

AbitibiBowater Inc.

1155 METCALF STREET, SUITE 800
MONTREAL, A8, H3B 5H2
514-875-2160
[HTTP://WWW.ABITIBOWATER.COM](http://www.abitibowater.com)

10-Q

Quarterly report pursuant to sections 13 or 15(d)
Filed on 8/11/2009
Filed Period 6/30/2009



THOMSON REUTERS

Westlaw[®] BUSINESS

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

(Mark One)

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2009**
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM TO COMMISSION FILE NUMBER: 001-33776**

ABITIBIBOWATER INC.

(Exact name of registrant as specified in its charter)

Delaware

98-0526415

(State or other jurisdiction of incorporation or organization)

(I.R.S. employer identification number)

1155 Metcalfe Street, Suite 800; Montreal, Quebec; Canada H3B 5H2

(Address of principal executive offices) (Zip Code)

(514) 875-2160

(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to the filing requirements for at least the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§229.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of July 31, 2009, there were 54,698,206 shares of AbitibiBowater Inc. common stock outstanding.

ABITIBIBOWATER INC.
TABLE OF CONTENTS

	<u>Page Number</u>
PART I FINANCIAL INFORMATION	
Item 1. Financial Statements:	
Consolidated Statements of Operations for the Three and Six Months Ended June 30, 2009 and 2008	1
Consolidated Balance Sheets as of June 30, 2009 and December 31, 2008	2
Consolidated Statement of Changes in Deficit for the Six Months Ended June 30, 2009	3
Consolidated Statements of Comprehensive Loss for the Six Months Ended June 30, 2009 and 2008	3
Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2009 and 2008	4
Notes to Unaudited Interim Consolidated Financial Statements	5
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	32
Item 3. Quantitative and Qualitative Disclosures About Market Risk	59
Item 4. Controls and Procedures	60
PART II OTHER INFORMATION	
Item 1. Legal Proceedings	60
Item 1A. Risk Factors	61
Item 3. Defaults Upon Senior Securities	61
Item 6. Exhibits	62
SIGNATURES	64
EX-10.6	
EX-31.1	
EX-31.2	
EX-32.1	
EX-32.2	

[Table of Contents](#)

ABITIBIBOWATER INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(Under Creditor Protection Proceedings as of April 16 and 17, 2009 — Notes 1, 2 and 3)
(Unaudited, in millions except per share amounts)

	Three months ended June 30,		Six months ended June 30,	
	2009	2008	2009	2008
Sales	\$1,036	\$1,696	\$ 2,149	\$3,424
Costs and expenses:				
Cost of sales, excluding depreciation, amortization and cost of timber harvested	784	1,293	1,572	2,696
Depreciation, amortization and cost of timber harvested	148	187	314	378
Distribution costs	119	189	234	388
Selling and administrative expenses	31	90	111	187
Closure costs, impairment and other related charges	240	17	270	27
Net gain on disposition of assets	(1)	(17)	(53)	(40)
Operating loss	(285)	(63)	(299)	(212)
Interest expense (contractual interest of \$194 and \$386 in the three and six months ended June 30, 2009, respectively) (Note 11)	(143)	(203)	(335)	(332)
Other (expense) income, net	(30)	15	(31)	49
Loss before reorganization items and income taxes	(458)	(251)	(665)	(495)
Reorganization items, net (Note 3)	(89)	—	(99)	—
Loss before income taxes	(547)	(251)	(764)	(495)
Income tax benefit	34	5	41	2
Net loss including noncontrolling interests	(513)	(246)	(723)	(493)
Net loss (income) attributable to noncontrolling interests	3	(5)	(5)	(6)
Net loss attributable to AbitibiBowater Inc.	\$ (510)	\$ (251)	\$ (728)	\$ (499)
Net loss per share attributable to AbitibiBowater Inc. common shareholders:				
Basic and diluted	\$ (8.84)	\$ (4.36)	\$ (12.62)	\$ (8.68)
Weighted-average number of AbitibiBowater Inc. common shares outstanding:				
Basic and diluted	57.7	57.6	57.7	57.5

See accompanying notes to unaudited interim consolidated financial statements.

[Table of Contents](#)

ABITIBIBOWATER INC.
CONSOLIDATED BALANCE SHEETS
(Under Creditor Protection Proceedings as of April 16 and 17, 2009 — Notes 1, 2 and 3)
(Unaudited, in millions)

	June 30, 2009	December 31, 2008
Assets		
Current assets:		
Cash and cash equivalents	\$ 479	\$ 192
Accounts receivable, net	669	816
Inventories, net	664	713
Assets held for sale	409	953
Other current assets	112	93
Total current assets	2,333	2,767
Fixed assets, net	4,369	4,507
Goodwill	53	53
Amortizable intangible assets, net	464	285
Other assets	556	460
Total assets	\$ 7,775	\$ 8,072
Liabilities and deficit		
Liabilities not subject to compromise:		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 403	\$ 1,021
Debtor in possession financing	236	—
Short-term bank debt	672	677
Current portion of long-term debt	633	278
Liabilities associated with assets held for sale	60	409
Total current liabilities	2,004	2,385
Long-term debt, net of current portion	35	5,015
Pension and other postretirement projected benefit obligations	79	823
Other long-term liabilities	129	147
Deferred income taxes	165	42
Total liabilities not subject to compromise	2,412	8,412
Liabilities subject to compromise (Note 3)	6,424	—
Total liabilities	8,836	8,412
Commitments and contingencies		
Deficit:		
AbitibiBowater Inc. shareholders' deficit:		
Common stock, \$1 par value. 54.7 and 53.2 shares outstanding as of June 30, 2009 and December 31, 2008, respectively	55	53
Exchangeable shares, no par value. 3.0 and 4.4 shares outstanding as of June 30, 2009 and December 31, 2008, respectively	173	242
Additional paid-in capital	2,521	2,451
Deficit	(3,566)	(2,838)
Accumulated other comprehensive loss	(384)	(384)
Total AbitibiBowater Inc. shareholders' deficit	(1,201)	(476)
Noncontrolling interests	140	136
Total deficit	(1,061)	(340)
Total liabilities and deficit	\$ 7,775	\$ 8,072

See accompanying notes to unaudited interim consolidated financial statements.

[Table of Contents](#)

ABITIBIBOWATER INC.
CONSOLIDATED STATEMENT OF CHANGES IN DEFICIT
(Under Creditor Protection Proceedings as of April 16 and 17, 2009 — Notes 1, 2 and 3)
(Unaudited, in millions)

For the six months ended June 30, 2009

AbitibiBowater Inc. Shareholders' Deficit							
	Common Stock	Exchangeable Shares	Additional Paid-In Capital	Deficit	Accumulated Other Comprehensive Loss	Non- controlling Interests	Total Deficit
Balance as of December 31, 2008	\$ 53	\$ 242	\$ 2,451	\$(2,838)	\$ (384)	\$ 136	\$ (340)
Exchangeable shares retracted and common shares issued (1.4 shares)	2	(69)	67	—	—	—	—
Share-based compensation costs for equity-classified awards	—	—	3	—	—	—	3
Restricted stock units vested, net of shares forfeited for employee withholding taxes (0.1 shares)	—	—	—	—	—	—	—
Dividends paid to noncontrolling interests	—	—	—	—	—	(7)	(7)
Net (loss) income	—	—	—	(728)	—	5	(723)
Other comprehensive income, net of tax	—	—	—	—	—	6	6
Balance as of June 30, 2009	\$ 55	\$ 173	\$ 2,521	\$(3,566)	\$ (384)	\$ 140	\$(1,061)

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(Under Creditor Protection Proceedings as of April 16 and 17, 2009 — Notes 1, 2 and 3)
(Unaudited, in millions)

	Six Months Ended June 30,	
	2009	2008
Net loss including noncontrolling interests	\$(723)	\$(493)
Other comprehensive income (loss):		
Change in unamortized prior service costs, net of tax of \$0 in both 2009 and 2008	(4)	1
Change in unamortized actuarial gains and losses, net of tax of \$0 and \$1 in 2009 and 2008, respectively	(2)	(4)
Foreign currency translation	12	(14)
Change in unrecognized gain on hedged transactions, net of tax of \$3 in 2008	—	7
Other comprehensive income (loss), net of tax	6	(10)
Comprehensive loss including noncontrolling interests	(717)	(503)
Less: Comprehensive income attributable to noncontrolling interests:		
Net income	(5)	(6)
Foreign currency translation	(6)	—
Comprehensive income attributable to noncontrolling interests	(11)	(6)
Comprehensive loss attributable to AbitibiBowater Inc.	\$(728)	\$(509)

See accompanying notes to unaudited interim consolidated financial statements.

[Table of Contents](#)

ABITIBIBOWATER INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Under Creditor Protection Proceedings as of April 16 and 17, 2009 — Notes 1, 2 and 3)
(Unaudited, in millions)

	Six Months Ended June 30,	
	2009	2008
Cash flows from operating activities:		
Net loss including noncontrolling interests	\$(723)	\$(493)
Adjustments to reconcile net loss including noncontrolling interests to net cash provided by (used in) operating activities:		
Share-based compensation	3	7
Depreciation, amortization and cost of timber harvested	314	378
Closure costs, impairment and other related charges	270	6
Write-downs of mill stores inventory	12	—
Deferred income taxes	10	(9)
Net pension contributions	(188)	(110)
Net gain on disposition of assets	(53)	(40)
Gain on extinguishment of debt	—	(31)
Amortization of debt discount (premium), net	48	51
Loss (gain) on translation of foreign currency denominated debt	6	(15)
Non-cash reorganization items, net	46	—
Debtor in possession financing costs	29	—
Changes in working capital:		
Accounts receivable	148	(65)
Inventories	37	56
Other current assets	(25)	10
Accounts payable and accrued liabilities	78	(97)
Other, net	51	(2)
Net cash provided by (used in) operating activities	63	(354)
Cash flows from investing activities:		
Cash invested in fixed assets	(53)	(82)
Dispositions of assets	69	205
Decrease (increase) in deposit requirements for letters of credit, net	39	(70)
Cash received in monetization of derivative financial instruments	5	4
Net cash provided by investing activities	60	57
Cash flows from financing activities:		
Cash dividends to noncontrolling interests	(7)	(7)
Debtor in possession financing	236	—
Debtor in possession financing costs	(27)	—
Term loan financing	—	400
Term loan repayments	—	(53)
Short-term financing, net	(24)	(272)
Issuance of long-term debt	—	763
Payments of long-term debt	(5)	(297)
Payments of financing and bank credit facility fees	(9)	(85)
Payment of equity issuance fees on Convertible Notes	—	(6)
Net cash provided by financing activities	164	443
Net increase in cash and cash equivalents	287	146
Cash and cash equivalents:		
Beginning of period	192	195
End of period	\$ 479	\$ 341

See accompanying notes to unaudited interim consolidated financial statements.

ABITIBIBOWATER INC.
(Under Creditor Protection Proceedings as of April 16 and 17, 2009 — Notes 1, 2 and 3)
Notes to Unaudited Interim Consolidated Financial Statements

Note 1. Organization and Basis of Presentation

Nature of operations

AbitibiBowater Inc. (referred to with its subsidiaries and affiliates unless otherwise indicated, as “AbitibiBowater,” “we,” “our” or the “Company”) is incorporated in Delaware and is a leading producer of newsprint and coated and specialty papers. In addition, we produce and sell market pulp and wood products. We operate pulp and paper manufacturing facilities in Canada, the United States, the United Kingdom and South Korea, as well as sawmills, remanufacturing facilities and engineered wood facilities in Canada and the United States.

Financial statements

The consolidated balance sheets as of June 30, 2009 and December 31, 2008, the related statements of operations for the three and six months ended June 30, 2009 and 2008, the related statement of changes in deficit for the six months ended June 30, 2009 and the related statements of cash flows and comprehensive loss for the six months ended June 30, 2009 and 2008 are unaudited and have been prepared in accordance with the requirements of the United States Securities and Exchange Commission (“SEC”) for interim reporting. Under those rules, certain footnotes and other financial information that are normally required by United States generally accepted accounting principles (“U.S. GAAP”) may be condensed or omitted. In our opinion, all adjustments (consisting of normal recurring adjustments) necessary for fair presentation of the interim financial statements have been made. The results of the interim period ended June 30, 2009 are not necessarily indicative of the results to be expected for the full year. These financial statements should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2008, filed on April 30, 2009. Certain prior year amounts in the unaudited interim consolidated financial statements and the related notes have been reclassified to conform to the 2009 presentation. The reclassifications had no effect on net loss. As discussed in more detail below, effective January 1, 2009, we adopted Statement of Financial Accounting Standards (“SFAS”) No. 160, “Noncontrolling Interests in Consolidated Financial Statements – an amendment of ARB No. 51” (“SFAS 160”). This accounting pronouncement, which related to noncontrolling interests, required retrospective application.

We have evaluated subsequent events through August 11, 2009, which is the date that these financial statements were issued.

Creditor Protection Proceedings

On April 16, 2009, AbitibiBowater Inc. and certain of its U.S. and Canadian subsidiaries filed voluntary petitions (collectively, the “Chapter 11 Cases”) in the United States Bankruptcy Court for the District of Delaware (the “U.S. Court”) for relief under the provisions of Chapter 11 of the United States Bankruptcy Code, as amended (“Chapter 11”). In addition, on April 17, 2009, AbitibiBowater Inc. and certain of its Canadian subsidiaries sought creditor protection (the “CCAA Proceedings”) under the Companies’ Creditors Arrangement Act (the “CCAA”) with the Superior Court of Quebec in Canada (the “Canadian Court”). On April 17, 2009, Abitibi-Consolidated Inc. (“Abitibi”), a subsidiary of AbitibiBowater Inc., and its wholly-owned subsidiary, Abitibi-Consolidated Company of Canada (“ACCC”), each filed a voluntary petition for provisional and final relief (the “Chapter 15 Cases”) in the U.S. Court under the provisions of Chapter 15 of the United States Bankruptcy Code, as amended, to obtain recognition and enforcement in the United States of certain relief granted in the CCAA Proceedings. The Chapter 11 Cases, the Chapter 15 Cases and the CCAA Proceedings are collectively referred to as the “Creditor Protection Proceedings.” The U.S. Court and the Canadian Court are collectively referred to as the “Courts.” Our subsidiaries which own our Bridgewater, United Kingdom and Mokpo, South Korea operations were not included in the Creditor Protection Proceedings and will continue to operate outside of such proceedings. In addition, almost all of our less than wholly-owned subsidiaries were excluded from the Creditor Protection Proceedings and will continue to operate outside of such proceedings. For additional information, see Note 2, “Creditor Protection Proceedings.”

Basis of presentation and going concern issues

Our unaudited interim consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. However, the commencement of the Creditor Protection Proceedings, which are discussed further in Note 2, “Creditor Protection Proceedings,” raises substantial doubt about our ability to continue as a going concern.

ABITIBIBOWATER INC.
(Under Creditor Protection Proceedings as of April 16 and 17, 2009 — Notes 1, 2 and 3)
Notes to Unaudited Interim Consolidated Financial Statements

The Creditor Protection Proceedings and our debtor in possession financing arrangements, discussed in Note 11, "Liquidity and Debt," provide us with a period of time to stabilize our operations and financial condition and develop a comprehensive restructuring plan. Management believes that these actions make the going concern basis of presentation appropriate. However, it is not possible to predict the outcome of these proceedings and as such, the realization of assets and discharge of liabilities are each subject to significant uncertainty. Further, our ability to continue as a going concern is dependent on market conditions and our ability to successfully develop and implement a comprehensive restructuring plan and improve profitability, obtain alternative financing to replace our debtor in possession financing arrangements and restructure our obligations in a manner that allows us to obtain confirmation of a plan of reorganization by the Courts. However, it is not possible to predict whether the actions taken in our restructuring will result in improvements to our financial condition sufficient to allow us to continue as a going concern. If the going concern basis is not appropriate, adjustments will be necessary to the carrying amounts and/or classification of our assets and liabilities.

Further, a comprehensive restructuring plan could materially change the carrying amounts and classifications reported in our consolidated financial statements. The assets and liabilities in our unaudited interim consolidated financial statements do not reflect any adjustments related to such a comprehensive restructuring plan. In addition, our unaudited interim consolidated financial statements do not purport to reflect or provide for the consequences of the Creditor Protection Proceedings, such as: (i) the realizable value of our assets on a liquidation basis or their availability to satisfy liabilities, (ii) the amounts of pre-petition liabilities that may be allowed for claims or contingencies or the status and priority thereof, (iii) the effect of any changes in our deficit that may be made in our recapitalization or (iv) the effect on our Consolidated Statements of Operations regarding any changes made to our business resulting from our comprehensive restructuring plan.

Effective upon the commencement of the Creditor Protection Proceedings, we applied the American Institute of Certified Public Accountants' Statement of Position 90-7 ("SOP 90-7"), "Financial Reporting by Entities in Reorganization under the Bankruptcy Code," in preparing our consolidated financial statements and we will continue to apply SOP 90-7 while we operate under the Creditor Protection Proceedings. SOP 90-7 does not change the manner in which financial statements are prepared. However, it requires that the financial statements distinguish transactions and events that are directly associated with the reorganization from the ongoing operations of the business. Accordingly, certain expenses (including professional fees) and provisions for losses directly associated with the reorganization and restructuring of the business that have been realized or incurred in the Creditor Protection Proceedings have been recorded in "Reorganization items, net" in the Consolidated Statements of Operations. For additional information, see Note 3, "Creditor Protection Proceedings Related Disclosures – Reorganization items, net." The timing of recognition of Reorganization items, net is in accordance with U.S. GAAP related to accounting for severance and termination benefits and accounting for costs associated with exit and disposal activities (including costs incurred in a restructuring). Pre-petition obligations that may be impaired by the reorganization process have been classified in the Consolidated Balance Sheets as "Liabilities subject to compromise." These liabilities have been reported at the amounts expected to be allowed by the Courts, even if they may be settled for lesser amounts. For additional information, see Note 3, "Creditor Protection Proceedings Related Disclosures – Liabilities subject to compromise." Additionally, we have continued to record interest expense on certain of our pre-petition debt obligations. For additional information, see Note 11, "Liquidity and Debt."

Recently adopted accounting pronouncements

In December 2007, the Financial Accounting Standards Board ("FASB") issued SFAS 160, included in FASB Accounting Standards Codification™ ("ASC") 810, "Consolidation." See SFAS 168, as defined and discussed below, for additional information regarding the FASB's codification of U.S. GAAP accounting standards. SFAS 160 established new guidance governing the accounting for and reporting of noncontrolling interests ("NCIs") in partially owned consolidated subsidiaries and the loss of control of subsidiaries. Certain provisions of this standard indicate, among other things, that NCIs (previously referred to as minority interests) be treated as a separate component of equity, not as a liability (as was previously the case), that increases and decreases in the parent's ownership interest that leave control intact be treated as equity transactions, rather than as step acquisitions or dilution gains or losses, and that losses of a partially owned consolidated subsidiary be allocated to the NCI even when such allocation might result in a deficit balance. This standard also required changes to certain presentation and disclosure requirements. We adopted SFAS 160 effective as of January 1, 2009. The provisions of the standard were applied to all NCIs prospectively, except for the presentation and disclosure requirements, which were applied retrospectively to all periods presented. As a

ABITIBIBOWATER INC.
(Under Creditor Protection Proceedings as of April 16 and 17, 2009 — Notes 1, 2 and 3)
Notes to Unaudited Interim Consolidated Financial Statements

result, upon adoption, we retroactively reclassified the “Minority interests in subsidiaries” balance previously included as a separate liability caption in our Consolidated Balance Sheets to a new component of equity with respect to NCIs in consolidated subsidiaries. The adoption also impacted certain captions previously used in our Consolidated Statements of Operations, largely identifying net loss including NCI and net loss attributable to AbitibiBowater Inc. Additional disclosures required by this standard are also reflected in our Consolidated Statement of Changes in Deficit. The adoption of SFAS 160 did not have a material impact on our results of operations or financial position.

In September 2006, the FASB issued SFAS No. 157, “Fair Value Measurements” (“SFAS 157”), included in FASB ASC 820, “Fair Value Measurements and Disclosures.” SFAS 157 established a single definition of fair value and a framework for measuring fair value, set out a fair value hierarchy to be used to classify the source of information used in fair value measurements and required disclosures of assets and liabilities measured at fair value based on their level in the hierarchy. This statement applies under other accounting pronouncements that require or permit fair value measurements. As disclosed in the notes included in our consolidated financial statements for the year ended December 31, 2008, we adopted SFAS 157, as amended by associated FASB Staff Positions (“FSPs”), beginning January 1, 2008, on a prospective basis. One of these FSPs, FSP No. 157-2, deferred the effective date for one year relative to nonfinancial assets and liabilities that are not measured at fair value on a recurring basis, but are recognized or disclosed at fair value on a nonrecurring basis. This deferral applied to such items as nonfinancial assets and liabilities initially measured at fair value in a business combination (but not measured at fair value in subsequent periods) or nonfinancial long-lived asset groups measured at fair value for an impairment assessment. We adopted these remaining aspects of SFAS 157 prospectively beginning January 1, 2009 and the adoption did not have a material impact on our results of operations or financial position.

In December 2007, the FASB issued SFAS No. 141R, “Business Combinations” (“SFAS 141R”), included in FASB ASC 805, “Business Combinations,” which changed the accounting for business acquisitions. SFAS 141R, as amended by FSP No. FAS 141-1, “Accounting for Assets Acquired and Liabilities Assumed in a Business Combination that Arise from Contingencies,” issued in April 2009, requires the acquiring entity in a business combination to recognize all (and only) the assets acquired and liabilities assumed in the transaction and establishes the acquisition-date fair value as the measurement objective for all assets acquired and liabilities assumed in a business combination. Certain provisions of this standard impact the determination of acquisition-date fair value of consideration paid in a business combination (including contingent consideration), exclude transaction costs from acquisition accounting and change accounting practices for acquisition-related restructuring costs, in-process research and development, indemnification assets and tax benefits. For us, SFAS 141R, as amended, was effective for business combinations and adjustments to an acquired entity’s deferred tax asset and liability balances occurring after December 31, 2008. This standard had no immediate impact upon adoption by us, and will be applied to business combinations completed post-2008 and to applicable adjustments to acquired entity deferred tax items occurring after December 31, 2008.

On January 1, 2009, we adopted SFAS No. 161, “Disclosures about Derivative Instruments and Hedging Activities” (“SFAS 161”), included in FASB ASC 815, “Derivatives and Hedging.” This SFAS changes the disclosure requirements for derivative instruments and hedging activities, requiring us to provide enhanced disclosures about (a) how and why we use derivative instruments, (b) how derivative instruments and related hedged items are accounted for under SFAS No. 133, “Accounting for Derivative Instruments and Hedging Activities” (“SFAS 133”) and (c) how derivative instruments and related hedged items affect our financial position, financial performance and cash flows. The adoption of this accounting guidance did not have an impact on our results of operations or financial position.

On January 1, 2009, we adopted FSP No. FAS 142-3, “Determination of the Useful Life of Intangible Assets” (“FSP 142-3”), included in FASB ASC 350-30, “General Intangibles Other Than Goodwill.” This FSP amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, “Goodwill and Other Intangible Assets” (“SFAS 142”). This new guidance also provides additional disclosure requirements related to recognized intangible assets. The adoption of this accounting guidance did not impact our results of operations or financial position.

On January 1, 2009, we adopted Emerging Issues Task Force Issue (“EITF Issue”) No. 07-5, “Determining Whether an Instrument (or Embedded Feature) Is Indexed to an Entity’s Own Stock” (“EITF 07-5”), included in FASB ASC 815, “Derivatives and Hedging.” This EITF Issue addresses the determination of whether an instrument (or an embedded feature) is indexed to an entity’s own stock, which is the first part of the scope exception in paragraph 11(a) of SFAS 133. The adoption of this accounting guidance did not impact our results of operations or financial position.

ABITIBIBOWATER INC.
(Under Creditor Protection Proceedings as of April 16 and 17, 2009 — Notes 1, 2 and 3)
Notes to Unaudited Interim Consolidated Financial Statements

On January 1, 2009, we adopted EITF Issue No. 08-3, "Accounting by Lessees for Nonrefundable Maintenance Deposits" ("EITF 08-3"), included in FASB ASC 840, "Leases." This EITF Issue addresses the accounting for nonrefundable maintenance deposits paid by the lessee to the lessor. The adoption of this accounting guidance did not impact our results of operations or financial position.

On January 1, 2009, we adopted EITF Issue No. 08-6, "Equity Method Investment Accounting Considerations" ("EITF 08-6"), included in FASB ASC 323, "Investments – Equity Method and Joint Ventures." This EITF Issue clarifies the accounting for certain transactions and impairment considerations involving equity method investments. The adoption of this accounting guidance did not impact our results of operations or financial position.

On January 1, 2009, we adopted FSP No. EITF 99-20-1, "Amendments to the Impairment Guidance of EITF Issue No. 99-20" ("FSP 99-20-1"), included in FASB ASC 325-40, "Beneficial Interests in Securitized Financial Assets." This FSP amends the impairment guidance in EITF Issue No. 99-20, "Recognition of Interest Income and Impairment on Purchased Beneficial Interests and Beneficial Interests That Continue to Be Held by a Transferor in Securitized Financial Assets," to achieve consistency with the other-than-temporary impairment assessment and related disclosure requirements used in SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities," and other related guidance. The adoption of this accounting guidance did not impact our results of operations or financial position.

On June 30, 2009, we adopted FSP No. 107-1 and APB 28-1, "Interim Disclosures about Fair Value of Financial Instruments," included in FASB ASC 825, "Financial Instruments," which increases the frequency of fair value financial instruments disclosures to a quarterly instead of an annual basis. The adoption of this accounting guidance increased our quarterly disclosures relating to the fair value of our financial instruments in Note 14, "Derivative Financial Instruments and Other Embedded Derivatives."

On June 30, 2009, we adopted FSP No. 157-4, "Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly," included in FASB ASC 820, "Fair Value Measurements and Disclosures," which provides guidelines for a broad interpretation of when to apply market-based fair value measurements. The FSP reaffirms management's need to use judgment to determine when a market that was once active has become inactive and in determining fair values in markets that are no longer active. The adoption of this accounting guidance did not impact our results of operations or financial position.

On June 30, 2009, we adopted SFAS No. 165, "Subsequent Events" ("SFAS 165"), included in FASB ASC 855, "Subsequent Events," which establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. It requires the disclosure of the date through which an entity has evaluated subsequent events, the basis for that date and whether that date represents the date the financial statements were issued or were available to be issued. The adoption of this accounting guidance required that we indicate the date through which we considered subsequent events and did not result in significant changes in subsequent events that we report or recognize and therefore, did not impact our results of operations or financial position (see Note 18, "Subsequent Events").

New accounting pronouncements

In April 2008, the FASB issued FSP No. SOP 90-7-1, "An Amendment of AICPA Statement of Position 90-7" ("FSP SOP 90-7-1"), included in FASB ASC 852, "Reorganizations." FSP SOP 90-7-1 nullifies certain requirements regarding changes in accounting principles that will be applicable to the financial statements of an entity emerging from bankruptcy. Any changes in accounting principles required within the twelve months following the implementation of fresh start accounting by such an entity are no longer required to be adopted at the time fresh start accounting is implemented. Entities emerging from bankruptcy that implement fresh start accounting should only follow accounting standards in effect at the date fresh start accounting is implemented, including any standards eligible for early adoption. We will assess the impact of the application of this standard when and if fresh start accounting is required upon resolution of our Creditor Protection Proceedings.

In December 2008, the FASB issued FSP No. FAS 132(R)-1, "Employers' Disclosures About Postretirement Benefit Plan Assets" ("FSP 132R-1"), included in FASB ASC 715-20, "Defined Benefit Plans – General." This FSP relates to disclosures only and provides guidance on an employer's disclosures about plan assets of a defined benefit pension or

ABITIBIBOWATER INC.
(Under Creditor Protection Proceedings as of April 16 and 17, 2009 — Notes 1, 2 and 3)
Notes to Unaudited Interim Consolidated Financial Statements

other postretirement plan and makes employers provide more transparency about the assets held by retirement plans and the concentrations of risk in those plans. FSP 132R-1 becomes effective for us on January 1, 2010.

In June 2009, the FASB issued SFAS No. 166, "Accounting for Transfers of Financial Assets" ("SFAS 166"), included in FASB ASC 860, "Transfers and Servicing," which revises SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." SFAS 166 will require entities to provide additional information about transfers of financial assets, including securitization transactions, and where companies have continuing exposure to the risks related to transferred financial assets. SFAS 166 eliminates the concept of a qualifying special-purpose entity, changes the requirements for derecognizing financial assets and requires additional disclosures. SFAS 166 becomes effective for us on January 1, 2010, and will be applied prospectively. We are currently assessing the impact, if any, that the adoption of SFAS 166 will have on our results of operations or financial position.

In June 2009, the FASB issued SFAS No. 167, "Amendments to FASB Interpretation No. 46(R)" ("SFAS 167"), included in FASB ASC 810, "Consolidation," which is a revision to FASB Interpretation No. 46(R), "Consolidation of Variable Interest Entities" ("FIN 46(R)"). SFAS 167 changes how a company determines when an entity that is insufficiently capitalized or is not controlled through voting (or similar rights) should be consolidated.

Qualified special-purpose entities ("QSPEs") will no longer be excepted from the FIN 46(R) guidance. The determination of whether a company is required to consolidate an entity is based on, among other things, an entity's purpose and design and a company's ability to direct the activities of the entity that most significantly impact the entity's economic performance. SFAS 167 becomes effective for us on January 1, 2010. We are currently assessing the impact that the adoption of SFAS 167 will have on our results of operations or financial position, since we have several QSPEs that are not currently consolidated.

In June 2009, the FASB issued SFAS No. 168, "The FASB Accounting Standards Codification™ and the Hierarchy of Generally Accepted Accounting Principles – a replacement of FASB Statement No. 162" ("SFAS 168"), included in FASB ASC 105, "Generally Accepted Accounting Principles." SFAS 168 defines the new hierarchy for U.S. GAAP and explains how the FASB will use its ASC as the sole source for all authoritative guidance and replaces SFAS No. 162, "The Hierarchy of Generally Accepted Accounting Principles," which was issued in May 2008. SFAS 168 becomes effective for us beginning with our unaudited interim financial statements for the quarter ended September 30, 2009. Since SFAS 168 relates to disclosures only, the adoption of this accounting guidance will not impact our results of operations or financial position. However, because the codification completely replaces existing standards, it will affect the way U.S. GAAP is referenced within the consolidated financial statements and accounting policies.

In June 2009, the FASB issued Accounting Standards Update ("ASU") No. 2009-01, "Topic 105 – Generally Accepted Accounting Principles," which incorporated text changes from SFAS 168 into the ASC.

In June 2009, the FASB issued ASU No. 2009-02, "Omnibus Update – Amendments to Various Topics for Technical Correction," which amends various topics in the ASC for technical corrections.

Note 2. Creditor Protection Proceedings

Overview

As discussed in Note 1, "Organization and Basis of Presentation – Creditor Protection Proceedings," AbitibiBowater Inc. and certain of its subsidiaries commenced Creditor Protection Proceedings on April 16 and 17, 2009. We initiated the Creditor Protection Proceedings in order to enable us to pursue reorganization efforts under the protection of Chapter 11 and the CCAA. The Creditor Protection Proceedings will allow us to reassess our business strategy with a view to developing a comprehensive financial and business restructuring plan. We remain in possession of our assets and properties and are continuing to operate our business and manage our properties as "debtors in possession" under the jurisdiction of the Courts and in accordance with the applicable provisions of Chapter 11 and the CCAA. In general, we and our subsidiaries are authorized to continue to operate as ongoing businesses, but may not engage in transactions outside the ordinary course of business without the approval of the relevant court(s).

On July 2, 2009, we appointed a Chief Restructuring Officer (the "CRO"), who will work closely with our executive management team. The appointment of a CRO was a requirement under our Bowater DIP Agreement (as defined and discussed in Note 11, "Liquidity and Debt"). The CRO's primary responsibilities are to support our efforts in the restructuring process stemming from our Creditor Protection Proceedings.

