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

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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

SIXTY-FIRST REPORT OF THE MONITOR
SEPTEMBER 27, 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, as amended on May 6, 2009 (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 the 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 subsequently extended to the date of implementation of the plan of reorganization and compromise filed by the Petitioners 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 the "**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 Abitibi-Consolidated Company of Canada ("**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 (the "**Partnerships**") listed in Appendix "D" hereto.

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 and South Korea. The Petitioners' United Kingdom subsidiary, Bridgewater Paper Company Ltd. ("**Bridgewater**"), filed for administration, pursuant to the United Kingdom's Insolvency Act of 1986 on February 2, 2010. The UK administrator announced on May 19, 2010 that it had sold the property formerly owned by Bridgewater.

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 sixty-first report of the Monitor (the **"Sixty-First Report"**) in the CCAA Proceedings, the purpose of which is to report to this Honourable Court with respect to:

    (a) the Petitioners' request for:

        (i) an order authorizing the execution by Produits Forestiers Saguenay Inc. ("**PFS**" or the "**Vendor**"), one of the Petitioners, of the *Convention d'achat d'actions* (the "**Share Purchase Agreement**") by and between PFS, as vendor, Coopérative Forestière de Petit-Paris ("**CF**" or the "**Purchaser**"), as purchaser, and E. Tremblay & Fils Limitiés ("**ETF**"), as an interested party, and the completion of all transactions contemplated therein (the "**Proposed Transaction**"); and

        (ii) a vesting order in connection with the Proposed Transaction (a "**Vesting Order**");

    (b) the Monitor's view of the Proposed Transaction; and

    (c) the Monitor's recommendation regarding the Proposed Transaction.

TERMS OF REFERENCE

15. In preparing this Sixty-First 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 (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 Sixty-First Report. Some of the information referred to in this Sixty-First Report consists of forecasts and projections. An examination or review of the financial forecasts and projections, as outlined in the Canadian Institute of Chartered Accountants Handbook, has not been performed. Future-oriented financial information referred to in this Sixty-First 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 Sixty-First Report are as defined in the previous reports of the Monitor and the Initial Order. All references to dollars are in U.S. currency and are translated at a rate of CDN$1.00=US$0.98 unless otherwise noted.

17. Copies of all of the Monitor's Reports, in both English and French, including a copy of this Sixty-First Report, and all motion records and Orders in the CCAA Proceedings are 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.

BACKGROUND TO THE PROPOSED TRANSACTION

19. PFS, a wholly-owned subsidiary of ACCC, owns fifty-percent (50%) of the outstanding common shares of ETF. CF owns the remaining fifty-percent (50%) of the outstanding common shares of ETF.

20. The Share Purchase Agreement contemplates the sale of all of PFS' right, title and interest in and to fifty-percent (50%) of the common shares of ETF (the "**Purchased Shares**") to the Purchaser.

21. ETF operates a small sawmill with an annual allowable cut of 45,100 m^3 of softwood and 70,000 m^3 of hardwood and has a total sawmill capacity of approximately 19,000,000 board feet ("**bf**"). When in production, the ETF sawmill primarily produced lumber for sale to third parties and occasionally sold wood chips to the ACCC paper mills.

22. The Petitioners' intention in acquiring its interest in ETF was not to operate the ETF sawmill, but rather to transfer its annual allowable cut for softwood to nearby sawmills owned by the Petitioners. However, the transfer of the annual allowable cut was refused by the Province of Quebec. The ETF sawmill was eventually closed in 2009.

23. The Petitioners determined that ETF was not strategic to its ongoing operations and would be sold.

THE SALE PROCESS

24. In order to attract potential purchasers, the Petitioners bundled the Purchased Shares with two other sawmills owned by the Petitioners, Petit-Saguenay and St-Hilarion (collectively the "**Sawmill Assets**"). On or about September 24, 2009, the Petitioners sent several letters to potential purchasers in Canada and in the United States to solicit offers for the Sawmill Assets (the "**Solicitation Letters**").

25. The Solicitation Letters provided that, although the Petitioners preferred to sell the Sawmill Assets together in one transaction, offers for individual assets would be considered if such a sale would enable the Petitioners to maximize proceeds. The

Solicitation Letters also stated that the Sawmill Assets would be sold on an "as is, where is" basis.

26. The Petitioners sent a total of 24 Solicitation Letters to potential purchasers, and expressions of interest were requested to be provided by potential purchasers on or before noon on October 9, 2009 (the "**Offer Deadline**").

27. The form of the Solicitation Letters as well as the list of potential purchasers compiled by ACCC were reviewed by the Monitor.

