

CANADA

PROVINCE OF QUEBEC
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., 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

TWENTY-FIRST REPORT OF THE MONITOR

NOVEMBER 16, 2009

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 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 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 December 15, 2009 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. The Petitioners are all subsidiaries of ABH (ABH, collectively with its subsidiaries, are referred to as the “**ABH Group**”).
5. 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.

6. 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.
7. On April 22, 2009, the Court amended the Initial Order to extend the stay of proceedings to the partnerships listed in Appendix “D” hereto.

BACKGROUND

8. 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.
9. 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**”).
10. ACI is a direct and indirect wholly-owned subsidiary of ABH. 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.
11. ACCC, a wholly-owned subsidiary of ACI, and BCFPI hold the majority of ABH’s Canadian assets and operations.

PURPOSE

12. This is the twenty-first report of the Monitor (the “**Twenty-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 an Order:
 - (i) approving the terms and conditions of the Asset Transfer Agreement (the “**Asset Transfer Agreement**”) by and between ACCC, as acquiree, and a newly formed limited partnership known as Manicouagan Power Limited Partnership (the “**Partnership**”), as acquiror;
 - (ii) approving the terms and conditions of the Acquisition Agreement (the “**Acquisition Agreement**”) by and between ACCC and ACI, as selling parties, and HQ Energie Inc. (the “**HQ Purchaser**”);
 - (iii) approving the terms and conditions of the Unit Transfer Agreement (the “**Unit Transfer Agreement**”) and the Share Purchase Agreement (the “**Share Purchase Agreement**”) by and between ACCC, as transferor, and Alcoa Canada Energy Company, as transferee;
 - (b) the Petitioners’ request for an Order:
 - (i) vesting all right, title and interest in and to the Transferred Assets (as defined herein) in and to the Partnership free and clear of any and all claims; and
 - (ii) vesting all right, title and interest in and to the partnership units in the capital of the Partnership, the shares in the capital of Manicouagan Power General Partner ULC (the “**General Partner**” or the “**ULC**”) and the Power Purchase Contracts (as defined herein) (collectively the “**HQ Assets**”) described in the Acquisition Agreement in and to the HQ Purchaser free and clear of any and all claims; and

- (iii) vesting all right, title and interest in and to (i) the partnership units in the capital of the Partnership and (ii) the shares of the capital of the General Partner, as described in the Unit Transfer Agreement and the Share Purchase Agreement (collectively the “**Alcoa Assets**”), in and to Alcoa of Canada Energy Company (“**Alcoa Energy**”), free and clear of any and all claims;
- (c) the Petitioners’ request for an Order authorizing ACCC to make a contribution to certain pension plans in order to comply with any applicable legislative requirement to eliminate all or part of any deficit in connection with the transfer of assets and liabilities to a successor pension plan in respect of employees and former employees of MPCo;
- (d) the status of the expected closing of the MPCo Transaction (as defined herein); and
- (e) the Monitor’s comments on the Transaction Documents (as defined herein).

TERMS OF REFERENCE

13. In preparing this Twenty-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 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 Twenty-First Report. Some of the information referred to in this Twenty-First 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 Twenty-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.

14. Capitalized terms not defined in this Twenty-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 unless otherwise noted.
15. Copies of all of the Monitor's Reports, in both English and French, including a copy of this Twenty-First Report, and all motion records and Orders in the CCAA Proceedings will be available on the Monitor's website at www.ey.com/ca/abitibowater. 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.
16. 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/abitibowater>. The Monitor has included a link to Epiq's website from the Monitor's website.

BACKGROUND TO THE MPCo TRANSACTION

MPCo's Operations

17. Manicouagan Power Company ("**MPCo**") owns and operates the McCormick Hydroelectric Facility, which is located on the Manicouagan River, in the Province of Quebec. The McCormick Hydroelectric Facility consists of a dam, seven hydroelectric-generating units with a total capacity of 335 MW and certain electricity transmission and distribution facilities.
18. MPCo, which has not filed for protection in these CCAA Proceedings, is owned 60% by ACCC and 40% by Alcoa Canada Ltee ("**Alcoa Canada**").
19. ACCC's 60% interest in MPCo is referred to herein as the "**ACCC MPCo Interest**".

