holding Inc.
6. 3834328 Canada Inc.
7. 6169678 Canada Inc.
8. 4042140 Canada Inc.
9. Donohue Recycling Inc.
10. 1508756 Ontario Inc.
11. 3217925 Nova Scotia Company
12. La Tuque Forest Products Inc.
13. Abitibi-Consolidated Nova Scotia Incorporated
14. Saguenay Forest Products Inc.
15. Terra Nova Explorations Ltd.
16. The Jonquière Pulp Company
17. The International Bridge and Terminal Company
18. Scramble Mining Ltd.
19. 9150-3383 Quebec Inc.
20. Abitibi-Consolidated (U.K.) Inc.

APPENDIX "B"

BOWATER PETITIONERS

1. Bowater Canada Finance Corporation
2. Bowater Canadian Limited
3. Bowater Canadian Holdings. Inc.
4. 3231378 Nova Scotia Company
5. AbitibiBowater Canada Inc.
6. Bowater Canada Treasury Corporation
7. Bowater Canadian Forest Products Inc.
8. Bowater Shelburne Corporation
9. Bowater LaHave Corporation
10. St-Maurice River Drive Company Limited
11. Bowater Treated Wood Inc.
12. Canexel Hardboard Inc.
13. 9068-9050 Quebec Inc.
14. Alliance Forest Products Inc. (2001)
15. Bowater Belledune Sawmill Inc.
16. Bowater Maritimes Inc.
17. Bowater Mitis Inc.
18. Bowater Guérette Inc.
19. Bowater Couturier Inc.

APPENDIX "C"
18.6 PETITIONERS

1. AbitibiBowater US Holding 1 Corp.
2. AbitibiBowater Inc.
3. Bowater Ventures Inc.
4. Bowater Incorporated
5. Bowater Nuway Inc.
6. Bowater Nuway Mid-States Inc.
7. Catawba Property Holdings LLC
8. Bowater Finance Company Inc.
9. Bowater South American Holdings Incorporated
10. Bowater America Inc.
11. Lake Superior Forest Products Inc.
12. Bowater Newsprint South LLC
13. Bowater Newsprint South Operations LLC
14. Bowater Finance II, LLC
15. Bowater Alabama LLC
16. Coosa Pines Golf Club Holdings, LLC

APPENDIX "D"

PARTNERSHIPS

1. Bowater Canada Finance Limited Partnership

2. Bowater Pulp and Paper Canada Holdings Limited Partnership

3. Abitibi-Consolidated Finance LP