The commencement of the Creditor Protection Proceedings constituted an event of default under substantially all of our pre-petition debt obligations, and those debt obligations became automatically and immediately due and payable by their terms, although any action to enforce such payment obligations is stayed as a result of the commencement of the Creditor Protection Proceedings. Due to the commencement of the Creditor Protection Proceedings, unsecured

ABITIBIBOWATER INC.
(Under Creditor Protection Proceedings as of April 16 and 17, 2009 — Notes 1, 2 and 3)
Notes to Unaudited Interim Consolidated Financial Statements

pre-petition debt obligations of \$4,893 million are included in “Liabilities subject to compromise” in our Consolidated Balance Sheets as of June 30, 2009. Secured pre-petition debt obligations of \$1,085 million are included in current liabilities in our Consolidated Balance Sheets as of June 30, 2009. See Note 3, “Creditor Protection Proceedings Related Disclosures – Liabilities subject to compromise.”

Debtor in possession financing arrangements

In the Creditor Protection Proceedings, we have: (i) sought and obtained final approval by the Courts to enter into a debtor in possession financial facility for the benefit of AbitibiBowater Inc. and certain of our Bowater Incorporated (“Bowater”), a wholly-owned subsidiary of AbitibiBowater Inc., subsidiaries, (ii) sought and obtained final approval by the Canadian Court to enter into a debtor in possession financial facility for the benefit of Abitibi and Donohue Corp. (“Donohue”), an indirect, wholly-owned subsidiary of AbitibiBowater Inc., which was a wholly-owned subsidiary of ACCC prior to April 1, 2008, and (iii) obtained final approval by the Courts to amend and restate, in its entirety, the Abitibi and Donohue existing accounts receivable securitization program. Each of these financing arrangements is discussed in further detail in Note 11, “Liquidity and Debt.”

Reorganization process

General

The Courts have issued a variety of orders on either a final or interim basis intended to support our business continuity throughout the restructuring process. These orders include, among other things, authorization to:

- (i) make payments relating to certain employees’ pre-petition wages, salaries and benefit programs in the ordinary course;
- (ii) ensure the continuation of existing cash management systems;
- (iii) honor certain ongoing customer obligations;
- (iv) enter into the Bowater DIP Agreement and the Abitibi DIP Agreement (both defined and discussed in Note 11, “Liquidity and Debt”) and
- (v) enter into the Abitibi and Donohue second amended and restated accounts receivable securitization program on June 16, 2009 (as discussed in Note 11, “Liquidity and Debt”).

We have retained legal and financial professionals to advise us on the Creditor Protection Proceedings and may, from time to time, seek court approval for the retention of additional professionals.

On April 28, 2009, the United States Trustee for the District of Delaware appointed an official committee of unsecured creditors (the “Creditors’ Committee”) in the Chapter 11 Cases pursuant to the requirements of Chapter 11. The Creditors’ Committee and its legal representatives have a right to be heard on all matters that come before the U.S. Court with respect to us.

Under the terms of a Canadian Court order, Ernst & Young Inc. serves as the court-appointed monitor under the CCAA Proceedings (the “Monitor”) and is assisting us in formulating our restructuring plan.

Stay of claims

Subject to certain exceptions under Chapter 11 and the CCAA, our filings (and in Canada, the Initial Order, as defined below) automatically enjoined, or stayed, the continuation of any judicial or administrative proceedings or other actions against us or our property to recover, collect or secure a claim arising prior to the filing of the Creditor Protection Proceedings. Thus, for example, most creditor actions to obtain possession of property from us, or to create, perfect or enforce any lien against our property, or to collect on monies owed or otherwise exercise rights or remedies with respect to a pre-petition claim, are enjoined unless and until the Courts lift such stay.

We began notifying all known current or potential creditors regarding these filings shortly after the commencement of the Creditor Protection Proceedings. We have successfully applied on several occasions to the Canadian Court in order to enforce the stay of proceedings against creditors acting in breach of the stay.

ABITIBIBOWATER INC.
(Under Creditor Protection Proceedings as of April 16 and 17, 2009 — Notes 1, 2 and 3)
Notes to Unaudited Interim Consolidated Financial Statements

Rejection and repudiation of contractual obligations

Under Section 365 and other relevant sections of Chapter 11, we may assume, assume and assign, or reject certain executory contracts and unexpired leases, including leases of real property and equipment, subject to the approval of the U.S. Court and certain other conditions. Similarly, pursuant to the initial order issued by the Canadian Court on April 17, 2009 (the “Initial Order”), we have the right to, among other things, repudiate agreements, contracts or arrangements of any nature whatsoever, whether oral or written, subject to the approval of the Monitor or further order of the Canadian Court. Any description of an agreement, contract, unexpired lease or arrangement in these Notes to our Unaudited Interim Consolidated Financial Statements must be read in light of these overriding rights pursuant to Section 365 of Chapter 11 and to the CCAA, as applicable.

Since initiating the Creditor Protection Proceedings, we have engaged and will continue to engage in a review of our various agreements in light of the overriding rights described above. The following highlights some of the more important steps relating to the rejection and repudiation of contractual obligations we have taken to date:

- On May 8, 2009, we obtained an order from the Canadian Court specifying that the payment of special contributions for past service to Canadian pension plans maintained by Abitibi and Bowater could be suspended. Abitibi and Bowater continue to make their respective pension plan contributions for current service costs. Special contributions for past service that were suspended amounted to approximately \$102 million for Abitibi and approximately \$57 million for Bowater on an annual basis.
- We repudiated certain supply contracts between Abitibi and SFK Pâte S.E.N.C. and on May 21, 2009, the Canadian Court rejected a motion by SFK Pâte S.E.N.C. to overturn that repudiation.
- Bowater Canadian Forest Products Inc. (“BCFPI”), a subsidiary of Bowater, Abitibi and ACCC repudiated certain contracts with Boralex Dolbeau Inc. and on July 28, 2009, we obtained a motion *De Bene Esse* to confirm our repudiation of those contracts in light of injunctions issued by the Canadian Court and the Court of Appeal of Quebec on January 22, 2008 and October 8, 2008, respectively, initially preventing such actions. As a result of our repudiation of these contracts, our Dolbeau, Quebec facility has been effectively idled since July 7, 2009.

For additional information, see Note 3, “Creditor Protection Proceedings Related Disclosures — Reorganization items, net and — Liabilities subject to compromise.”

Plan of reorganization

In order to successfully exit from Chapter 11 and the CCAA, we will be required to propose and obtain approval from affected creditors and confirmation by the Courts of a plan of reorganization that satisfies the requirements of Chapter 11 and the CCAA. An approved plan of reorganization would resolve our pre-petition obligations, set forth the revised capital structure of the newly reorganized entity and provide for corporate governance following our exit from Chapter 11 and the CCAA.

In the United States, Chapter 11 provides that we have the exclusive right for 120 days after the filing of the Creditor Protection Proceedings to file a plan of reorganization with the U.S. Court. On August 4, 2009, the U.S. Court entered an order extending our exclusive right to file a plan of reorganization and solicit votes thereon until December 14, 2009 and February 10, 2010, respectively. We will likely file additional motions to request extensions of this exclusivity period, which we believe are routinely granted up to 18 months in cases of this size and complexity. If our exclusivity period were to lapse, any party in interest would be able to file a plan of reorganization. In addition to being voted on by holders of impaired claims and equity interests, a plan of reorganization must satisfy certain requirements of Chapter 11 and must be approved or confirmed by the U.S. Court in order to become effective. Similarly, in Canada, the Initial Order provides for a general stay of proceedings for an initial period of 30 days. On May 14, 2009, we filed a motion to request an extension of this stay of proceedings and obtained an extension until September 4, 2009. We will likely file additional motions to request further extensions of this stay of proceedings, which we believe are routinely granted for up to 18 months in cases of this size and complexity. The Initial Order provides that a plan of reorganization under the CCAA shall be filed with the Canadian Court before the termination of the stay of proceedings or such other time or times as may be allowed by the Canadian Court. Third parties could thereafter seek permission to file a plan of reorganization. In addition to being voted on by the required majority of holders of impaired claims and equity interests, a plan of reorganization must satisfy certain requirements of the CCAA and must be approved or confirmed by the Canadian Court in order to become effective.

[Table of Contents](#)

ABITIBIBOWATER INC.
(Under Creditor Protection Proceedings as of April 16 and 17, 2009 — Notes 1, 2 and 3)
Notes to Unaudited Interim Consolidated Financial Statements

The timing of filing a plan of reorganization by us will depend on the timing and outcome of numerous other ongoing matters in the Creditor Protection Proceedings. There can be no assurance that a plan of reorganization will be supported and approved by affected creditors and confirmed by the Courts or that any such plan will be implemented successfully.

Under the priority scheme established by Chapter 11 and the CCAA, unless creditors agree otherwise, pre-petition liabilities and post-petition liabilities must be satisfied in full before stockholders are entitled to receive any distribution or retain any property under a plan of reorganization. The ultimate recovery to creditors and/or stockholders, if any, will not be determined until confirmation of a plan or plans of reorganization. No assurance can be given as to what values, if any, will be ascribed to each of these constituencies or what types or amounts of distributions, if any, they will receive. A plan of reorganization could result in holders of our liabilities and/or securities, including our common stock, receiving no distribution on account of their interests and cancellation of their holdings. A plan of reorganization could also result in holders of our common stock being materially diluted.

Listing and trading of our common stock and the exchangeable shares of AbitibiBowater Canada Inc.

Due to the commencement of the Creditor Protection Proceedings, the New York Stock Exchange suspended the trading of our common stock at the opening of business on April 16, 2009 and delisted our common stock at the opening of business on May 21, 2009. Our common stock is currently traded in the over-the-counter market and is quoted on the Pink Sheets Quotation Service (“Pink Sheets”) and on the OTC Bulletin Board under the symbol “ABWTQ.” In addition, the Toronto Stock Exchange suspended the trading of our common stock and the exchangeable shares of AbitibiBowater Canada Inc. at the opening of business on April 16, 2009 and delisted our common stock and the exchangeable shares of AbitibiBowater Canada Inc. at the close of market on May 15, 2009.

Note 3. Creditor Protection Proceedings Related Disclosures

Reorganization items, net

SOP 90-7 requires separate disclosure of reorganization items such as realized gains and losses from the settlement of pre-petition liabilities, provisions for losses resulting from the reorganization and restructuring of the business, as well as professional fees and other expenses directly related to the reorganization process under the Creditor Protection Proceedings. Also included in Reorganization items, net is interest income, which was less than \$1 million for both the three and six months ended June 30, 2009.

Reorganization items, net for the three and six months ended June 30, 2009 were comprised of the following:

<i>(Unaudited, in millions)</i>	Three Months Ended June 30, 2009	Six Months Ended June 30, 2009
Professional fees ⁽¹⁾	\$ 45	\$ 55
Debtor in possession financing costs ⁽²⁾	29	29
Provision for rejected executory contracts and leases ⁽³⁾	15	15
	\$ 89	\$ 99

(1) Professional fees directly related to the Creditor Protection Proceedings, ongoing monitoring and establishment of a reorganization plan, including legal, accounting and other professional fees.

(2) Debtor in possession financing costs incurred during the second quarter of 2009 in connection with entering into the Bowater DIP Agreement and Abitibi DIP Agreement (both defined in Note 11, “Liquidity and Debt”) and the Abitibi and Donohue second amended and restated accounts receivable securitization program.

(3) Provision for rejected executory contracts and leases for estimated claims primarily related to the repudiation of various supply contracts and equipment leases. See Note 2, “Creditor Protection Proceedings – Reorganization process,” for additional information.

We paid \$42 million and \$51 million relating to reorganization items in the three and six months ended June 30, 2009, respectively.

[Table of Contents](#)

ABITIBIBOWATER INC.
(Under Creditor Protection Proceedings as of April 16 and 17, 2009 — Notes 1, 2 and 3)
Notes to Unaudited Interim Consolidated Financial Statements

In the six months ended June 30, 2009, we classified \$10 million of costs incurred in the first quarter of 2009 related to our Creditor Protection Proceedings in “Reorganization items, net,” which prior to the application of SOP 90-7, were classified within “Selling and administrative expenses” in the Consolidated Statements of Operations.

Liabilities subject to compromise

Liabilities subject to compromise primarily represent unsecured pre-petition obligations of the entities subject to the Creditor Protection Proceedings (the “Debtors”) that will be accounted for and may be subject to impairment under a plan of reorganization. Generally, actions to enforce or otherwise effect payment of pre-petition liabilities are stayed. SOP 90-7 requires pre-petition liabilities that may be subject to compromise be reported at the amounts expected to be allowed, even if they may be settled for lesser amounts. These liabilities represent the amounts expected to be allowed on known or potential claims to be resolved through the Creditor Protection Proceedings, and remain subject to future potentially material adjustments arising from negotiated settlements, actions of the Courts, further developments with respect to disputed claims, rejection of executory contracts and unexpired leases and the determination of the secured status of certain claims, as well as the value of collateral securing the claims, proofs of claim or other events. The Debtors have rejected certain pre-petition executory contracts and unexpired leases with respect to the Debtors’ operations with the approval of the Courts and may reject additional ones in the future. Damages resulting from rejection of executory contracts and unexpired leases are generally treated as general unsecured claims and are also classified as liabilities subject to compromise.

Holders of pre-petition claims are required to file proofs of claims by the “bar date,” which will be established later with approval of the Courts. A bar date is the date by which certain claims against us must be filed if the claimants wish to receive any distribution in the Creditor Protection Proceedings. Once a bar date is established, creditors will be notified of the bar date and the requirement to file a proof of claim with the Courts. Differences between liability amounts estimated by us and claims filed by creditors will be investigated and, if necessary, the Courts will make a final determination of the allowable claim. The determination of how liabilities will ultimately be treated cannot be made until the Courts approve a plan of reorganization. Accordingly, the ultimate amount or treatment of such liabilities is not determinable at this time.

Liabilities subject to compromise of our Debtors as of June 30, 2009 were comprised of the following:

<i>(Unaudited, in millions)</i>	June 30, 2009
Unsecured pre-petition debt (Note 11)	\$4,893
Accrued interest on unsecured pre-petition debt	205
Accounts payable and accrued liabilities, excluding accrued interest on unsecured pre-petition debt	471
Pension and other postretirement projected benefit obligations	807
Rejected leases and contracts	15
Other liabilities	33
	\$6,424

We have not included the Debtors’ secured pre-petition debt obligations in liabilities subject to compromise since we believe that the value of the underlying collateral of these obligations significantly exceeds the amount of the expected claims by the secured creditors. As discussed in Note 2, “Creditor Protection Proceedings – Reorganization process,” the Courts have granted approval for our Debtors to, among other things, make payments relating to certain employee’s pre-petition wages, salaries and benefit programs in the ordinary course, ensure the continuation of existing cash management systems, honor certain ongoing customer obligations, enter into our debtor in possession financing arrangements, retain legal and financial professionals and other business-related payments necessary to maintain the operation of our business. Liabilities subject to compromise do not include: (i) liabilities held by Non-Debtors; (ii) liabilities incurred after the commencement of the Creditor Protection Proceedings and (iii) pre-petition liabilities that the Debtors expect to pay in full, even though certain of these amounts may not be paid until a plan of reorganization is approved.

[Table of Contents](#)

ABITIBIBOWATER INC.
(Under Creditor Protection Proceedings as of April 16 and 17, 2009 — Notes 1, 2 and 3)
Notes to Unaudited Interim Consolidated Financial Statements

The classification of liabilities as “not subject to compromise” versus “subject to compromise” is based on currently available information and analysis. As the Creditor Protection Proceedings continue and additional information and analysis is completed or as the Courts rule on relevant matters, the classification of amounts between these two categories may change. The amount of any such changes could be significant. We classify liabilities subject to compromise as a long-term liability because management does not believe we will use existing current assets or create additional current liabilities to fund these obligations.

Condensed combined financial statements of Debtors

The following unaudited condensed combined financial statements represent the financial statements of the Debtors. Our subsidiaries that are not subject to the Creditor Protection Proceedings (“Non-Debtors”) are not consolidated in these condensed combined financial statements and, as such, their net loss is included in “Equity in net loss of Non-Debtors, net of tax” in the condensed combined statement of operations and their net assets are included as “Investments in and advances to Non-Debtors” in the condensed combined balance sheet. The Debtors’ condensed combined financial statements have been prepared in accordance with the guidance of SOP 90-7.

Intercompany transactions between the Debtors have been eliminated in these condensed combined financial statements. Intercompany transactions between the Debtors and Non-Debtors have not been eliminated in these condensed combined financial statements.

ABITIBIBOWATER INC.
CONDENSED COMBINED STATEMENT OF OPERATIONS — DEBTORS
(Unaudited, in millions)

	Six Months Ended June 30, 2009
Sales	\$ 1,651
Costs and expenses:	
Cost of sales, excluding depreciation, amortization and cost of timber harvested	1,151
Depreciation, amortization and cost of timber harvested	264
Distribution costs	205
Selling and administrative expenses	101
Closure costs, impairment and other related charges	92
Net gain on disposition of assets	(53)
Operating loss	(109)
Interest expense (contractual interest of \$377)	(326)
Other expense, net	(47)
Loss before reorganization items, income taxes and equity in net loss of Non-Debtors	(482)
Reorganization items, net	(99)
Loss before income taxes and equity in net loss of Non-Debtors	(581)
Income tax provision	(10)
Loss before equity in net loss of Non-Debtors	(591)
Equity in net loss of Non-Debtors, net of tax	(137)
Net loss attributable to AbitibiBowater Inc.	\$ (728)

[Table of Contents](#)

ABITIBIBOWATER INC.
(Under Creditor Protection Proceedings as of April 16 and 17, 2009 — Notes 1, 2 and 3)
Notes to Unaudited Interim Consolidated Financial Statements

ABITIBIBOWATER INC.
CONDENSED COMBINED BALANCE SHEET — DEBTORS
(Unaudited, in millions)

	June 30, 2009
Assets	
Current assets:	
Cash and cash equivalents	\$ 414
Accounts receivable, net	391
Accounts receivable from Non-Debtors	185
Inventories, net	572
Other current assets	109
Total current assets	1,671
Fixed assets, net	3,894
Goodwill	53
Amortizable intangible assets, net	186
Investments in and advances to Non-Debtors	715
Other assets	535
Total assets	\$ 7,054
Liabilities and deficit	
Liabilities not subject to compromise:	
Current liabilities:	
Accounts payable and accrued liabilities	\$ 361
Accounts payable to Non-Debtors	38
Debtor in possession financing	236
Short-term bank debt	672
Current portion of long-term debt	413
Total current liabilities	1,720
Long-term liabilities	111
Total liabilities not subject to compromise	1,831
Liabilities subject to compromise	6,424
Total liabilities	8,255
Commitments and contingencies	
Shareholders' deficit	(1,201)
Total liabilities and deficit	\$ 7,054

[Table of Contents](#)

ABITIBIBOWATER INC.
(Under Creditor Protection Proceedings as of April 16 and 17, 2009 — Notes 1, 2 and 3)
Notes to Unaudited Interim Consolidated Financial Statements

ABITIBIBOWATER INC.
CONDENSED COMBINED STATEMENT OF CASH FLOWS — DEBTORS
(Unaudited, in millions)

	Six Months Ended June 30, 2009
Cash flows from operating activities:	
Net cash provided by operating activities	\$ 21
Cash flows from investing activities:	
Cash invested in fixed assets	(32)
Dispositions of assets	69
Decrease in deposit requirements for letters of credit, net	39
Advances to Non-Debtors, net	(2)
Cash received in monetization of derivative financial instruments	5
Net cash provided by investing activities	79
Cash flows from financing activities:	
Cash dividends to noncontrolling interests	(7)
Debtor in possession financing	236
Debtor in possession financing costs	(27)
Short-term financing, net	(24)
Payments of long-term debt	(3)
Payments of financing and bank credit facility fees	(9)
Net cash provided by financing activities	166
Net increase in cash and cash equivalents	266
Cash and cash equivalents:	
Beginning of period	148
End of period	\$ 414

ABITIBIBOWATER INC.
(Under Creditor Protection Proceedings as of April 16 and 17, 2009 — Notes 1, 2 and 3)
Notes to Unaudited Interim Consolidated Financial Statements

Note 4. Closure Costs, Impairment and Other Related Charges

During the three and six months ended June 30, 2009, we recorded closure costs, impairment and other related charges of \$240 million and \$270 million, respectively, primarily for long-lived asset impairment charges related to: (i) assets held for sale for our interest in Manicouagan Power Company and (ii) certain of our newsprint mill assets, which are both discussed below. In addition, we recorded closure costs, impairment and other related charges related to the permanent closures of our Westover, Alabama sawmill and Goodwater, Alabama planer mill operations.

During the three and six months ended June 30, 2009, we recorded long-lived asset impairment charges of \$148 million and \$178 million, respectively, related to assets held for sale for our interest in Manicouagan Power Company. During the first quarter of 2009, the estimated long-lived asset impairment charge was calculated based on the assumption that this transaction would be structured as a stock sale, which, at the time, was the transaction structure that was approved by our Board of Directors. However, second quarter 2009 negotiations with the potential buyer indicate that the sale will likely be structured as an asset sale. Accordingly, during the second quarter of 2009, we recorded an additional long-lived asset impairment charge to reflect the current terms of the proposed sale. See Note 9, "Assets Held for Sale, Liabilities Associated with Assets Held for Sale and Net Gain on Disposition of Assets," for additional information.

During the fourth quarter of 2008, we announced, among other things, the indefinite idling of certain of our newsprint mill assets. At that time, we expected to recover the carrying value of these newsprint mill assets, and accordingly, no impairment was recorded during the fourth quarter of 2008. During the second quarter of 2009, upon review of the recoverability of these newsprint mill assets, we recorded a long-lived asset impairment charge of \$85 million. The fair value of these assets of approximately \$6 million was determined based on their estimated sale or salvage values.

During the three and six months ended June 30, 2008, we recorded closure costs, impairment and other related charges of \$17 million and \$27 million, respectively, primarily for asset impairment charges and noncancelable contracts at our Dalhousie and Donnacona operations, asset impairment charges at our Baie-Comeau recycling facility and severance costs for workforce reductions across numerous facilities.

In the fourth quarter of 2008, we recorded a non-cash goodwill impairment charge of \$610 million for our newsprint reporting unit and \$200 million for our specialty papers reporting unit, representing the full amount of goodwill associated with each of those reporting units. These non-cash goodwill impairment charges are estimates based on our step one analysis and are subject to finalization of the second step of the impairment analysis, which, due to the timing and complexity of the calculations required, has not yet been completed. Any adjustments arising from the completion of the step two analysis will be recorded at that time as a change in estimate.

Note 5. Severance Related Liabilities

The activity in our severance related liabilities for the six months ended June 30, 2009 was as follows:

<i>(Unaudited, in millions)</i>	2009 Initiatives	2008 Initiatives	2007 Initiatives	Total
Balance at December 31, 2008	\$ —	\$ 34	\$ 21	\$ 55
Charges (credits)	7	(2)	(2)	3
Payments	(3)	(5)	(4)	(12)
Other	—	1	1	2
Balance at June 30, 2009	\$ 4	\$ 28	\$ 16	\$ 48

During the six months ended June 30, 2009, we recorded employee termination costs primarily due to the indefinite idling of our Alabama River, Alabama newsprint mill since it became probable the mill would remain idled for a period greater than six months, the period at which employees are entitled to severance benefits.

In 2008, we recorded employee termination costs primarily related to the decision to close our Grand Falls, Newfoundland and Labrador paper mill, together with downsizings at several of our other mills, as well as the departure of certain corporate employees.

[Table of Contents](#)

ABITIBIBOWATER INC.
(Under Creditor Protection Proceedings as of April 16 and 17, 2009 — Notes 1, 2 and 3)
Notes to Unaudited Interim Consolidated Financial Statements

In 2007, we recorded employee termination costs primarily associated with the mill-wide restructurings at several of our mills, the allocation of the purchase price of Abitibi to severance liabilities assumed in the combination of Abitibi and Bowater, lump-sum payouts of pension assets to certain employees and certain changes to our U.S. postretirement benefit plans.

As a result of the Creditor Protection Proceedings, severance payments may only be made pursuant to a court order or an approved plan of reorganization. We do not allocate employee termination and severance costs to our segments. Termination costs that are not associated with our restructuring are classified as “Cost of sales, excluding depreciation, amortization and cost of timber harvested” (manufacturing personnel), “Selling and administrative expenses” (administrative personnel) or “Closure costs, impairment and other related charges” (mill closures) in our Consolidated Statements of Operations. Such costs are included in “Corporate and Other” in Note 16, “Segment Information.” Additionally, termination and severance costs incurred as part of our restructuring will be included in “Reorganization items, net” in our Consolidated Statements of Operations. The severance accruals are included in “Accounts payable and accrued liabilities” or “Liabilities subject to compromise” in our Consolidated Balance Sheets.

Note 6. Other (Expense) Income, Net

Other (expense) income, net for the three and six months ended June 30, 2009 and 2008 was comprised of the following:

<i>(Unaudited, in millions)</i>	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Foreign exchange (loss) gain	\$(10)	\$(16)	\$ (4)	\$ 25
Fees for waivers and amendments to accounts receivable securitization program ⁽¹⁾	(12)	—	(23)	—
Loss from equity method investments	(2)	(2)	(2)	(3)
Interest income ⁽²⁾	—	3	—	6
Gain on extinguishment of debt	—	31	—	31
Loss from sale of accounts receivable	(4)	(5)	(7)	(10)
Miscellaneous (loss) income	(2)	4	5	—
	\$(30)	\$ 15	\$(31)	\$ 49

(1) As consideration for entering into certain waivers and amendments to our former accounts receivable securitization program, we incurred fees of \$12 million and \$23 million in the three and six months ended June 30, 2009, respectively. For additional information, reference is made to Note 10, “Liquidity, Debt and Interest Expense – Abitibi and Donohue accounts receivable securitization program,” included in our Quarterly Report on Form 10-Q for the quarter ended March 31, 2009, filed on May 15, 2009.

(2) Subsequent to the Creditor Protection Proceedings, we have recorded interest income in “Reorganization items, net,” in the Consolidated Statements of Operations.

Note 7. Loss Per Share

No adjustments to net loss were necessary to compute net loss per basic and diluted share for all periods presented. Additionally, no adjustments to our basic weighted-average number of common shares outstanding were necessary to compute our diluted weighted-average number of common shares outstanding for all periods presented. Options to purchase 3.6 million shares for both the three and six months ended June 30, 2009, and 3.8 million shares for both the three and six months ended June 30, 2008 were excluded from the calculation of diluted loss per share as the impact would have been anti-dilutive. In addition, 0.2 million equity-classified restricted stock units for both the three and six months ended June 30, 2009, and 0.2 million equity-classified restricted stock units for both the three and six months ended June 30, 2008 were excluded from the calculation of diluted loss per share for the same reason. In addition, no adjustments to net loss and the diluted weighted-average number of common shares outstanding were necessary for all

[Table of Contents](#)

ABITIBOWATER INC.
(Under Creditor Protection Proceedings as of April 16 and 17, 2009 — Notes 1, 2 and 3)
Notes to Unaudited Interim Consolidated Financial Statements

periods presented after giving effect to the assumed conversion of the convertible notes representing 36.9 million additional common shares for the three and six months ended June 30, 2009 and 35 million additional common shares for the three and six months ended June 30, 2008.

Note 8. Inventories, Net

Inventories, net as of June 30, 2009 and December 31, 2008 were comprised of the following:

<i>(Unaudited, in millions)</i>	June 30, 2009	December 31, 2008
At lower of cost or market:		
Raw materials and work in process	\$100	\$ 129
Finished goods	276	275
Mill stores and other supplies	306	327
	682	731
Excess of current cost over LIFO inventory value	(18)	(18)
	\$664	\$ 713

During the six months ended June 30, 2009, we recorded charges of \$12 million for write-downs of mill stores inventory associated with our Alabama River and Dalhousie mills. Charges for inventory write-downs were included in "Cost of sales, excluding depreciation, amortization and cost of timber harvested" in our Consolidated Statements of Operations.

Note 9. Assets Held for Sale, Liabilities Associated with Assets Held for Sale and Net Gain on Disposition of Assets

Assets held for sale as of June 30, 2009 and December 31, 2008 were comprised of the following:

<i>(Unaudited, in millions)</i>	June 30, 2009	December 31, 2008
Accounts receivable, net	\$ 1	\$ 2
Inventories, net	3	3
Other current assets	1	7
Fixed assets, net	135	372
Amortizable intangible assets, net	269	554
Other assets	—	15
	\$409	\$ 953

Liabilities associated with assets held for sale as of June 30, 2009 and December 31, 2008 were comprised of the following:

<i>(Unaudited, in millions)</i>	June 30, 2009	December 31, 2008
Accounts payable and accrued liabilities	\$ 4	\$ 19
Long-term debt	—	205
Other long-term liabilities	56	185
	\$60	\$ 409

As of December 31, 2008, we held for sale the assets from the following mills (all of which were previously permanently closed): our Fort William, Ontario; Lufkin, Texas; West Tacoma, Washington; and Dalhousie, New Brunswick paper mills and our La Tuque, Quebec sawmill. In addition, we also held our investments in ACH Limited Partnership and Manicouagan Power Company and some of our timberlands in the United States and Canada for sale. As of June 30, 2009, we held our investment in Manicouagan Power Company and some of our timberlands for sale. Since we have control over Manicouagan Power Company, our unaudited interim consolidated financial statements include this entity on a fully consolidated basis. The assets and liabilities related to this investment held for sale are

ABITIBIBOWATER INC.
(Under Creditor Protection Proceedings as of April 16 and 17, 2009 — Notes 1, 2 and 3)
Notes to Unaudited Interim Consolidated Financial Statements

carried in our Consolidated Balance Sheets at the lower of carrying value or fair value less costs to sell. As of June 30, 2009, we expected to complete a sale of this investment within the next twelve months for an amount that approximates its current carrying value. See Note 4, "Closure Costs, Impairment and Other Related Charges," for additional information. On March 13, 2009, we announced that we signed a non-binding agreement in principle for the sale of our interest in Manicouagan Power Company for a total purchase price of approximately Cdn\$615 million (\$529 million), payable 90% upon the closing of the transaction and 10% on the second anniversary of the closing, subject to adjustment for contingencies. The non-binding agreement is subject to certain terms and conditions including, but not limited to, satisfactory due diligence, obtaining required consents and approvals and negotiation and execution of definitive agreements (including a long-term power supply agreement for our Baie-Comeau, Quebec paper mill). In addition, pursuant to the Abitibi DIP Agreement (as defined and discussed in Note 11, "Liquidity and Debt"), net cash proceeds from the sale of our investment in Manicouagan Power Company must be used to repay any loans outstanding under the Abitibi DIP Agreement.

SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS 144"), sets out the criteria that need to be met for the classification of assets as held for sale. Of the assets previously classified as held for sale, management has determined that only our investment in Manicouagan Power Company continues to meet the SFAS 144 criteria as of June 30, 2009. As a result, all other assets held for sale as of December 31, 2008, except for our investment in Manicouagan Power Company, those that were sold and our investment in ACH Limited Partnership, as described below, were reclassified to assets "held and used."

As of December 31, 2008, our investment in ACH Limited Partnership was classified as an asset held for sale. During the first quarter of 2009, it was determined that it was no longer probable that we would finalize the sale of this investment within the next twelve months and, accordingly, beginning with the quarter ended March 31, 2009, our investment in ACH Limited Partnership is no longer included in our assets held for sale. Since we have control over ACH Limited Partnership, our unaudited interim consolidated financial statements include this entity on a fully consolidated basis.

We cease recording depreciation and amortization when assets are classified as held for sale. During the first quarter of 2009, we recorded "catch-up" depreciation and amortization expense related to the fixed assets and amortizable intangible assets of ACH Limited Partnership of \$2 million, representing depreciation and amortization expense for the period while our investment in ACH Limited Partnership was considered an asset held for sale. No "catch up" depreciation and amortization expense was required for the assets reclassified as "held and used" during the second quarter of 2009, since all such assets were related to closed mills.

There were no material asset sales during the three months ended June 30, 2009. During the six months ended June 30, 2009, we sold 191,838 acres of timberlands and other assets, including the water system associated with our Lufkin, Texas mill, for proceeds of \$69 million, resulting in a net gain on disposition of assets of \$53 million. The remainder of the Lufkin mill assets, including real estate, buildings and equipment, are still for sale.

During the three and six months ended June 30, 2008, we recorded a net gain on disposition of assets of \$17 million and \$40 million, respectively, primarily related to the sale of timberlands. During the three and six months ended June 30, 2008, we completed the sale of 28,200 and 43,100 acres, respectively, of timberlands and other assets, mainly our Snowflake and Price sawmills. These asset sales generated aggregate proceeds of \$176 million and \$205 million during the three and six months ended June 30, 2008, respectively.