20. The electricity generated by MPCo is sold to two customers: (i) Alcoa Canada and (ii) ACCC's Baie-Comeau newsprint mill.
21. The electricity sold by MPCo to ACCC and Alcoa Canada is sold pursuant to power purchase agreements which expire in 2011 (the "**Power Purchase Contracts**").

The Sale of the ACCC MPCo Interest

22. As reported in the Sixteenth Report of the Monitor dated September 21, 2009 (the "**Sixteenth Report**"), following the merger of ACI and BI on October 29, 2007, the Petitioners began a comprehensive review of the combined operations to reduce costs, improve profitability and generate liquidity.
23. As part of this review, the Petitioners decided to dispose of certain non-core assets, including the ACCC MPCo Interest.
24. The Petitioners commenced the sales process with respect to the ACCC MPCo Interest in May, 2008. As reported in the Sixteenth Report, the number of purchasers potentially interested in acquiring the ACCC MPCo Interest was very limited and, in November, 2008, discussions were initiated with HQ Énergie Inc., a wholly owned subsidiary of Hydro Quebec (collectively "**HQ**") with respect to the sale of the ACCC MPCo Interest.
25. The Monitor was advised that a letter of intent (the "**LOI**") was executed with HQ on February 19, 2009 providing, *inter alia*, for the sale of the ACCC MPCo Interest for gross proceeds of CDN\$615 million and an exclusivity period in favour of HQ until March 23, 2009. The Monitor notes that discussions were initiated and the LOI was executed prior to the commencement of the CCAA Proceedings.
26. Since March 2009, HQ has worked to complete its due diligence and ACCC has worked with HQ, Alcoa and Alcoa Ltd. (Alcoa and Alcoa Ltd are hereinafter collectively referred to as "**Alcoa**"), to finalize the structure and terms of the transaction for the sale of the ACCC MPCo Interest (the "**MPCo Transaction**").

The Implementation Agreement

27. On September 3, 2009, ACI, ACCC, MPCo, HQ and Alcoa entered into an Implementation Agreement (the “**Implementation Agreement**”) which outlines the details of the MPCo Transaction and sets forth seventeen (17) steps to be completed in order to close the MPCo Transaction.
28. The sale of the ACCC MPCo Interest and the terms and conditions of the Implementation Agreement were approved by this Honourable Court on September 29, 2009.
29. Under the terms of the Implementation Agreement, HQ has agreed to pay ACCC CDN\$615 million (the “**Purchase Price**”) for the ACCC MPCo Interest, from which (i) approximately CDN\$25 million will be paid at closing to Alcoa for tax liabilities arising from the Proposed Transactions, (ii) approximately CDN\$31 million will be held by HQ for two years to secure indemnifications to be provided to HQ under the acquisition agreement to be entered into with HQ (the “**HQ Holdback**”), (iii) certain inter-party accounts will be settled, (iv) a CDN\$282.3 million reserve, primarily to guarantee the obligations of ACCC and ACI, including potential contingent pension liabilities and potential taxes resulting from the Proposed Transactions (the “**ULC Reserve**”), will be held by the Monitor, save and except for any amounts approved by this Honourable Court to be advanced to ACI under the ULC DIP and (v) the ACI DIP Facility will be repaid in part from the net Purchase Price and in part from an advance under the ULC DIP.
30. It was originally anticipated that the MPCo Transaction would close on or about October 15, 2009. However, as set forth in the Nineteenth Report of the Monitor dated October 27, 2009 (the “**Nineteenth Report**”), the completion of the MPCo Transaction has been delayed due to the complex nature of the transaction, the ongoing efforts to obtain governmental approval for the sale and/or transfer of the private network hydroelectric facilities as required by the Regie de l’Energie and the need to address a number of outstanding issues relating to the closing of the MPCo Transaction including the negotiation of the Transaction Documents by and among ACI, ACCC, HQ and Alcoa.

31. The Monitor has been advised by the Petitioners and understands that the Quebec Land Registry will not register the transfer of title until the appeal period, being 21 days from the date of the issuance of the Order vesting title in and to the HQ Purchaser, has expired. As of the date of this Report, it is expected that the MPCo Transaction will close on or about December 15, 2009.
32. Section 1.6 of the Implementation Agreement provides that if the MPCo Transaction does not close by December 31, 2009, any party to the Implementation Agreement may terminate any of its obligations to complete the MPCo Transaction.
33. Pursuant to an order of this Honourable Court dated October 30, 2009, the Petitioners were authorized to enter into an amending agreement with Investissement Quebec to extend the maturity date under the ACI DIP Agreement to December 15, 2009.

