

IN THE MATTER OF  
THE CANADIAN SECURITIES LEGISLATION OF  
BRITISH COLUMBIA, ALBERTA, SASKATCHEWAN, MANITOBA, ONTARIO,  
Quebec, NEW BRUNSWICK, NOVA SCOTIA,  
PRINCE EDWARD ISLAND AND NEWFOUNDLAND

AND

IN THE MATTER OF  
THE MUTUAL RELIANCE REVIEW SYSTEM  
FOR EXEMPTIVE RELIEF APPLICATIONS

AND

IN THE MATTER OF  
BOWATER INCORPORATED, BOWATER CANADA INC., BOWATER CANADIAN  
HOLDINGS INCORPORATED,  
AND ALLIANCE FOREST PRODUCTS INC.

MRRS DECISION DOCUMENT

WHEREAS the local securities regulatory authority or regulator (the "**Decision Makers**") in each of the provinces of Canada (the "Jurisdictions") has received an application from Bowater Incorporated ("**Bowater**") and Bowater Canada Inc. ("**Bowater Canada**") (collectively the "**Filer**"), on behalf of Bowater, Bowater Canada, Bowater Canadian Holdings Incorporated ("**Bowater Holdings**") and Alliance Forest Products Inc. ("**Alliance**"), for a decision under the securities legislation of the Jurisdictions (the "**Legislation**") that the requirement to be registered to trade in a security (the "**Registration Requirements**") and to file and obtain a receipt for a preliminary prospectus and a prospectus (the "**Prospectus Requirements**") contained in the Legislation shall not apply to certain trades in securities to be made in connection with the proposed statutory arrangement (the "**Arrangement**") whereby Bowater will effectively acquire all the issued and outstanding shares in the capital of Alliance pursuant to the terms of an arrangement agreement dated April 1, 2001 (the "**Arrangement Agreement**") between Bowater and Alliance, and involving Bowater Holdings and Bowater Canada.

**AND WHEREAS** pursuant to the Mutual Reliance Review System for Exemptive Relief Applications (the "**System**"), the Ontario Securities Commission is the principal regulator for this application;

**AND WHEREAS** the Filer has represented to the Decision Makers that:

1. Bowater is a corporation incorporated under the laws of the State of Delaware, with its head office in Greenville, South Carolina.

2. Bowater is currently subject to the reporting requirements of the *United States Securities Exchange Act of 1934*, as amended (the "**Exchange Act**"), and is not a "reporting issuer" or the equivalent concept in any of the Jurisdictions except in Québec.

3. The authorized capital of Bowater consists of 100,000,000 shares of common stock, par value US \$1.00 per share ("**Bowater Shares**") and 10,000,000 shares of Serial Preferred Stock, par value US\$1.00 per share, ("**Bowater Serial Preferred Stock**"), of which there were issued and outstanding at March 15, 2001, 50,378,846 Bowater Shares and one share of Bowater Serial Preferred Stock designated as special voting stock (the "**Bowater Special Voting Stock**"). The Bowater Shares are fully participating, voting shares.

4. Bowater is engaged in the manufacture, sale and distribution of newsprint, uncoated groundwood specialties, coated groundwood paper, market pulp, lumber and timber. Bowater operates facilities in the United States, Canada and South Korea and, as of December 31, 2000, managed or controlled cutting rights for approximately 16.0 million acres of timberlands to support these facilities. Bowater markets and distributes its products in North America, Latin America, Europe, Asia and the Pacific Rim. Bowater had over US\$2.5 billion in revenues in 2000 and over 6,400 employees.

5. The Bowater Shares are listed on the New York Stock Exchange ("**NYSE**"), United States regional exchanges and the London Stock Exchange.

6. Bowater Holdings is a subsidiary of Bowater and is incorporated under the laws of Nova Scotia.

7. Bowater Canada is a subsidiary of Bowater Holdings and is incorporated under the laws of Canada.

8. Bowater Canada is currently a "reporting issuer" or the equivalent in the provinces of British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, Québec, New Brunswick, Nova Scotia, Prince Edward Island and Newfoundland and has had this status in each Jurisdiction for at least 12 months.

9. In 1998, Bowater Canada issued shares that are exchangeable for Bowater Shares (the "**Exchangeable Shares**") and have economic and voting rights that are, as nearly as possible, equivalent to those of a Bowater Share. The Exchangeable Shares are listed on The Toronto Stock Exchange ("**TSE**").