[Table of Contents](#)

ABITIBIBOWATER INC.
(Under Creditor Protection Proceedings as of April 16 and 17, 2009 — Notes 1, 2 and 3)
Notes to Unaudited Interim Consolidated Financial Statements

Note 10. Pension and Other Postretirement Benefit Plans

The components of net periodic benefit (credit) cost relating to our pension and other postretirement benefits plans (“OPEB plans”) for the three and six months ended June 30, 2009 and 2008 were as follows:

Pension Plans:

<i>(Unaudited, in millions)</i>	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Components of net periodic benefit cost (credit):				
Service cost	\$ 9	\$ 18	\$ 19	\$ 37
Interest cost	82	89	164	178
Expected return on plan assets	(87)	(101)	(175)	(203)
Amortization of prior service cost	1	1	2	2
Recognized net actuarial (gain) loss	(2)	2	(4)	4
Special termination benefits	—	4	—	4
Curtailements and settlements	—	—	(10)	—
	\$ 3	\$ 13	\$ (4)	\$ 22

OPEB Plans:

<i>(Unaudited, in millions)</i>	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Components of net periodic benefit cost:				
Service cost	\$ 1	\$ 1	\$ 2	\$ 2
Interest cost	6	6	12	12
Amortization of prior service cost	(3)	(3)	(6)	(6)
Recognized net actuarial loss	1	1	2	2
Curtailements and settlements	(1)	2	(2)	2
	\$ 4	\$ 7	\$ 8	\$ 12

Events impacting net periodic benefit cost for the three and six months ended June 30, 2009

In June 2009, as a result of the permanent closure of our Westover, Alabama sawmill and Goodwater, Alabama planer mill operations, approximately 60 positions were eliminated. As a result, a curtailment gain of \$1 million was included in the net periodic benefit cost of our OPEB plans.

In February 2009, upon the permanent closure of our Grand Falls, Newfoundland and Labrador paper mill, approximately 473 positions were eliminated. As a result, a curtailment gain of \$10 million was included in the net periodic benefit cost (credit) of our pension plans and a curtailment gain of \$1 million was included in the net periodic benefit cost of our OPEB plans.

Events impacting net periodic benefit cost for the three and six months ended June 30, 2008

In June 2008, we recorded special termination benefits of \$4 million related to the retirement of certain executives. These special termination benefits were included in the net periodic benefit cost (credit) of our pension plans and will likely result in a settlement loss at the time the benefits are paid.

In June 2008, the cumulative number of employees terminated as a result of the combination of Abitibi and Bowater became significant, triggering a curtailment. As a result, a curtailment loss of \$2 million was included in the net periodic benefit cost of our OPEB plans.

ABITIBIBOWATER INC.
(Under Creditor Protection Proceedings as of April 16 and 17, 2009 — Notes 1, 2 and 3)
Notes to Unaudited Interim Consolidated Financial Statements

Note 11. Liquidity and Debt

Prior to the commencement of the Creditor Protection Proceedings, our primary sources of liquidity and capital resources were cash-on-hand, cash provided by operations and availability under our bank credit facilities and accounts receivable securitization program. Following the commencement of the Creditor Protection Proceedings, in addition to cash-on-hand and cash provided by operations, our external sources of liquidity are comprised of the following (which are defined and discussed below): (i) the Bowater DIP Agreement, (ii) the Abitibi DIP Agreement and (iii) the Abitibi and Donohue second amended and restated accounts receivable securitization program. All other previous external sources of liquidity are no longer available.

The commencement of the Creditor Protection Proceedings constituted an event of default under substantially all of our pre-petition debt obligations, and those debt obligations became automatically and immediately due and payable by their terms, although any action to enforce such payment obligations is stayed as a result of the commencement of the Creditor Protection Proceedings. Due to the commencement of the Creditor Protection Proceedings, unsecured pre-petition debt obligations of \$4,893 million are included in “Liabilities subject to compromise” in our Consolidated Balance Sheets as of June 30, 2009. Secured pre-petition debt obligations of \$1,085 million (consisting of Abitibi’s \$413 million 13.75% Senior Secured Notes due 2011, Abitibi’s \$347 million term loan and Bowater’s \$325 million bank credit facilities) are included in current liabilities in our Consolidated Balance Sheets as of June 30, 2009. See Note 3, “Creditor Protection Proceedings Related Disclosures – Liabilities subject to compromise.”

SOP 90-7 requires that debt discounts and premiums, as well as debt issuance costs, be viewed as valuations of the related debt. When the debt has become an allowed claim and the allowed claim differs from the net carrying amount of the debt, the recorded amount should be adjusted to the amount of the allowed claim (thereby adjusting existing debt discounts, premiums and issuance costs to the extent necessary to report the debt at this allowed amount). Through August 11, 2009, the Courts have not classified any of our outstanding debt obligations as allowed claims. Therefore, we have not adjusted debt discounts, premiums and issuance costs, totaling \$671 million as of June 30, 2009, related to our outstanding debt. We may be required to expense these amounts or a portion thereof as reorganization items if the Courts ultimately allow claim amounts that differ from the net carrying amount of the debt. In accordance with SOP 90-7, we have continued to record interest expense on our pre-petition debt obligations only to the extent that: (i) interest will be paid during the Creditor Protection Proceedings or (ii) it is probable that interest will be an allowed priority, secured or unsecured claim. As such, we have continued to accrue interest on the Debtors’ pre-petition secured debt obligations and the CCAA filers’ pre-petition unsecured debt obligations (based on the expectation that accrued interest on the CCAA filers’ pre-petition debt obligations will be a permitted claim under the CCAA Proceedings) at the contractual non-default rates. Interest expense recorded in our Consolidated Statements of Operations totaled \$143 million and \$335 million for the three and six months ended June 30, 2009, respectively. Contractual interest expense totaled \$194 million and \$386 million for the three and six months ended June 30, 2009, respectively. Subsequent to the initiation of the Creditor Protection Proceedings, cash payments for interest will only be made on the Abitibi DIP Agreement (as defined below), the Bowater DIP Agreement (as defined below), the Bowater bank credit facilities and Abitibi’s senior secured term loan.

Abitibi and Donohue liquidity

Abitibi’s and Donohue’s primary sources of liquidity and capital resources are cash-on-hand, cash provided by operations, the Abitibi DIP Agreement (defined below) and availability under the accounts receivable securitization program. As of June 30, 2009, Abitibi and Donohue had cash-on-hand of approximately \$110 million and \$22 million, respectively. As of June 30, 2009, Abitibi and Donohue had \$57.5 million of available borrowings under the Abitibi DIP Agreement (\$30 million of borrowings outstanding) and \$118 million outstanding under their accounts receivable securitization program.

Abitibi DIP Agreement

In the Creditor Protection Proceedings, we have sought and obtained approval by the Canadian Court to enter into a debtor in possession financial facility for the benefit of Abitibi and Donohue. On May 6, 2009, we entered into a letter loan agreement (the “Abitibi DIP Agreement”), among Abitibi and Donohue, as borrowers (the “Borrowers”), certain

ABITIBIBOWATER INC.
(Under Creditor Protection Proceedings as of April 16 and 17, 2009 — Notes 1, 2 and 3)
Notes to Unaudited Interim Consolidated Financial Statements

subsidiaries of Abitibi as guarantors and the Bank of Montreal, as lender (“BMO”), which was acknowledged by Investissement Quebec, as sponsor (the “Sponsor”). The Abitibi DIP Agreement has been approved by the Canadian Court. Although Donohue is a signatory thereto, the Abitibi DIP Agreement will not be enforceable against Donohue until such time as the U.S. Court has granted an order authorizing and approving the DIP Facility (as defined below) and the charge in connection therewith with respect to Donohue (the “U.S. DIP Order”). Donohue has no obligation to seek, and does not expect to seek, a U.S. DIP Order and its failure to obtain such U.S. DIP Order will not affect the rights of Abitibi under the Abitibi DIP Agreement.

The Abitibi DIP Agreement provides for borrowings in an aggregate principal amount of up to \$100 million for Abitibi and, following any U.S. DIP Order, Donohue (the “DIP Facility”), provided that Donohue will not borrow more than \$10 million in the aggregate and that a minimum availability of \$12.5 million shall be maintained at all times. The DIP Facility will be made available by way of loans advanced in multiple disbursements pursuant to borrowing requests. Such loans will bear interest at either the London interbank offered rate for deposits in U.S. dollars (“LIBOR”) plus 1.75% (with a LIBOR floor of 3.0%) or the BMO U.S. base rate, as defined in the Abitibi DIP Agreement, plus 0.75%. The outstanding principal amount of loans under the DIP Facility, plus accrued and unpaid interest are to be repaid in full at the earliest of: (i) April 30, 2010; (ii) the effective date of a plan of reorganization or a plan of compromise or arrangement confirmed by order of the Courts; (iii) the acceleration of the Abitibi DIP Agreement or the occurrence of a specified event of default within the meaning set forth in the Abitibi DIP Agreement and (iv) the unenforceability of the backstop guarantee of the Sponsor. Notwithstanding the foregoing, the Borrowers will be required to repay the DIP Facility no later than November 1, 2009, as not doing so will result in the occurrence of a specified event of default. In addition, the Borrowers will be required to make mandatory prepayments of any loans outstanding from the net cash proceeds of, among other things, any payment by a governmental authority in respect of any expropriation claim and the sale of our investment in Manicouagan Power Company.

The obligations of Abitibi under the Abitibi DIP Agreement are guaranteed by certain of Abitibi’s subsidiaries (collectively, the “Subsidiary Guarantors”) and secured by superpriority liens (the “DIP Liens”) on all present and after-acquired property of Abitibi and the Subsidiary Guarantors provided that the DIP Liens are subordinated to: (i) an administrative charge ordered by the Canadian Court in the aggregate amount not exceeding \$6 million of professional fees and disbursements in connection with the CCAA Proceedings; (ii) a directors’ charge not exceeding \$22.5 million and (iii) the interests of Citibank, N.A., Abitibi Consolidated Sales Corporation and the other parties to the accounts receivable securitization program. Furthermore, the repayment obligation of the Borrowers under the DIP Facility is guaranteed by the Sponsor.

The Abitibi DIP Agreement contains customary covenants for debtor in possession financings of this type, including, among other things, the obligation for Abitibi to provide a rolling 13-week cash flow forecast of receipts and disbursements and weekly cash flow results.

In accordance with its stated purpose, the proceeds of the loans under the Abitibi DIP Agreement will be used by us for working capital and other general corporate purposes, including costs of the Creditor Protection Proceedings and fees and expenses associated with the DIP Facility.

As consideration for entering into the Abitibi DIP Agreement, during the second quarter of 2009, we incurred fees of approximately \$4 million, which were recorded in “Reorganization items, net” in our Consolidated Statements of Operations (see Note 3, “Creditor Protection Proceedings Related Disclosures – Reorganization items, net”).

Abitibi and Donohue accounts receivable securitization program

Abitibi and certain subsidiaries of Donohue (the “Participants”) continue to participate in an accounts receivable securitization program that was established when Donohue was a subsidiary of Abitibi. Accordingly, the Participants share among themselves the amounts available under the accounts receivable securitization program. The Participants sell most of their trade receivables in order to reduce working capital requirements.

[Table of Contents](#)

ABITIBIBOWATER INC.
(Under Creditor Protection Proceedings as of April 16 and 17, 2009 — Notes 1, 2 and 3)
Notes to Unaudited Interim Consolidated Financial Statements

As of June 30, 2009, amounts outstanding under the Participants' accounts receivable securitization program were as follows:

<i>(Unaudited, in millions)</i>	Commitment	Amount Outstanding	Termination Date	Weighted Average Interest Rate
<i>Off-Balance Sheet:</i> Accounts receivable securitization program	\$ 270	\$ 118	June 16, 2010	10.50%

As of June 30, 2009, the Participants had transferred \$306 million of trade receivables resulting in cash proceeds of \$118 million, which represented the total available at that time, based on the current level and eligibility of trade receivables. Accounts receivable are sold at discounted amounts based on the securitization provider's funding cost plus a margin. The Participants act as servicing agents and administer the collection of the accounts receivable sold pursuant to these agreements. The fees received for servicing the accounts receivable approximate the value of services rendered. The amount that can be obtained under the accounts receivable securitization program depends on the amount and nature of the accounts receivable available to be sold. The commitment fee for the unused portion is 1.50% per annum.

On June 16, 2009, Abitibi and certain of its affiliates amended and restated, in its entirety, the existing accounts receivable securitization program, which now provides for an accounts receivable securitization facility in an amount of up to \$270 million to be provided by the banks party to the agreement. Unless terminated earlier due to the occurrence of certain events of termination, or the substantial consummation of a plan of reorganization or a plan of compromise or arrangement confirmed by order of the Courts or unless extended pursuant to its new terms, the facility will terminate on June 16, 2010. The facility may be extended to September 16, 2010 or December 16, 2010 upon the satisfaction of certain conditions. All payment obligations of Abitibi-Consolidated U.S. Funding Corp., a subsidiary of Donohue, under the facility are secured by all of its assets and guaranteed by the following subsidiaries of ours: Donohue, Abitibi Consolidated Sales Corporation, Abitibi-Consolidated Corp., Augusta Woodlands, LLC, Abitibi-Consolidated Alabama Corporation and Alabama River Newsprint Company. Final approval of the amended and restated accounts receivable securitization program has been given by the Courts.

As consideration for entering into the amended and restated accounts receivable securitization program, during the second quarter of 2009, we incurred fees of approximately \$11 million, which were recorded in "Reorganization items, net" in our Consolidated Statements of Operations (see Note 3, "Creditor Protection Proceedings Related Disclosures - Reorganization items, net").

Bowater liquidity

Bowater's primary sources of liquidity and capital resources are cash-on-hand, cash provided by operations and the Bowater DIP Agreement (defined below). As of June 30, 2009, Bowater had cash-on-hand of approximately \$347 million.

Bowater DIP Agreement

In the Creditor Protection Proceedings, we have sought and obtained final approval by the Courts to enter into a debtor in possession financial facility for the benefit of AbitibiBowater Inc. and certain of our Bowater subsidiaries. On April 21, 2009, we entered into a Senior Secured Superpriority Debtor In Possession Credit Agreement (the "Bowater DIP Agreement") among AbitibiBowater Inc., Bowater and BCFPI, as borrowers, Fairfax Financial Holdings Limited ("Fairfax"), as administrative agent, collateral agent and an initial lender, and Avenue Investments, L.P., as an initial lender. On May 8, 2009, Law Debenture Trust Company of New York replaced Fairfax as the administrative agent and collateral agent under the Bowater DIP Agreement.

The Bowater DIP Agreement provides for term loans in an aggregate principal amount of \$206 million (the "Initial Advance"), consisting of a \$166 million term loan facility to AbitibiBowater Inc. and Bowater (the "U.S. Borrowers") and a \$40 million term loan facility to BCFPI. Following the payment of fees payable to the lenders in connection with the Bowater DIP Agreement, the U.S. Borrowers and BCFPI received aggregate loan proceeds of \$195.7 million. The Bowater DIP Agreement also permits the U.S. Borrowers to request, subject to the approval of the requisite lenders

ABITIBIBOWATER INC.
(Under Creditor Protection Proceedings as of April 16 and 17, 2009 — Notes 1, 2 and 3)
Notes to Unaudited Interim Consolidated Financial Statements

under the Bowater DIP Agreement, an incremental term loan facility (the “Incremental Facility”) and an asset based–revolving credit facility (the “ABL Facility”) provided that the aggregate principal amount of the Initial Advance and the Incremental Facility may not exceed \$360 million and the aggregate principal amount of the Initial Advance, Incremental Facility and the ABL Facility may not exceed \$600 million. The outstanding principal amount of loans under the Bowater DIP Agreement, plus accrued and unpaid interest, will be due and payable on April 21, 2010 (the “Maturity Date”), but is subject to an earlier maturity date under certain circumstances. The Maturity Date may be extended for two additional periods of three months each, subject to the satisfaction of certain conditions. Borrowings under the Bowater DIP Agreement will bear interest, at our election, at either a rate tied to the U.S. Federal Funds Rate (the “base rate”) or LIBOR, in each case plus a specified margin. The interest margin for base rate loans is 6.50%, with a base rate floor of 4.50%. The interest margin for LIBOR loans is 7.50%, with a LIBOR floor of 3.50%. Such interest rates will each increase by 1.00% if the Maturity Date is extended beyond April 21, 2010. The obligations of the U.S. Borrowers under the Bowater DIP Agreement are guaranteed by AbitibiBowater Inc., Bowater, Bowater Newsprint South LLC (“Newsprint South”), a direct, wholly–owned subsidiary of AbitibiBowater Inc., which was a wholly–owned subsidiary of Bowater prior to May 15, 2008, and each of the U.S. subsidiaries of Bowater and Newsprint South that are debtors in the Chapter 11 Cases (collectively, the “U.S. Guarantors”) and secured by all or substantially all of the assets of each of the U.S. Borrowers and the U.S. Guarantors. The obligations of BCFPI under the Bowater DIP Agreement are guaranteed by the U.S. Borrowers and the U.S. Guarantors and each of Bowater’s Canadian subsidiaries (other than BCFPI) that are debtors in the CCAA Proceedings (collectively, the “Canadian Guarantors”) and secured by all or substantially all of the assets of BCFPI and the Canadian Guarantors. On June 24, 2009, Bowater Canadian Finance Corporation was released from its obligations under the Bowater DIP Agreement.

On June 5, 2009, the Bowater DIP Agreement was amended to, among other things: (i) correct certain documentation errors, including, but not limited to: (a) correcting the minimum base rate from 2.50% per annum to 4.50% per annum, (b) modifying the calculation of the fixed charge coverage ratio required to be maintained by Bowater and the guarantors under the Bowater DIP Agreement and (c) clarifying certain provisions related to interest calculations and payment dates (including waiving certain defaults which occurred as a result of confusion over the prior language); (ii) amend the definition of consolidated EBITDA to, among other things, permit Chapter 11 and CCAA expenses, including professional fees, to be added to net income for purposes of calculating consolidated EBITDA; (iii) permit additional debt owed by Calhoun Newsprint Company (“CNC”), a subsidiary owned 51% by us and 49% by Herald Company, Inc., to one or more Bowater entities so long as the aggregate amount of such additional debt, together with any additional investments in CNC, does not exceed \$10 million; (iv) extend the time available for AbitibiBowater to appoint a chief restructuring officer from June 5, 2009 to June 20, 2009 (or such later time as the required lenders approved) and (v) extend the time available from June 5, 2009 to June 30, 2009 to: (a) obtain private debt ratings from Moody’s Investor Services, Inc. and Standard & Poor’s Rating Services on the loans under the term loan facility provided pursuant to the Bowater DIP Agreement and any other incremental facility and (b) provide the mortgages and other related documentation with respect to certain properties. We complied with these requirements.

The Bowater DIP Agreement contains customary covenants for debtor in possession financings of this type, including, among other things: (i) requirements to deliver financial statements, other reports and notices; (ii) restrictions on the incurrence and repayment of indebtedness; (iii) restrictions on the incurrence of liens; (iv) restrictions on making certain payments; (v) restrictions on investments; (vi) restrictions on asset dispositions and (vii) restrictions on modifications to material indebtedness. Additionally, the Bowater DIP Agreement contains certain financial covenants, including, among other things: (i) a minimum consolidated EBITDA; (ii) a minimum fixed charge coverage ratio and (iii) a maximum amount of capital expenditures.

In accordance with its stated purpose, the proceeds of the Bowater DIP Agreement will be used by us, among other things, for working capital, general corporate purposes, to pay adequate protection to holders of secured debt under Bowater’s and BCFPI’s pre–petition bank credit facilities, to pay the costs associated with administration of the Creditor Protection Proceedings and to pay transaction costs, fees and expenses in connection with the Bowater DIP Agreement.

[Table of Contents](#)

ABITIBIBOWATER INC.
(Under Creditor Protection Proceedings as of April 16 and 17, 2009 — Notes 1, 2 and 3)
Notes to Unaudited Interim Consolidated Financial Statements

As consideration for entering into the Bowater DIP Agreement, during the second quarter of 2009, we incurred fees of approximately \$14 million, which were recorded in “Reorganization items, net” in our Consolidated Statements of Operations (see Note 3, “Creditor Protection Proceedings Related Disclosures – Reorganization items, net”).

ACH Limited Partnership

We own 75% of ACH Limited Partnership (“ACH”) and Caisse de depot et placement du Quebec owns the remaining 25% of ACH. Since we have control over ACH, our unaudited interim consolidated financial statements include this entity on a fully consolidated basis. ACH was excluded from the Creditor Protection Proceedings and we expect that it will continue to operate outside of such proceedings. As of June 30, 2009, ACH had outstanding debt comprised of a \$215 million (Cdn\$250 million) 7.132% loan due 2017 (the “Loan”). In addition, ACH has entered into a Cdn\$15 million bank revolving credit agreement due March 31, 2010 (the “Credit Agreement,” and collectively with the Loan, the “Agreements”). ACH has not drawn down any of the Credit Agreement. As of June 30, 2009, ACH failed to meet a financial covenant under the Agreements but obtained a waiver from the lenders and no default occurred. ACH’s ability to maintain compliance with each of the financial covenants for the next 12 months is uncertain and as a result, as of June 30, 2009, we reclassified the \$215 million Loan from “Long-term debt, net of current portion” to “Current portion of long-term debt” in our Consolidated Balance Sheets. Any future breach or default under the Agreements that is not waived by the lenders is not expected to significantly affect our liquidity or capital resources, but may force ACH to seek alternate sources of financing or to seek creditor protection pursuant to the CCAA, and thereby may affect the value of our equity in ACH.

Note 12. Income Taxes

The income tax benefit attributable to loss before income taxes differs from the amounts computed by applying the United States federal statutory income tax rate of 35% for the three and six months ended June 30, 2009 and 2008 as a result of the following:

<i>(Unaudited, in millions)</i>	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Loss before income taxes	\$(547)	\$(251)	\$(764)	\$(495)
Income tax benefit (provision):				
Expected income tax benefit	191	88	267	173
Increase (decrease) in income taxes resulting from:				
Valuation allowance	(75)	(79)	(146)	(172)
Foreign exchange	(48)	(1)	(37)	28
State income taxes, net of federal income tax benefit	—	—	—	(1)
Foreign taxes	(17)	(7)	(23)	(21)
Tax reserves	—	(2)	—	(8)
Other, net	(17)	6	(20)	3
	\$ 34	\$ 5	\$ 41	\$ 2

During the three months ended June 30, 2009 and 2008, income tax benefits of approximately \$75 million and \$82 million, respectively, generated on the majority of our current quarter losses were entirely offset by tax charges to increase our valuation allowance related to these tax benefits. During the six months ended June 30, 2009 and 2008, income tax benefits of approximately \$146 million and \$175 million, respectively, generated on the majority of our operating losses for the first six months of 2009 and 2008 were entirely offset by tax charges to increase our valuation allowance related to these tax benefits. Additionally, any income tax benefit recorded on any future losses will probably be offset by additional increases to the valuation allowance (tax charge). During the three and six months ended June 30, 2009, we recorded a tax recovery of approximately \$41 million and \$49 million, respectively, related to the asset impairment charges recorded associated with our assets held for sale for our investment in Manicouagan Power Company. For additional information, see Note 4, “Closure Costs, Impairment and Other Related Charges.”

[Table of Contents](#)

ABITIBIBOWATER INC.
(Under Creditor Protection Proceedings as of April 16 and 17, 2009 — Notes 1, 2 and 3)
Notes to Unaudited Interim Consolidated Financial Statements

During the six months ended June 30, 2009, we reversed \$36 million of liabilities for unrecognized tax benefits as a result of pending Canadian legislation that was enacted during the first quarter of 2009. This reversal had no impact on income tax expense, as it was offset by an adjustment to the valuation allowance.

Note 13. Accumulated Other Comprehensive Loss

Accumulated other comprehensive loss as of June 30, 2009 and December 31, 2008 was comprised of the following:

<i>(Unaudited, in millions)</i>	June 30, 2009	December 31, 2008
Unamortized prior service costs ⁽¹⁾	\$ (13)	\$ (9)
Unamortized actuarial losses ⁽²⁾	(258)	(256)
Foreign currency translation ⁽³⁾	(113)	(119)
	\$(384)	\$(384)

(1) Net of deferred tax provision of \$16 million as of both June 30, 2009 and December 31, 2008. Net of noncontrolling interests of \$2 million as of both June 30, 2009 and December 31, 2008.

(2) Net of deferred tax benefit of \$64 million as of both June 30, 2009 and December 31, 2008. Net of noncontrolling interests of \$1 million as of both June 30, 2009 and December 31, 2008.

(3) No tax effect was recorded for foreign currency translation since the investment in foreign net assets translated are deemed indefinitely invested. Net of noncontrolling interests of \$6 million and \$0 as of June 30, 2009 and December 31, 2008, respectively.

Note 14. Derivative Financial Instruments and Other Embedded Derivatives

We previously utilized certain derivative financial instruments to enhance our ability to manage risk relating to cash flow exposures. Derivative financial instruments were entered into for periods consistent with related underlying cash flow exposures and did not constitute positions independent of those exposures. We did not enter into contracts for speculative purposes; however, from time to time, we entered into interest rate, commodity and currency derivative contracts that were not accounted for as accounting hedges. Counterparty risk was limited to institutions with long-term debt ratings of A or better for North American financial institutions or ratings of AA or better for international institutions.

During the pendency of the Creditor Protection Proceedings, the extent to which we will be permitted to utilize derivative instruments will be limited. The fair value of our derivative instruments is determined based on the fair value hierarchy provided in SFAS 157, which requires the use of observable inputs whenever available. In addition, we consider the risk of non-performance of the obligor, which in some cases reflects our own credit risk, in determining the fair value of our derivative instruments. There have been no material changes to the methods used in determining the fair value of our derivative instruments as described in our consolidated financial statements for the year ended December 31, 2008.

We maintain a cogeneration facility that was constructed by a third party at our Bridgewater facility and are under contract with this third party for the purchase of steam and electricity produced at this cogeneration facility. This contract contains two embedded derivative features; an index forward contracts component and a call option component, which have been bundled together as a single and compound embedded derivative instrument:

- In order to determine the fair value of the forward contracts component, the standing charge, including the current gas, electricity and oil indices are priced as forward contracts ("index forward contracts") and future cash flows based on these indices, a portion of which is not observable, are projected over the remaining term of the contract, after deduction for the minimum lease payments. The present value of the future payments on this embedded derivative component are then determined.

[Table of Contents](#)

ABITIBIBOWATER INC.
(Under Creditor Protection Proceedings as of April 16 and 17, 2009 — Notes 1, 2 and 3)
Notes to Unaudited Interim Consolidated Financial Statements

- In calculating the fair value of the call option component, we considered the termination charge mechanism as a cap on the fair value of the various components of the contract (embedded derivative and the capital lease obligation), thus in essence a “call option” (which is currently considered in-the-money) to terminate the contract for a determinable (i.e. strike) price. As such, the termination charge is considered a series of call options with strike prices that change over time subject to a pre-determined contractual schedule. The fair value of the option is calculated by taking into account the difference between the total contract obligation and the termination charge.

The embedded derivative is recorded at fair value with changes in fair value reported in “Cost of sales, excluding depreciation, amortization and cost of timber harvested” in our Consolidated Statements of Operations. The carrying value of the embedded derivative is also impacted by foreign currency translation adjustments, with changes related to exchange recorded in “Accumulated other comprehensive loss” in our Consolidated Balance Sheets. The embedded derivative’s carrying value increased by approximately \$4 million, net, for the six months ended June 30, 2009, of which approximately \$5 million was related to foreign currency translation and was partially offset by a decrease of approximately \$1 million related to the change in fair value of the embedded derivative. The embedded derivative was estimated at \$44 million as of June 30, 2009 and was recorded in “Other long-term liabilities” in our Consolidated Balance Sheets.

Information as of June 30, 2009 and December 31, 2008 regarding our outstanding interest rate swap, natural gas swap and cogeneration contract embedded derivative contracts’ notional amount, fair value and range of interest rates or natural gas index prices is summarized in the table below. The fair value of our derivative financial instruments was based on current termination values or quoted market prices of comparable contracts, adjusted for the risk of non-performance of the obligor in the contract. The notional amount of these natural gas swap and interest rate swap contracts represented the principal amount used to calculate the amount of periodic payments and does not represent our exposure on these contracts.

<i>(Unaudited, in millions, except rates and prices)</i>	Notional Amount of Derivatives	Net Asset/ (Liability) Fair Value	SFAS 157 Valuation Hierarchy	Range Of Natural Gas Index Prices and Interest Rates
As of June 30, 2009:				
Cogeneration contract embedded derivative	Multiple ⁽¹⁾	\$ (44)	Level 3	Multiple ⁽¹⁾
As of December 31, 2008:				
Natural gas swap agreements due in 2009	\$ 2	\$ (1)	Level 2	\$ 5.878 – 14.32
Receive fixed rate interest rate swaps ⁽²⁾	100	7	Level 2	5.40% – 5.42%
Cogeneration contract embedded derivative	Multiple ⁽¹⁾	(40)	Level 3	Multiple ⁽¹⁾

(1) The cogeneration contract embedded derivative contains multiple notional amounts and uses multiple indices to determine the fair value.

(2) On April 14, 2009, we terminated these interest rate swaps and on April 16, 2009, we received cash proceeds of approximately \$5 million. As a result of the termination, we incurred a net loss of \$2 million, which was recorded in “Interest expense” in our Consolidated Statements of Operations.

The counterparties to our derivative financial instruments were substantial and creditworthy multi-national financial institutions. We entered into master netting agreements with those counterparties that provided that in the event of default, any amounts due to or from a counterparty would be offset. The risk of counterparty nonperformance was considered to be unlikely.

[Table of Contents](#)

ABITIBIBOWATER INC.
(Under Creditor Protection Proceedings as of April 16 and 17, 2009 — Notes 1, 2 and 3)
Notes to Unaudited Interim Consolidated Financial Statements

The changes in the cash flow hedges included in Accumulated other comprehensive loss for the six months ended June 30, 2009 and 2008 were as follows:

<i>(Unaudited, in millions)</i>	2009	2008
Losses reclassified on matured cash flow hedges	\$—	\$12
Unrecognized losses for change in value on outstanding cash flow hedging instruments	—	(2)
	—	10
Income tax	—	(3)
	\$—	\$ 7

As of June 30, 2009 and December 31, 2008, we did not have any derivative financial instruments that qualified as cash flow hedges.

Note 15. Commitments and Contingencies***Creditor Protection Proceedings***

On April 16, 2009, AbitibiBowater Inc. and certain of its U.S. and Canadian subsidiaries filed voluntary petitions for relief under Chapter 11. In addition, on April 17, 2009, AbitibiBowater Inc. and certain of its Canadian subsidiaries sought creditor protection under the CCAA. On April 17, 2009, Abitibi and ACCC each filed Chapter 15 Cases to obtain recognition and enforcement in the United States of certain relief granted in the CCAA Proceedings. Our subsidiaries which own our Bridgewater, United Kingdom and Mokpo, South Korea operations were not included in the Creditor Protection Proceedings and will continue to operate outside of such proceedings. In addition, almost all of our less than wholly-owned subsidiaries were excluded from the Creditor Protection Proceedings and will continue to operate outside of such proceedings. See Note 2, "Creditor Protection Proceedings," for additional information.

Legal items

We are involved in various legal proceedings relating to contracts, commercial disputes, taxes, environmental issues, employment and workers' compensation claims and other matters. We periodically review the status of these proceedings with both inside and outside counsel. Although the final outcome of any of these matters is subject to many variables and cannot be predicted with any degree of certainty, we establish reserves for a matter when we believe an adverse outcome is probable and the amount can be reasonably estimated. We believe that the ultimate disposition of these matters will not have a material adverse effect on our financial condition, but it could have a material adverse effect on our results of operations in any given quarter or year. Subject to certain exceptions, all litigation against AbitibiBowater Inc. and its subsidiaries that are parties to the Creditor Protection Proceedings that arose or may arise out of pre-petition conduct or acts is subject to the automatic stay provisions of Chapter 11 and the CCAA and the orders of the Courts rendered thereunder. As a result, we believe that these matters will not have a material adverse effect on our results of operations during the Creditor Protection Proceedings.

