

CANADA

SUPERIOR COURT

PROVINCE OF QUÉBEC  
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

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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;

**Information Officer**

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**SECOND REPORT OF THE INFORMATION OFFICER**  
**August 14, 2009**

## INTRODUCTION

1. On April 16, 2009, AbitibiBowater Inc. (“**ABH**”), Bowater Inc. (“**BI**”), and certain of their direct and indirect U.S. and Canadian subsidiaries, including Bowater Canadian Holdings Incorporated (“**BCHI**”), 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**”).
2. On April 17, 2009, Abitibi-Consolidated Inc. (“**ACI**”) and its subsidiaries (collectively with ACI, the “**Abitibi Petitioners**”) and BCHI and its subsidiaries (collectively with BCHI, the “**Bowater Petitioners**”) (the Abitibi Petitioners and the Bowater Petitioners are, together, the “**CCAA 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 the Initial Order, Ernst & Young Inc. (“**EYI**”) was appointed as monitor of the Petitioners (the “**Monitor**”) under the CCAA.
3. 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.
4. Pursuant to paragraph 78 of the Initial Order, EYI was appointed as the information officer in respect of the 18.6 Petitioners (the “**Information Officer**”).

## PURPOSE

5. The Initial Order provides that the Information Officer shall report to this Honourable Court at least once every two months (or at such times or intervals as the Information Officer deems appropriate) with an outline of the status of the Chapter 11 Proceedings of the Section 18.6 Petitioners and such other information as the Information Officer believes to be material.

6. This is the Information Officer's second report (the "**Second Report**") and as such will provide an update on the Chapter 11 Proceedings since the First Report of the Information Officer dated June 17, 2009 (the "**First Report**").

#### **TERMS OF REFERENCE**

7. In preparing this Report, the Information Officer has received and relied upon publicly available information obtained from the U.S. Bankruptcy Court and from consultations with counsel to the U.S. Debtors.
8. Copies of all of the Information Officer Reports, in both English and French, 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).
9. Copies of all of the U.S. Bankruptcy Court's orders are posted on the website for Epiq Bankruptcy Solutions LCC ("**Epiq**") <http://chapter11.epiqsystems.com/abitibibowater>.

#### **BACKGROUND**

10. ABH is one of the world's largest publicly traded paper and forest product companies. It produces a wide range of newsprint and commercial printing papers, market pulp and wood products. As of December 31, 2008, the ABH Group employed approximately 15,800 people, approximately 11,300 of whom work in ACI's and BI's Canadian operations. The ABH Group owns interests in or operates 35 pulp and paper mills, 24 sawmills (others have been permanently closed), 5 wood products facilities and 32 recycling facilities located in Canada, the United States, the United Kingdom and South Korea.
11. 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 U.S. Holding LLC ("**ABUSH**") (ABUSH and its respective subsidiaries are collectively referred to as the "**DCorp Group**").

12. The CCAA Petitioners and the U.S. Debtors are all subsidiaries of ABH (ABH, collectively with its subsidiaries, the “**ABH Group**”).

