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-EIGHTH REPORT OF THE MONITOR
November 29, 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, as amended and supplemented (the "**CCAA Plan**") 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. In October 2007, ACI and BI merged to create ABH which 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. The purpose of this sixty-eighth report (the "**Sixty-Eighth Report**") is to report to this Honourable Court with respect to:

    (a) the Petitioners' motion for the issuance of a vesting order in connection with the transfer of the Remaining Hydro Lines (as defined herein) to Hydro-Québec TransÉnergie ("**HQTE**") (the "**Second Hydro Lines Vesting Order**"); and

    (b) the status of the implementation of the CCAA Plan.

TERMS OF REFERENCE

15. In preparing this Sixty-Eighth 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-Eighth Report. Some of the information referred to in this Sixty-Eighth 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-Eighth 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 Sixty-Eighth 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-Eighth 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.

THE MPCO TRANSACTION

19. On November 17, 2009, this Honourable Court issued a vesting order in respect of the sale of ACCC's 60% interest in the Manicouagan Power Company ("**MPCo**")[1] to HQ Énergie Inc., a wholly-owned subsidiary of Hydro Quebec (HQ Énergie Inc. and Hydro Quebec are collectively referred to herein as "**HQ**").

20. Full particulars of the sale of ACCC's interest in MPCo to HQ (the "**MPCo Transaction**") are set forth in the Sixteenth Report of the Monitor dated September 21, 2009 (the "**Sixteenth Report**"), the Nineteenth Report of the Monitor dated October 27,

[1] MPCo owned and operated the McCormick Hydroelectric Facility, which is located on the Manicouagan River, in the Province of Quebec. The McCormick Hydroelectric Facility consisted of a dam, seven hydroelectric-generating units with a total capacity of 335 MW and certain electricity transmission and distribution facilities. The remaining 40% of MPCo was owned by Alcoa Canada Ltee.

2009 (the "**Nineteenth Report**") and the Twenty-First Report of the Monitor dated November 16, 2009 (the "**Twenty-First Report**"). The MPCo Transaction closed on December 9, 2009.

THE HYDRO LINES AGREEMENT

21. As noted in the Nineteenth Report, the Monitor was informed by Management that HQ had requested additional fees for the transportation and transmission of electricity from MPCo to the Baie-Comeau mill. In order to mitigate this cost, ACCC agreed to sell to HQ, at a nominal value, the transmission lines that were owned by ACCC (and for which ACCC no longer had a use) that carry the electricity from the MPCo generation station to the Baie-Comeau mill as well as to the city of Baie-Comeau.

22. One of the conditions of the acquisition agreement entered into in connection with the MPCo Transaction (the "**Acquisition Agreement**") included the sale to HQTE, on an "as is, where is" basis, all of ACCC's right, title and interest in and to (i) the six 69 kV transmission lines of ACCC in or near Baie Comeau, Québec, as such are commonly known as lines L1, L2, L3, L4, L9 and L17 (L17-1 & L17-2) (collectively the "**Hydro Lines**"), and (ii) the servitudes and leases relating to the lands on which those lines are erected, the whole in consideration of the payment by HQTE to ACCC of an amount of $1 and the assumption by HQTE of certain liabilities (as described in the Acquisition Agreement) in connection with such property.

<u>The First Hydro Lines Vesting Order</u>

23. On December 10, 2009, this Honourable Court issued an order authorizing ACCC to enter into an agreement entitled "*Entente de Principe Relative au Transfert de Certaines Lignes de Transport d'Électricité*" (referred to herein as the "**Hydro Lines Agreement**") by and between ACCC, as transferor, and HQTE, as transferee (the "**First Hydro Lines Vesting Order**").

24. The Hydro Lines Agreement and the First Hydro Lines Vesting Order were in respect of the transfer of the 69KV transmission lines known as lines L1 and L2 (the "**L1 and L2 Hydro Lines**") and the granting of a real and perpetual servitude on land over which the

L1 and L2 Hydro Lines were erected. Full particulars with respect to the Hydro Lines Agreement are set forth in the Twenty-Sixth Report of the Monitor dated December 9, 2009 (the "**Twenty-Sixth Report**"). A copy of the Twenty-Sixth Report is attached hereto as Appendix "E".

The Second Hydro Lines Vesting Order

25. As set forth in the Twenty-Sixth Report, the Hydro Lines Agreement included an option in favour of HQTE with respect to the remaining transmission lines described in paragraph 22 of this Sixty-Eighth Report (the "**Remaining Hydro Lines**").

26. The Petitioners have advised the Monitor that, on September 29, 2010, HQTE informed ACCC that it intended to exercise its option to acquire the Remaining Hydro Lines, conditional upon the issuance by this Honourable Court of a vesting order in connection with such property. Similar to the sale of the L1 and L2 Hydro Lines, the Remaining Hydro Lines will be transferred to HQTE on an "as is, where is" basis.

27. The Petitioners have advised the Monitor that it is expected that the sale of the Remaining Hydro Lines, including the granting of a real and perpetual servitude over the land upon which the Remaining Hydro Lines are erected, will close either concurrently with or shortly after the issuance of the Second Hydro Lines Vesting Order.

28. The Petitioners have also advised the Monitor that the Remaining Hydro Lines are not required for the operations of the Petitioners or the reorganized Petitioners after emergence from these CCAA Proceedings.

THE IMPLEMENTATION OF THE CCAA PLAN

29. The CCAA Plan was sanctioned pursuant to an order of this Honourable Court dated September 23, 2010.

30. The U.S. Debtors' Second Amended Joint Plan of Reorganization under Chapter 11 of the U.S. Bankruptcy Code (the "**U.S. Plan**") was confirmed by an order issued by the U.S. Bankruptcy Court on November 23, 2010.

31. As at the date hereof, it is expected that the implementation of the CCAA Plan and the U.S. Plan will occur on or about December 7, 2010, with the initial distribution date to follow later in the same month.

RECOMMENDATION

32. The Monitor recommends that this Honourable Court issue the Second Hydro Lines Vesting Order.

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

John Barrett, 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 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