We continue to work to resolve the matter relating to the expropriation of our assets in the Province of Newfoundland and Labrador, as further described in Note 21, "Commitments and Contingencies – Extraordinary loss on expropriation of assets," included in our consolidated financial statements for the year ended December 31, 2008. We are in a position to submit a notice of arbitration pursuant to the relevant NAFTA provisions now that the mandatory 90-day waiting period following the filing of our notice of intent to arbitrate has passed. The filing of the notice of arbitration may be delayed to provide additional time for settlement opportunities.

Information relative to our legal proceedings is presented in Note 21, "Commitments and Contingencies – Legal items," included in our consolidated financial statements for the year ended December 31, 2008. Except as otherwise described herein, there have been no material developments to the legal proceedings described in our consolidated financial statements for the year ended December 31, 2008.

[Table of Contents](#)

ABITIBIBOWATER INC.
(Under Creditor Protection Proceedings as of April 16 and 17, 2009 — Notes 1, 2 and 3)
Notes to Unaudited Interim Consolidated Financial Statements

Note 16. Segment Information

We manage our business based on the products that we manufacture and sell to external customers. Our reportable segments are newsprint, coated papers, specialty papers, market pulp and wood products.

None of the income or loss items following “Operating loss” in our Consolidated Statements of Operations are allocated to our segments, since those items are reviewed separately by management. For the same reason, closure costs, impairment and other related charges, employee termination costs, net gain on disposition of assets, costs associated with our unsuccessful refinancing efforts and other discretionary charges or credits are not allocated to our segments. Share-based compensation expense is, however, allocated to our segments. We also allocate depreciation expense to our segments, although the related fixed assets are not allocated to segment assets.

Information about segment sales and operating income (loss) for the three and six months ended June 30, 2009 and 2008 was as follows:

<i>(Unaudited, in millions)</i>		Newsprint	Coated Papers	Specialty Papers	Market Pulp ⁽¹⁾	Wood Products ⁽²⁾	Corporate and Other	Consolidated Total
Sales								
Second quarter	2009	\$ 441	\$ 94	\$ 328	\$ 117	\$ 56	\$ —	\$ 1,036
Second quarter	2008	788	166	449	169	124	—	1,696
First six months	2009	935	208	673	219	109	5	2,149
First six months	2008	1,597	335	908	337	247	—	3,424
Operating income (loss) ⁽³⁾								
Second quarter ⁽⁴⁾	2009	\$ (81)	\$ 27	\$ 21	\$ 38	\$ (20)	\$ (270)	\$ (285)
Second quarter	2008	1	35	(32)	21	(13)	(75)	(63)
First six months ⁽⁴⁾	2009	(62)	50	61	27	(47)	(328)	(299)
First six months	2008	(68)	69	(71)	52	(48)	(146)	(212)

(1) Market pulp sales exclude inter-segment sales of \$4 million for both the three months ended June 30, 2009 and 2008 and \$6 million and \$9 million for the six months ended June 30, 2009 and 2008, respectively.

(2) Wood product sales exclude inter-segment sales of \$32 million and \$48 million for the three months ended June 30, 2009 and 2008, respectively, and \$64 million and \$94 million for the six months ended June 30, 2009 and 2008, respectively.

(3) “Corporate and Other” operating loss for the three and six months ended June 30, 2009 and 2008 included the following special items:

<i>(Unaudited, in millions)</i>	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Net gain on disposition of assets	\$ 1	\$ 17	\$ 53	\$ 40
Employee termination costs	—	(7)	—	(15)
Closure costs, impairment and other related charges	(240)	(17)	(270)	(27)
Write-downs of mill stores inventory	(12)	—	(12)	—
Reversal of previously recorded Canadian capital tax liabilities due to new legislation	16	—	16	—
Fees for unsuccessful refinancing efforts	(4)	—	(10)	—
	\$ (239)	\$ (7)	\$ (223)	\$ (2)

ABITIBIBOWATER INC.
(Under Creditor Protection Proceedings as of April 16 and 17, 2009 — Notes 1, 2 and 3)
Notes to Unaudited Interim Consolidated Financial Statements

(4)

Operating income (loss) for newsprint, coated papers, specialty papers and market pulp included \$4 million, \$17 million, \$8 million and \$56 million, respectively, for the alternative fuel mixture tax credits for the three months ended June 30, 2009 and \$6 million, \$27 million, \$13 million and \$72 million, respectively, for the six months ended June 30, 2009. Reference is made to Note 17, "Alternative Fuel Mixture Tax Credits," for additional information.

Note 17. Alternative Fuel Mixture Tax Credits

The U.S. Internal Revenue Code of 1986, as amended (the "Code") provides a tax credit for companies that use alternative fuel mixtures to produce energy to operate their businesses. The credit, equal to \$0.50 per gallon of alternative fuel contained in the mixture, is refundable to the taxpayer. During the first quarter of 2009, Bowater applied for its registrations as alternative fuel mixtures for three of its sites. In March 2009, Bowater received notification that two sites' registrations were approved. Bowater's third site's registration was approved in early April 2009. During the three and six months ended June 30, 2009, Bowater recorded \$85 million and \$118 million, respectively, of these credits, which were included in "Cost of sales, excluding depreciation, amortization and cost of timber harvested" in our Consolidated Statements of Operations. According to the Code, the tax credit expires at the end of 2009. The U.S. Congress is currently reviewing the Alternative Fuel Credit law and may enact legislation to repeal the credit prior to its scheduled expiration.

Note 18. Subsequent Events

The following significant events occurred subsequent to June 30, 2009 and through August 11, 2009, which is the date that these financial statements were issued:

- Various motions and actions taken in connection with the Creditor Protection Proceedings, as more fully discussed in Note 2, "Creditor Protection Proceedings – Reorganization process."
- As a result of our repudiation of certain contracts with Boralex Dolbeau Inc. (see Note 2, "Creditor Protection Proceedings – Reorganization process"), our Dolbeau, Quebec facility has been effectively idled since July 7, 2009.
- On July 27, 2009, we agreed to sell an aggregate of approximately 300,000 acres of timberlands in the Province of Quebec for aggregate consideration of approximately Cdn\$53 million (\$48 million). The Canadian Court has approved this transaction. In addition, on July 28, 2009, we agreed, subject to court approval, to participate in a transaction pursuant to which we would receive approximately \$25 million in respect of a subsidiary's interest in the sale of certain timberlands formerly owned by a predecessor of that entity. Each of these transactions is expected to close in the third quarter of 2009.
- On August 4, 2009, we announced that we had implemented and will continue to work on selling, general and administrative ("SG&A") austerity measures with a target reduction of approximately \$100 million on an annualized basis, as compared to 2008. The SG&A reduction efforts include a 25% corporate headcount reduction, the suspension, until further notice, of 2009 incentive compensation plans, including special equity awards, a reduction of warehousing and inventory levels, limitations of in-house contractors, the suspension of many association memberships, the reduction of business travel expenses and the review of corporate lease arrangements.
- On August 5, 2009, we announced that we will indefinitely idle our paper machines No. 4 and No. 5 at our Thunder Bay, Ontario newsprint mill, effective August 21, 2009, due to weak market conditions.

ABITIBIBOWATER INC.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following management's discussion and analysis of financial condition and results of operations ("MD&A") of AbitibiBowater Inc. (referred to with its subsidiaries and affiliates unless otherwise indicated, as "AbitibiBowater," "we," "our" or the "Company") provides information that we believe is useful in understanding our operating results, cash flows and financial condition for the three and six months ended June 30, 2009. On April 16 and 17, 2009, AbitibiBowater Inc. and certain of its U.S. and Canadian subsidiaries filed voluntary petitions for creditor protection. See "Creditor Protection Proceedings" below.

Cautionary Statements Regarding Forward-Looking Information and Use of Third-Party Data

Statements in this Quarterly Report on Form 10-Q that are not reported financial results or other historical information of AbitibiBowater are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. They include, for example, statements relating to our Creditor Protection Proceedings (as defined below), debtor in possession financing arrangements and reorganization process; our ability to successfully restructure our debt and other obligations at our Abitibi-Consolidated Inc. ("Abitibi") and Bowater Incorporated ("Bowater") (both subsidiaries of AbitibiBowater Inc.) subsidiaries; our efforts to reduce costs and increase revenues and profitability, including our continued efforts to reduce selling, general and administrative expenses; our business outlook; our curtailment of production of certain of our products; our assessment of market conditions; and the success of our program to sell non-core assets in light of the current global economic conditions and the requirements under the creditor protection proceedings to obtain court approval for asset sales, as well as strategies for achieving our goals generally. Forward-looking statements may be identified by the use of forward-looking terminology such as the words "should," "would," "could," "will," "may," "expect," "believe," "anticipate" and other terms with similar meaning indicating possible future events or potential impact on the business or shareholders of AbitibiBowater.

The reader is cautioned not to place undue reliance on these forward-looking statements, which are not guarantees of future performance. These statements are based on management's current assumptions, beliefs and expectations, all of which involve a number of business risks and uncertainties that could cause actual results to differ materially. These risks and uncertainties include, but are not limited to the following: (i) risks and uncertainties relating to our creditor protection proceedings including, among other things: (a) risks associated with our ability to: continue as a going concern; stabilize the business to maximize the chances of preserving all or a portion of the enterprise; develop a comprehensive restructuring plan in an effective and timely manner; resolve ongoing issues with creditors and other third parties whose interests may differ from ours; obtain court orders or approvals with respect to motions filed from time to time, including court approvals for asset sales; obtain alternative or replacement financing to replace our debtor in possession financing and restructure our substantial indebtedness and other obligations in a manner that allows us to obtain confirmation of a plan of reorganization by the courts in order to successfully exit our creditor protection proceedings, especially in light of the current decline in the global economy and the credit crisis; successfully implement a comprehensive restructuring plan and a plan of reorganization; generate cash from operations and maintain cash-on-hand; operate within the restrictions and limitations of our current and any future debtor in possession financing arrangements; realize full or fair value for any assets or business we may divest as part of our comprehensive restructuring plan; attract and retain customers; maintain market share as our competitors move to capitalize on customer concerns; maintain current relationships with customers, vendors and trade creditors by actively and adequately communicating on and responding to events, media and rumors associated with the creditor protection proceedings that could adversely affect such relationships; resolve claims made against us in connection with the creditor protection proceedings for amounts not exceeding our recorded liabilities subject to compromise; prevent third parties from obtaining court orders or approvals that are contrary to our interests; and reject, repudiate or terminate certain contracts; and (b) risks and uncertainties associated with: limitations on actions against any debtor during the creditor protection proceedings; and the values, if any, that will be ascribed in our creditor protection proceedings to our various pre-petition liabilities, common stock and other securities; and (ii) risks and uncertainties relating to our business including: industry conditions generally and further growth in alternative media; our ability to achieve growth in the stronger international destinations where market conditions are more favorable; our capital intensive operations and the adequacy of our capital resources; our ability to obtain timely contributions to our cost-reduction initiatives from our unionized and salaried employees; the prices and terms under which we would be able to sell targeted assets; the volatility of the U.S. dollar versus the Canadian dollar; the costs of raw materials such as energy, chemicals and fiber and the success of our post-merger integration activities, including the implementation of additional measures to

[Table of Contents](#)

ABITIBIBOWATER INC.

enhance our operating efficiency and productivity; our ability to obtain fair compensation for our expropriated assets in the Province of Newfoundland and Labrador, Canada; and the possibility that we could lose any or all of our equity interest in Augusta Newsprint Company. Additional risks that could cause actual results to differ from forward-looking statements are enumerated in our Annual Report on Form 10-K for the year ended December 31, 2008, filed on April 30, 2009, particularly the “Risks Relating to our Creditor Protection Proceedings.” See Item 1A, “Risk Factors,” in Part II of this Form 10-Q for a discussion of an additional risk factor. All forward-looking statements in this Quarterly Report on Form 10-Q are expressly qualified by the cautionary statements contained or referred to in this section and in our other filings with the United States Securities and Exchange Commission (“SEC”) and the Canadian securities regulatory authorities. We disclaim any obligation to publicly update or revise any forward-looking information, whether as a result of new information, future events or otherwise.

Market and industry data

Information about industry or general economic conditions contained in this Quarterly Report on Form 10-Q is derived from third-party sources and certain trade publications (“Third-Party Data”) that we believe are widely accepted and accurate; however, we have not independently verified this information and cannot provide assurances of its accuracy.

Our Financial Information and the Going Concern Assumption

The discussion should be read in conjunction with, and is qualified in its entirety by reference to, our unaudited interim consolidated financial statements and related notes appearing in Item 1 of this Quarterly Report on Form 10-Q (“Unaudited Interim Consolidated Financial Statements”), which have been prepared assuming that AbitibiBowater will continue as a going concern. The going concern basis of presentation contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. However, the commencement of the Creditor Protection Proceedings (as defined and discussed below) raises substantial doubt about our ability to continue as a going concern. The Creditor Protection Proceedings and our debtor in possession financing arrangements, which are discussed below under “Liquidity and Capital Resources,” provide us with a period of time to stabilize our operations and financial condition and develop a comprehensive restructuring plan. Management believes that these actions make the going concern basis of presentation appropriate. However, it is not possible to predict the outcome of these proceedings and as such, the realization of assets and discharge of liabilities are each subject to significant uncertainty. Further, our ability to continue as a going concern is dependent on market conditions and our ability to successfully develop and implement a comprehensive restructuring plan and improve profitability, obtain alternative financing to replace our debtor in possession financing arrangements and restructure our obligations in a manner that allows us to obtain confirmation of a plan of reorganization by the Courts (as defined below). However, it is not possible to predict whether the actions taken in our restructuring will result in improvements to our financial condition sufficient to allow us to continue as a going concern. If the going concern basis is not appropriate, adjustments will be necessary to the carrying amounts and/or classification of our assets and liabilities. Further, a comprehensive restructuring plan could materially change the carrying amounts and classifications reported in our Unaudited Interim Consolidated Financial Statements and could result in additional long-lived asset impairment charges. The assets and liabilities in our Unaudited Interim Consolidated Financial Statements do not reflect any adjustments related to such a comprehensive restructuring plan.

Creditor Protection Proceedings

U.S. and Canadian filings for creditor protection

Our Abitibi and Bowater subsidiaries experienced significant recurring losses in recent years, which resulted in significant negative operating cash flows. As global economic conditions dramatically worsened beginning in 2008, these entities each experienced significant pressure on their business and a deterioration of their liquidity. The extreme volatility in the global equity and credit markets further compounded the situation by limiting our ability to refinance our debt obligations. During the first quarter of 2009, both Abitibi and Bowater experienced severe liquidity crises due to continued negative operating cash flows resulting from lower sales activity as a result of current conditions in the industry and the global economy and faced large impending debt maturities and repayment obligations. Both Abitibi and Bowater attempted various refinancing efforts in the first quarter of 2009, which were ultimately unsuccessful. Therefore, on April 16, 2009, AbitibiBowater Inc. and certain of its U.S. and Canadian subsidiaries filed voluntary petitions (collectively, the “Chapter 11 Cases”) in the United States Bankruptcy Court for the District of Delaware (the “U.S. Court”) for relief under the provisions of Chapter 11 of the United States Bankruptcy Code, as amended (“Chapter 11”). In addition, on April 17, 2009, AbitibiBowater Inc. and certain of its Canadian subsidiaries sought

[Table of Contents](#)

ABITIBIBOWATER INC.

creditor protection (the “CCAA Proceedings”) under the Companies’ Creditors Arrangement Act (the “CCAA”) with the Superior Court of Quebec in Canada (the “Canadian Court”). On April 17, 2009, Abitibi and its wholly-owned subsidiary, Abitibi-Consolidated Company of Canada (“ACCC”), each filed a voluntary petition for provisional and final relief (the “Chapter 15 Cases”) in the U.S. Court under the provisions of Chapter 15 of the United States Bankruptcy Code, as amended, to obtain recognition and enforcement in the United States of certain relief granted in the CCAA Proceedings. The Chapter 11 Cases, the Chapter 15 Cases and the CCAA Proceedings are collectively referred to as the “Creditor Protection Proceedings.” The U.S. Court and the Canadian Court are collectively referred to as the “Courts.” Our subsidiaries which own our Bridgewater, United Kingdom and Mokpo, South Korea operations were not included in the Creditor Protection Proceedings and will continue to operate outside of such proceedings. In addition, almost all of our less than wholly-owned subsidiaries were excluded from the Creditor Protection Proceedings and will continue to operate outside of such proceedings. We initiated the Creditor Protection Proceedings in order to enable us to pursue reorganization efforts under the protection of Chapter 11 and the CCAA. The Creditor Protection Proceedings will allow us to reassess our business strategy with a view to developing a comprehensive financial and business restructuring plan. We remain in possession of our assets and properties and are continuing to operate our business and manage our properties as “debtors in possession” under the jurisdiction of the Courts and in accordance with the applicable provisions of Chapter 11 and the CCAA. In general, we and our subsidiaries are authorized to continue to operate as ongoing businesses, but may not engage in transactions outside the ordinary course of business without the approval of the relevant court(s).

On July 2, 2009, we appointed a Chief Restructuring Officer (the “CRO”), who will work closely with our executive management team. The appointment of a CRO was a requirement under our Bowater DIP Agreement (defined and discussed below under “Liquidity and Capital Resources”). The CRO’s primary responsibilities are to support our efforts in the restructuring process stemming from our Creditor Protection Proceedings.

The commencement of the Creditor Protection Proceedings constituted an event of default under substantially all of our pre-petition debt obligations, and those debt obligations became automatically and immediately due and payable by their terms, although any action to enforce such payment obligations is stayed as a result of the commencement of the Creditor Protection Proceedings. Due to the commencement of the Creditor Protection Proceedings, unsecured pre-petition debt obligations of \$4,893 million are included in “Liabilities subject to compromise” in our Unaudited Consolidated Balance Sheets included in our Unaudited Interim Consolidated Financial Statements (“Unaudited Consolidated Balance Sheets”) as of June 30, 2009. Secured pre-petition debt obligations of \$1,085 million (consisting of Abitibi’s \$413 million 13.75% Senior Secured Notes due 2011, Abitibi’s \$347 million term loan and Bowater’s \$325 million bank credit facilities) are included in current liabilities in our Unaudited Consolidated Balance Sheets as of June 30, 2009. See Note 3, “Creditor Protection Proceedings Related Disclosures – Liabilities subject to compromise,” to our Unaudited Interim Consolidated Financial Statements.

Debtor in possession financing arrangements

In the Creditor Protection Proceedings, we have: (i) sought and obtained final approval by the Courts to enter into a debtor in possession financial facility for the benefit of AbitibiBowater Inc. and certain of our Bowater subsidiaries, (ii) sought and obtained final approval by the Canadian Court to enter into a debtor in possession financial facility for the benefit of Abitibi and Donohue Corp. (“Donohue”), an indirect, wholly-owned subsidiary of AbitibiBowater Inc., which was a wholly-owned subsidiary of ACCC prior to April 1, 2008, and (iii) obtained final approval by the Courts to amend and restate, in its entirety, the Abitibi and Donohue existing accounts receivable securitization program. Each of these financing arrangements is discussed in further detail under “Liquidity and Capital Resources.”

Reorganization process

General

The Courts have issued a variety of orders on either a final or interim basis intended to support our business continuity throughout the restructuring process. These orders include, among other things, authorization to:

- (i) make payments relating to certain employees’ pre-petition wages, salaries and benefit programs in the ordinary course;

Table of Contents

ABITIBIBOWATER INC.

- (ii) ensure the continuation of existing cash management systems;
- (iii) honor certain ongoing customer obligations;
- (iv) enter into the Bowater DIP Agreement and the Abitibi DIP Agreement (both defined and discussed below under “Liquidity and Capital Resources”) and
- (v) enter into the Abitibi and Donohue second amended and restated accounts receivable securitization program on June 16, 2009 (as discussed below under “Liquidity and Capital Resources”).

We have retained legal and financial professionals to advise us on the Creditor Protection Proceedings and may, from time to time, seek court approval for the retention of additional professionals.

On April 28, 2009, the United States Trustee for the District of Delaware appointed an official committee of unsecured creditors (the “Creditors’ Committee”) in the Chapter 11 Cases pursuant to the requirements of Chapter 11. The Creditors’ Committee and its legal representatives have a right to be heard on all matters that come before the U.S. Court with respect to us.

Under the terms of a Canadian Court order, Ernst & Young Inc. serves as the court-appointed monitor under the CCAA Proceedings (the “Monitor”) and is assisting us in formulating our restructuring plan.

Stay of claims

Subject to certain exceptions under Chapter 11 and the CCAA, our filings (and in Canada, the Initial Order, as defined below) automatically enjoined, or stayed, the continuation of any judicial or administrative proceedings or other actions against us or our property to recover, collect or secure a claim arising prior to the filing of the Creditor Protection Proceedings. Thus, for example, most creditor actions to obtain possession of property from us, or to create, perfect or enforce any lien against our property, or to collect on monies owed or otherwise exercise rights or remedies with respect to a pre-petition claim, are enjoined unless and until the Courts lift such stay.

We began notifying all known current or potential creditors regarding these filings shortly after the commencement of the Creditor Protection Proceedings. We have successfully applied on several occasions to the Canadian Court in order to enforce the stay of proceedings against creditors acting in breach of the stay.

Rejection and repudiation of contractual obligations

Under Section 365 and other relevant sections of Chapter 11, we may assume, assume and assign, or reject certain executory contracts and unexpired leases, including leases of real property and equipment, subject to the approval of the U.S. Court and certain other conditions. Similarly, pursuant to the initial order issued by the Canadian Court on April 17, 2009 (the “Initial Order”), we have the right to, among other things, repudiate agreements, contracts or arrangements of any nature whatsoever, whether oral or written, subject to the approval of the Monitor or further order of the Canadian Court. Any description of an agreement, contract, unexpired lease or arrangement in this Quarterly Report on Form 10-Q must be read in light of these overriding rights pursuant to Section 365 of Chapter 11 and to the CCAA, as applicable.

Since initiating the Creditor Protection Proceedings, we have engaged and will continue to engage in a review of our various agreements in light of the overriding rights described above. The following highlights some of the more important steps relating to the rejection and repudiation of contractual obligations we have taken to date:

- On May 8, 2009, we obtained an order from the Canadian Court specifying that the payment of special contributions for past service to Canadian pension plans maintained by Abitibi and Bowater could be suspended. Abitibi and Bowater continue to make their respective pension plan contributions for current service costs. Special contributions for past service that were suspended amounted to approximately \$102 million for Abitibi and approximately \$57 million for Bowater on an annual basis.

[Table of Contents](#)

ABITIBIBOWATER INC.

- We repudiated certain supply contracts between Abitibi and SFK Pâte S.E.N.C. and on May 21, 2009, the Canadian Court rejected a motion by SFK Pâte S.E.N.C. to overturn that repudiation.
- Bowater Canadian Forest Products Inc. (“BCFPI”), a subsidiary of Bowater, Abitibi and ACCC repudiated certain contracts with Boralex Dolbeau Inc. and on July 28, 2009, we obtained a motion *De Bene Esse* to confirm our repudiation of those contracts in light of injunctions issued by the Canadian Court and the Court of Appeal of Quebec on January 22, 2008 and October 8, 2008, respectively, initially preventing such actions. As a result of our repudiation of these contracts, our Dolbeau, Quebec facility has been effectively idled since July 7, 2009.

For additional information, see Note 3, “Creditor Protection Proceedings Related Disclosures — Reorganization items, net and — Liabilities subject to compromise,” to our Unaudited Interim Consolidated Financial Statements.

Plan of reorganization

In order to successfully exit from Chapter 11 and the CCAA, we will be required to propose and obtain approval from affected creditors and confirmation by the Courts of a plan of reorganization that satisfies the requirements of Chapter 11 and the CCAA. An approved plan of reorganization would resolve our pre-petition obligations, set forth the revised capital structure of the newly reorganized entity and provide for corporate governance following our exit from Chapter 11 and the CCAA.

In the United States, Chapter 11 provides that we have the exclusive right for 120 days after the filing of the Creditor Protection Proceedings to file a plan of reorganization with the U.S. Court. On August 4, 2009, the U.S. Court entered an order extending our exclusive right to file a plan of reorganization and solicit votes thereon until December 14, 2009 and February 10, 2010, respectively. We will likely file additional motions to request extensions of this exclusivity period, which we believe are routinely granted up to 18 months in cases of this size and complexity. If our exclusivity period were to lapse, any party in interest would be able to file a plan of reorganization. In addition to being voted on by holders of impaired claims and equity interests, a plan of reorganization must satisfy certain requirements of Chapter 11 and must be approved or confirmed by the U.S. Court in order to become effective.

Similarly, in Canada, the Initial Order provides for a general stay of proceedings for an initial period of 30 days. On May 14, 2009, we filed a motion to request an extension of this stay of proceedings and obtained an extension until September 4, 2009. We will likely file additional motions to request further extensions of this stay of proceedings, which we believe are routinely granted for up to 18 months in cases of this size and complexity. The Initial Order provides that a plan of reorganization under the CCAA shall be filed with the Canadian Court before the termination of the stay of proceedings or such other time or times as may be allowed by the Canadian Court. Third parties could thereafter seek permission to file a plan of reorganization. In addition to being voted on by the required majority of holders of impaired claims and equity interests, a plan of reorganization must satisfy certain requirements of the CCAA and must be approved or confirmed by the Canadian Court in order to become effective.

The timing of filing a plan of reorganization by us will depend on the timing and outcome of numerous other ongoing matters in the Creditor Protection Proceedings. There can be no assurance that a plan of reorganization will be supported and approved by affected creditors and confirmed by the Courts or that any such plan will be implemented successfully.

Under the priority scheme established by Chapter 11 and the CCAA, unless creditors agree otherwise, pre-petition liabilities and post-petition liabilities must be satisfied in full before stockholders are entitled to receive any distribution or retain any property under a plan of reorganization. The ultimate recovery to creditors and/or stockholders, if any, will not be determined until confirmation of a plan or plans of reorganization. No assurance can be given as to what values, if any, will be ascribed to each of these constituencies or what types or amounts of distributions, if any, they will receive. A plan of reorganization could result in holders of our liabilities and/or securities, including our common stock, receiving no distribution on account of their interests and cancellation of their holdings. A plan of reorganization could also result in holders of our common stock being materially diluted. Because of such possibilities, the value of our liabilities and securities, including our common stock, is highly speculative. Appropriate caution should be exercised with respect to existing and future investments in any of our liabilities and/or securities. At this time, there can be no assurance that we will be able to restructure as a going concern, as described above, or successfully propose or implement a plan of reorganization.

ABITIBIBOWATER INC.

See Part I, Item 1A, “Risk Factors — Risks Related to Our Creditor Protection Proceedings,” in our Annual Report on Form 10-K for the year ended December 31, 2008, filed on April 30, 2009 for, among other things, the strategic, financial, operational and procedural risks resulting from the Creditor Protection Proceedings. See Item 1A, “Risk Factors,” in Part II of this Form 10-Q for a discussion of an additional risk factor.

Further information pertaining to our Creditor Protection Proceedings may be obtained through our website at www.abitibibowater.com. Certain information regarding the CCAA Proceedings, including the reports of the Monitor, is available at the Monitor’s website at www.ey.com/ca/abitibibowater. Documents filed with the U.S. Court and other general information about the Chapter 11 Cases are available at <http://chapter11.epiqsystems.com/abh>. Information contained on these websites does not constitute a part of this Quarterly Report on Form 10-Q.

Listing and trading of our common stock and the exchangeable shares of AbitibiBowater Canada Inc.

Due to the commencement of the Creditor Protection Proceedings, the New York Stock Exchange suspended the trading of our common stock at the opening of business on April 16, 2009 and delisted our common stock at the opening of business on May 21, 2009. Our common stock is currently traded in the over-the-counter market and is quoted on the Pink Sheets Quotation Service (“Pink Sheets”) and on the OTC Bulletin Board under the symbol “ABWTQ.” In addition, the Toronto Stock Exchange suspended the trading of our common stock and the exchangeable shares of AbitibiBowater Canada Inc. at the opening of business on April 16, 2009 and delisted our common stock and the exchangeable shares of AbitibiBowater Canada Inc. at the close of market on May 15, 2009.

While we are in the Creditor Protection Proceedings, investments in our securities is highly speculative. Our common stock and exchangeable shares may have little or no value and there can be no assurance that they will not be cancelled pursuant to the comprehensive restructuring plan.

Reporting requirements

Effective upon the commencement of the Creditor Protection Proceedings, we applied the American Institute of Certified Public Accountants’ Statement of Position 90-7 (“SOP 90-7”), “Financial Reporting by Entities in Reorganization under the Bankruptcy Code,” in preparing our Unaudited Interim Consolidated Financial Statements and we will continue to apply SOP 90-7 while we operate under the Creditor Protection Proceedings. SOP 90-7 does not change the manner in which financial statements are prepared. However, it requires that the financial statements distinguish transactions and events that are directly associated with the reorganization from the ongoing operations of the business. Accordingly, certain expenses (including professional fees) and provisions for losses directly associated with the reorganization and restructuring of the business that have been realized or incurred in the Creditor Protection Proceedings have been recorded in “Reorganization items, net” in the Unaudited Consolidated Statements of Operations included in our Unaudited Interim Consolidated Financial Statements (“Unaudited Consolidated Statements of Operations”). For additional information, see Note 3, “Creditor Protection Proceedings Related Disclosures – Reorganization items, net,” to our Unaudited Interim Consolidated Financial Statements. The timing of recognition of Reorganization items, net is in accordance with United States generally accepted accounting principles related to accounting for severance and termination benefits and accounting for costs associated with exit and disposal activities (including costs incurred in a restructuring).

Pre-petition obligations that may be impaired by the reorganization process have been classified in the Unaudited Consolidated Balance Sheets as “Liabilities subject to compromise.” These liabilities have been reported at the amounts expected to be allowed by the Courts, even if they may be settled for lesser amounts. For additional information, see Note 3, “Creditor Protection Proceedings Related Disclosures – Liabilities subject to compromise,” to our Unaudited Interim Consolidated Financial Statements. Additionally, we have continued to record interest expense on certain of our pre-petition debt obligations. For additional information, see Note 11, “Liquidity and Debt,” to our Unaudited Interim Consolidated Financial Statements.

As a result of the Creditor Protection Proceedings, we are required to periodically file various documents with and provide certain information to the Courts, the Monitor and the Creditors’ Committee. Depending on the jurisdiction, such documents and information may include statements of financial affairs, schedules of assets and liabilities, monthly operating reports and information relating to forecasted cash flows, as well as certain other financial information. Such documents and information, to the extent they are prepared or provided by us, will be prepared and provided according to the requirements of the relevant legislation, subject to variation as approved by an order of the relevant court. Such documents and information may be prepared or provided on an unconsolidated, unaudited or preliminary basis, or in a

[Table of Contents](#)

ABITIBIBOWATER INC.

format different from that used in the consolidated financial statements and the debtors' condensed combined financial statements included in our periodic reports filed with the SEC. Accordingly, the substance and format of these documents and information may not allow meaningful comparison with our regular publicly disclosed consolidated financial statements. Moreover, such documents and information are not prepared for the purpose of providing a basis for an investment decision relating to our securities or for comparison with other financial information filed with the SEC.

Expropriation

On December 16, 2008, following our December 4, 2008 announcement of the permanent closure of our Grand Falls paper mill, the Government of Newfoundland and Labrador, Canada passed legislation under Bill 75 to expropriate all of our timber rights, water rights, leases and hydroelectric assets in the Province of Newfoundland and Labrador, whether partially or wholly owned through our subsidiaries and affiliated entities. The Government of Newfoundland and Labrador also announced that it does not plan to compensate us for the loss of the water and timber rights, but has indicated that it may compensate us for certain of our hydroelectric assets. However, it has made no commitment to ensure that such compensation would represent the fair market value of such assets. As a result of the expropriation, in the fourth quarter of 2008, we recorded, as an extraordinary loss, a non-cash write-off of the carrying value of the expropriated assets of \$256 million.

We have retained legal counsel to review all legal options relating to the expropriation. On April 23, 2009, we filed a Notice of Intent to Submit a Claim to Arbitration (the "Notice of Intent") under the North American Free Trade Agreement ("NAFTA"), relating to the expropriation of these assets specifying what we believe to be violations by the Government of Newfoundland and Labrador under the terms of NAFTA, for which the Government of Canada is responsible. Although there is no guarantee regarding the outcome and receipt of fair compensation under the terms of NAFTA, we believe that the Government of Newfoundland and Labrador has violated the terms of NAFTA, and that we (a U.S. domiciled company) should be fairly compensated for the expropriation. Under the terms of NAFTA, compensation for expropriated assets is based on fair market value. The Notice of Intent asserts that the expropriation was arbitrary, discriminatory and illegal, and we are seeking in excess of Cdn\$300 million in direct compensation for the fair market value of the expropriated rights and assets, plus additional costs and further relief as the Arbitral Tribunal may deem just and appropriate. We have asserted in the Notice of Intent that the expropriation breaches Canada's NAFTA obligations on a number of grounds, including among others: (i) the criteria for expropriation are not met in Bill 75; (ii) Bill 75 does not ensure payment for the fair market value of the expropriated rights and assets; (iii) Bill 75 purports to strip us of any rights to access the courts, which is independently a violation of NAFTA and (iv) Bill 75 is retaliatory in nature and discriminates against us.

