

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*

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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**

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**TWENTY-THIRD REPORT OF THE MONITOR**

**NOVEMBER 20, 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 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 extended to 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 (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-third report of the Monitor (the “**Twenty-Third Report**”) in the CCAA Proceedings, the purpose of which is to report to this Honourable Court with respect to:
- (i) the Petitioners’ request for an Order:
    - (a) authorizing ACI and ACCC to sell (the “**Proposed Transaction**”) the assets of the permanently closed down ACCC pulp and paper mill in Shawinigan, Quebec (the “**Belgo Mill**”) to Recyclage Arctic Beluga Inc. (the “**Purchaser**”);
    - (b) vesting all right, title and interest in and to the Belgo Mill in and to the Purchaser free and clear of any and all claims; and
    - (c) authorizing and directing the Petitioners to implement and complete the Proposed Transaction with such alterations, amendments, deletions or additions as the parties agree, with the consent of the Monitor;
  - (ii) the Monitor’s review of the Proposed Transaction; and
  - (iii) the Monitor’s recommendation regarding the Petitioners’ Motion in respect of the Proposed Transaction.

## TERMS OF REFERENCE

13. In preparing this Twenty-Third 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 advisors (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-Third Report. Some of the information referred to in this Twenty-Third 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-Third 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-Third 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-Third 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](http://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.
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/abitibibowater>. The Monitor has included a link to Epiq's website from the Monitor's website.

## **BACKGROUND TO THE PROPOSED TRANSACTION**

17. The Belgo Mill has four paper machines that, when it operated, produced approximately 105,000 tonnes of newsprint and 205,000 tonnes of commercial printing paper per year. In addition to the paper machines, the Belgo Mill consists of buildings and the real property.

18. In 2008, ACCC determined that the Belgo Mill did not fit within the long-term strategy of the ABH Group.
19. Production at the Belgo Mill was terminated on or about February 18, 2008 and the mill has been closed since March 31, 2008.
20. ACCC is currently funding holding costs, such as utilities, insurance, property taxes and maintenance costs of approximately \$2.3 million per annum. As a result, ACCC determined that in order to preserve its liquidity it would implement a process to market the Belgo Mill for sale in order to mitigate future carrying costs.

#### **THE BELGO MILL SALES PROCESS**

21. Management has advised the Monitor that, following the closure of the Belgo Mill, the Petitioners had discussions with the Centre local de developpement de Shawinigan (the “CLD”) with respect to the future of the Belgo Mill. These discussions did not result in any offers to purchase the Belgo Mill. The Petitioners then began to market the Belgo Mill for sale.
22. The Monitor was advised by ACCC that the sales process for the Belgo Mill consisted of the following steps:
  - (i) six parties were invited to bid on the Belgo Mill on or about June 18, 2009. These parties were identified by Management as potentially being interested in purchasing assets of the Belgo Mill based on prior interest expressed by such parties and Management’s experience with these parties in the sale of other closed mills;
  - (ii) the parties were invited to visit the Belgo Mill site and tour its facilities to conduct their own assessment of the opportunity;
  - (iii) while a formal bid package was not prepared by the Petitioners, requests for specific due diligence materials were addressed by Management, on a request by request basis, to the extent that the information was readily available;

Management was available to answer questions as they were submitted; and parties were told to submit their offers on or before August 14, 2009.

23. The sales process was run by ACCC, not the Monitor. In particular, the sales process was run by a group within ACCC that deals specifically with closed mills.
24. On August 17, 2009, Management advised the Monitor that it had received four offers to purchase the Belgo Mill. A summary of these offers which was prepared by Management is attached as Appendix “E”. Due to the confidential nature of this information and the potential impact it could have on the current and any future marketing of other closed mills, the Monitor requests this Honourable Court’s permission to seal the contents of Appendix “E”.
25. The Monitor notes that the four offers received in respect of the Belgo Mill ranged from demolition of the Belgo Mill to purchasing the entire site, including the land, equipment and building situated thereon.
26. Based on a number of criteria, including total cash consideration (in terms of both value for the asset and minimization of carrying costs), timing, ability to close and liabilities assumed by the purchaser, the Purchaser was selected as the winning bidder by the Petitioners. On August 19, 2009, the Petitioners discussed the offers with the Monitor and based on these discussions, a review of the offers and the summary of the offers, the Monitor concurred with the Petitioners' decision. A letter of intent (the “LOI”) was signed on September 1, 2009.
27. The Purchaser was allowed 30 days to complete its due diligence as a term of the LOI.
28. On September 21, 2009, the Purchaser completed all of its due diligence and it advised the Petitioners that it was waiving all conditions. The Purchaser and ACCC worked together to finalize the purchase offer (the “**Purchase Offer**”) which includes as appendices the contemplated deed of sale for the sale of the land and buildings and the purchase and sale agreement in respect of the equipment. A copy

of the Purchase Offer is attached as Appendix “F” to this Twenty-Third Report. Due to the confidential nature of this information and the potential impact it could have on the current and any future marketing of other closed mills, the Monitor requests this Honourable Court’s permission to seal the contents of Appendix “F”.