#### **THE CHAPTER 11 PROCEEDINGS**

13. On April 16, 2009, the U.S. Debtors filed voluntary petitions under Chapter 11 of the U.S. Bankruptcy Code in the U.S. Bankruptcy Court.
14. Since the First Report, the Information Officer has been advised that the following orders have been granted in the Chapter 11 Proceedings:
- (i) a final order authorizing certain U.S. Debtors to sell receivables under an amended and restated securitization program;
  - (ii) a final order approving the U.S. Debtors' motion (i) authorizing the continued use of the existing consolidated cash management system (“**CMS**”), bank accounts and business forms, (ii) authorizing the continuation of certain intercompany transactions, (iii) granting administrative priority status to post-petition intercompany claims, (iv) granting a limited and interim waiver of the deposit guidelines set forth in section 345 of the U.S. Bankruptcy Code and (v) granting related relief (the “**CMS Order**”);
  - (iii) an order approving the Cross-Border Protocol (“**Protocol**”) that will provide the U.S. Bankruptcy Court and this Honourable Court with a framework for the coordination of the administration of the Chapter 11 Proceedings and the CCAA Proceedings as discussed in greater detail below;
  - (iv) an order approving the U.S. Debtors' motion to authorize Bowater Alabama LLC (“**Bowater Alabama**”) to enter into an asset purchase agreement, assume a related existing agreement and otherwise consummate the purchase of a chip mill facility for a purchase price of approximately USD \$2.45 million to support and supplement its Coosa Pines, Alabama fluff pulp operations;
  - (v) an order approving the motion of the Official Committee of Unsecured Creditors (“**UCC**”) for procedures to grant creditors access to confidential information of the Debtors (procedures include a website containing case updates and contact information for the UCC's counsel);

- (vi) an order appointing Direct Fee Review as fee auditor to review compensation requests submitted by any professional or any other person in connection with the Chapter 11 Proceedings, subject to certain exceptions;
  - (vii) an order authorizing Bowater Alabama to abandon property, reject executory contracts and take other actions necessary to decommission and permanently close its Westover Sawmill and Goodwater Planer Mill operations;
  - (viii) an order authorizing Abitibi-Consolidated Corporation to reject a certain unexpired lease of non-residential real property and related executory contracts, and to assume and consummate a letter of intent with respect to the sale of certain recycling assets;
  - (ix) an order giving the U.S. Debtors until Nov. 12, 2009 to assume or reject certain leases;
  - (x) an order allowing a consent decree with the Environmental Protection Agency related to alleged violations of the Clean Air Act by BI's Calhoun, Tennessee facility;
  - (xi) an order approving a stipulation by and among BI and Factory Mutual Insurance Co. relating to the settlement and liquidation of amounts owed to BI as a result of a crane accident at one of its mills;
  - (xii) an order allowing for an extension of the exclusive period to file a Chapter 11 plan or plans and to solicit acceptances of such plan(s), through and including Dec. 14, 2009 and Feb. 10, 2010, respectively;
  - (xiii) an order approving the retention and employment of Blackstone Advisory Services L.P., as financial advisors to the U.S. Debtors and U.S. Debtors in Possession; and
  - (xiv) an order allowing a 120 day extension within which U.S. Debtors may file notices of removal in respect of claims and causes of action pending as of the petition date. The U.S. Debtors will have until Nov. 12, 2009, to make the removal decisions.
15. The Information Officer has been advised that the following orders have been entered allowing for modification of the automatic stay of proceedings subject in each case to certain restrictions with respect to the scope of relief granted:

- (i) an order lifting the automatic stay to permit a contractor to pursue a civil claim arising from injuries sustained at the U.S. Debtors' Calhoun, Tennessee, facility;
  - (ii) an order lifting the automatic stay to permit certain employees to pursue state court litigation for a number of tort claims, including wrongful death, arising from the alleged negligence of one of the U.S. Debtors' employees; and
  - (iii) an order lifting the automatic stay to permit an individual to pursue a wrongful death claim against Abitibi Consolidated Sales Corporation ("ACSC") related to an accident at its paper mill in Snowflake, Arizona.
16. A motion for relief from stay in order to pursue a wrongful death action against ACSC is currently pending. The action arises from the decedent's exposure to fly ash in the course of his employment. ACSC is allegedly one of the producers of fly ash to which an employee was allegedly exposed.
17. A motion for an order authorizing the U.S. Debtors to enter into a proceeds sharing agreement and wood fiber supply agreement with Smurfit-Stone Container Corp and reject existing wood supply and harvesting agreements is currently pending. This motion will be heard by the U.S. Bankruptcy Court on September 2, 2009.
18. A motion for an order to reject a certain call agreement related to the U.S. Debtors joint venture partner Augusta Newsprint Inc. is currently pending. This motion has been filed under seal and will be heard by the U.S. Bankruptcy Court on September 11, 2009.
19. The Information Officer has also been advised that the following parties have filed motions for administrative expense claims:
- (i) OCE Fluid Handling Inc., a supplier of liquid handling equipment to manufacturers and other businesses, for goods sold to the U.S. Debtors on credit;
  - (ii) Atmos Energy Corp., a natural gas supplier, for natural gas sold to the U.S. Debtors on credit; and
  - (iii) National City Vendor Finance for payment stemming from BI's lease of a software system. In the same filing, National City filed a motion requesting an order that the