We filed the Notice of Intent as part of the dispute resolution mechanism available under NAFTA and we are in a position to submit a notice of arbitration to commence the proceedings now that the mandatory 90-day waiting period following the filing of our Notice of Intent to arbitrate has passed. The filing of the notice of arbitration may be delayed to provide additional time for settlement opportunities. Although we believe that the Canadian Government will be required to compensate us for the fair market value of the expropriated assets, we have not recognized any asset for such claim in our Unaudited Interim Consolidated Financial Statements.

Business Strategy and Outlook

Through our subsidiaries, we manufacture newsprint, coated and specialty papers, market pulp and wood products. We operate pulp and paper facilities and wood products facilities in Canada, the United States, the United Kingdom and South Korea. Our reportable segments, which correspond to our primary product lines, are newsprint, coated papers, specialty papers, market pulp and wood products.

We are attempting to stabilize our business to maximize the chances of preserving all or a portion of the enterprise and evaluating our various operations, corporate structure and headcount to develop a comprehensive restructuring plan in an effective and timely manner, all in consultation with our business and financial advisors. As we develop a comprehensive restructuring plan, we will also consult with the Monitor and the Creditors' Committee and any such plan would be subject to the approval of the affected creditors and the Courts. There can be no assurance that any such plan will be confirmed or approved by any of the affected creditors or the Courts, or that any such plan will be implemented successfully.

ABITIBIBOWATER INC.

Since the fourth quarter of 2007, we have experienced significant recurring losses and negative operating cash flows, and have taken numerous actions to mitigate these losses and negative cash flows, including, among other things: (i) the permanent closures and indefinite idling of certain facilities, as well as market-related downtime at other facilities, to reduce our production capacity, (ii) the idling of more than 50% of our lumber production and the consolidation of certain of our wood products operations in Eastern Canada in the last half of 2008, which materially improved our cost competitiveness and has reduced our loss on the business as the business segment continues to be challenged by severe economic conditions and (iii) the successful implementation in 2008 of price increases in newsprint, coated papers, specialty papers and market pulp (however, as noted below, prices have subsequently decreased). During the first quarter of 2009, we permanently closed our Grand Falls, Newfoundland and Labrador newsprint mill, representing 205,000 metric tons annually, and indefinitely idled, until further notice, our Alabama River, Alabama newsprint mill, representing 265,000 metric tons annually. In addition to the Grand Falls closure and the Alabama River idling, we further curtailed approximately 583,000 metric tons of newsprint during the first six months of 2009. In August 2009, we announced the indefinite idling of our two newsprint machines at our Thunder Bay, Ontario facility effective August 21, 2009. Including the Thunder Bay idling, we expect to curtail approximately 250,000 to 300,000 metric tons of newsprint per quarter for the balance of 2009. During the first six months of 2009, we curtailed approximately 335,000 short tons of specialty and coated papers. We expect to curtail approximately 130,000 to 140,000 short tons of specialty and coated papers per quarter for the balance of 2009. During the first six months of 2009, we also curtailed approximately 114,000 metric tons of market pulp. Further capacity curtailments in 2009 would become increasingly likely as North American newsprint demand continues to decline or if market conditions continue to worsen for all of our product lines. In our wood products business segment, we expect our 2009 operating rate to continue at extremely low levels and we will continue to take curtailment and other actions to minimize the financial impact as a result of the economic conditions. Additionally, as a result of our repudiation of certain contracts with Boralex Dolbeau Inc. (see Note 2, "Creditor Protection Proceedings — Reorganization process," to our Unaudited Interim Consolidated Financial Statements), our Dolbeau, Quebec facility has been effectively idled since July 7, 2009.

On August 4, 2009, we announced that we had implemented and will continue to work on selling, general and administrative ("SG&A") austerity measures with a target reduction of approximately \$100 million on an annualized basis, as compared to 2008. The SG&A reduction efforts include, among other items, a 25% corporate headcount reduction and the suspension, until further notice, of 2009 incentive compensation plans, including special equity awards. In 2008, we increased our target asset sales to \$750 million by the end of 2009, including our interest in Manicouagan Power Company, other hydroelectric sites, timberlands, sawmills and other assets. On March 13, 2009, we announced that we signed a non-binding agreement in principle for the sale of our interest in Manicouagan Power Company for a total purchase price of approximately Cdn\$615 million (\$529 million), payable 90% upon the closing of the transaction and 10% on the second anniversary of the closing, subject to adjustment for contingencies. The non-binding agreement is subject to certain terms and conditions including, but not limited to, satisfactory due diligence, obtaining required consents and approvals and negotiation and execution of definitive agreements (including a long-term power supply agreement for our Baie-Comeau, Quebec paper mill).

For the duration of the Creditor Protection Proceedings, any divestiture not subject to the de minimis asset sale proceedings must be approved by the applicable court. No assurances can be provided that the applicable court will approve any such divestiture under their current terms, or at all, or as to the timing of any such approvals. Although our proposed sale of our investment in Manicouagan Power Company has not received formal court approval, the plan to sell was committed to prior to the commencement of the Creditor Protection Proceedings and the Abitibi DIP Agreement (as defined below) contemplates the planned sale of our investment in Manicouagan Power Company, which the Canadian Court noted during its review and approval of such agreement. Proceeds generated as a result of any divestiture may have to, and must in the case of our investment in Manicouagan Power Company, be used to repay amounts outstanding pursuant to the terms of our debtor in possession financing arrangements.

On July 27, 2009, we agreed to sell an aggregate of approximately 300,000 acres of timberlands in the Province of Quebec for aggregate consideration of approximately Cdn\$53 million (\$48 million). The Canadian Court has approved this transaction. In addition, on July 28, 2009, we agreed, subject to court approval, to participate in a transaction pursuant to which we would receive approximately \$25 million in respect of a subsidiary's interest in the sale of certain timberlands formerly owned by a predecessor of that entity. Each of these transactions is expected to close in the third quarter of 2009.

We continue to take a disciplined approach to capital spending until market conditions improve and translate into strong positive cash flow. In light of the Creditor Protection Proceedings, any significant capital spending would be subject to the approval of the applicable court, and there can be no assurance that such approval would be granted.

[Table of Contents](#)

ABITIBIBOWATER INC.

During the three and six months ended June 30, 2009, Bowater recorded \$85 million and \$118 million, respectively, of alternative fuel mixture tax credits, which were included in "Cost of sales, excluding depreciation, amortization and cost of timber harvested" in our Consolidated Statements of Operations. This tax credit expires at the end of 2009. The U.S. Congress is currently reviewing the Alternative Fuel Credit law and may enact legislation to repeal the credit prior to its scheduled expiration.

Business and Financial Review

Consolidated Results of Operations

In the second quarter of 2009, all of our paper and pulp product lines experienced significant demand declines due to trends in the newsprint industry and global economic conditions. In our newsprint segment, North American newsprint consumption continued to decline in the second quarter of 2009 due to a significant decline in circulation and advertising. Demand for coated mechanical papers continued to decline in the second quarter of 2009 primarily due to sharp declines in advertising. In the second quarter of 2009, the specialty papers' industry experienced declines in North American demand for standard uncoated mechanical papers, lightweight or directory grades and supercalendered high gloss papers. The decrease in global demand for market pulp during the second quarter of 2009 was primarily due to decreased demand from offshore markets, particularly Western Europe. Our wood products segment continues to be negatively impacted by lower demand due to a weak U.S. housing market.

Due to the Creditor Protection Proceedings and the significant uncertainties associated therewith, our past operating results and financial condition are not likely to be indicative of our future operating results and financial condition.

<i>(Unaudited, in millions, except per share amounts)</i>	Three Months Ended June 30,			Six Months Ended June 30,		
	2009	2008	Change	2009	2008	Change
Sales	\$ 1,036	\$ 1,696	\$ (660)	\$ 2,149	\$ 3,424	\$ (1,275)
Operating loss	(285)	(63)	(222)	(299)	(212)	(87)
Net loss attributable to AbitibiBowater Inc.	(510)	(251)	(259)	(728)	(499)	(229)
Net loss per share attributable to AbitibiBowater Inc. — basic and diluted	(8.84)	(4.36)	(4.48)	(12.62)	(8.68)	(3.94)
Significant items that (unfavorably) favorably impacted operating loss:						
Product pricing			\$ (216)			\$ (155)
Shipments			(444)			(1,120)
Change in sales			(660)			(1,275)
Change in cost of sales and depreciation, amortization and cost of timber harvested			548			1,188
Change in distribution costs			70			154
Change in selling and administrative expenses			59			76
Change in closure costs, impairment and other related charges			(223)			(243)
Change in net gain on disposition of assets			(16)			13
			\$ (222)			\$ (87)

ABITIBIBOWATER INC.

Three months ended June 30, 2009 versus June 30, 2008

Sales

Sales decreased \$660 million, or 38.9%, from \$1,696 million in the second quarter of 2008 to \$1,036 million in the second quarter of 2009. The decrease was primarily due to significantly lower shipments of newsprint, coated papers, specialty papers and wood products, as well as significantly lower average transaction prices for newsprint, coated papers, market pulp and wood products. The impact of each of these items is discussed further in the "Segment Results of Operations" section of this MD&A.

Operating loss

Operating loss increased \$222 million from \$63 million in the second quarter of 2008 to \$285 million in the second quarter of 2009. The above table analyzes the major items that increased operating loss. A brief explanation of these major items follows.

Manufacturing costs decreased \$548 million in the second quarter of 2009 as compared to the second quarter of 2008, primarily due to lower volumes (\$238 million), favorable currency exchange (\$90 million), alternative fuel mixture tax credits (\$85 million) and lower costs for labor and benefits (\$47 million), depreciation (\$40 million), wood and fiber (\$22 million), maintenance (\$17 million) and other favorable costs. These lower costs were partially offset by higher costs for chemicals (\$13 million). For additional information regarding the alternative fuel mixture tax credits, reference is made to Note 17, "Alternative Fuel Mixture Tax Credits," to our Unaudited Interim Consolidated Financial Statements.

Distribution costs decreased in the second quarter of 2009 as compared to the second quarter of 2008, due to significantly lower shipment volumes and lower distribution costs per ton.

Selling and administrative costs decreased in the second quarter of 2009 as compared to the second quarter of 2008 by \$59 million, primarily due to our continued efforts to reduce costs, as well as a \$16 million reversal of previously recorded Canadian capital tax liabilities in the second quarter of 2009 as a result of legislation enacted which eliminated this tax.

Additionally, in the second quarter of 2009, we incurred approximately \$240 million in closure costs, impairment and other related charges, primarily for long-lived asset impairment charges related to: (i) assets held for sale for our interest in Manicouagan Power Company and (ii) certain of our newsprint mill assets. In addition, we recorded closure costs, impairment and other related charges related to the permanent closures of our Westover, Alabama sawmill and Goodwater, Alabama planer mill operations. In the second quarter of 2008, we incurred \$17 million in closure costs, impairment and other related charges, primarily due to severance costs for workforce reductions across numerous facilities, the permanent closure of our recycling facility at Baie-Comeau and additional asset impairment charges at our Dalhousie facility. We realized \$1 million in net gains on disposition of timberlands and other assets in the second quarter of 2009, compared to net gains of \$17 million in the same period of 2008.

Net loss attributable to AbitibiBowater Inc.

Net loss attributable to AbitibiBowater Inc. in the second quarter of 2009 was \$510 million, or \$8.84 per common share, an increase in net loss of \$259 million, or \$4.48 per common share, compared to the second quarter of 2008. The increase in net loss attributable to AbitibiBowater Inc. was a result of the increase in operating loss of \$222 million as noted above, as well as an increase in other (expense) income, net and reorganization items, net, partially offset by a significant decrease in interest expense resulting from the Creditor Protection Proceedings and an increased income tax benefit. The increase in other (expense) income, net was primarily due to a gain on extinguishment of debt of \$31 million in 2008. We have incurred significant costs associated with our Creditor Protection Proceedings and will continue to incur significant costs, which could adversely affect our results of operations and financial condition. In the second quarter of

[Table of Contents](#)

ABITIBIBOWATER INC.

2009, we expensed approximately \$89 million related to our Creditor Protection Proceedings, which is recorded in “Reorganization items, net” in our Unaudited Consolidated Statements of Operations pursuant to SOP 90–7.

Six months ended June 30, 2009 versus June 30, 2008

Sales

Sales decreased \$1,275 million, or 37.2%, from \$3,424 million in the first six months of 2008 to \$2,149 million in the same period of 2009. The decrease was primarily due to significantly lower shipments of newsprint, coated papers, specialty papers, market pulp and wood products, as well as significantly lower transaction prices for newsprint, coated papers, market pulp and wood products, partially offset by higher transaction prices for specialty papers. The impact of each of these items is discussed further in the “Segment Results of Operations” section of this MD&A.

Operating loss

Operating loss increased \$87 million from \$212 million in the first six months of 2008 to \$299 million in the same period of 2009. The above table analyzes the major items that increased operating loss. A brief explanation of these major items follows.

Manufacturing costs decreased \$1,188 million in the first six months of 2009 as compared to the same period of 2008, primarily due to lower volumes (\$642 million), favorable currency exchange (\$231 million), alternative fuel mixture tax credits (\$118 million) and lower costs for labor and benefits (\$74 million), depreciation (\$62 million), wood and fiber (\$33 million), maintenance (\$22 million) and other favorable costs. These lower costs were partially offset by higher costs for chemicals (\$31 million).

Distribution costs decreased in the first six months of 2009 as compared to the same period of 2008, due to significantly lower shipment volumes and lower distribution costs per ton.

Selling and administrative costs decreased \$76 millions in the first six months of 2009 as compared to the same period of 2008, primarily due to our continued efforts to reduce costs and the elimination of our 2009 incentive compensation plans, as well as a \$16 million reversal of previously recorded Canadian capital tax liabilities in the second quarter of 2009 as a result of legislation enacted which eliminated this tax, partially offset by \$10 million of costs related to our unsuccessful refinancing efforts.

Additionally, in the first six months of 2009, we incurred approximately \$270 million in closure costs, impairment and other related charges, primarily for long-lived asset impairment charges related to: (i) assets held for sale for our interest in Manicouagan Power Company and (ii) certain of our newsprint mill assets. In addition, we recorded closure costs, impairment and other related charges related to the permanent closures of our Westover, Alabama sawmill and Goodwater, Alabama planer mill operations. In the first six months of 2008, we incurred approximately \$27 million in closure costs, impairment and other related charges for severance costs for workforce reductions across numerous facilities, the permanent closure of our Baie-Comeau recycling facility and additional charges for asset impairment and noncancelable contracts at our Dalhousie and Donnacona operations. We realized \$53 million in net gains on disposition of timberlands and other assets in the first six months of 2009, compared to net gains of \$40 million in the same period of 2008.

Net loss attributable to AbitibiBowater Inc.

Net loss attributable to AbitibiBowater Inc. in the first six months of 2009 was \$728 million, or \$12.62 per common share, an increase in net loss of \$229 million, or \$3.94 per common share, compared to the same period of 2008. The increase in net loss attributable to AbitibiBowater Inc. was a result of the increase in operating loss of \$87 million as noted above, as well as an increase in other (expense) income, net and reorganization items, net, partially offset by an increased income tax benefit. The increase in other (expense) income, net was primarily due to a gain on extinguishment of debt of \$31 million in 2008, fees for waivers and amendments to the Abitibi and Donohue accounts receivable securitization program of \$23 million in 2009 and a foreign exchange gain of \$25 million in 2008 as

[Table of Contents](#)

ABITIBIBOWATER INC.

compared to a foreign exchange loss of \$4 million in 2009. In the first six months of 2009, we expensed approximately \$99 million related to our Creditor Protection Proceedings, which is recorded in "Reorganization items, net" in our Unaudited Consolidated Statements of Operations pursuant to SOP 90-7.

Segment Results of Operations

We manage our business based on the products that we manufacture and sell to external customers. Our reportable segments, which correspond to our primary product lines, are newsprint, coated papers, specialty papers, market pulp and wood products. In general, our products are globally traded commodities. Pricing and the level of shipments of these products will continue to be influenced by the balance between supply and demand as affected by global economic conditions, changes in consumption and capacity, the level of customer and producer inventories and fluctuations in currency exchange rates. None of the income or loss items following "Operating loss" in our Unaudited Consolidated Statements of Operations are allocated to our segments, since those items are reviewed separately by management. For the same reason, closure costs, impairment and other related charges, employee termination costs, net gain on dispositions of assets, costs associated with our unsuccessful refinancing efforts and other discretionary charges or credits are not allocated to our segments. Share-based compensation expense and depreciation expense are, however, allocated to our segments. For further information regarding our segments, see Note 16, "Segment Information," to our Unaudited Interim Consolidated Financial Statements.

Newsprint

	Three Months Ended June 30,			Six Months Ended June 30,		
	2009	2008	Change	2009	2008	Change
Average price (per metric ton)	\$ 581	\$ 672	\$ (91)	\$ 630	\$ 646	\$ (16)
Average cost (per metric ton)	\$ 688	\$ 671	\$ 17	\$ 672	\$ 673	\$ (1)
Shipments (thousands of metric tons)	759	1,173	(414)	1,484	2,472	(988)
Downtime (thousands of metric tons)	367	21	346	742	66	676
Inventory at end of period (thousands of metric tons)	187	191	(4)	187	191	(4)

(Unaudited, in millions)

Segment sales	\$ 441	\$ 788	\$ (347)	\$ 935	\$ 1,597	\$ (662)
Segment operating (loss) income	(81)	1	(82)	(62)	(68)	6

Significant items that (unfavorably) favorably impacted segment operating (loss) income:

Product pricing			\$ (107)			\$ (30)
Shipments			(240)			(632)
Change in sales			(347)			(662)
Change in cost of sales and depreciation, amortization and cost of timber harvested			216			571
Change in distribution costs			40			90
Change in selling and administrative expenses			9			7
			\$ (82)			\$ 6

Three months ended June 30, 2009 versus June 30, 2008

Segment sales decreased \$347 million, or 44.0%, from \$788 million in the second quarter of 2008 to \$441 million in the second quarter of 2009, due to significantly lower shipment volumes and transaction prices as a result of industry and global economic conditions. Newsprint shipments for the second quarter of 2009 decreased 414,000 metric tons, or 35.3%, compared to the second quarter of 2008. Our average transaction price in the second quarter of 2009 was lower than the second quarter of 2008 as a result of a reduction in prices due to market conditions.

[Table of Contents](#)

ABITIBIBOWATER INC.

In the second quarter of 2009, the total downtime was primarily market-related downtime at several of our facilities. Inventory levels as of June 30, 2009 were 187,000 metric tons compared to inventory levels as of June 30, 2008 of 191,000 metric tons.

Segment operating income decreased \$82 million to an operating loss of \$81 million in the second quarter of 2009 compared to \$1 million of operating income in the second quarter of 2008, primarily due to decreased sales as discussed above, partially offset by lower manufacturing costs. The above table analyzes the major items that decreased operating income. A brief explanation of these major items follows.

Segment manufacturing costs decreased \$216 million in the second quarter of 2009 as compared to the second quarter of 2008, primarily due to lower volumes (\$119 million), favorable currency exchange (\$46 million), alternative fuel mixture tax credits (\$4 million) and lower costs for wood and fiber (\$25 million), depreciation (\$11 million) and labor and benefits (\$12 million), partially offset by higher costs for chemicals (\$2 million) and energy (\$4 million).

Segment distribution costs decreased in the second quarter of 2009 compared to the second quarter of 2008 due to significantly lower shipment volumes, as well as lower distribution costs per ton.

Six months ended June 30, 2009 versus June 30, 2008

Segment sales decreased \$662 million, or 41.4%, from \$1,597 million in the first six months of 2008 to \$935 million in the same period of 2009, primarily due to significantly lower shipment volumes as a result of industry and global economic conditions. Newsprint shipments for the first six months of 2009 decreased 988,000 metric tons, or 40.0%, compared to the same period of 2008.

For the first six months of 2009, the total downtime was primarily market-related downtime at several of our facilities.

Segment operating loss decreased \$6 million to \$62 million in the first six months of 2009 compared to \$68 million in the same period of 2008, primarily due to lower manufacturing costs, partially offset by the decrease in sales as noted above. The above table analyzes the major items that improved operating results. A brief explanation of these major items follows.

Segment manufacturing costs decreased \$571 million in the first six months of 2009 as compared to the same period of 2008, primarily due to lower volumes (\$363 million), favorable currency exchange (\$117 million), alternative fuel mixture tax credits (\$6 million) and lower costs for wood and fiber (\$43 million), depreciation (\$28 million) and labor and benefits (\$21 million), partially offset by higher costs for chemicals (\$6 million) and energy (\$7 million).

Segment distribution costs decreased in the first six months of 2009 compared to the same period of 2008 due to significantly lower shipment volumes, as well as lower distribution costs per ton.

Newsprint Third-Party Data: In the first six months of 2009, total North American newsprint demand declined 30.5% compared to the same period of 2008. North American newsprint demand for the month of June 2009 declined 24.8% compared to the month of June 2008. In the first six months of 2009, North American net exports of newsprint were 34.7% lower than the same period of 2008. Inventories for North American mills as of June 30, 2009 were 465,000 metric tons, which is 41.3% higher than as of June 30, 2008. The days of supply at the U.S. daily newspapers was 53 days as of June 30, 2009, which is 12.8% higher compared to 47 days as of June 30, 2008. The North American operating rate was 66.9% in the first six months of 2009 compared to 91.5% in the same period of 2008.

[Table of Contents](#)

ABITIBIBOWATER INC.

Coated Papers

	Three Months Ended June 30,			Six Months Ended June 30,		
	2009	2008	Change	2009	2008	Change
Average price (per short ton)	\$ 729	\$ 887	\$ (158)	\$ 759	\$ 864	\$ (105)
Average cost (per short ton)	\$ 524	\$ 701	\$ (177)	\$ 579	\$ 687	\$ (108)
Shipments (thousands of short tons)	129	187	(58)	274	388	(114)
Downtime (thousands of short tons)	49	2	47	85	2	83
Inventory at end of period (thousands of short tons)	30	43	(13)	30	43	(13)

(Unaudited, in millions)

Segment sales	\$ 94	\$ 166	\$ (72)	\$ 208	\$ 335	\$ (127)
Segment operating income	27	35	(8)	50	69	(19)

Significant items that (unfavorably) favorably impacted segment operating income:

Product pricing			\$ (30)			\$ (41)
Shipments			(42)			(86)
Change in sales			(72)			(127)
Change in cost of sales and depreciation, amortization and cost of timber harvested			56			92
Change in distribution costs			5			10
Change in selling and administrative expenses			3			6
			\$ (8)			\$ (19)

Three months ended June 30, 2009 versus June 30, 2008

Segment sales decreased \$72 million, or 43.4%, from \$166 million in the second quarter of 2008 to \$94 million in the second quarter of 2009, due to lower shipment volumes and lower average transaction prices.

In the second quarter of 2009, the total downtime was primarily market-related downtime.

Segment operating income decreased \$8 million to \$27 million in the second quarter of 2009 compared to \$35 million in the second quarter of 2008, primarily due to decreased sales as discussed above, partially offset by lower manufacturing costs. The above table analyzes the major items that impacted operating income. A brief explanation of these major items follows.

Segment manufacturing costs decreased \$56 million in the second quarter of 2009 as compared to the second quarter of 2008, primarily due to lower volumes (\$20 million), alternative fuel mixture tax credits (\$17 million) and lower costs for depreciation (\$3 million) and labor and benefits (\$9 million), partially offset by higher costs for chemicals (\$1 million). The average cost per ton decreased \$177 in the second quarter of 2009 as compared to the second quarter of 2008, primarily due to the alternative fuel mixture tax credits.

Segment distribution costs decreased in the second quarter of 2009 compared to the second quarter of 2008 due to lower shipment volumes, as well as lower distribution costs per ton.

Six months ended June 30, 2009 versus June 30, 2008

Segment sales decreased \$127 million, or 37.9%, from \$335 million in the first six months of 2008 to \$208 million in the same period of 2009, due to lower shipment volumes and lower average transaction prices.

[Table of Contents](#)

ABITIBIBOWATER INC.

For the first six months of 2009, the total downtime was primarily market-related downtime.

Segment operating income decreased \$19 million to \$50 million in the first six months of 2009 compared to \$69 million in the same period of 2008, primarily due to decreased sales as discussed above, partially offset by lower manufacturing costs. The above table analyzes the major items that impacted operating income. A brief explanation of these major items follows.

Segment manufacturing costs decreased \$92 million in the first six months of 2009 as compared to the same period of 2008, primarily due to lower volumes (\$45 million), alternative fuel mixture tax credits (\$27 million) and lower costs for depreciation (\$5 million) and labor and benefits (\$10 million), partially offset by higher costs for chemicals (\$5 million). The average cost per ton decreased \$108 in the first six months of 2009 as compared to the same period of 2008, primarily due to the alternative fuel mixture tax credits.

Segment distribution costs decreased in the first six months of 2009 compared to the same period of 2008 due to lower shipment volumes, as well as lower distribution costs per ton.

Coated Papers Third-Party Data: U.S. consumer magazine advertising pages decreased 27.9% in the first six months of 2009 compared to the same period of 2008. North American demand for coated mechanical papers decreased 30.5% in the first six months of 2009 compared to the same period of 2008. The industry operating rate was 69% in the first six months of 2009 compared to 91% in the same period of 2008. North American coated mechanical mill inventories were at 33 days supply as of June 30, 2009 compared to 25 days supply as of June 30, 2008.

Specialty Papers

	Three Months Ended June 30,			Six Months Ended June 30,		
	2009	2008	Change	2009	2008	Change
Average price (per short ton)	\$ 746	\$ 745	\$ 1	\$ 786	\$ 727	\$ 59
Average cost (per short ton)	\$ 697	\$ 799	\$ (102)	\$ 715	\$ 784	\$ (69)
Shipments (thousands of short tons)	440	602	(162)	856	1,248	(392)
Downtime (thousands of short tons)	141	33	108	250	80	170
Inventory at end of period (thousands of short tons)	126	155	(29)	126	155	(29)

(Unaudited, in millions)

Segment sales	\$ 328	\$ 449	\$ (121)	\$ 673	\$ 908	\$ (235)
Segment operating income (loss)	21	(32)	53	61	(71)	132

Significant items that favorably (unfavorably) impacted segment operating

income (loss):						
Product pricing			\$ —			\$ 77
Shipments			(121)			(312)
Change in sales			(121)			(235)
Change in cost of sales and depreciation, amortization and cost of timber harvested			156			333
Change in distribution costs			17			33
Change in selling and administrative expenses			1			1
			\$ 53			\$ 132

ABITIBIBOWATER INC.

Three months ended June 30, 2009 versus June 30, 2008

Segment sales decreased \$121 million, or 26.9%, from \$449 million in the second quarter of 2008 to \$328 million in the second quarter of 2009, primarily due to lower shipment volumes.

Our downtime in the second quarter of 2009 was primarily market-related downtime at several of our facilities. Inventory levels as of June 30, 2009 were 126,000 short tons compared to 155,000 short tons as of June 30, 2008.

Segment operating loss improved \$53 million to \$21 million of operating income in the second quarter of 2009 compared to a \$32 million operating loss in the second quarter of 2008, primarily due to lower manufacturing costs, partially offset by the decrease in sales as noted above. The above table analyzes the major items that improved operating loss. A brief explanation of these major items follows.

Segment manufacturing costs decreased \$156 million in the second quarter of 2009 as compared to the second quarter of 2008, primarily due to lower volumes (\$64 million), favorable currency exchange (\$26 million), alternative fuel mixture tax credits (\$8 million) and lower costs for depreciation (\$32 million), labor and benefits (\$16 million), maintenance (\$7 million) and other favorable costs. These lower costs were partially offset by higher costs for chemicals (\$6 million).

Segment distribution costs decreased in the second quarter of 2009 compared to the second quarter of 2008 due to lower shipment volumes, as well as lower distribution costs per ton.

Six months ended June 30, 2009 versus June 30, 2008

Segment sales decreased \$235 million, or 25.9%, from \$908 million in the first six months of 2008 to \$673 million in the same period of 2009, due to lower shipment volumes, partially offset by higher product pricing due to implemented price increases for our uncoated mechanical grades.

Our downtime in the first six months of 2009 was primarily market-related downtime at several of our facilities.

Segment operating loss improved \$132 million to \$61 million of operating income in the first six months of 2009 compared to a \$71 million operating loss in the same period of 2008, primarily due to lower manufacturing costs, partially offset by the decrease in sales as noted above. The above table analyzes the major items that improved operating loss. A brief explanation of these major items follows.

Segment manufacturing costs decreased \$333 million in the first six months of 2009 as compared to the same period of 2008, primarily due to lower volumes (\$150 million), favorable currency exchange (\$67 million), alternative fuel mixture tax credits (\$13 million) and lower costs for depreciation (\$69 million), labor and benefits (\$25 million), maintenance (\$8 million) and other favorable costs. These lower costs were partially offset by higher costs for chemicals (\$12 million).

Segment distribution costs decreased in the first six months of 2009 compared to the same period of 2008 due to lower shipment volumes, as well as lower distribution costs per ton.

Specialty Papers Third-Party Data: In the first six months of 2009 compared to the same period in 2008, North American demand for supercalendered high gloss papers was down 23.2%, for lightweight or directory grades was down 21.8%, for standard uncoated mechanical papers was down 19.4% and in total for all specialty papers was down 22.9%. The industry operating rate was 72% in the first six months of 2009 compared to 91% in the same period of 2008. North American uncoated mechanical mill inventories were at 22 days supply as of June 30, 2009 compared to 18 days supply as of June 30, 2008.

[Table of Contents](#)

ABITIBIBOWATER INC.

Market Pulp

	Three Months Ended June 30,			Six Months Ended June 30,		
	2009	2008	Change	2009	2008	Change
Average price (per metric ton)	\$ 498	\$ 719	\$ (221)	\$ 515	\$ 716	\$ (201)
Average cost (per metric ton)	\$ 335	\$ 630	\$ (295)	\$ 450	\$ 606	\$ (156)
Shipments (thousands of metric tons)	234	235	(1)	425	471	(46)
Downtime (thousands of metric tons)	25	16	9	104	20	84
Inventory at end of period (thousands of metric tons)	90	64	26	90	64	26

(Unaudited, in millions)

Segment sales	\$ 117	\$ 169	\$ (52)	\$ 219	\$ 337	\$ (118)
Segment operating income	38	21	17	27	52	(25)
Significant items that (unfavorably) favorably impacted segment operating income:						
Product pricing			\$ (52)			\$ (94)
Shipments			—			(24)
Change in sales			(52)			(118)
Change in cost of sales and depreciation, amortization and cost of timber harvested			68			89
Change in distribution costs			—			2
Change in selling and administrative expenses			1			2
			\$ 17			\$ (25)

Three months ended June 30, 2009 versus June 30, 2008

Segment sales decreased \$52 million, or 30.8%, from \$169 million in the second quarter of 2008 to \$117 million in the second quarter of 2009, primarily due to lower transaction prices.

Inventory levels as of June 30, 2009 were 90,000 metric tons compared to 64,000 metric tons as of June 30, 2008.

Segment operating income increased \$17 million to \$38 million in the second quarter of 2009 compared to \$21 million in the second quarter of 2008, primarily due to lower manufacturing costs, partially offset by the decrease in sales as noted above. The above table analyzes the major items that increased operating income. A brief explanation of these major items follows.

Segment manufacturing costs decreased \$68 million in the second quarter of 2009 as compared to the second quarter of 2008, primarily due to favorable currency exchange (\$11 million), lower volumes (\$2 million), energy (\$2 million) and alternative fuel mixture tax credits (\$56 million), partially offset by higher costs for wood and fiber (\$6 million) and chemicals (\$4 million). The average cost per ton decreased \$295 in the second quarter of 2009 as compared to the second quarter of 2008, primarily due to the alternative fuel mixture tax credits.