10. According to the share registers of Bowater and Bowater Canada, taking into consideration the Bowater Shares issuable on exchange of the Exchangeable Shares, (collectively "**Bowater/Exchangeable Shares**"), and excluding Exchangeable Shares held by Bowater Holdings, at April 11, 2001, the aggregate numbers of Bowater/Exchangeable Shares registered in the names of holders resident in the various Jurisdictions and the aggregate numbers of such registered shareholders are as follows: British Columbia – 39 holders of 2,942 Bowater/Exchangeable Shares; Alberta – 15 holders of 990 Bowater/Exchangeable Shares; Saskatchewan – 2 holders of 94 Bowater/Exchangeable Shares; Manitoba – 4 holders of 735

Bowater/Exchangeable Shares; Ontario – 524 holders of 1,175,645 Bowater/Exchangeable Shares; Quebec – 104 holders of 4,297 Bowater/Exchangeable Shares; New Brunswick – 30 holders of 1,012 Bowater/Exchangeable Shares; Nova Scotia 13 holders of 689 Bowater/Exchangeable Shares; Prince Edward Island – 1 holder of 208 Bowater/Exchangeable Shares; and Newfoundland – 3 holders of 36 Bowater/Exchangeable Shares.

11. Alliance is a corporation incorporated under the laws of Canada with its head office in Montréal, Québec.

12. Alliance is currently a reporting issuer or the equivalent in the provinces of British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, Québec, New Brunswick, Nova Scotia, Prince Edward Island and Newfoundland.

13. Alliance is authorized to issue an unlimited number of Alliance Shares. As at April 30, 2001, there were outstanding 30,269,662 Alliance Shares and 2,739,772 Options (defined below), representing a maximum 33,009,434 Alliance Shares that could be issued and outstanding immediately prior to the Arrangement becoming effective, on a fully-diluted basis. Assuming that out-of-the-money Options are not exercised prior to the Arrangement being completed, the maximum Alliance Shares that could be issued and outstanding immediately prior to such time would be 32,315,171.

14. Alliance is an integrated forest products company specializing in timber harvesting and forest management, as well as in the production and sale of pulp, newsprint, uncoated groundwood specialty papers, pulp, lumber and related products. Alliance has operations in Canada and the United States.

15. The common shares in the capital of Alliance (the "**Alliance Shares**") are listed on the TSE and the NYSE.

16. According to the share register of Alliance, as at April 30, 2001, Alliance had 2 registered shareholders resident in Ontario, holding an aggregate of 29,125,012 Alliance Shares (96.22%); 40 registered shareholders resident in Québec holding an aggregate of 131,562 Alliance Shares (0.43%); 4 registered shareholders resident in New Brunswick holding an aggregate of 809 Alliance Shares (0.00%); and 2 registered shareholders resident in Newfoundland holding an aggregate of 300 Alliance Shares (0.00%).

17. As at April 30, 2001, 3,000,000 Alliance Shares had been reserved, in the aggregate, for issuance in respect of various employee stock incentive plans of which 2,739,772 Alliance Shares are under option ("**Options**"). Of those, 694,263 Options are out-of-the-money, based on a market price of \$26.00. All the in-the-money Options are held by holders with registered addresses in Québec, except for 348,882 Options which are held by US residents.

18. Other than the Options, there are no options, warrants, conversion privileges or other rights, agreements, arrangements or commitments obligating Alliance or any subsidiary to issue or sell any Alliance Shares or securities or any obligations of any kind convertible into Alliance Shares.

Under the Arrangement Agreement all Options shall be exercised or terminated and all stock purchase plans shall be terminated prior to the Arrangement becoming effective.

19. The Arrangement will be effected through the following steps:

(a) Alliance will apply, under Section 192 of the Canada Business Corporations Act (the "**CBCA**"), for an order (the "**Interim Order**") of the Superior Court of Quebec, District of Montreal (the "**Court**") approving the plan of arrangement (the "**Plan of Arrangement**");

(b) Alliance will hold an annual and special meeting (the "**Annual and Special Meeting**") of holders of Alliance Shares ("**Alliance Securityholders**") for the purpose of considering a resolution approving the Plan of Arrangement and the Arrangement;

(c) subject to obtaining the required approval from the Alliance Securityholders, Alliance will proceed with an application to the Court for a final order approving the Plan of Arrangement (the "**Final Order**");

(d) subject to obtaining the Final Order, Alliance will file with the Director appointed pursuant to Section 260 of the CBCA articles of arrangement ("**Articles of Arrangement**") and such other documents as may be required under the CBCA to give effect to the Plan of Arrangement; and