THE TRANSACTION DOCUMENTS

34. Section 1.1 of the Implementation Agreement provides that the terms of the acquisition of the ACCC MPCo Interest shall be based on normal and reasonable commercial terms to be set forth in definitive agreements to be negotiated and entered into by and among the parties.
35. The definitive agreements which have been or will be entered into among the parties to the Implementation Agreement include (collectively, the “**Transaction Documents**”):
 - (a) the Liquidation Agreement between MPCo (as transferor) and ACCC (as transferee) (the “**Liquidation Agreement**”);
 - (b) the Asset Transfer Agreement;
 - (c) the Acquisition Agreement;
 - (d) the Unit Transfer Agreement;
 - (e) the Share Purchase Agreement;

- (f) the Power Purchase Contracts Assignment Agreement by and among ACCC (as assignor), the HQ Purchaser (as assignee) and the Partnership (the “PPCAA”); and
- (g) the Pension and Benefits Agreement between ACCC and the Partnership (the “**Pension and Benefits Agreement**”).

The Liquidation Agreement

- 36. The Monitor, together with its counsel, has reviewed a draft of the Liquidation Agreement.
- 37. Pursuant to the terms of the Liquidation Agreement, MPCo has agreed to convey, transfer and assign to ACCC all of its right, title and interest in and to all of its property and assets (the “MPCo Assets”).
- 38. In addition, the Liquidation Agreement provides that ACCC shall assume all of the obligations and liabilities of MPCo and has agreed to indemnify MPCo and save it harmless against and from all such obligations and liabilities.

The Asset Transfer Agreement

- 39. The Monitor, together with its counsel, has reviewed a draft of the Asset Transfer Agreement and notes that it does not include the same representations and warranties as set forth in the Acquisition Agreement and as further discussed below. The Asset Transfer Agreement provides for an “as is/where is” transfer of the MPCo Assets to the Partnership.
- 40. The Asset Transfer Agreement also sets out certain excluded liabilities, such as liabilities of ACCC not related to the business or the acquired assets, liabilities in respect of the pension plans (except to the extent resulting from the discharge by the Partnership of its obligations under the Pension and Benefits Agreement) and certain tax liabilities. The Asset Transfer Agreement includes a full indemnification in favour of the Partnership in respect of these excluded liabilities. The Monitor is of the view that this indemnity is not unreasonable in view of the overall structure of the MPCo Transaction.

The Acquisition Agreement

41. The Acquisition Agreement provides for the sale of ACCC's 59.9994% interest in the Partnership and 60% interest in the General Partner to the HQ Purchaser. In addition, the Acquisition Agreement provides that, as a condition to the obligations of ACCC, the closing of the sale to Hydro-Quebec TransEnergie, on an "as is/where is" basis, of ACCC's right, title and interest in and to certain transmission lines must be completed prior to closing.¹
42. The Monitor, together with its counsel, has reviewed a draft of the Acquisition Agreement and has raised several issues with the Petitioners regarding certain provisions thereof, including the scope of the representations and warranties, the indemnities given thereunder and the conditions precedent set forth therein.
43. In particular, the Monitor notes the following:
 - (a) There are a number of representations and warranties by ACCC and ACI (on their own behalf and on behalf of MPCo, the Partnership and the ULC (the general partner of the Partnership), in favour of the HQ Purchaser.

The Monitor is of the view that such representations and warranties are not typical in an agreement of purchase and sale where the seller is a debtor subject to CCAA proceedings. However, the Petitioners have advised the Monitor that, given that the negotiations and the execution of the LOI took place prior to the commencement of the CCAA Proceedings, the expectations of all parties are that the definitive agreements with respect to the MPCo Transaction should be based on normal and reasonable commercial terms as if ACI and ACCC were not subject to the CCAA Proceedings.

¹ 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 will be selling to HQ, at a nominal value, the transmission lines ACCC currently owns (and will no longer have a use for) that carry the electricity from the MPCo generation station to the Baie-Comeau mill as well as from the MPCo generation station to the city of Baie-Comeau.