29. On November 4, 2009, ACI and ACCC (collectively, the “Vendors”) and the Purchaser executed the Purchase Offer in respect of the land, buildings and equipment at the Belgo Mill.
30. The Monitor concurs with the Petitioners’ assessment that the Purchaser’s bid was the most favourable bid and in the best interests of the stakeholders based on the summary of the bids provided by Management to the Monitor.

#### Unsuccessful Bidder

31. Subsequent to the Petitioners selecting a final bidder, the Monitor was contacted by one of the unsuccessful bidders (the “Unsuccessful Bidder”) which raised questions with respect to the manner in which the Belgo Mill sales process was carried out by ACCC. The Unsuccessful Bidder indicated that (i) it was not informed that the land was included in the Belgo Mill sales process and (ii) that an offer from the Unsuccessful Bidder to increase its offer (by way of a letter in early August) was not considered by ACCC.
32. As the Monitor was not directly involved in the Belgo Mill process, it is not in a position to confirm or refute the questions raised by the Unsuccessful Bidder; however, the Monitor raised the concerns expressed with the Petitioners who advised the Monitor of the following:
  - (i) three of the six bidders did bid on the land;
  - (ii) no restrictions were placed on the bids and the bidders were not instructed to include or exclude the land; and
  - (iii) as the Unsuccessful Bidder’s offer was significantly lower in value than the Purchaser’s offer, the Petitioners decided not to pursue this further.

33. As described earlier in this Twenty-Third Report, the Monitor has reviewed all of the bids for the Belgo Mill and the summary analysis prepared by Management. Based on this review, the Monitor determined that the bid submitted by the Purchaser was the highest and most favourable bid.

#### Late Bidder

34. On November 4, 2009, the Petitioners and the Monitor were contacted by a new bidder (the “**Late Bidder**”) with respect to the Belgo Mill. The Late Bidder advised the Monitor that it was informed by the Petitioners that the Belgo Mill was no longer available for sale as the Petitioners were working to sign the Purchase Offer and complete the sale of the Belgo Mill to the Purchaser. Notwithstanding this advice, the Late Bidder presented the Petitioners and the Monitor with an offer (the “**Late Bidder’s Offer**”) to purchase the Belgo Mil. The Monitor has reviewed this offer and notes the following:

- (i) the Late Bidder’s Offer is less favourable than the offer received from the Purchaser;
- (ii) the Late Bidder’s Offer was submitted almost three months after all of the other offers were received; and
- (iii) the Late Bidder’s Offer was submitted after ACCC had reached an agreement with the Purchaser and therefore, ACCC was not in a position to accept the Late Bidder’s Offer.

#### **THE MONITOR’S COMMENTS ON THE PROPOSED TRANSACTION**

35. Upon reviewing the submitted bids and the summary analysis prepared by Management, the Monitor notes that the offer received from the Purchaser:
- (i) offers the highest gross cash proceeds at closing;
  - (ii) includes the land, buildings and equipment at the Belgo Mill site;

- (iii) offers the Petitioners the quickest timeline to exit the Belgo Mill (due to the fact that the land is being acquired) thereby minimizing the related carrying costs;
- (iv) does not require the Petitioners to incur any environmental remediation costs (due to the fact that the land is being acquired);
- (v) offers the highest overall net cash proceeds upon closing; and
- (vi) contemplates an “as is/where is” transaction without representations and warranties from the Petitioners.

#### **ADDITIONAL CLOSED MILL SALES PROCESS**

36. The Petitioners are currently conducting another sales process in respect of an additional five closed mills. The Monitor is over-seeing this process and will report back to this Honourable Court once it is complete.

#### **RECOMMENDATION**

37. Based on the Monitor’s review of the Proposed Transaction, the Monitor has concluded that:
- (i) Management has chosen the bid that maximizes net proceeds to the Petitioners, while providing for the fastest exit from the Belgo Mill, thereby minimizing the incurrence of significant site remediation costs and on-going carrying costs; and
  - (ii) the Proposed Transaction is consistent with the Petitioners’ on-going efforts to reduce operating costs and increase liquidity.
38. Accordingly, the Monitor recommends that this Honourable Court grant the Petitioners’ motion for an Order:
- (a) authorizing the Petitioners to complete the Proposed Transactions;

- (b) vesting all right, title and interest in and to the Belgo Mill in and to the Purchaser free and clear of any and all claims; and
- (c) authorizing and directing the Petitioners to implement and complete the Proposed Transaction with such alterations, amendments, deletions or additions as the parties agree, with the consent of the Monitor.

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

**APPENDIX "E"**  
**SUMMARY OF BIDS**  
**[TO BE FILED UNDER SEAL]**

**APPENDIX "F"**  
**PURCHASE OFFER**  
**[TO BE FILED UNDER SEAL]**

