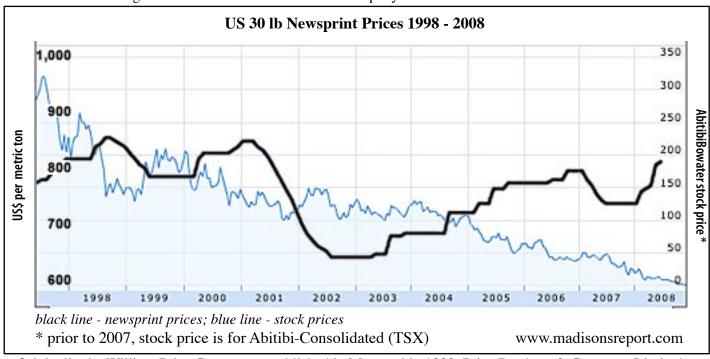
PO Box 2486, Vancouver, BC V6B 3W7 & Tel: 604-984-6838 & Email: madrep@shawcable.com & Web: www.madisonsreport.com

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AbitibiBowater was featured in several news articles this week, in the first part due to wide-ranging closures of its mill operations, and in the second part because investor concerns in November of forthcoming difficulties with debt restructuring were put to rest. According to FOEX this week, newsprint prices in Europe are down 37.34 Euros per metric ton, to 496.46 Euro since the beginning of 2008, while 30 lb newsprint in the United States is up US\$191.40 since January. Reduced newsprint supply due to North American mill closures and curtailments in 2008 account for the price increase, however the trend is not expected to continue as announcements of US daily newspaper bankruptcies continue to fail.

Abitibi Pulp and Paper Co. Ltd. was founded in 1912 at Iroquois Falls, ON on the Abitibi River by Frank Harris Anson. The company grew and prospered, building mills and mill towns across Ontario until the Great Depression forced Abitibi Pulp to file for bankruptcy protection in 1932. It remained under the control of the Court-appointed Receiver until 1946, the longest such receivership in Canadian history. Abitibi Pulp recovered after the Second World War, in 1965 changed its name to the Abitibi Paper Company Ltd., and in 1974 purchased a controlling interest in the Price Brothers & Company Limited.



Originally the William Price Company, established in Montreal in 1820, Price Brothers & Company Limited had extensive operations and a vast forestry business in Quebec. In 1979 the corporate name of what had become the world's biggest newsprint producer was changed to Abitibi-Price Inc. Abitibi-Consolidated was formed from the merger between Abitibi-Price Inc. and Stone-Consolidated in May 1997. In 2000, Abitibi-Consolidated acquired a majority shareholding in Canadian integrated forest products company Donohue Inc., a major Canadian integrated forest products company engaged in forest management and in the manufacture and sale of newsprint.

In 1938 W.V. Bowater and Sons, a UK paper manufacturer, established its first North American manufacturing operations in Corner Brook, NL. Between 1952 and 1968 the company built mills in Tennessee and North Carolina, and acquired the Bowater Mersey Paper Company Limited in Liverpool, NS. In 1984 Bowater North America Corporation became Bowater Incorporated and established headquarters in Darien, CT. The head office was later moved to Greenville, SC. Between 1989 and 2001, Bowater built and expanded mills in eastern

Canada and the United States, and acquired significant operations from Avenor Inc. and Alliance Forest Products, both out of Montreal. Ironically, Abitibi-Consolidated first tried a hostile takeover of Avenor, but lost to Bowater's C\$3.5 billion bid.

By the time the intended merger with Abitibi-Consolidated was announced in January 2007, Bowater employed approximately 6,900 people at 12 pulp and paper mills in the US, Canada and South Korea. In North America, it also operated one converting facility and owned 10 sawmills. Bowater's operations were supported by approximately 708,000 acres of timberlands owned or leased in the United States and Canada, and 28 million acres of timber cutting rights in Canada. Abitibi-Consolidated, Inc. was, at this point, the world's largest newsprint and uncoated groundwood producer, employing approximately 12,500 people, and comprising of a network of 19 paper mills, 20 sawmills, 4 remanufacturing facilities and 2 engineered wood facilities, located in Canada, the US and the UK. Both companies expected the merger to form the third-largest publicly traded paper and forest products company in North America. The new company would control almost half of the North American newsprint market, by some estimates. The deal still requires regulatory and shareholder approval.

Due to favourable economic conditions, newsprint prices in Europe enjoyed a steady rise from the end of 2005 through 2007, while other global regions (North America, Asia) saw a drop from the beginning of 2006 through 2007. All three markets are now experiencing corrections, and will eventually level off as both supply and demand decrease to meet current financial conditions. The vast majority of large companies of all types in the three regions are suffering losses, or at least lower profits, thus are drastically cutting advertising. Less advertising means smaller newspapers, and that means less newsprint ordered, sometimes causing a downward spiral in newsprint prices should demand drop sharply enough or for long enough.

On December 05, 2008 AbitibiBowater Inc. announced it was slashing about 1,100 jobs, closing two facilities, idling others and curtailing newsprint production by about 17 per cent in a bid to cut costs amid declining demand. The measures would permanently remove 830,000 tonnes of newsprint and 180,000 tonnes of various grades of paper from its annual output. The bulk of the job losses were in Grand Falls, NL, where about 750 people will be out of work early next year. The company intends to further reduce by 20 per cent its "selling, general and administrative" costs, most of those will likely be at its Greenville, SC office.

Predictions for the paper and newsprint industry into the end of 2009 are not rosy. The current oversupply will take some time to work through, given the sharp decrease in global demand since September. The volume of newsprint inventory in Asian ports has climbed from 2,000 tons in August to 140,000 tons in early December, according to a source with Vietnam Pulp and Paper Association. Everything depends on the state of global economies; should 2009 bring recession followed by recovery, the pulp and paper industry will see demand return to healthy levels into 1Q 2010.

However, if the near future brings a prolonged downturn, increased demand for pulp and paper products will take much longer to materialize. It is possible, given the latter scenario, that a fair portion of recently closed mills will not come back online for several years, if at all.

Keta Kosman Publisher Madison's Lumber Reporter Madison's Timber Preview www.madisonsreport.com 604 984-6838