In addition, the Monitor notes that Section 1.1 of the Implementation Agreement provides that the terms of the acquisition “shall be based on normal and reasonable commercial terms to be set forth in definitive agreements to be negotiated and entered into by and among the parties”. Further, paragraph 8 of the Intervention of HQ, which is attached to the Implementation Agreement, provides that all parties “shall have executed such definitive agreements customarily used for transactions of this nature, including representations and warranties, covenants, terms and conditions (which would include those set forth in the Intervention), and indemnifications for the benefit of HQ and its affiliates which are customary for transactions of this nature”.

- (b) Sections 6.2 and 6.3 of the Acquisition Agreement set forth additional conditions and obligations to the closing of the MPCo Transaction, many of which were not specifically addressed in the Implementation Agreement or the Intervention of HQ. For example, Section 6.2(g) provides that the government of Quebec shall have issued an order in council renewing the Water Rights Lease effective as of February 23, 2011, for a period of at least 25 years and on terms and conditions satisfactory to the HQ Purchaser, acting reasonably. Further, Section 6.2(h) provides that the government of Quebec shall have issued an order in council authorizing the assignment of the Water Rights Lease from MPCo to ACCC and thereafter from ACCC to the Partnership. In addition, Section 6.2(o) provides that the unionized employees of MPCo shall have executed a collective bargaining agreement with MPCo or the Partnership, provided that in the event a new collective bargaining agreement is not executed, the parties shall consider alternative arrangements for the transfer of the unionized employees of MPCo. The Petitioners have advised that they do not have any issues with respect to these additional conditions and obligations.

The Monitor has made inquiries of Management and HQ as to the status and fulfilment of the conditions precedent and has been advised by both parties that they do not expect that the parties will fail to satisfy any of the conditions precedent on a timely basis.

(c) Article VIII of the Acquisition Agreement deals with indemnifications being provided by ACI and ACCC in favour of the HQ Indemnified Parties (as defined in the Acquisition Agreement). The Monitor has expressed concern with respect to the scope and the amount of the indemnification obligations set forth in the Acquisition Agreement. In particular, Section 8.4(g) provides that the aggregate liability of ACI and ACCC in respect of the claims of the HQ Purchaser and the HQ Indemnified Parties shall not exceed \$123 million. It is the view of the Monitor that the amount of this indemnity is higher than is customarily provided in transactions involving a debtor company in CCAA proceedings.

The Petitioners have advised that the amount of the indemnification is acceptable to them and they consider it to be normal in a non-CCAA context, particularly when considering the nature of the assets being transferred to the HQ Purchaser.

(d) Sections 2.1 and 2.2 of the Acquisition Agreement provide that the amount of the HQ Holdback will be held by the HQ Purchaser. The Monitor has expressed its view to the Petitioners that the HQ Holdback should be held in an escrow account with an escrow agent or the Monitor rather than being held by the HQ Purchaser. The Petitioners have advised the Monitor that they are comfortable with the HQ Holdback being held by the HQ Purchaser, as a joint and several guarantee has been provided by Hydro Quebec with respect to the HQ Holdback and the HQ Purchaser's obligations under the Acquisition Agreement.

44. After noting that these provisions were unusual for a CCAA debtor, the Petitioners have advised the Monitor that they did not believe they would be successful in revising these provisions considering previous discussions with the parties and the relative leverage and negotiating power among the parties.

The Unit Transfer Agreement

45. The Monitor, together with its counsel, has reviewed a draft of the Unit Transfer Agreement between ACCC, as transferor, and Alcoa Energy, as transferee.

46. The Unit Transfer Agreement provides for the conveyance, transfer and assignment of Class A units in the capital of the Partnership from ACCC to Alcoa Energy, representing a 39.9996% interest in the Partnership.
47. The Monitor notes that the Unit Transfer Agreement contains mutual indemnification provisions from and between each of ACCC and Alcoa Energy with respect to a limited number of matters, such as ownership of units, authority to enter into the agreement and required third party approvals.

The Share Purchase Agreement

48. The Monitor, together with its counsel, has reviewed a draft of the Share Purchase Agreement between ACCC, as vendor and Alcoa Energy as purchaser.
49. The Share Purchase Agreement provides for the transfer of all of ACCC's right, title and interest in and to 40 common shares of the capital of the General Partner, representing 40% of all of the issued and outstanding shares of the capital of the General Partner.
50. The Monitor notes that the Share Purchase Agreement contains mutual indemnification provisions between each of ACCC and Alcoa Energy with respect to a limited number of matters, such as ownership of shares, authority to enter into the agreement and required third party approvals.