Six months ended June 30, 2009 versus June 30, 2008

Segment sales decreased \$118 million, or 35.0%, from \$337 million in the first six months of 2008 to \$219 million in the same period of 2009, due to lower shipment volumes and lower transaction prices.

Segment operating income decreased \$25 million to \$27 million in the first six months of 2009 compared to \$52 million in the same period of 2008, primarily due to the decrease in sales as noted above, partially offset by lower

[Table of Contents](#)

ABITIBIBOWATER INC.

manufacturing costs. The above table analyzes the major items that decreased operating income. A brief explanation of these major items follows. Segment manufacturing costs decreased \$89 million in first six months of 2009 as compared to the same period of 2008, primarily due to favorable currency exchange (\$25 million), lower volumes (\$12 million) and alternative fuel mixture tax credits (\$72 million), partially offset by higher costs for wood and fiber (\$13 million), energy (\$3 million) and chemicals (\$8 million). The average cost per ton decreased \$156 in the first six months of 2009 as compared to the same period of 2008, primarily due to the alternative fuel mixture tax credits.

Market Pulp Third-Party Data: World demand for market pulp decreased 4.6%, or 1.0 million metric tons in the first six months of 2009, compared to the same period of 2008. Demand was down 18.8% in Western Europe, the world's largest pulp market, down 19.4% in North America, up 67.6% in China, down 0.7% in Latin America and down 2.0% in Africa and Asia (excluding China and Japan). World producers shipped at 89% of capacity in the first six months of 2009 compared to 91% in the same period of 2008. World producer inventories were at 29 days supply as of June 30, 2009 compared to 32 days supply as of June 30, 2008.

Wood Products

	Three Months Ended June 30,			Six Months Ended June 30,		
	2009	2008	Change	2009	2008	Change
Average price (per thousand board feet)	\$ 205	\$ 283	\$ (78)	\$ 207	\$ 278	\$ (71)
Average cost (per thousand board feet)	\$ 278	\$ 312	\$ (34)	\$ 297	\$ 337	\$ (40)
Shipments (millions of board feet)	270	439	(169)	524	874	(350)
Downtime (millions of board feet)	502	292	210	973	505	468
Inventory at end of period (millions of board feet)	79	124	(45)	79	124	(45)

(Unaudited, in millions)

Segment sales	\$ 56	\$ 124	\$ (68)	\$ 109	\$ 247	\$ (138)
Segment operating loss	(20)	(13)	(7)	(47)	(48)	1

Significant items that (unfavorably) favorably impacted segment operating loss:

Product pricing			\$ (27)			\$ (72)
Shipments			(41)			(66)
Change in sales			(68)			(138)
Change in cost of sales and depreciation, amortization and cost of timber harvested			52			118
Change in distribution costs			8			19
Change in selling and administrative expenses			1			2
			\$ (7)			\$ 1

Three months ended June 30, 2009 versus June 30, 2008

Segment sales decreased \$68 million, or 54.8%, from \$124 million in the second quarter of 2008 to \$56 million in the second quarter of 2009, due to lower shipment volumes and lower product pricing. The decrease in shipments of wood products was due primarily to lower demand from a weak U.S. housing market. We are not expecting any significant improvements in the wood products market in the short term. Segment operating loss increased \$7 million to \$20 million in the second quarter of 2009 as compared to \$13 million in the second quarter of 2008. The above table analyzes the major items that increased operating loss. A brief explanation of these major items follows.

[Table of Contents](#)

ABITIBOWATER INC.

The significant decrease in shipments in the second quarter of 2009 was offset by lower manufacturing and distribution costs in the second quarter of 2009 compared to the second quarter of 2008. The decrease in manufacturing costs was primarily due to lower volumes (\$32 million), favorable currency exchange (\$8 million) and lower costs for labor and benefits (\$7 million), maintenance (\$2 million) and other favorable costs.

Six months ended June 30, 2009 versus June 30, 2008

Segment sales decreased \$138 million, or 55.9%, from \$247 million in the first six months of 2008 to \$109 million in the same period of 2009, due to lower shipment volumes and lower product pricing. The decrease in shipments of wood products was due primarily to lower demand from a weak U.S. housing market. We are not expecting any significant improvements in the wood products market in the short term.

Segment operating loss decreased \$1 million to \$47 million in the first six months of 2009 compared to \$48 million in the same period of 2008. The above table analyzes the major items that decreased operating loss. A brief explanation of these major items follows.

The significant decrease in shipments in the first six months of 2009 was offset by lower manufacturing and distribution costs in the first six months of 2009 compared to the same period of 2008. The decrease in manufacturing costs was primarily due to lower volumes (\$66 million), favorable currency exchange (\$22 million) and lower costs for labor and benefits (\$12 million), maintenance (\$4 million) and other favorable costs.

Wood Products Third-Party Data: Privately-owned housing starts in the U.S. decreased 46.0% to a seasonally-adjusted annual rate of 582,000 units in June 2009, compared to 1,078,000 units in June 2008. Housing starts rose to the highest level in June 2009 since December 2008, but not before reaching an all time record low in April 2009 with a seasonally-adjusted annual rate of 479,000 units. The recent increase in housing starts has been attributed largely to the deadline associated with the special tax break for first-time homebuyers.

[Table of Contents](#)

ABITIBIBOWATER INC.

Corporate and Other

We exclude net gain on disposition of assets, closure costs, impairment and other related charges and employee termination costs from our internal review of segment results. Also excluded from our segment results are corporate and other items, which include timber sales and general and administrative expenses, including costs associated with our unsuccessful refinancing efforts. These items are analyzed separately from our segment results. The following table is included in order to facilitate the reconciliation of our segment sales and segment operating income (loss) to our total sales and operating loss in our Unaudited Consolidated Statements of Operations.

<i>(Unaudited, in millions)</i>	Three Months Ended June 30,			Six Months Ended June 30,		
	2009	2008	Change	2009	2008	Change
Sales	\$ —	\$ —	\$ —	\$ 5	\$ —	\$ 5
Operating loss	(270)	(75)	(195)	(328)	(146)	(182)
Sales	\$ —	\$ —	\$ —	\$ 5	\$ —	\$ 5
Costs comprised of:						
Manufacturing costs	(24)	(24)	—	(51)	(34)	(17)
Manufacturing costs – Employee severance costs	—	—	—	—	(2)	2
Total cost of sales and depreciation, amortization and cost of timber harvested	(24)	(24)	—	(51)	(36)	(15)
Administrative expenses	(19)	(44)	25	(71)	(110)	39
Administrative expenses – Canadian capital tax benefit	16	—	16	16	—	16
Administrative expenses – Costs related to unsuccessful refinancing efforts	(4)	—	(4)	(10)	—	(10)
Administrative expenses – Severance related costs	—	(7)	7	—	(13)	13
Total administrative expenses	(7)	(51)	44	(65)	(123)	58
Closure costs, impairment and other related charges	(240)	(17)	(223)	(270)	(27)	(243)
Net gain on disposition of assets	1	17	(16)	53	40	13
Total operating loss	\$(270)	\$(75)	\$(195)	\$(328)	\$(146)	\$(182)

Manufacturing costs

Manufacturing costs included in corporate and other include the cost of timberlands and employee severance costs, which include the cost of employee reduction initiatives (severance and pension related). Manufacturing costs for the three and six months ended June 30, 2009 included \$12 million in both periods for the writedown of mills stores inventory associated with our Alabama River and Dalhousie mills.

Administrative expenses

The decrease in administrative expenses in the second quarter and first six months of 2009 as compared to the same periods of 2008 of \$44 million and \$58 million, respectively, was primarily due to our continued efforts to reduce costs and the elimination of our 2009 annual incentive compensation plans, as well as a \$16 million reversal of previously recorded Canadian capital tax liabilities in the second quarter of 2009 as a result of legislation enacted which eliminated this tax. Additionally, in the six months ended June 30, 2009, we classified \$10 million of costs incurred in the first quarter of 2009 related to our Creditor Protection Proceedings in “Reorganization items, net,” which prior to the application of SOP 90–7, were classified within “Selling and administrative expenses” in our Consolidated Statements of Operations. The decrease in administrative expenses was partially offset by \$4 million and \$10 million of costs incurred in the three and six months ended June 30, 2009, respectively, related to our unsuccessful refinancing efforts.

ABITIBIBOWATER INC.

Closure costs, impairment and other related charges

During the second quarter and first six months of 2009, we recorded closure costs, impairment and other related charges of \$240 million and \$270 million, respectively, primarily for long-lived asset impairment charges related to: (i) assets held for sale for our interest in Manicouagan Power Company and (ii) certain of our newsprint mill assets. In addition, we recorded closure costs, impairment and other related charges related to the permanent closures of our Westover, Alabama sawmill and Goodwater, Alabama planer mill operations. During the second quarter and first six months of 2008, we recorded closure costs, impairment and other related charges of \$17 million and \$27 million, respectively, primarily for asset impairment charges and noncancelable contracts at our Dalhousie and Donnacona operations, asset impairment charges at our Baie-Comeau recycling facility and severance costs for workforce reductions across numerous facilities.

Net gain on disposition of assets

During the second quarter and first six months of 2009, we recorded a net gain on disposition of assets of \$1 million and \$53 million, respectively, primarily related to the sale of 375 and 191,838 acres, respectively, of timberlands and other assets, for aggregate cash proceeds of \$1 million and \$69 million, respectively. During the second quarter and first six months of 2008, we recorded a net gain on disposition of assets of \$17 million and \$40 million, respectively, primarily related to the sale of timberlands. During the second quarter and first six months of 2008, we completed the sale of 28,200 and 43,100 acres, respectively, of timberlands and other assets, mainly our Snowflake and Price sawmills. These asset sales generated aggregate proceeds of \$176 million and \$205 million during the second quarter and first six months of 2008, respectively.

Interest Expense

Interest expense decreased \$60 million from \$203 million in the second quarter of 2008 to \$143 million in the second quarter of 2009 since, pursuant to the Creditor Protection Proceedings, we ceased recording interest expense on certain pre-petition debt obligations. In accordance with SOP 90-7, we have continued to record interest expense on our pre-petition debt obligations only to the extent that: (i) interest will be paid during the Creditor Protection Proceedings or (ii) it is probable that interest will be an allowed priority, secured or unsecured claim. As such, we have continued to accrue interest only on the debtors' pre-petition secured debt obligations and the CCAA filers' pre-petition unsecured debt obligations (based on the expectation that accrued interest on the CCAA filers' pre-petition debt obligations will be a permitted claim under the CCAA Proceedings) at the contractual non-default rates. Subsequent to the initiation of the Creditor Protection Proceedings, cash payments for interest will only be made on the Abitibi DIP Agreement (as defined below), the Bowater DIP Agreement (as defined below), the Bowater bank credit facilities and Abitibi's senior secured term loan. Interest expense increased \$3 million from \$332 million in the first six months of 2008 to \$335 million in the same period of 2009. This increase is attributable to increased interest rates, higher debt levels of Abitibi and amortization of deferred financing fees that resulted from the refinancing transactions consummated on April 1, 2008 (see "Liquidity and Capital Resources"), partially offset by the reduction in interest expense resulting from the Creditor Protection Proceedings discussed above.

Other (Expense) Income, Net

Other expense, net for the second quarter and first six months of 2009 was \$30 million and \$31 million, respectively, primarily comprised of fees for waivers and amendments to the accounts receivable securitization program of \$12 million and \$23 million, respectively and foreign currency exchange losses of \$10 million and \$4 million, respectively. Other income, net for the second quarter and first six months of 2008 was \$15 million and \$49 million, respectively, primarily comprised of a \$31 million gain on extinguishment of debt in both the second quarter and first six months of 2008. In addition, other income, net for the second quarter of 2008 included a foreign currency exchange loss of \$16 million, while the first six months of 2008 included a foreign currency exchange gain of \$25 million.

Reorganization Items, Net

During the second quarter and first six months of 2009, we recorded reorganization items, net of \$89 million and \$99 million, respectively, primarily related to professional fees and debtor in possession financing costs. For additional

ABITIBIBOWATER INC.

information, see Note 3, “Creditor Protection Proceedings Related Disclosures – Reorganization items, net,” to our Unaudited Interim Consolidated Financial Statements.

Income Taxes

Our effective tax rate, which resulted in the recording of tax benefits on pre-tax losses for the second quarter and first six months of 2009, was 6.2% and 5.4%, respectively, compared to tax benefits on pre-tax losses of 2.0% and 0.4%, respectively, for the same periods of 2008. During the three months ended June 30, 2009 and 2008, income tax benefits of approximately \$75 million and \$82 million, respectively, generated on the majority of our current quarter losses were entirely offset by tax charges to increase our valuation allowance related to these tax benefits. During the six months ended June 30, 2009 and 2008, income tax benefits of approximately \$146 million and \$175 million, respectively, generated on the majority of our operating losses for the first six months of 2009 and 2008 were entirely offset by tax charges to increase our valuation allowance related to these tax benefits. Additionally, any income tax benefit recorded on any future losses will probably be offset by additional increases to the valuation allowance (tax charge). During the three and six months ended June 30, 2009, we recorded a tax recovery of approximately \$41 million and \$49 million, respectively, related to the asset impairment charges recorded associated with our assets held for sale for our investment in Manicouagan Power Company. For additional information, see Note 4, “Closure Costs, Impairment and Other Related Charges,” to our Unaudited Interim Consolidated Financial Statements. Our effective tax rate varies frequently and substantially from the weighted-average effect of both domestic and foreign statutory tax rates, primarily as a result of the tax treatment on foreign currency gains and losses. We have a number of foreign subsidiaries whose unconsolidated foreign currency gains and losses are taxed in the local country. Upon consolidation, such gains and losses are eliminated, but we are still liable for the local country taxes. Due to the variability and volatility of foreign exchange rates, we are unable to estimate the impact of future changes in exchange rates on our effective tax rate. Additionally, we will probably not be recording income tax benefits on the majority of any 2009 losses, which will have an adverse impact on our overall effective income tax rate in future periods. To the extent that our operations on which a full valuation allowance has been recorded become profitable, the impact of this valuation allowance would lessen or reverse and positively impact our effective tax rate in those periods.

Liquidity and Capital Resources

Overview

Prior to the commencement of the Creditor Protection Proceedings, our primary sources of liquidity and capital resources were cash-on-hand, cash provided by operations and availability under our bank credit facilities and accounts receivable securitization program. Following the commencement of the Creditor Protection Proceedings, in addition to cash-on-hand and cash provided by operations, our external sources of liquidity are comprised of the following (which are defined and discussed below): (i) the Bowater DIP Agreement, (ii) the Abitibi DIP Agreement and (iii) the Abitibi and Donohue second amended and restated accounts receivable securitization program. All other previous external sources of liquidity are no longer available. The commencement of the Creditor Protection Proceedings constituted an event of default under substantially all of our pre-petition debt obligations, and those debt obligations became automatically and immediately due and payable by their terms, although any action to enforce such payment obligations is stayed as a result of the commencement of the Creditor Protection Proceedings. Non-core asset sales have been and may continue to be a source of additional liquidity, subject to the approval of the Courts. We periodically review timberland holdings and sell timberlands as a source of additional liquidity. We have targeted approximately \$750 million in asset sales by the end of 2009, including our interest in Manicouagan Power Company, other hydroelectric sites, timberlands, sawmills and other assets. On March 13, 2009, we announced that we signed a non-binding agreement in principle for the sale of our interest in Manicouagan Power Company for a total purchase price of approximately Cdn\$615 million (\$529 million), payable

ABITIBIBOWATER INC.

90% upon the closing of the transaction and 10% on the second anniversary of the closing, subject to adjustment for contingencies. The non-binding agreement is subject to certain terms and conditions including, but not limited to, satisfactory due diligence, obtaining required consents and approvals and negotiation and execution of definitive agreements (including a long-term power supply agreement for our Baie-Comeau, Quebec paper mill).

For the duration of the Creditor Protection Proceedings, any divestiture not subject to the de minimis asset sale proceedings must be approved by the applicable court. No assurances can be provided that the applicable court will approve any such divestiture under their current terms, or at all, or as to the timing of any such approvals. Although our proposed sale of our investment in Manicouagan Power Company has not received formal court approval, the plan to sell was committed to prior to the commencement of the Creditor Protection Proceedings and the Abitibi DIP Agreement (as defined below) contemplates the planned sale of our investment in Manicouagan Power Company, which the Canadian Court noted during its review and approval of such agreement. Proceeds generated as a result of a divestiture may have to, and must in the case of our investment in Manicouagan Power Company, be used to repay amounts outstanding pursuant to the terms of our debtor in possession financing arrangements.

On July 27, 2009, we agreed to sell an aggregate of approximately 300,000 acres of timberlands in the Province of Quebec for aggregate consideration of approximately Cdn\$53 million (\$48 million). The Canadian Court has approved this transaction. In addition, on July 28, 2009, we agreed, subject to court approval, to participate in a transaction pursuant to which we would receive approximately \$25 million in respect of a subsidiary's interest in the sale of certain timberlands formerly owned by a predecessor of that entity. Each of these transactions is expected to close in the third quarter of 2009.

We expect to continue to review non-core assets and seek to divest those that no longer fit within our long-term strategic business plan. It is unclear how the current global credit crisis may impact our ability to sell any of these assets.

During the first six months of 2009, we have incurred significant costs associated with our Creditor Protection Proceedings and will continue to incur similar significant costs, which could adversely affect our liquidity, results of operations and financial condition. We paid \$42 million and \$51 million relating to reorganization items in the three and six months ended June 30, 2009, respectively. For additional information, see Note 3, "Creditor Protection Proceedings Related Disclosures – Reorganization items, net," to our Unaudited Interim Consolidated Financial Statements. Partially offsetting these increased payments will be lower cash payments for interest. Subsequent to the initiation of the Creditor Protection Proceedings, cash payments for interest will only be made on the Abitibi DIP Agreement (as defined below), the Bowater DIP Agreement (as defined below), the Bowater bank credit facilities and Abitibi's senior secured term loan. Additionally, on August 4, 2009, we announced that we had implemented and will continue to work on selling, general and administrative ("SG&A") austerity measures with a target reduction of approximately \$100 million on an annualized basis, as compared to 2008. The SG&A reduction efforts include, among other items, a 25% corporate headcount reduction and the suspension, until further notice, of 2009 incentive compensation plans, including special equity awards.

Abitibi and Donohue liquidity

Abitibi's and Donohue's primary sources of liquidity and capital resources are cash-on-hand, cash provided by operations, the Abitibi DIP Agreement (defined below) and availability under the accounts receivable securitization program. As of June 30, 2009, Abitibi and Donohue had cash-on-hand of approximately \$110 million and \$22 million, respectively. As of June 30, 2009, Abitibi and Donohue had \$57.5 million of available borrowings under the Abitibi DIP Agreement (\$30 million of borrowings outstanding) and \$118 million outstanding under their accounts receivable securitization program.

Abitibi DIP Agreement

In the Creditor Protection Proceedings, we have sought and obtained approval by the Canadian Court to enter into a debtor in possession financial facility for the benefit of Abitibi and Donohue. On May 6, 2009, we entered into a letter loan agreement (the "Abitibi DIP Agreement"), among Abitibi and Donohue, as borrowers (the "Borrowers"), certain subsidiaries of Abitibi as guarantors and the Bank of Montreal, as lender ("BMO"), which was acknowledged by Investissement Quebec, as sponsor (the "Sponsor"). The Abitibi DIP Agreement has been approved by the Canadian Court. Although Donohue is a signatory thereto, the Abitibi DIP Agreement will not be enforceable against Donohue until such time as the U.S. Court has granted an order authorizing and approving the DIP Facility (as defined below) and the charge in connection therewith with respect to Donohue (the "U.S. DIP Order"). Donohue has no obligation to seek, and does not expect to seek, a U.S. DIP Order and its failure to obtain such U.S. DIP Order will not affect the rights of Abitibi under the Abitibi DIP Agreement.

The Abitibi DIP Agreement provides for borrowings in an aggregate principal amount of up to \$100 million for Abitibi and, following any U.S. DIP Order, Donohue (the "DIP Facility"), provided that Donohue will not borrow more than

[Table of Contents](#)

ABITIBIBOWATER INC.

\$10 million in the aggregate and that a minimum availability of \$12.5 million shall be maintained at all times. The DIP Facility will be made available by way of loans advanced in multiple disbursements pursuant to borrowing requests. Such loans will bear interest at either the London interbank offered rate for deposits in U.S. dollars ("LIBOR") plus 1.75% (with a LIBOR floor of 3.0%) or the BMO U.S. base rate, as defined in the Abitibi DIP Agreement, plus 0.75%. The outstanding principal amount of loans under the DIP Facility, plus accrued and unpaid interest are to be repaid in full at the earliest of:

(i) April 30, 2010; (ii) the effective date of a plan of reorganization or a plan of compromise or arrangement confirmed by order of the Courts; (iii) the acceleration of the Abitibi DIP Agreement or the occurrence of a specified event of default within the meaning set forth in the Abitibi DIP Agreement and (iv) the unenforceability of the backstop guarantee of the Sponsor. Notwithstanding the foregoing, the Borrowers will be required to repay the DIP Facility no later than November 1, 2009, as not doing so will result in the occurrence of a specified event of default. In addition, the Borrowers will be required to make mandatory prepayments of any loans outstanding from the net cash proceeds of, among other things, any payment by a governmental authority in respect of any expropriation claim and the sale of our investment in Manicouagan Power Company.

The obligations of Abitibi under the Abitibi DIP Agreement are guaranteed by certain of Abitibi's subsidiaries (collectively, the "Subsidiary Guarantors") and secured by superpriority liens (the "DIP Liens") on all present and after-acquired property of Abitibi and the Subsidiary Guarantors provided that the DIP Liens are subordinated to: (i) an administrative charge ordered by the Canadian Court in the aggregate amount not exceeding \$6 million of professional fees and disbursements in connection with the CCAA Proceedings; (ii) a directors' charge not exceeding \$22.5 million and (iii) the interests of Citibank, N.A., Abitibi Consolidated Sales Corporation and the other parties to the accounts receivable securitization program. Furthermore, the repayment obligation of the Borrowers under the DIP Facility is guaranteed by the Sponsor.

The Abitibi DIP Agreement contains customary covenants for debtor in possession financings of this type, including, among other things, the obligation for Abitibi to provide a rolling 13-week cash flow forecast of receipts and disbursements and weekly cash flow results.

In accordance with its stated purpose, the proceeds of the loans under the Abitibi DIP Agreement will be used by us for working capital and other general corporate purposes, including costs of the Creditor Protection Proceedings and fees and expenses associated with the DIP Facility.

As consideration for entering into the Abitibi DIP Agreement, during the second quarter of 2009, we incurred fees of approximately \$4 million, which were recorded in "Reorganization items, net" in our Consolidated Statements of Operations. For additional information, see Note 3, "Creditor Protection Proceedings Related Disclosures – Reorganization items, net," to our Unaudited Interim Consolidated Financial Statements.

Abitibi and Donohue accounts receivable securitization program

Abitibi and certain subsidiaries of Donohue (the "Participants") continue to participate in an accounts receivable securitization program that was established when Donohue was a subsidiary of Abitibi. Accordingly, the Participants share among themselves the amounts available under the accounts receivable securitization program. The Participants sell most of their trade receivables in order to reduce working capital requirements.

As of June 30, 2009, amounts outstanding under the Participants' accounts receivable securitization program were as follows:

<i>(Unaudited, in millions)</i>	Commitment	Amount Outstanding	Termination Date	Weighted Average Interest Rate
<i>Off-Balance Sheet:</i>				
Accounts receivable securitization program	\$ 270	\$ 118	June 16, 2010	10.50%

As of June 30, 2009, the Participants had transferred \$306 million of trade receivables resulting in cash proceeds of \$118 million, which represented the total available at that time, based on the current level and eligibility of trade receivables. Accounts receivable are sold at discounted amounts based on the securitization provider's funding cost plus

[Table of Contents](#)

ABITIBIBOWATER INC.

a margin. The Participants act as servicing agents and administer the collection of the accounts receivable sold pursuant to these agreements. The fees received for servicing the accounts receivable approximate the value of services rendered. The amount that can be obtained under the accounts receivable securitization program depends on the amount and nature of the accounts receivable available to be sold. The commitment fee for the unused portion is 1.50% per annum.

On June 16, 2009, Abitibi and certain of its affiliates amended and restated, in its entirety, the existing accounts receivable securitization program, which now provides for an accounts receivable securitization facility in an amount of up to \$270 million to be provided by the banks party to the agreement. Unless terminated earlier due to the occurrence of certain events of termination, or the substantial consummation of a plan of reorganization or a plan of compromise or arrangement confirmed by order of the Courts or unless extended pursuant to its new terms, the facility will terminate on June 16, 2010. The facility may be extended to September 16, 2010 or December 16, 2010 upon the satisfaction of certain conditions. All payment obligations of Abitibi-Consolidated U.S. Funding Corp., a subsidiary of Donohue, under the facility are secured by all of its assets and guaranteed by the following subsidiaries of ours: Donohue, Abitibi Consolidated Sales Corporation, Abitibi-Consolidated Corp., Augusta Woodlands, LLC, Abitibi-Consolidated Alabama Corporation and Alabama River Newsprint Company. Final approval of the amended and restated accounts receivable securitization program has been given by the Courts.

As consideration for entering into the amended and restated accounts receivable securitization program, during the second quarter of 2009, we incurred fees of approximately \$11 million, which were recorded in "Reorganization items, net" in our Consolidated Statements of Operations. For additional information, see Note 3, "Creditor Protection Proceedings Related Disclosures – Reorganization items, net," to our Unaudited Interim Consolidated Financial Statements.

For a discussion of the previous Abitibi and Donohue accounts receivable securitization program, including various waivers and amendments to that program, reference is made to Note 10, "Liquidity and Debt — Abitibi and Donohue accounts receivable securitization program," included in our Quarterly Report on Form 10-Q for the quarter ended March 31, 2009, filed on May 15, 2009. As consideration for entering into certain of these waivers and amendments, we incurred fees of \$12 million and \$23 million in the three and six months ended June 30, 2009, respectively, and recorded these fees in "Other (expense) income, net" in our Consolidated Statements of Operations.

April 1, 2008 refinancings

On April 1, 2008, we completed a series of refinancing transactions, which were designed to address the debt maturities and general liquidity needs during the first half of 2008, principally at our Abitibi subsidiary. See Note 16, "Liquidity, Debt and Interest Expense — April 1, 2008 refinancings," to our consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2008, filed on April 30, 2009, for details regarding these refinancing transactions.

Bowater liquidity

Bowater's primary sources of liquidity and capital resources are cash-on-hand, cash provided by operations and the Bowater DIP Agreement (defined below). As of June 30, 2009, Bowater had cash-on-hand of approximately \$347 million.

Bowater DIP Agreement

In the Creditor Protection Proceedings, we have sought and obtained final approval by the Courts to enter into a debtor in possession financial facility for the benefit of AbitibiBowater Inc. and certain of our Bowater subsidiaries. On April 21, 2009, we entered into a Senior Secured Superpriority Debtor In Possession Credit Agreement (the "Bowater DIP Agreement") among AbitibiBowater Inc., Bowater and BCFPI, as borrowers, Fairfax Financial Holdings Limited ("Fairfax"), as administrative agent, collateral agent and an initial lender, and Avenue Investments, L.P., as an initial lender. On May 8, 2009, Law Debenture Trust Company of New York replaced Fairfax as the administrative agent and collateral agent under the Bowater DIP Agreement.

The Bowater DIP Agreement provides for term loans in an aggregate principal amount of \$206 million (the "Initial Advance"), consisting of a \$166 million term loan facility to AbitibiBowater Inc. and Bowater (the "U.S. Borrowers") and a \$40 million term loan facility to BCFPI. Following the payment of fees payable to the lenders in connection with

[Table of Contents](#)

ABITIBIBOWATER INC.

the Bowater DIP Agreement, the U.S. Borrowers and BCFPI received aggregate loan proceeds of \$195.7 million. The Bowater DIP Agreement also permits the U.S. Borrowers to request, subject to the approval of the requisite lenders under the Bowater DIP Agreement, an incremental term loan facility (the “Incremental Facility”) and an asset based–revolving credit facility (the “ABL Facility”) provided that the aggregate principal amount of the Initial Advance and the Incremental Facility may not exceed \$360 million and the aggregate principal amount of the Initial Advance, Incremental Facility and the ABL Facility may not exceed \$600 million. The outstanding principal amount of loans under the Bowater DIP Agreement, plus accrued and unpaid interest, will be due and payable on April 21, 2010 (the “Maturity Date”), but is subject to an earlier maturity date under certain circumstances. The Maturity Date may be extended for two additional periods of three months each, subject to the satisfaction of certain conditions. Borrowings under the Bowater DIP Agreement will bear interest, at our election, at either a rate tied to the U.S. Federal Funds Rate (the “base rate”) or LIBOR, in each case plus a specified margin. The interest margin for base rate loans is 6.50%, with a base rate floor of 4.50%. The interest margin for LIBOR loans is 7.50%, with a LIBOR floor of 3.50%. Such interest rates will each increase by 1.00% if the Maturity Date is extended beyond April 21, 2010. The obligations of the U.S. Borrowers under the Bowater DIP Agreement are guaranteed by AbitibiBowater Inc., Bowater, Bowater Newsprint South LLC (“Newsprint South”), a direct, wholly–owned subsidiary of AbitibiBowater Inc., which was a wholly–owned subsidiary of Bowater prior to May 15, 2008, and each of the U.S. subsidiaries of Bowater and Newsprint South that are debtors in the Chapter 11 Cases (collectively, the “U.S. Guarantors”) and secured by all or substantially all of the assets of each of the U.S. Borrowers and the U.S. Guarantors. The obligations of BCFPI under the Bowater DIP Agreement are guaranteed by the U.S. Borrowers and the U.S. Guarantors and each of Bowater’s Canadian subsidiaries (other than BCFPI) that are debtors in the CCAA Proceedings (collectively, the “Canadian Guarantors”) and secured by all or substantially all of the assets of BCFPI and the Canadian Guarantors. On June 24, 2009, Bowater Canadian Finance Corporation was released from its obligations under the Bowater DIP Agreement.

On June 5, 2009, the Bowater DIP Agreement was amended to, among other things: (i) correct certain documentation errors, including, but not limited to: (a) correcting the minimum base rate from 2.50% per annum to 4.50% per annum, (b) modifying the calculation of the fixed charge coverage ratio required to be maintained by Bowater and the guarantors under the Bowater DIP Agreement and (c) clarifying certain provisions related to interest calculations and payment dates (including waiving certain defaults which occurred as a result of confusion over the prior language); (ii) amend the definition of consolidated EBITDA to, among other things, permit Chapter 11 and CCAA expenses, including professional fees, to be added to net income for purposes of calculating consolidated EBITDA; (iii) permit additional debt owed by Calhoun Newsprint Company (“CNC”), a subsidiary owned 51% by us and 49% by Herald Company, Inc., to one or more Bowater entities so long as the aggregate amount of such additional debt, together with any additional investments in CNC, does not exceed \$10 million; (iv) extend the time available for AbitibiBowater to appoint a chief restructuring officer from June 5, 2009 to June 20, 2009 (or such later time as the required lenders approved) and (v) extend the time available from June 5, 2009 to June 30, 2009 to: (a) obtain private debt ratings from Moody’s Investor Services, Inc. and Standard & Poor’s Rating Services on the loans under the term loan facility provided pursuant to the Bowater DIP Agreement and any other incremental facility and (b) provide the mortgages and other related documentation with respect to certain properties. We complied with these requirements.

The Bowater DIP Agreement contains customary covenants for debtor in possession financings of this type, including, among other things: (i) requirements to deliver financial statements, other reports and notices; (ii) restrictions on the incurrence and repayment of indebtedness; (iii) restrictions on the incurrence of liens; (iv) restrictions on making certain payments; (v) restrictions on investments; (vi) restrictions on asset dispositions and (vii) restrictions on modifications to material indebtedness. Additionally, the Bowater DIP Agreement contains certain financial covenants, including, among other things: (i) a minimum consolidated EBITDA; (ii) a minimum fixed charge coverage ratio and (iii) a maximum amount of capital expenditures.

In accordance with its stated purpose, the proceeds of the Bowater DIP Agreement will be used by us, among other things, for working capital, general corporate purposes, to pay adequate protection to holders of secured debt under Bowater’s and BCFPI’s pre–petition bank credit facilities, to pay the costs associated with administration of the Creditor Protection Proceedings and to pay transaction costs, fees and expenses in connection with the Bowater DIP Agreement.