(e) upon the Articles of Arrangement becoming effective,

(i) each Alliance Share that the holder shall have elected to exchange under the Arrangement for \$13.00 (the "Cash Portion") and 0.166 Bowater Shares, or that is deemed to have been so elected (collectively, "Bowater Elected Shares") will be transferred by the holder to Bowater Holdings in exchange for the Cash Portion and 0.166 Bowater Shares;

(ii) Bowater Holdings will transfer to Bowater Canada all the Alliance Shares then owned by Bowater Holdings and, as consideration therefor, Bowater Canada will issue an equivalent number of common shares of Bowater Canada to Bowater Holdings;

(ii) each Alliance Share that the holder shall have elected to exchange under the Arrangement for the Cash Portion and 0.166 Exchangeable Shares ("**Exchangeable Share Elected Shares**") will be transferred by the holder thereof to Bowater Canada in exchange for the Cash Portion and 0.166 Exchangeable Shares; and

(iii) each outstanding Option will be terminated.

20. The management proxy circular (the "**Circular**") delivered to Alliance Securityholders in connection with the Annual and Special Meeting has been prepared in conformity with the provisions of the CBCA and the Interim Order and will contain prospectus level disclosure of the business and affairs of Bowater and a detailed description of the Arrangement and the Plan of Arrangement.

21. The Exchangeable Shares provide their holders (the "**Exchangeable Shareholders**") with a security of a Canadian issuer having economic and voting rights which are, as nearly as possible, equivalent to those of a Bowater Share. Exchangeable Shares issued on the Arrangement generally will be received by Canadian residents who so elect on a full or partial tax-deferred roll-over basis.

22. Under the terms of the Exchangeable Shares (the "**Exchangeable Share Provisions**") and certain rights to be granted in connection with the Arrangement, the Exchangeable Shareholders will be able to exchange the Exchangeable Shares at their option for Bowater Shares.

23. In order to ensure that the Exchangeable Shares retain the economic equivalence of Bowater Shares prior to their exchange, the Arrangement Agreement provides that, in accordance with the customary structure of such cross-border exchangeable share transactions, the terms of an existing support agreement (the "**Support Agreement**") among Bowater, Bowater Holdings and Bowater Canada will apply to the Arrangement. The Support Agreement provides, among other things, that (a) Bowater will not declare or pay any dividends on Bowater Shares unless Bowater Canada immediately thereafter declares or pays, as the case may be, an equivalent dividend on the Exchangeable Shares and Bowater Canada has resources available to pay equivalent dividends on the Exchangeable Shares, and (b) Bowater will ensure that Bowater Canada will be able to honour the redemption and retraction rights and entitlements upon liquidation pursuant to the terms of the Exchangeable Shares.

24. The Arrangement Agreement provides that the terms of an existing voting and exchange trust agreement (the "**Voting and Exchange Trust Agreement**") among Bowater, Bowater Holdings, Bowater Canada and Montreal Trust Company of Canada, as trustee (the "**Trustee**"), will apply to the Arrangement. The Voting and Exchange Trust Agreement, among other things:

(a) grants to the Trustee, for the benefit of the Exchangeable Shareholders, the right to require Bowater to indirectly exchange the Exchangeable Shares for Bowater Shares upon the occurrence of specified events (the "**Exchange Right**");  
and

(b) provides for the issue by Bowater to the Trustee of a Bowater Special Voting Share that has been issued to effectively provide the Exchangeable Shareholders with voting rights equivalent to those of Bowater Shares.

25. The Arrangement involves, or may involve, a number of trades (the "**Trades**") including: (i) the issuance of the Exchangeable Shares and Bowater Shares; and (ii) the creation and exercise

of all the various rights under the Plan of Arrangement, Voting and Exchange Trust Agreement, Support Agreement, and Exchangeable Share Provisions, including the Exchange Right and call rights upon the exchange of Exchangeable Shares for Bowater Shares on retraction and redemption of the Exchangeable Shares or liquidation of Bowater Canada, at which times Bowater Holdings may purchase Exchangeable Shares by delivering Bowater Shares to Exchangeable Shareholders.

26. There may be no registration or prospectus exemptions available under the Legislation for certain of the Trades.

27. Immediately on completion of the Arrangement, assuming all of the in-the-money Options have been previously exercised for Alliance Shares, the total number of Bowater/Exchangeable Shares held in any of the individual Jurisdictions, other than Ontario, will not exceed 10.0% of the total number of Bowater/Exchangeable Shares outstanding. The largest percentage holdings will be in Ontario, where residents could hold an aggregate of approximately 10.6% of the total number of Bowater/Exchangeable Shares outstanding. The total number of registered Bowater/Exchangeable Shareholders who are resident in Canada will not exceed 10% of the registered Bowater/Exchangeable Shareholders in any Jurisdiction other than Ontario, where they will represent 10.5%.