28. No offers were received by the Petitioners on or before the Offer Deadline. However, the Petitioners did receive one non-binding expression of interest on October 23, 2009 from a consortium of CF and certain of its business partners (the "**Consortium**") to purchase the Purchased Shares and the Petit-Saguenay sawmill, but not the St-Hilarion sawmill.

29. The offer from the Consortium was the only offer received in response to the Solicitation Letters.

30. The Petitioners made a counter offer to the Consortium on November 9, 2009 and discussions between the parties ensued during the month of November 2009. On December 18, 2009 the parties executed a letter of intent (the "**LOI**").

31. The LOI included the sale of certain assets related to the Petit-Saguenay sawmill as well as the Purchased Shares. It provided that the transaction was to be on an "as is, where is" basis without any representations or warranties from any of ACCC, PFS or ETF.

32. The LOI provided that the transaction contemplated therein was conditional upon the Consortium securing acceptable financing by the end of March 2010. The financing was never obtained and the offer became null and void.

33. On August 4, 2010, after additional negotiations with CF (not the full Consortium), the Petitioners received an offer from CF to acquire only the Purchased Shares for the sum of CDN$300,000 (the **Purchase Price**") on an "as is, where is" basis (the "**Offer**").

34. On or about August 5, 2010, the Petitioners accepted the Offer and the parties commenced negotiations in respect of the Share Purchase Agreement. The Monitor was kept apprised of the negotiations between the parties and reviewed the draft Share Purchase Agreement prior to execution.

35. On September 8, 2010, the Vendor and the Purchaser executed the Share Purchase Agreement, with the approval of the Monitor.

36. It is expected that the transactions contemplated in the Share Purchase Agreement will close five (5) business days following the issuance of the Vesting Order by this Honourable Court.

THE SHARE PURCHASE AGREEMENT

37. The Proposed Transaction contemplates the sale of all the Vendor's right, title and interest in and to the Purchased Shares.

38. The Purchased Shares will be sold on an "as is, where is" basis without any representations and warranties of any nature, with the exception of certain limited representations related to the corporate status of PFS, legal ownership of the Purchased Shares, and authorization to sell the Purchased Shares.

39. Closing of the Proposed Transaction is conditional upon the issuance of the Vesting Order by this Honourable Court. If the Vesting Order is not obtained within four months of the execution of the Share Purchase Agreement, both PFS and ETF have the right to terminate the Share Purchase Agreement by way of written notice to the other party.

40. During the interim period between the execution of the Share Purchase Agreement and the closing of the Proposed Transaction (the "**Interim Period**"), the Purchaser will assume the responsibility of managing the on-going operations and activities of ETF, including the sawmill, in a diligent, professional and responsible manner that is consistent with its previous normal course of business. Written approval of PFS must be obtained in connection with all important decisions related to ETF. In addition, the Purchaser has agreed to indemnify PFS against claims of any nature that may arise in relation to ETF

during the Interim Period as well as any liabilities, debts, obligations or responsibilities of any nature related to ETF that occur during the Interim Period. Further, the Purchaser has agreed to finance the operations of ETF during the Interim Period.

41. Upon the closing of the Proposed Transaction, PFS will provide ETF with a definitive, complete, final and irrevocable release related to any claim that PFS may have against ETF, including any claim in relation to a note payable in the amount of CDN$81,475 and accounts payable in the amount of CDN$158,750, both of which are owed by ETF to PFS and deemed by the Petitioners to be unrecoverable.

THE MONITOR'S VIEW

42. The Petitioners' private sale process for the Purchased Shares targeted 24 potential purchasers; however, it did not generate any interest other than from the Purchaser and the Consortium.

43. The sale of the Purchased Shares is consistent with the Petitioners' continuing objective and strategy of disposing of non-strategic assets. The Petitoners have advised the Monitor that the Purchased Shares are not required for the continuing operations of the Petitioners or the reorganized ABH entity. In addition, the Petitioners' share of the estimated annual holding costs related to ETF of CDN$240,000 (with the Petitioners' share being CDN$120,000) will be eliminated subsequent to the closing of the Proposed Transaction.

44. The Purchase Price contemplated for the Purchased Shares in the Proposed Transaction implies that 100% of the common shares of ETF would be worth CDN$600,000. This would imply a multiple of CDN$0.03/bf of production capacity which is in-line with transaction multiples realized by the Petitioners in connection with previous transactions involving closed sawmills as well as the average multiple observed by the Monitor in precedent industry transactions involving closed sawmills in North America.

RECOMMENDATION

45. Based on the foregoing, the Monitor recommends that this Honourable Court grant the Petitioners' Motion for:

    (a) an order authorizing the execution by PFS of the Share Purchase Agreement and the Proposed Transaction; and

    (b) the issuance of the Vesting Order in connection with the Proposed Transaction.

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

Todd Caluori, CA, CBV
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 Québec 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 Québec 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