[Table of Contents](#)

ABITIBIBOWATER INC.

As consideration for entering into the Bowater DIP Agreement, during the second quarter of 2009, we incurred fees of approximately \$14 million, which were recorded in "Reorganization items, net" in our Consolidated Statements of Operations. For additional information, see Note 3, "Creditor Protection Proceedings Related Disclosures – Reorganization items, net," to our Unaudited Interim Consolidated Financial Statements.

Alternative fuel mixture tax credits

The U.S. Internal Revenue Code of 1986, as amended (the "Code") provides a tax credit for companies that use alternative fuel mixtures to produce energy to operate their businesses. The credit, equal to \$0.50 per gallon of alternative fuel contained in the mixture, is refundable to the taxpayer. During the first quarter of 2009, Bowater applied for its registrations as alternative fuel mixtures for three of its sites. In March 2009, Bowater received notification that two sites' registrations were approved. Bowater's third site's registration was approved in early April 2009. During the three and six months ended June 30, 2009, Bowater recorded \$85 million and \$118 million, respectively, of these credits, which were included in "Cost of sales, excluding depreciation, amortization and cost of timber harvested" in our Unaudited Consolidated Statements of Operations. According to the Code, the tax credit expires at the end of 2009. The U.S. Congress is currently reviewing the Alternative Fuel Credit law and may enact legislation to repeal the credit prior to its scheduled expiration.

ACH Limited Partnership

We own 75% of ACH Limited Partnership ("ACH") and Caisse de depot et placement du Quebec owns the remaining 25% of ACH. Since we have control over ACH, our unaudited interim consolidated financial statements include this entity on a fully consolidated basis. ACH was excluded from the Creditor Protection Proceedings and we expect that it will continue to operate outside of such proceedings. As of June 30, 2009, ACH had outstanding debt comprised of a \$215 million (Cdn\$250 million) 7.132% loan due 2017 (the "Loan"). In addition, ACH has entered into a Cdn\$15 million bank revolving credit agreement due March 31, 2010 (the "Credit Agreement," and collectively with the Loan, the "Agreements"). ACH has not drawn down any of the Credit Agreement. As of June 30, 2009, ACH failed to meet a financial covenant under the Agreements but obtained a waiver from the lenders and no default occurred. ACH's ability to maintain compliance with each of the financial covenants for the next 12 months is uncertain and as a result, as of June 30, 2009, we reclassified the \$215 million Loan from "Long-term debt, net of current portion" to "Current portion of long-term debt" in our Consolidated Balance Sheets. Any future breach or default under the Agreements that is not waived by the lenders is not expected to significantly affect our liquidity or capital resources, but may force ACH to seek alternate sources of financing or to seek creditor protection pursuant to the CCAA, and thereby may affect the value of our equity in ACH.

Flow of funds

Cash provided by (used in) operating activities

Cash provided by operating activities totaled \$63 million in the first six months of 2009 compared to \$354 million of cash used in operating activities in the first six months of 2008. The increase in cash provided by operations was primarily related to a significant reduction in accounts receivable and a significant increase in accounts payable and accrued liabilities in the first six months of 2009 as compared to the same period of 2008. Liabilities subject to compromise include pre-petition accounts payable and accrued liabilities, all of which were not paid. As a result, our cash flows from operations were favorably affected by the stay of payment related to such accounts payable and accrued liabilities, including the stay of interest payments related to certain pre-petition debt obligations.

Cash provided by investing activities

Cash provided by investing activities totaled \$60 million in the first six months of 2009 compared to \$57 million in the first six months of 2008. The increase in cash provided by investing activities during the first six months of 2009 as compared to the same period in 2008 was primarily due to reductions in cash invested in fixed assets and deposit requirements for letters of credit, partially offset by decreased proceeds from timberland and other asset sales in 2009.

[Table of Contents](#)

ABITIBIBOWATER INC.

Capital expenditures for both periods include compliance, maintenance and projects to increase returns on production assets. We continue to take a disciplined approach to capital spending until market conditions improve and translate into strong positive cash flow. In light of the Creditor Protection Proceedings, any significant capital spending would be subject to the approval of the applicable court, and there can be no assurance that such approval would be granted. See the "Overview" section above for information regarding our targeted sales of non-core assets as a source of additional liquidity.

Cash provided by financing activities

Cash provided by financing activities totaled \$164 million in the first six months of 2009 compared to \$443 million in the first six months of 2008. The decrease in cash provided by financing activities in the first six months of 2009 was due to the level of borrowings under the Bowater DIP Agreement and Abitibi DIP Agreement versus the long-term borrowings during this same period of 2008, primarily due to the April 1, 2008 refinancings, as discussed above, and were partially offset by lower repayments on our bank credit facilities.

Employees

As of June 30, 2009, we employed approximately 13,500 people, of whom approximately 9,700 were represented by bargaining units. Our unionized employees are represented predominantly by the Communications, Energy and Paperworkers Union in Canada and predominantly by the United Steelworkers Union in the U.S. As we develop and implement our reorganization plan and respond to the need to further reduce capacity in some product lines, we expect to have some decline in employment. Additionally, on August 4, 2009, we announced a corporate headcount reduction of approximately 25%, as part of our plan to implement and continue to work on selling, general and administrative austerity measures.

A significant number of our collective bargaining agreements with respect to our paper operations in Eastern Canada expired at the end of April 2009 and to date, negotiations for renewal have not begun. The collective bargaining agreement for the Calhoun, Tennessee facility, which expired in July 2008, has not been renewed. The collective bargaining agreement which covers the Catawba, South Carolina facility expired in April 2009 and to date, negotiations for renewal have not begun. The employees at the facility in Mokpo, South Korea have complied with all conditions necessary to strike, but the possibility of a strike or lockout of those employees is not clear. We served the six-month notice necessary to terminate the collective bargaining agreement related to the Mokpo facility on June 19, 2009. While negotiations with the unions in the past have resulted in collective agreements being signed, as is the case with any negotiation, we may not be able to negotiate acceptable new agreements, which could result in strikes or work stoppages by affected employees. Renewal of collective bargaining agreements could also result in higher wage or benefit costs. Therefore, we could experience a disruption of our operations or higher ongoing labor costs.

The Communications, Energy and Paperworkers Union of Canada has selected contract talks with us to set the industry-wide pattern for contracts that will replace current agreements that expired at the end of April 2009.

At this time, we cannot predict the impact of the Creditor Protection Proceedings on our labor costs and relations. We anticipate negotiations with both major unions will occur later in 2009.

Recent Accounting Pronouncements

Reference is made to Note 1, "Organization and Basis of Presentation — New accounting pronouncements," to our Unaudited Interim Consolidated Financial Statements, for a discussion of new accounting pronouncements issued but not yet adopted.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Information relating to quantitative and qualitative disclosures about market risk is disclosed in Part II, Item 7A, "Quantitative and Qualitative Disclosures About Market Risk," in our Annual Report on Form 10-K for the year ended December 31, 2008, filed on April 30, 2009. There have been no material changes in our exposure to market risk since December 31, 2008, with the exception of the termination of \$100 million of notional amount of interest rate swaps on April 14, 2009, as further discussed in Note 14, "Derivative Financial Instruments and Other Embedded Derivatives," to our Unaudited Interim Consolidated Financial Statements.

ABITIBIBOWATER INC.

ITEM 4. CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures:

We have evaluated the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a—15(e) and 15d—15(e) of the Securities Exchange Act of 1934, as of June 30, 2009. Based on that evaluation, the President and Chief Executive Officer and the Executive Vice President and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of such date in recording, processing, summarizing, and timely reporting information required to be disclosed in our reports to the Securities and Exchange Commission.

(b) Changes in Internal Control over Financial Reporting:

In connection with the evaluation of internal control over financial reporting, there were no changes during the period covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II — OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

On April 16, 2009, AbitibiBowater Inc. and certain of its U.S. and Canadian subsidiaries filed voluntary petitions for relief under Chapter 11. In addition, on April 17, 2009, AbitibiBowater Inc. and certain of its Canadian subsidiaries sought creditor protection under the CCAA. On April 17, 2009, Abitibi and ACCC each filed Chapter 15 Cases to obtain recognition and enforcement in the United States of certain relief granted in the CCAA Proceedings. Our subsidiaries which own our Bridgewater, United Kingdom and Mokpo, South Korea operations were not included in the Creditor Protection Proceedings and will continue to operate outside of such proceedings. In addition, almost all of our less than wholly-owned subsidiaries were excluded from the Creditor Protection Proceedings and will continue to operate outside of such proceedings.

We remain in possession of our assets and properties and will continue to operate our business and manage our properties as “debtors in possession” under the jurisdiction of the Courts and in accordance with the applicable provisions of Chapter 11 and the CCAA. In general, we and our subsidiaries are authorized to continue to operate as ongoing businesses, but may not engage in transactions outside the ordinary course of business without the approval of the relevant court(s).

We are involved in various legal proceedings relating to contracts, commercial disputes, taxes, environmental issues, employment and workers’ compensation claims and other matters. We periodically review the status of these proceedings with both inside and outside counsel. Although the final outcome of any of these matters is subject to many variables and cannot be predicted with any degree of certainty, we establish reserves for a matter when we believe an adverse outcome is probable and the amount can be reasonably estimated. We believe that the ultimate disposition of these matters will not have a material adverse effect on our financial condition, but it could have a material adverse effect on our results of operations in any given quarter or year. Subject to certain exceptions, all litigation against AbitibiBowater Inc. and its subsidiaries that are parties to the Creditor Protection Proceedings that arose or may arise out of pre-petition conduct or acts is subject to the automatic stay provisions of Chapter 11 and the CCAA and the orders of the Courts rendered thereunder. As a result, we believe that these matters will not have a material adverse effect on our results of operations during the Creditor Protection Proceedings.

We continue to work to resolve the matter relating to the expropriation of our assets in the Province of Newfoundland and Labrador, as further described in Note 21, “Commitments and Contingencies — Extraordinary loss on expropriation of assets,” included in our consolidated financial statements for the year ended December 31, 2008. We are in a position to submit a notice of arbitration pursuant to the relevant NAFTA provisions now that the mandatory 90-day waiting period following the filing of our notice of intent to arbitrate has passed. The filing of the notice of arbitration may be delayed to provide additional time for settlement opportunities.

Information relative to our legal proceedings is presented in Note 21, “Commitments and Contingencies — Legal items,” included in our consolidated financial statements for the year ended December 31, 2008. Except as otherwise described herein, there have been no material developments to the legal proceedings described in our Annual Report on Form 10-K for the year ended December 31, 2008, filed on April 30, 2009.

ABITIBIBOWATER INC.

ITEM 1A. RISK FACTORS

In addition to the other information set forth in this Quarterly Report on Form 10-Q, you should carefully consider the risk factors set forth in our Annual Report on Form 10-K for the year ended December 31, 2008, filed on April 30, 2009, particularly the “Risks Relating to Our Creditor Protection Proceedings,” which could materially affect our business, financial condition or future results. Except for the following risk factor, there have been no material changes to the risk factors previously disclosed under Part I, Item 1A, “Risk Factors,” in our Annual Report on Form 10-K for the year ended December 31, 2008, filed on April 30, 2009.

Abitibi Consolidated Sales Corporation could lose any or all of its equity interest in Augusta Newsprint Company.

Abitibi Consolidated Sales Corporation (“ACSC”), an indirect, wholly-owned subsidiary of AbitibiBowater Inc., Abitibi and Woodbridge International Holdings Limited, Woodbridge International Holdings SA and the Woodbridge Company Limited (collectively, “Woodbridge”), are party to an amended and restated call agreement. The call agreement grants ACSC the right to purchase Augusta Newsprint Inc., ACSC’s 47.5% partner in Augusta Newsprint Company and a subsidiary of Woodbridge, on or before December 31, 2009, at a pre-established price. ACSC currently owns 52.5% of Augusta Newsprint Company, which owns the Augusta, Georgia newsprint mill. If ACSC does not exercise its option to purchase Augusta Newsprint Inc., ACSC has one year to sell Augusta Newsprint Company. If ACSC does not sell Augusta Newsprint Company, Woodbridge would then have one year to sell Augusta Newsprint Company. A pre-established amount of the proceeds of any such sale, which we believe would significantly exceed the value of Augusta Newsprint Inc. under current market conditions, would be payable, first, to Woodbridge. ACSC would not purchase Augusta Newsprint Inc. under the current terms of the call agreement. Therefore, Augusta Newsprint Company might be sold by ACSC or Woodbridge. The debtors have filed a motion to reject the call agreement in their Chapter 11 Cases. Although we believe such motion should be granted, it is uncertain whether the U.S. Court will authorize the rejection of the call agreement. If the U.S. Court does not grant the debtor’s motion to reject the call agreement and a forced sale is consummated, there can be no assurance that we would be able to recover any or all of our 52.5% equity interest in Augusta Newsprint Company, which as of June 30, 2009, was approximately \$72 million.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

The commencement of the Creditor Protection Proceedings constituted an event of default under substantially all of our pre-petition debt obligations, and those debt obligations became automatically and immediately due and payable by their terms. See Item 2, “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Creditor Protection Proceedings” in Part I of this Form 10-Q.

ABITIBIBOWATER INC.

ITEM 6. EXHIBITS

<u>Exhibit No.</u>	<u>Description</u>
3.1*	Second Amended and Restated By-Laws of AbitibiBowater Inc. effective April 29, 2009 (incorporated by reference from Exhibit 3.1 to the Company's Current Report on Form 8-K dated April 29, 2009, SEC File No. 001-33776).
10.1*	Waiver and Amendment No. 4 to Amended and Restated Receivables Purchase Agreement, dated as of April 1, 2009, to the Amended and Restated Receivables Purchase Agreement, dated as of January 31, 2008, by and among Abitibi-Consolidated U.S. Funding Corp., Eureka Securitisation, plc, as an investor, Citibank, N.A., as a bank, Citibank, N.A., London Branch, as operating agent for the investors and the banks, Abitibi Consolidated Sales Corporation, as an originator and as servicer and Abitibi-Consolidated Inc., as an originator and subservicer (incorporated by reference from Exhibit 10.1 to the Company's Current Report on Form 8-K dated April 7, 2009, SEC File No. 001-33776).
10.2*	Omnibus Amendment No. 5 to Amended and Restated Receivables Purchase Agreement and Amendment No. 3 to Amended and Restated Purchase and Contribution Agreement and Waiver Agreement, dated as of April 16, 2009, to the Amended and Restated Receivables Purchase Agreement, dated as of January 31, 2008, by and among Abitibi-Consolidated U.S. Funding Corp., Eureka Securitisation, plc, as an investor, Citibank, N.A., as a bank, Citibank, N.A., London Branch, as operating agent for the investors and the banks, Abitibi Consolidated Sales Corporation, as an originator and as servicer and Abitibi-Consolidated Inc., as an originator and subservicer and to the Amended and Restated Purchase and Contribution Agreement, dated as of January 31, 2008 by and among Abitibi-Consolidated U.S. Funding Corp., as purchaser, Abitibi Consolidated Sales Corporation, as a seller and Abitibi-Consolidated Inc., as a seller (incorporated by reference from Exhibit 10.1 to the Company's Current Report on Form 8-K dated April 22, 2009, SEC File No. 001-33776).
10.3*	Amendment No. 6 to Amended and Restated Receivables Purchase Agreement, dated as of May 27, 2009, to the Amended and Restated Receivables Purchase Agreement, dated as of January 31, 2008, by and among Abitibi-Consolidated U.S. Funding Corp., Eureka Securitisation, plc, as an investor, Citibank, N.A., as a bank, Citibank, N.A., London Branch, as operating agent for the investors and the banks, Abitibi Consolidated Sales Corporation, as an originator and as servicer and Abitibi-Consolidated Inc., as an originator and subservicer (incorporated by reference from Exhibit 10.1 to the Company's Current Report on Form 8-K dated June 2, 2009, SEC File No. 001-33776).
10.4*	Amendment No. 7 to Amended and Restated Receivables Purchase Agreement, dated as of June 12, 2009, to the Amended and Restated Receivables Purchase Agreement, dated as of January 31, 2008, by and among Abitibi-Consolidated U.S. Funding Corp., Eureka Securitisation, plc, as an investor, Citibank, N.A., as a bank, Citibank, N.A., London Branch, as operating agent for the investors and the banks, Abitibi Consolidated Sales Corporation, as an originator and as servicer and Abitibi-Consolidated Inc., as an originator and subservicer (incorporated by reference from Exhibit 10.1 to the Company's Current Report on Form 8-K dated June 18, 2009, SEC File No. 001-33776).
10.5*	Second Amended and Restated Receivables Purchase Agreement, dated June 16, 2009, by and among Abitibi-Consolidated U.S. Funding Corp., as the seller, Abitibi Consolidated Sales Corporation and Abitibi-Consolidated Inc. as originators, Abitibi Consolidated Sales Corporation, as servicer, Abitibi-Consolidated Inc. as subservicer, Citibank, N.A., as agent, Barclays Capital Inc., as syndication agent, The CIT Group / Business Credit, Inc., as documentation agent, and Citibank, N.A., Barclays Bank PLC and the other financial and other institutions from time to time party thereto, as banks (incorporated by reference from Exhibit 10.2 to the Company's Current Report on Form 8-K dated June 18, 2009, SEC File No. 001-33776).

Table of Contents

ABITIBIBOWATER INC.

<u>Exhibit No.</u>	<u>Description</u>
10.6**	Guaranty and Undertaking Agreement, dated as of June 16, 2009, among the Guarantors party thereto, each a debtor and debtor-in-possession under Chapter 11 of the Bankruptcy Code, Abitibi-Consolidated Inc., an obligator, and Citibank, N.A., as agent.
10.7*	Senior Secured Superpriority Debtor In Possession Credit Agreement, dated as of April 21, 2009, by and among AbitibiBowater Inc., Bowater Incorporated, Bowater Canadian Forest Products Inc., as debtors, debtors in possession and borrowers and Avenue Investments, as an initial lender, and Fairfax Financial Holdings Ltd., as an initial lender, initial administrative agent and initial collateral agent (incorporated by reference from Exhibit 10.2 to the Company's Current Report on Form 8-K/A dated April 29, 2009, SEC File No. 001-33776).
10.8*	Amendment No. 1, dated as of June 5, 2009, to the Senior Secured SuperPriority Debtor In Possession Credit Agreement, dated as of April 21, 2009, by and among AbitibiBowater Inc., Bowater Incorporated, Bowater Canadian Forest Products Inc. and each of the lenders party thereto (incorporated by reference from Exhibit 10.1 to the Company's Current Report on Form 8-K dated June 11, 2009, SEC File No. 001-33776).
10.9*	Letter Loan Agreement, dated as of May 6, 2009, relating to the SuperPriority, Senior Secured Debtor In Possession Credit Facility, among Abitibi-Consolidated Inc. and Donohue Corp., as Borrowers, Bank of Montreal, as Lender, and the Subsidiary Guarantors named therein (incorporated by reference from Exhibit 10.1 to the Company's Current Report on Form 8-K dated May 12, 2009, SEC File No. 001-33776).
10.10*	Form of Offer to Guarantee a Loan (translated from French) (incorporated by reference from Exhibit 10.2 to the Company's Current Report on Form 8-K dated May 12, 2009, SEC File No. 001-33776).
†10.11*	AbitibiBowater Inc. Amended and Restated Outside Director Deferred Compensation Plan, effective as of June 16, 2009 (incorporated by reference from Exhibit 10.1 to the Company's Current Report on Form 8-K dated June 22, 2009, SEC File No. 001-33776).
31.1**	Certification of President and Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2**	Certification of Senior Vice President and Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1**	Certification of President and Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2**	Certification of Senior Vice President and Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
*	Previously filed and incorporated herein by reference.
**	Filed with this Quarterly Report on Form 10-Q.
†	This is a management contract or compensatory plan or arrangement.

[Table of Contents](#)

ABITIBIBOWATER INC.
SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned thereunto duly authorized.

ABITIBIBOWATER INC.

By /s/ William G. Harvey

William G. Harvey
Executive Vice President and Chief
Financial Officer

By /s/ Joseph B. Johnson

Joseph B. Johnson
Vice President and Controller

Dated: August 11, 2009

Table of Contents

ABITIBIBOWATER INC. INDEX TO EXHIBITS

<u>Exhibit No.</u>	<u>Description</u>
3.1*	Second Amended and Restated By-Laws of AbitibiBowater Inc. effective April 29, 2009 (incorporated by reference from Exhibit 3.1 to the Company's Current Report on Form 8-K dated April 29, 2009, SEC File No. 001-33776).
10.1*	Waiver and Amendment No. 4 to Amended and Restated Receivables Purchase Agreement, dated as of April 1, 2009, to the Amended and Restated Receivables Purchase Agreement, dated as of January 31, 2008, by and among Abitibi-Consolidated U.S. Funding Corp., Eureka Securitisation, plc, as an investor, Citibank, N.A., as a bank, Citibank, N.A., London Branch, as operating agent for the investors and the banks, Abitibi Consolidated Sales Corporation, as an originator and as servicer and Abitibi-Consolidated Inc., as an originator and subservicer (incorporated by reference from Exhibit 10.1 to the Company's Current Report on Form 8-K dated April 7, 2009, SEC File No. 001-33776).
10.2*	Omnibus Amendment No. 5 to Amended and Restated Receivables Purchase Agreement and Amendment No. 3 to Amended and Restated Purchase and Contribution Agreement and Waiver Agreement, dated as of April 16, 2009, to the Amended and Restated Receivables Purchase Agreement, dated as of January 31, 2008, by and among Abitibi-Consolidated U.S. Funding Corp., Eureka Securitisation, plc, as an investor, Citibank, N.A., as a bank, Citibank, N.A., London Branch, as operating agent for the investors and the banks, Abitibi Consolidated Sales Corporation, as an originator and as servicer and Abitibi-Consolidated Inc., as an originator and subservicer and to the Amended and Restated Purchase and Contribution Agreement, dated as of January 31, 2008 by and among Abitibi-Consolidated U.S. Funding Corp., as purchaser, Abitibi Consolidated Sales Corporation, as a seller and Abitibi-Consolidated Inc., as a seller (incorporated by reference from Exhibit 10.1 to the Company's Current Report on Form 8-K dated April 22, 2009, SEC File No. 001-33776).
10.3*	Amendment No. 6 to Amended and Restated Receivables Purchase Agreement, dated as of May 27, 2009, to the Amended and Restated Receivables Purchase Agreement, dated as of January 31, 2008, by and among Abitibi-Consolidated U.S. Funding Corp., Eureka Securitisation, plc, as an investor, Citibank, N.A., as a bank, Citibank, N.A., London Branch, as operating agent for the investors and the banks, Abitibi Consolidated Sales Corporation, as an originator and as servicer and Abitibi-Consolidated Inc., as an originator and subservicer (incorporated by reference from Exhibit 10.1 to the Company's Current Report on Form 8-K dated June 2, 2009, SEC File No. 001-33776).
10.4*	Amendment No. 7 to Amended and Restated Receivables Purchase Agreement, dated as of June 12, 2009, to the Amended and Restated Receivables Purchase Agreement, dated as of January 31, 2008, by and among Abitibi-Consolidated U.S. Funding Corp., Eureka Securitisation, plc, as an investor, Citibank, N.A., as a bank, Citibank, N.A., London Branch, as operating agent for the investors and the banks, Abitibi Consolidated Sales Corporation, as an originator and as servicer and Abitibi-Consolidated Inc., as an originator and subservicer (incorporated by reference from Exhibit 10.1 to the Company's Current Report on Form 8-K dated June 18, 2009, SEC File No. 001-33776).
10.5*	Second Amended and Restated Receivables Purchase Agreement, dated June 16, 2009, by and among Abitibi-Consolidated U.S. Funding Corp., as the seller, Abitibi Consolidated Sales Corporation and Abitibi-Consolidated Inc. as originators, Abitibi Consolidated Sales Corporation, as servicer, Abitibi-Consolidated Inc. as subservicer, Citibank, N.A., as agent, Barclays Capital Inc., as syndication agent, The CIT Group / Business Credit, Inc., as documentation agent, and Citibank, N.A., Barclays Bank PLC and the other financial and other institutions from time to time

Table of Contents

ABITIBIBOWATER INC.

<u>Exhibit No.</u>	<u>Description</u>
	party thereto, as banks. (incorporated by reference from Exhibit 10.2 to the Company's Current Report on Form 8-K dated June 18, 2009, SEC File No. 001-33776).
10.6**	Guaranty and Undertaking Agreement, dated as of June 16, 2009, among the Guarantors party thereto, each a debtor and debtor-in-possession under Chapter 11 of the Bankruptcy Code, Abitibi-Consolidated Inc., an obligator, and Citibank, N.A., as agent.
10.7*	Senior Secured Superpriority Debtor In Possession Credit Agreement, dated as of April 21, 2009, by and among AbitibiBowater Inc., Bowater Incorporated, Bowater Canadian Forest Products Inc., as debtors, debtors in possession and borrowers and Avenue Investments, as an initial lender, and Fairfax Financial Holdings Ltd., as an initial lender, initial administrative agent and initial collateral agent (incorporated by reference from Exhibit 10.2 to the Company's Current Report on Form 8-K/A dated April 29, 2009, SEC File No. 001-33776).
10.8*	Amendment No. 1, dated as of June 5, 2009, to the Senior Secured SuperPriority Debtor In Possession Credit Agreement, dated as of April 21, 2009, by and among AbitibiBowater Inc., Bowater Incorporated, Bowater Canadian Forest Products Inc. and each of the lenders party thereto (incorporated by reference from Exhibit 10.1 to the Company's Current Report on Form 8-K dated June 11, 2009, SEC File No. 001-33776).
10.9*	Letter Loan Agreement, dated as of May 6, 2009, relating to the SuperPriority, Senior Secured Debtor In Possession Credit Facility, among Abitibi-Consolidated Inc. and Donohue Corp., as Borrowers, Bank of Montreal, as Lender, and the Subsidiary Guarantors named therein (incorporated by reference from Exhibit 10.1 to the Company's Current Report on Form 8-K dated May 12, 2009, SEC File No. 001-33776).
10.10*	Form of Offer to Guarantee a Loan (translated from French) (incorporated by reference from Exhibit 10.2 to the Company's Current Report on Form 8-K dated May 12, 2009, SEC File No. 001-33776).
†10.11*	AbitibiBowater Inc. Amended and Restated Outside Director Deferred Compensation Plan, effective as of June 16, 2009 (incorporated by reference from Exhibit 10.1 to the Company's Current Report on Form 8-K dated June 22, 2009, SEC File No. 001-33776).
31.1**	Certification of President and Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2**	Certification of Senior Vice President and Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1**	Certification of President and Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2**	Certification of Senior Vice President and Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
*	Previously filed and incorporated herein by reference.
**	Filed with this Quarterly Report on Form 10-Q.
†	This is a management contract or compensatory plan or arrangement.

GUARANTY AND UNDERTAKING AGREEMENT

Dated as of June 16, 2009

among

THE GUARANTORS PARTY HERETO,

each a debtor and debtor-in-possession Chapter 11 of the Bankruptcy Code,

and

ABITIBI-CONSOLIDATED INC.,

a company operating pursuant to a proceeding under the Canadian CCAA,

in favor of

CITIBANK, N.A.,

as Agent for the Banks

TABLE OF CONTENTS

ARTICLE 1

Definitions

SECTION 1.01. <i>Definitions</i>	1
SECTION 1.02. <i>Terms Generally</i>	18

ARTICLE 2

Guarantees

SECTION 2.01. <i>The Guarantees</i>	18
SECTION 2.02. <i>Guarantee Unconditional</i>	18
SECTION 2.03. <i>Discharge Only Upon Payment In Full; Reinstatement In Certain Circumstances</i>	19
SECTION 2.04. <i>Waiver By Guarantors</i>	19
SECTION 2.05. <i>Subrogation</i>	20
SECTION 2.06. <i>Stay Of Acceleration</i>	20
SECTION 2.07. <i>Payments</i>	20

ARTICLE 3

Representations And Warranties Of The Obligors

SECTION 3.01. <i>Existence, Qualification And Power; Compliance With Laws</i>	20
SECTION 3.02. <i>Authorization; No Contravention</i>	21
SECTION 3.03. <i>Governmental Authorization; Other Consents</i>	21
SECTION 3.04. <i>Binding Effect</i>	21
SECTION 3.05. <i>Historical Financial Statements</i>	22
SECTION 3.06. <i>Projections.</i>	22
SECTION 3.07. <i>Material Litigation</i>	22
SECTION 3.08. <i>Ownership Of Property; Liens</i>	22
SECTION 3.09. <i>Environmental Matters</i>	23
SECTION 3.10. <i>Taxes</i>	24
SECTION 3.11. <i>ERISA and Pension Plan Compliance</i>	24
SECTION 3.12. <i>Subsidiaries; Equity Interests</i>	25
SECTION 3.13. <i>Margin Regulations; Investment Company Act</i>	26
SECTION 3.14. <i>Disclosure</i>	26
SECTION 3.15. <i>Labor Matters</i>	26
SECTION 3.16. <i>The US Interim Order, the US Final Order and the Canadian Amended Order</i>	27

SECTION 3.17. <i>Material Contracts</i>	27
SECTION 3.18. <i>PATRIOT Act</i>	27
SECTION 3.19. <i>Priority</i>	27

ARTICLE 4

Affirmative Covenants

SECTION 4.01. <i>Financial Statements</i>	28
SECTION 4.02. <i>Other Information</i>	29
SECTION 4.03. <i>Notices</i>	30
SECTION 4.04. <i>13-Week Projections</i>	31
SECTION 4.05. <i>Payment of Taxes and Claims; Compliance with Obligations</i>	32
SECTION 4.06. <i>Preservation of Existence, Etc.</i>	32
SECTION 4.07. <i>Maintenance of Properties</i>	32
SECTION 4.08. <i>Maintenance of Insurance</i>	32
SECTION 4.09. <i>Maintenance of Insurance Policy</i>	33
SECTION 4.10. <i>Compliance With Laws</i>	33
SECTION 4.11. <i>Books and Records; Inspections</i>	33
SECTION 4.12. <i>ERISA and Pension Plans</i>	33
SECTION 4.13. <i>Further Assurances.</i>	34
SECTION 4.14. <i>Credit Ratings</i>	34

ARTICLE 5

Negative Covenants

SECTION 5.01. <i>Liens</i>	35
SECTION 5.02. <i>Investments</i>	37
SECTION 5.03. <i>Indebtedness</i>	38
SECTION 5.04. <i>Fundamental Changes; Disposition Of Assets; Acquisitions</i>	40
SECTION 5.05. <i>Disposal of Subsidiary Equity Interests</i>	41
SECTION 5.06. <i>Conduct of Business</i>	41
SECTION 5.07. <i>Transactions with Affiliates</i>	41
SECTION 5.08. <i>Restricted Junior Payments</i>	42
SECTION 5.09. <i>Actions Voiding Coverage Under the Insurance Policy</i>	42
SECTION 5.10. <i>Accounting Changes</i>	42
SECTION 5.11. <i>Chapter 11 Claims</i>	43
SECTION 5.12. <i>Carve-out</i>	43
SECTION 5.13. <i>Amendments or Waivers of Organizational Documents and Certain Related Agreements</i>	43
SECTION 5.14. <i>Minimum Cumulative Consolidated EBITDAR</i>	43
SECTION 5.15. <i>Minimum Liquidity</i>	44
SECTION 5.16. <i>Combined Capital Expenditures</i>	44

ARTICLE 6
Events Of Default

ARTICLE 7

Miscellaneous

SECTION 7.01. <i>Notices</i>	47
SECTION 7.02. <i>Survival of Agreements, Representations and Warranties, Etc.</i>	49
SECTION 7.03. <i>No Waiver</i>	49
SECTION 7.04. <i>Amendments and Waivers</i>	49
SECTION 7.05. <i>Successors and Assigns</i>	49
SECTION 7.06. <i>Damages Waiver</i>	49
SECTION 7.07. <i>Severability</i>	49
SECTION 7.08. <i>Governing Law; Jurisdiction; Etc.</i>	49
SECTION 7.09. <i>WAIVER OF JURY TRIAL</i>	50
SECTION 7.10. <i>Counterparts; Integration</i>	50
SECTION 7.11. <i>Judgment Currency</i>	50
SECTION 7.12. <i>Assignment of Guaranteed Obligations</i>	51
SECTION 7.13. <i>Execution By ACI</i>	51
SECTION 7.14. <i>Interpretation (Québec)</i>	51
SECTION 7.15. <i>Language</i>	52
SECTION 7.16. <i>Effectiveness</i>	52

Exhibit A Form of Intercompany Subordination Agreement

Schedule 3.07	Adverse Proceedings
Schedule 3.09	Environmental Matters
Schedule 3.11	ERISA and Pension Plan Matters
Schedule 3.12	Subsidiaries
Schedule 4.01	Website Address

GUARANTY AND UNDERTAKING AGREEMENT dated as of June 16, 2009 (this "**Agreement**"), by and among THE GUARANTORS PARTY HERETO, each a debtor and debtor-in-possession under chapter 11 of the Bankruptcy Code (the "**Guarantors**"), ABITIBI-CONSOLIDATED INC., a Canadian corporation and a company operating pursuant to a proceeding under the CCAA ("**ACI**" and together with the Guarantors, the "**Obligors**"), and CITIBANK, N.A., as agent for the Banks (the "**Agent**").