The PPCAA

51. The Monitor, together with its counsel, has reviewed a draft of the PPCAA. The PPCAA addresses the assignment from ACCC to the HQ Purchaser of all the right, title and interest of ACCC in and to the Power Purchase Contracts. A list of the Power Purchase Contracts to be assigned pursuant to this agreement is attached as Exhibit "A" to the PPCAA.
52. Pursuant to the terms of the PPCAA, the HQ Purchaser has agreed to accept the assignment and assumes and agrees to be legally bound by, observe and perform all of the duties, obligations, terms, provisions and covenants and to pay and to discharge all of

the liabilities of ACCC to be observed, performed, paid or discharged after the effective time under the Power Purchase Contracts.

53. In addition, pursuant to the terms of the PPSAA, the Partnership has agreed to consent to the assignment and assumption of the Power Purchase Contracts.

The Pension and Benefits Agreement

54. The Monitor, together with its counsel, has reviewed a draft of the Pension and Benefits Agreement between ACCC and the Partnership.
55. Section 4.02 of the Asset Transfer Agreement contemplates that pension and benefit matters will be dealt with as set out in the Pension and Benefits Agreement.
56. Under the terms of the Pension and Benefits Agreement, the Partnership has agreed to (i) establish and file for registration with the appropriate governmental authority a registered defined benefit plan and (ii) provide a defined contribution arrangement as soon as is practicable after closing.
57. The Pension and Benefits Agreement provides that ACCC will ensure that the relevant transferred employees cease to participate and accrue benefits under the relevant non-union and/or union registered pension plan with ACCC. Further, the Partnership's registered pension plan will provide each eligible transferred employee with pension benefits and ancillary benefits that are the same as those that would have been provided to such transferred employees by ACCC prior to closing.
58. In addition, in order to comply with any applicable pension legislative requirement to eliminate all or part of any deficit in connection with the transfer of assets and liabilities to a successor pension plan in respect of employees and former employees of MPCo, ACCC is seeking an Order authorizing it to make, or arrange to be made, a contribution to certain pension plans.
59. Further, the Pension and Benefits Agreement provides, subject to regulatory approvals, for the assumption by the Partnership pension plans of the accrued defined benefit

obligations of the past and present MPCo employees under the existing pension plans, conditional on receiving a portion of the assets of the existing pension plans.

MONITOR'S COMMENTS ON THE TRANSACTION DOCUMENTS

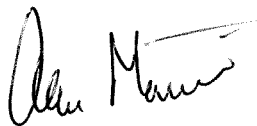
60. In assessing the reasonableness of the Transaction Documents, the Monitor has considered, among other things:
- (a) the terms and conditions of the LOI;
 - (b) the terms and conditions in the Implementation Agreement;
 - (c) the Petitioners' need to repay the ACI DIP Facility on a timely basis;
 - (d) the Petitioners' need for liquidity and the satisfaction of that need through the use of the proceeds derived from the MPCo Transaction;
 - (e) the impact the MPCo Transaction will have on the ACI Group's stakeholders, the approval of this Honourable Court as to the use of the proceeds of the MPCo Transaction and the expectations of the ACI Group's stakeholders arising therefrom;
 - (f) the attempts made to negotiate terms more customary for CCAA debtor companies;
 - (g) the relative leverage and negotiating power of the parties, as understood by the Monitor;
 - (h) the unique background and evolution of the MPCo Transaction, including the fact that it involved both pre-filing and post-filing components; and
 - (i) the limited options available to the Petitioners with respect to the sale of the ACCC MPCo Interest.

61. The Monitor is of the view that the parties to the Transaction Documents, all of whom are at arm's length, have negotiated the Transaction Documents in good faith and in accordance with their respective expectations at the time the LOI was executed.
62. The Monitor is of the view that, while certain of the provisions of the Transaction Documents are unusual for a debtor under CCAA protection, they are reasonable in the circumstances.

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

Ken Brooks
Senior Vice President

John Barrett, CA, CIRP
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. Canoxel 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