U.S. Debtors assume or reject the lease contract within 10 days of a date set by the Court.

#### **THE CROSS-BORDER PROTOCOL**

20. The Protocol is intended to assist in the efficient and orderly harmonization of the CCAA Proceedings and the Chapter 11 Proceedings so as to create the most stable conditions under which a successful reorganization of all the debtors can be achieved.
21. The U.S. Bankruptcy Court approved the Protocol, subject to corresponding approval by this Honourable Court which was granted on July 28, 2009. The Protocol declares that the U.S. Bankruptcy Court and this Honourable Court may coordinate activities and consider whether it is appropriate to defer to the judgment of the other Court. The Protocol also provides that the U.S. Bankruptcy Court shall recognize the validity of the Initial Order and the stay of proceedings and actions against or respecting the U.S. Debtors and their property under the CCAA and the Initial Order. Each of the debtors, their creditors, the estate representatives, the U.S. Trustee and other interested parties are given certain rights to appear and be heard in the respective Courts under the Protocol. Finally, among other provisions, the Protocol provides guidelines for the retention and compensation of representatives and professionals in the CCAA Proceedings and the Chapter 11 Proceedings.

#### **SETTLING OF INTERCOMPANY CLAIMS**

22. As discussed in the First Report, the ABH Group also uses the CMS to support the significant intercompany transactions between and among each of the ABH Group entities. The significant intercompany relationships are generally documented by intercompany notes and agreements. The CMS allows the Debtors to more effectively trace and account for intercompany transactions.
23. In accordance with paragraph 4 of the CMS Order, the U.S. Debtors conferred by the July 10, 2009 deadline with the Monitor, the UCC, the DIP Lenders, and the agents for the prepetition credit agreements of BI and BCFPI regarding a proposed method for allocating and settling pre- and post-petition shared expenses (such as sales, general and administrative costs) and for making intercompany transfers. A consensus, however, has not been reached regarding the methodology. Accordingly, the August 7, 2009 deadline provided in the CMS Order has been extended until August 28, 2009.

## **CLAIMS PROCEDURES**

24. The U.S. Debtors are working with the CCAA Debtors and the Monitor to coordinate the U.S. and Canadian claims filing procedures and setting the Canadian and U.S. bar dates. The Information Officer has been advised that the U.S. Debtors anticipate filing a motion establishing the claims procedures for the U.S. Debtors within the next few weeks.

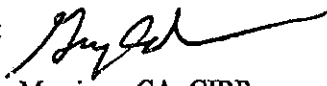
## **CHAPTER 15 PROCEEDINGS**

25. On April 16, 2009, ACI and ACCC filed petitions for recognition under Chapter 15 of the U.S. Bankruptcy Code. On August 3, 2009, the U.S. Bankruptcy Court granted the order recognizing the CCAA proceedings as foreign main proceedings pursuant to section 1517 of the U.S. Bankruptcy Code.

All of which is respectfully submitted.

**ERNST & YOUNG INC.**  
in its capacity as the Court Appointed Information Officer  
of the Petitioners

Per:

  
Alex Morrison, CA, CIRP  
Senior Vice President

Greg Adams, CA, CIRP  
Senior Vice President

John F. 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 Québec 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