28. The TSE has conditionally approved the listing of the additional Exchangeable Shares issuable to Alliance Securityholders under the Plan of Arrangement.

29. Upon completion of the Plan of Arrangement and the Arrangement, neither Bowater nor Bowater Holdings will become a "reporting issuer" or the equivalent in any of the Jurisdictions, except that Bowater will continue as a "reporting issuer" in Québec.

30. All disclosure material furnished to holders of Bowater Shares in the United States will be concurrently furnished to Exchangeable Shareholders resident in the Jurisdictions.

31. Orders granted by the Ontario Securities Commission on June 26, 1998 and by the other Jurisdictions shortly before or after that date, have exempted Bowater Canada from certain continuous disclosure obligations provided that stated conditions are met, including that all documents filed by Bowater with the United States Securities and Exchange Commission under the *Exchange Act* (including, but not limited to, copies of any Form 10-K, Form 10-Q, Form 8-K and proxy statements prepared in connection with Bowater's annual meetings) are also filed via SEDAR in respect of Bowater Canada's reporting obligations (the "**1998 Exemption Order Requirements**").

**AND WHEREAS** under the System this MRRS Decision Document evidences the decision of each Decision Maker (collectively, the "**Decision**");

**AND WHEREAS** each Decision Maker is satisfied that the test contained in the Legislation that provides the Decision Maker with the jurisdiction to make the Decision has been met;

**THE DECISION** by the Decision Makers under the Legislation is that the Registration Requirement and the Prospectus Requirements shall not apply to the Trades provided that:

(i) the first trade of Exchangeable Shares acquired in reliance on this Decision shall be deemed to be a distribution or a primary distribution to the public under the Legislation unless: [NTD: the following is for a 72(5) trade, along with 45-501 s.2.8 and s.6.6]

(a) the trade is exempt from or not subject to the Prospectus Requirement under the Legislation of the Jurisdiction in which the trade takes place (the "**Applicable Jurisdiction**");

(b) at the time of the first trade, Bowater Canada is a reporting issuer or the equivalent under the Applicable Legislation;

(c) no unusual effort is made to prepare the market or to create a demand for the Exchangeable Shares;

(d) no extraordinary commission or consideration is paid to a person or company in respect of the trade;

(e) if the seller of the securities is an insider or officer of Bowater Canada, Bowater Holdings or Bowater, the seller has no reasonable grounds to believe that Bowater Canada is in default of any requirement of the Applicable Legislation;

(f) except in Qu<sub>1</sub>ant, such first trade is not from the holdings of a person or company or a combination of persons or companies holding a number of any securities of Bowater (with Exchangeable Shares counted as securities of Bowater) sufficient to affect materially the control of Bowater or that is more than 20% of the outstanding voting securities of Bowater, except where there is evidence showing that the holding of those securities does not affect materially the control of Bowater;

(g) the 1998 Exemption Order Requirements are complied with;  
and

(ii) the first trade of Bowater Shares, either acquired pursuant to the Arrangement or received upon the exchange of the Exchangeable Shares for Bowater Shares in accordance with the terms of the Exchangeable Shares, shall be deemed to be a distribution or a primary distribution to the public under the Legislation, unless:

(a) (i) the trade is exempt from or not subject to the Prospectus Requirements under the Legislation of the Applicable Jurisdiction;  
or

(ii) the trade is made through the facilities of the NYSE or other market or exchange outside Canada and in accordance with the rules and regulations applicable to that market or exchange; and

(b) the 1998 Exemption Order Requirements are complied with.

**DATED** this 4<sup>th</sup> day of July, 2001.

"Paul Moore"

"R.S. Paddon"

Headnote

Mutual Reliance Review System for Exemptive Relief Applications - relief granted, subject to certain conditions, from the prospectus and registration requirements in respect of trades in connection with a plan of arrangement.

Applicable Ontario Statutory Provisions

Securities Act, R.S.O. 1990, c.S.5, as am., ss. 25, 35(1)15.i, 53, 72(1)(i), 72(5), 74(1)

Applicable Ontario Rules

Rule 45-501 Exempt Distributions

Rule 72-501 - Prospectus Exemption for First Trade Over a Market outside Ontario