INTRODUCTORY STATEMENT

WHEREAS, ACI and each of the Guarantors is an Affiliate of Abitibi-Consolidated U.S. Funding Corp., a Delaware corporation (the "**Seller**"); and

WHEREAS, the Seller has entered into that certain Second Amended and Restated Receivables Purchase Agreement dated as of June 16, 2009 (the "**ARRPA**") among the Seller, Abitibi Consolidated Sales Corporation, a Delaware corporation, as Servicer ("**ACSC**"), ACI, as Subservicer, the Agent and the banks party thereto (the "**Banks**").

WHEREAS, in consideration of the financial and other support that the Seller has provided, and such financial and other support as the Seller may in the future provide, to each Guarantor and to ACI, each Guarantor and ACI is willing to enter into this Agreement;

NOW, THEREFORE, in consideration of the premises and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Obligors agree as follows:

ARTICLE 1
Definitions

SECTION 1.01. Definitions.

(a) *Terms Defined Herein.* As used in this Agreement, the following terms shall have the meanings specified below:

"**13-Week Projection**" shall mean a cash flow forecast setting forth the projected combined cash receipts and cash disbursements of the Abitibi Entities (other than Augusta Newsprint) and the Seller on a weekly basis for the following 13 calendar weeks, in substantially the form previously delivered to the Agent. As used herein, "**13-Week Projection**" shall refer to the most recent 13-Week Projection delivered by the Obligors in accordance with Section 4.04.

"**ABH**" shall mean AbitibiBowater Inc., a Delaware corporation.

“**Abitibi DIP Term Facility**” shall mean any debtor in possession term loan facility provided to ACI or Donohue; *provided* that neither the Seller nor any Guarantor shall be liable in respect of any portion thereof.

“**Abitibi Entity**” shall mean each of ACI, Donohue and their respective Subsidiaries, other than the Seller.

“**Abitibi Petitioner**” shall have the meaning specified in the Canadian Initial Order.

“**ACT**” shall have the meaning specified in the Preamble hereto.

“**ACSC**” shall have the meaning specified in the Introductory Statement hereto.

“**Adverse Proceeding**” shall mean any action, claim (including any environmental claims), suit, charge, order, direction, proceeding, hearing (in each case, whether administrative, judicial or otherwise), governmental investigation or arbitration (whether or not purportedly on behalf of any Abitibi Entity) at law or in equity, or before or by any Governmental Authority, domestic or foreign, whether pending or, to the knowledge of ACI or Donohue, threatened against or affecting any Abitibi Entity or any property of any Abitibi Entity.

“**Affiliate**” shall mean, with respect to any specified Person, any other Person that directly or indirectly through one or more intermediaries, controls, or is controlled by, or is under common control with, such specified Person. The term “**control**” shall mean the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of voting securities, by contract or otherwise; *provided* that, for purposes of Section 5.07, “**control**” shall also include the possession, directly or indirectly, of the power to vote 10% or more of the securities having ordinary voting power for the election of directors (or persons performing similar functions) of a Person, whether through the ownership of voting securities, by contract or otherwise; “**controlling**” and “**controlled**” have meanings correlative of the foregoing.

“**Agent**” shall have the meaning specified in the Preamble hereto.

“**Applicable Date**” shall have the meaning specified in Section 5.14.

“**ARRPA**” shall have the meaning specified in the Introductory Statement hereto.

“**Asset Sale**” shall mean a sale, lease or sub-lease (as lessor or sublessor), sale and leaseback, assignment, conveyance, exclusive license (as licensor or sublicensor), transfer or other disposition to, or any exchange of property with, any Person (other than the Seller or any Guarantor), in one transaction or a series of transactions, of all or any part of any Abitibi Entity’s businesses, assets or properties of any kind, whether real, personal, or mixed and whether tangible or intangible, whether now owned or hereafter acquired, leased or licensed, including the Equity Interests of any of ACI’s or Donohue’s Subsidiaries, other than inventory (or other assets) sold, leased or licensed in the ordinary course of business. Notwithstanding the foregoing, none of the following shall be deemed to be an Asset Sale:

- (1) any single transaction or series of related transactions that involves assets having a fair market value of less than \$5,000,000;
 - (2) dispositions of leasehold improvements or leased assets in connection with the termination of an operating lease;
 - (3) transfers of assets between or among the Abitibi Entities;
 - (4) sales or other dispositions of Cash Equivalents or obligations in settlement of Hedge Agreements;
 - (5) sales, transfers or other dispositions of the assets of Bridgewater or any of its Subsidiaries in satisfaction of all or any portion of their respective obligations;
 - (6) the creation of a Lien to the extent that the creation thereof is permitted under Section 5.01;
 - (7) sales or other dispositions of assets constituting collateral under the Abitibi DIP Term Facility pursuant to the exercise of remedies under the documents governing the Abitibi DIP Term Facility;
 - (8) dispositions of accounts receivable and other payment obligations in connection with the compromise, settlement or collection thereof in the ordinary course of business or in bankruptcy or similar proceedings, and transfers of accounts receivable, other payment obligations and related assets in connection with credit insurance; and
 - (9) sales or other dispositions of assets of any Subsidiary that is not a wholly-owned Subsidiary.
- “Augusta Newsprint”** shall mean Augusta Newsprint Company, a Georgia corporation.
- “Authorized Officer”** shall mean, as applied to any Person, any individual holding the position of chairman of the board (if an officer), chief executive officer, president or one of its vice presidents (or the equivalent thereof), and such Person’s chief financial officer or treasurer.
- “Authorized Officer Certification”** shall mean, with respect to the financial statements for which such certification is required, the certification of the chief financial officer, treasurer or assistant treasurer of ACI and the chief financial officer, treasurer or assistant treasurer of Donohue that (i) such financial statements fairly present, in all material respects, the financial condition of the Abitibi Entities, as at the dates indicated and the results of their operations and their cash flows for the periods indicated, except, in the case of unaudited financial statements, for the absence of footnotes and for normal year-end audit adjustments and (ii) no Default or Event of Default has occurred and is continuing (*provided*, that each Authorized Officer Certification delivered pursuant to Section 4.01(b) or 4.01(c) shall also include the computation of Cumulative Consolidated EBITDAR for the applicable Fiscal Quarter or Fiscal Year).
- “Bankruptcy Code”** shall mean the U.S. Bankruptcy Code (11 U.S.C. §§ 101 et seq.).

“**Bankruptcy Courts**” shall mean, collectively, the Bankruptcy Court and the Canadian Court.

“**Banks**” shall have the meaning specified in the Introductory Statement hereto.

“**Bowater Entities**” shall mean, collectively, (a) ABH, (b) Bowater Incorporated and its Subsidiaries and (c) Bowater Newsprint South LLC and its Subsidiaries.

“**Bridgewater**” shall mean Bridgewater Paper Company Limited, a U.K. company limited by shares.

“**Canada Pension Plan**” shall mean the public pension plan created pursuant to the Canada Pension Plan, R.S. 1985, c. C-8.

“**Canadian Case**” shall mean the case commenced on April 17, 2009 by ACI and certain of its Subsidiaries pursuant to the CCAA in the Canadian Court.

“**Canadian GAAP**” shall mean generally accepted accounting principles in Canada as in effect from time to time.

“**Canadian Initial Order**” means the Second Amended Initial Order made by the Canadian Court in the Canadian Case on May 6, 2009 as amended on or prior to the date hereof.

“**Canadian Person**” shall mean any Person that is organized under the laws of Canada or any province or territory thereof.

“**Capital Expenditures**” shall mean expenditures of a Person that are or should be included in “**purchase of property and equipment**” or similar items reflected in the statement of cash flows of such Person.

“**Capital Lease**” shall mean, as applied to any Person, any lease of any property (whether real, personal or mixed) by that Person as lessee that, in conformity with GAAP, is or should be accounted for as a capital lease on the balance sheet of that Person.

“**Carve-Out**” shall mean (a) all allowed professional fees and disbursements incurred by the professionals retained, pursuant to sections 327, 328 or 1103(a) of the Bankruptcy Code, by the Obligors and any statutory committee appointed in the US Cases and any disbursements of any member of such committee in an aggregate amount not to exceed (i) \$7,500,000 in the aggregate in respect of professional fees and disbursements incurred following the occurrence and during the pendency of an Event of Default or an event of default under any such other post-petition facility of any of the Obligors (each a

“**Carve-Out Event**”) *plus* (ii) professional fees and disbursements incurred prior to the occurrence of a Carve-Out Event to the extent subsequently allowed *plus* (iii) professional fees and disbursements incurred from and after the date on which the Carve-Out Event is no longer continuing to the extent subsequently allowed and (b) quarterly fees required to be paid pursuant to 28 U.S.C. § 1930(a)(6) and any fees payable to the Clerk of the Bankruptcy Court; *provided, however*, that no portion of the Carve-Out shall be used to pay professional fees and disbursements incurred in connection with (i) asserting any claims or causes of action against the Agent, the Banks, the Syndication Agent or

the Seller or any of their respective successors and assigns and/or challenging or raising any defense to the Guaranteed Obligations, the Superpriority Guaranty Claims or the Superpriority Receivables Claims, (ii) asserting or prosecuting any action for preferences, fraudulent conveyances, or other avoidance power claims against the Agent, the Banks, the Syndication Agent or the Seller or any of their respective successors and assigns, (iii) objecting to or contesting the true sale nature of the sale and/or contribution of the Transferred Receivables or (iv) objecting to or contesting in any manner, or raising any defenses to, the validity, perfection, priority, extent or enforceability of the Guaranteed Obligations under or in connection with the Transaction Documents, *provided further, however*, that the Carve-Out may include professional fees and disbursements for investigation of such claims, causes of action or defenses in an aggregate amount not to exceed \$50,000.

“**Cases**” shall mean, collectively, the US Cases and the Canadian Case.

“**Cash Equivalents**” shall mean, as at any date of determination, any of the following to the extent readily monetized: (i) readily marketable securities (a) issued or directly and unconditionally guaranteed as to interest and principal by the government of the United States of America or the government of Canada or (b) issued by any agency or instrumentality of the government of the United States of America or the government of Canada, the obligations of which are backed by the full faith and credit of such government, in each case maturing within one year after the date of acquisition thereof; (ii) readily marketable direct obligations issued by any state of the United States of America or any province of Canada, or any political subdivision of any such state or province or any public instrumentality thereof, in each case maturing within one year after such date and having a rating of at least A-1 from S&P or P-1 from Moody's; (iii) insured demand deposits, time deposits or certificates of deposit maturing within one year after the date of acquisition thereof (in the case of time deposits or certificates of deposit) of (1) any commercial bank that (A) is a member of the Federal Reserve System, (B) issues (or the parent of which issues) commercial paper rated as described in clause (v), (C) is organized under the laws of the United States of America or any state thereof and (D) has combined capital and surplus of at least \$500,000,000 or (2) any bank listed on Schedule I of the *Bank Act (Canada)* that has Tier 1 capital (as defined in OSFI Guideline A-1 on Capital Adequacy Requirements) of not less than \$500,000,000; (iv) repurchase obligations, having a term of not more than ten days, with respect to underlying securities of the types described in clauses (i) entered into with any commercial bank satisfying the requirements of clause (iii); (v) commercial paper issued by a Person organized under the laws of any state of the United States of America or Canada maturing no later than the Business Day prior to the first Settlement Date (Yield and Fees) following the date of purchase and having a rating of at least A-1 from S&P and at least P-1 from Moody's; and (vi) shares of any no load money market mutual fund (A) having a rating from each rating agency rating such fund in its highest investment category and (B) having substantially all of its assets invested continuously in the types of investments referred to in clauses (i), (ii) and (iii) above (including such funds for which the Agent or any of its Affiliates is investment manager or advisor).

“**Change of Control**” shall mean, at any time, (a) any Person or “group” (within the meaning of Rules 13d-3 and 13d-5 under the Securities Exchange Act of 1934) (i) shall have acquired beneficial ownership of 35% or more on a fully diluted basis of the voting and/or economic interest in the Equity Interests of ABH or (ii) shall have obtained the power (whether

or not exercised) to elect a majority of the members of the board of directors (or similar governing body) of ABH; (b) ABH shall cease to beneficially own and control directly 100% on a fully diluted basis of the economic and voting interest in the Equity Interests of ACI; *provided* that for purposes of this clause (b), the exchangeable shares issued by AbitibiBowater Canada Inc. (f/k/a Bowater Canada, Inc.) outstanding on April 1, 2008 shall be deemed to have been exchanged for Equity Interests of ABH; (c) ACI shall cease to beneficially own and control directly 100% on a fully diluted basis of the economic and voting interest in the Equity Interests of Abitibi–Consolidated Company of Canada; (d) ABH (or any wholly owned Subsidiary of ABH that is organized under the laws of any state of the United States but is not Bowater Incorporated or any Subsidiary thereof) shall cease to collectively and beneficially own and control directly 100% on a fully diluted basis of the economic and voting interest in the Equity Interests of Donohue; (e) Donohue shall cease to beneficially own and control, directly or indirectly, 100% on a fully diluted basis of the economic and voting interest in the Equity Interests of each of its Subsidiaries that is a Guarantor; or (f) the majority of the seats (other than vacant seats) on the board of directors (or similar governing body) of ABH cease to be occupied by Persons who either (i) were members of the board of directors of ABH on the Effective Date or (ii) were nominated for election by the board of directors of ABH, a majority of whom were directors on the Effective Date or whose election or nomination for election was previously approved by a majority of such directors.

“**Chapter 11 Cases**” shall mean the proceedings under chapter 11 of the Bankruptcy Code commenced by the Guarantors on the Petition Date.

“**Chapter 15 Case**” shall mean the case filed on April 19, 2009 by ACI and certain of its Subsidiaries in the Bankruptcy Court under chapter 15 of the Bankruptcy Code.

“**Combined Capital Expenditures**” shall mean an amount equal to the sum, without duplication, of (a) Consolidated Capital Expenditures of ACI and its Subsidiaries *plus* (b) Consolidated Capital Expenditures of Donohue and its Subsidiaries.

“**Commodity Agreement**” shall mean any commodity exchange contract, commodity swap agreement, futures contract, option contract, synthetic cap or other similar agreement or arrangement, each of which is for the purpose of hedging the commodity risk associated with the Abitibi Entities’ operations and not for speculative purposes.

“**Consolidated Capital Expenditures**” shall mean, for any period, the aggregate of all expenditures of a Person and its Subsidiaries during such period determined on a consolidated basis that, in accordance with GAAP, are or should be included in “purchase of property and equipment” or similar items reflected in the consolidated statement of cash flows of such Person and its Subsidiaries.

“**Consolidated EBITDAR**” shall mean, with respect to the Abitibi Entities for any period, the sum, without duplication, of:

(a) Consolidated Net Income for such period (after giving effect to the proviso to the definition of “Consolidated Non–Cash Charges”), *plus*

- (b) to the extent such Consolidated Net Income for such period has been reduced thereby,
- (i) all income taxes paid or accrued during such period,
 - (ii) Consolidated Interest Expense for such period,
 - (iii) Consolidated Non-Cash Charges for such period,
 - (iv) the amount of any minority interest expense consisting of Subsidiary income attributable to minority equity interests of third parties in any non-wholly owned Subsidiary,
 - (v) (A) any costs, fees, expenses or disbursements of attorneys, consultants or advisors to the Abitibi Entities, in each case, incurred in connection with the ongoing administration of the Cases and the negotiation, execution and documentation of the Transaction Documents, together with any such costs, fees, expenses or disbursements paid to the attorneys, consultants and advisors of the agents and lenders in connection therewith and (B) any upfront, arrangement or other fees paid by the Obligor in connection with the Facility, in each case for such period, *minus*
- (c) to the extent such Consolidated Net Income for such period has been increased thereby, Consolidated Non-Cash Gains for such period.

“Consolidated Interest Expense” shall mean, with respect to the Abitibi Entities and for any period, the sum, without duplication, of (a) the interest expense (including (i) imputed interest expense in respect of Capital Leases and (ii) “yield” expense and fee expense incurred as a result of the transactions pursuant to the ARRPA) of the Abitibi Entities for such period, determined on a combined basis and otherwise in accordance with GAAP and (b) any interest accrued during such period, in respect of Indebtedness of any Abitibi Entity, that is required under GAAP to be capitalized rather than included in consolidated (or combined) interest expense for such period.

“Consolidated Net Income” shall mean, with respect to the Abitibi Entities, for any period, net income (or loss) determined on a combined basis in accordance with GAAP for such period; *provided* that there shall be excluded therefrom (but only to the extent included in the calculation of the foregoing):

- (a) gains or losses from disposals, asset impairments or reversal of impairments or abandonments or reserves relating thereto;
- (b) gains or losses on foreign currency translation in connection with the remeasurement of balance sheet assets and liabilities;
- (c) items classified as extraordinary gains or losses; and

(d) the net income or loss of any Person that is not a Subsidiary of ACI or Donohue, except to the extent of cash dividends or distributions paid to ACI, Donohue or to a Subsidiary.

“**Consolidated Non-Cash Charges**” shall mean, with respect to the Abitibi Entities, for any period, the aggregate depreciation, amortization and other non-recurring non-cash expenses reducing Consolidated Net Income for such period (*provided* that if any such other non-recurring non-cash expense represents a reserve or similar provision for cash expenditures in a future period, such cash expenditures shall be deducted from Consolidated Net Income in the determination of Consolidated EBITDAR for the period in which such cash expenditures are made).

“**Consolidated Non-Cash Gains**” shall mean, with respect to the Abitibi Entities, for any period, the aggregate non-recurring non-cash items increasing Consolidated Net Income for such period (excluding (i) the accrual of revenue consistent with past practice and (ii) the reversal in such period of an accrual of, or cash reserve for, cash expenses in a prior period, to the extent such accrual or reserve did not increase Consolidated EBITDAR in a prior period).

“**Contractual Obligation**” shall mean, as applied to any Person, any obligation of such Person under any Security issued by that Person or any indenture, mortgage, deed of trust, lease, contract, undertaking, agreement or other instrument to which that Person is a party or by which it or any of its properties is bound or to which it or any of its properties is subject.

“**Currency Agreement**” shall mean any foreign exchange contract, currency swap agreement, futures contract, option contract, synthetic cap or other similar agreement or arrangement, each of which is for the purpose of hedging the foreign currency risk associated with the Abitibi Entities’ operations and not for speculative purposes.

“**Default**” shall mean a condition or event that constitutes an Event of Default or which, after notice or lapse of time or both, would become, unless cured or waived, an Event of Default.

“**Disqualified Equity Interests**” shall mean any Equity Interest which, by its terms (or by the terms of any security or other Equity Interests into which it is convertible or for which it is exchangeable) or upon the happening of any event or condition, (a) matures or is mandatorily redeemable (other than solely for Equity Interests which are not otherwise Disqualified Equity Interests), pursuant to a sinking fund obligation or otherwise, (b) is redeemable at the option of the holder thereof (other than solely for Equity Interests which are not otherwise Disqualified Equity Interests), in whole or in part, (c) provides for the scheduled payments or dividends in cash or (d) is or becomes convertible into or exchangeable for Indebtedness or any other Equity Interests that would constitute Disqualified Equity Interests, except, in the case of clauses (a) and (b), if as a result of a change of control or asset sale, so long as any rights of the holders thereof upon the occurrence of such a change of control or asset sale event are subject to the prior payment in full of all Guaranteed Obligations.

“**Donohue**” shall mean Donohue Corp., a Delaware corporation.

“**Effective Date**” shall mean June 16, 2009.

“**Employee Benefit Plan**” shall mean (a) in respect of any Abitibi Entity that is a US Person, any “**employee benefit plan**” as defined in Section 3(3) of ERISA which is or was sponsored, maintained or contributed to by, or required to be contributed by any Abitibi Entity or any of their respective ERISA Affiliates in the preceding six calendar years, and (b) in respect of any Abitibi Entity that is a Canadian Person, any employee benefit plan of any nature or kind that is not a Pension Plan and is maintained by or contributed to, or required to be maintained by or contributed to, by any Abitibi Entity that is a Canadian Person.

“**Environmental Claim**” shall mean any written notice of investigation, notice of violation, claim, action, suit, charge, proceeding, demand, abatement order or other order or directive (conditional or otherwise), by any Governmental Authority or any other Person, arising (a) pursuant to or in connection with any Environmental Law or any actual or alleged violation of any Environmental Law; (b) in connection with any Hazardous Material or any actual or alleged Hazardous Materials Activity; or (c) in connection with any actual or alleged damage, injury, threat or harm to worker health and safety, natural resources or the environment.

“**Environmental Laws**” shall mean any and all foreign or domestic, federal (U.S. or Canadian), state, provincial or municipal or any subdivision of any of them laws (including the common law), statutes, ordinances, orders, rules, regulations, judgments, Governmental Authorizations, and any other Laws or any other requirements of Governmental Authorities relating to: (a) environmental matters, including those relating to any Hazardous Materials Activity and endangered or threatened species; (b) the use, manufacture, possession, storage, holding, presence, existence, location, Release, threatened Release, discharge, placement, generation, transportation, processing, construction, treatment, abatement, removal, remediation, management, control, containment, disposal, disposition or handling of any Hazardous Materials, and any corrective action or response action with respect to any of the foregoing; (c) any actual or alleged damage, injury, threat or harm to worker health and safety, natural resources or the environment or the preservation or reclamation of natural resources or the environment; (d) forestation; or (e) occupational safety and health, industrial hygiene, land use or the protection of human, plant or animal health or welfare; in each case, in any manner applicable to any Abitibi Entity or any Property.

“**Equity Interests**” shall mean any and all shares, interests, participations or other equivalents (however designated) of capital stock of a corporation, any and all equivalent ownership interests in a Person (other than a corporation), including partnership interests and membership interests, and any and all warrants, rights or options to purchase or other arrangements or rights to acquire any of the foregoing.

“**ERISA**” shall mean the Employee Retirement Income Security Act of 1974, as amended from time to time, and any successor thereto.

“**ERISA Affiliate**” shall mean, as applied to any Person, (a) any corporation which is a member of a controlled group of corporations within the meaning of Section 414(b) of the Internal Revenue Code of which that Person is a member; (b) any trade or business (whether or not incorporated) which is a member of a group of trades or businesses under common control within the meaning of Section 414(c) of the Internal Revenue Code of which that Person is a member; and (c) any member of an affiliated service group within the meaning of Section

414(m) or (o) of the Internal Revenue Code of which that Person, any corporation described in clause (a) above or any trade or business described in clause (b) above is a member. Any former ERISA Affiliate of any Abitibi Entity shall continue to be considered an ERISA Affiliate of such Abitibi Entity within the meaning of this definition with respect to the period such entity was an ERISA Affiliate of such Abitibi Entity and with respect to liabilities arising after such period for which such Abitibi Entity could be liable under the Internal Revenue Code or ERISA.

“**ERISA Event**” shall mean, with respect to any Abitibi Entity that is a US Person, (a) a “**reportable event**” within the meaning of Section 4043 of ERISA and the regulations issued thereunder with respect to any Pension Plan (excluding those for which the provision for 30-day notice to the PBGC has been waived by regulation); (b) the failure to meet the minimum funding standard of Section 412 or Section 430, as applicable, of the Internal Revenue Code with respect to any Pension Plan (whether or not waived in accordance with Section 412(c) of the Internal Revenue Code) or the failure to make by its due date a required installment under Section 430(j) of the Internal Revenue Code with respect to any Pension Plan or the failure to make any required contribution to a Multiemployer Plan; (c) the provision by the administrator of any Pension Plan pursuant to Section 4041(a)(2) of ERISA of a notice of intent to terminate such plan in a distress termination described in Section 4041(c) of ERISA; (d) the withdrawal by any Abitibi Entity or any of their respective ERISA Affiliates from any Pension Plan with two or more contributing sponsors or the termination of any such Pension Plan resulting in either case in liability to any Abitibi Entity or any of their respective Affiliates pursuant to Section 4063 or 4064 of ERISA; (e) the institution by the PBGC of proceedings to terminate any Pension Plan under Section 4042(a)(1)–(3) of ERISA; (f) the imposition of liability on any Abitibi Entity or any of their respective ERISA Affiliates pursuant to Section 4062(e) or 4069 of ERISA or by reason of the application of Section 4212(c) of ERISA; (g) the withdrawal of any Abitibi Entity or any of their respective ERISA Affiliates in a complete or partial withdrawal (within the meaning of Sections 4203 and 4205 of ERISA) from any Multiemployer Plan if there is any potential liability therefor, or the receipt by any Abitibi Entity or any of their respective ERISA Affiliates of notice from any Multiemployer Plan that it is in reorganization or insolvency pursuant to Section 4241 or 4245 of ERISA, or that it intends to terminate or has terminated under Section 4041A or 4042 of ERISA; (h) the occurrence of an act or omission which could give rise to the imposition on any Abitibi Entity or any of their respective ERISA Affiliates of fines, penalties, taxes or related charges under Chapter 43 of the Internal Revenue Code or under Section 409, Section 502(c), (i) or (l), or Section 4071 of ERISA in respect of any Employee Benefit Plan; (i) the assertion of a material claim (other than routine claims for benefits) against any Employee Benefit Plan other than a Multiemployer Plan or the assets thereof, or against any Abitibi Entity or any of their respective ERISA Affiliates in connection with any Employee Benefit Plan; (j) receipt from the Internal Revenue Service of notice of the failure of any Pension Plan (or any other Employee Benefit Plan intended to be qualified under Section 401(a) of the Internal Revenue Code) to qualify under Section 401(a) of the Internal Revenue Code, or the failure of any trust forming part of any Pension Plan to qualify for exemption from taxation under Section 501(a) of the Internal Revenue Code; or (k) the imposition of a lien pursuant to Section 430(k) of the Internal Revenue Code or ERISA or a violation of Section 436 of the Internal Revenue Code.

“**Event of Default**” shall have the meaning set forth in Article 6.

“**Facility**” shall mean the accounts receivable purchase facility made available to the Seller pursuant to the Transaction Documents.

“**Fiscal Quarter**” shall mean a fiscal quarter of any Fiscal Year.

“**Fiscal Year**” shall mean the fiscal year of the Abitibi Entities ending on December 31 of each calendar year.

“**GAAP**” shall mean, for any period prior to January 1, 2009, Canadian GAAP and, for any period commencing on or after January 1, 2009, US GAAP.

“**Governmental Authority**” shall mean any nation or government, any state or other political subdivision thereof, any agency, authority, instrumentality, regulatory body, court, administrative tribunal, central bank or other entity exercising executive, legislative, judicial, taxing, regulatory or administrative powers or functions of or pertaining to government.

“**Governmental Authorization**” shall mean any permit, license, approval, authorization, plan, directive, consent order or consent decree or other like instrument of or from or required by any Governmental Authority.

“**Guarantee**” by any Person (the “**guarantor**”) shall mean any obligation, contingent or otherwise, of the guarantor guaranteeing or having the economic effect of guaranteeing any Indebtedness of any other Person (the “**primary obligor**”) in any manner, whether directly or indirectly, and including any obligation of the guarantor, direct or indirect, (a) to purchase or pay (or advance or supply funds for the purchase or payment of) such Indebtedness or other obligation or to purchase (or advance or supply funds for the purchase of) any security for the payment thereof, (b) to purchase or lease property, securities or services for the purpose of assuring the owner of such Indebtedness or other obligation of the payment thereof, (c) to maintain working capital, equity capital or any other financial statement condition or liquidity of the primary obligor so as to enable the primary obligor to pay such Indebtedness or other obligation or (d) as an account party in respect of any letter of credit or letter of guaranty issued to support such Indebtedness or other obligation; *provided* that the term “**Guarantee**” shall not include endorsements for collection or deposit in the ordinary course of business.

“**Guaranteed Obligations**” shall mean all payment obligations of the Seller under the Transaction Documents, including without limitation, payment of the Termination Amount and all Indemnified Amounts.

“**Guarantors**” shall have the meaning specified in the Preamble hereto.

“**Hazardous Materials**” shall mean any chemical, material, substance or waste, exposure to which is prohibited, limited or regulated by any Governmental Authority or which may or could pose a hazard or cause an adverse effect to the health and safety of the owners, occupants or any Persons or property in the vicinity of any Property or to the indoor or outdoor environment, including asbestos, petroleum (or any breakdown constituents), dioxin, pentachlorophenol and polychlorinated biphenyls.

“Hazardous Materials Activity” shall mean any past, current, proposed or threatened activity, event or occurrence involving any Hazardous Materials, including the use, manufacture, possession, storage, holding, presence, existence, location, Release, threatened Release, discharge, placement, generation, transportation, processing, construction, treatment, abatement, removal, remediation, disposal, disposition or handling of any Hazardous Materials, and any corrective action or response action with respect to any of the foregoing.

“Hedge Agreement” shall mean an Interest Rate Agreement, a Commodity Agreement or a Currency Agreement.

“Historical Financial Statements” shall mean (x) the consolidated financial statements of ACI and its Subsidiaries for Fiscal Year 2007 and Fiscal Year 2006 and (y) the combined financial statements of the Abitibi Entities for Fiscal Year 2008, in each case certified by an Authorized Officer that they fairly present, in all material respects, the financial condition of ACI and its Subsidiaries or the Abitibi Entities, as the case may be, as at the dates indicated and the results of their operations and their cash flows for the periods indicated.

“Indebtedness” shall mean, as applied to any Person, without duplication, (a) all indebtedness for borrowed money; (b) that portion of obligations with respect to Capital Leases that is properly classified as a liability on a balance sheet in conformity with GAAP; (c) notes payable and drafts accepted representing extensions of credit whether or not representing obligations for borrowed money; (d) any obligation owed for all or any part of the deferred purchase price of property or services, including any earn-out obligations (excluding any such obligations incurred under ERISA), which purchase price is (i) due more than six months from the date of incurrence of the obligation in respect thereof or (ii) evidenced by a note or similar written instrument; (e) all indebtedness secured by any Lien (other than Liens permitted under Section 5.01(u)) on any property or asset owned or held by that Person regardless of whether the indebtedness secured thereby shall have been assumed by that Person or is nonrecourse to the credit of that Person, *provided* that the amount of any such Indebtedness that is nonrecourse to the credit of that Person shall be determined to be the lesser of (i) the amount of such Indebtedness and (ii) the value of the property or assets subject to such Lien; (f) the undrawn amount of any letter of credit or banker’s acceptance issued or accepted, as the case may be, for the account of that Person or as to which that Person is otherwise liable for reimbursement of drawings or otherwise; (g) Disqualified Equity Interests; (h) the direct or indirect guaranty, endorsement (otherwise than for collection or deposit in the ordinary course of business), co-making, discounting with recourse or sale with recourse by such Person of the obligation of another; (i) any obligation of such Person the primary purpose or intent of which is to provide assurance to an obligee that the obligation of the obligor thereof will be paid or discharged, or any agreement relating thereto will be complied with, or the holders thereof will be protected (in whole or in part) against loss in respect thereof; (j) any liability of such Person for an obligation of another through any agreement (contingent or otherwise) (A) to purchase, repurchase or otherwise acquire such obligation or any security therefor, or to provide funds for the payment or discharge of such obligation (whether in the form of loans, advances, stock purchases, capital contributions or otherwise) or (B) to maintain the solvency or any balance sheet item, level of income or financial condition of another if, in the case of any agreement described under subclauses (A) or (B) of this clause (j), the primary purpose or intent thereof is as described in clause (i) above; and (k) all obligations of such Person in respect of any exchange traded or over

the counter derivative transaction, including any Hedge Agreement, in each case, whether entered into for hedging or speculative purposes.

"Interest Rate Agreement" shall mean any interest rate swap agreement, interest rate cap agreement, interest rate collar agreement, interest rate hedging agreement or other similar agreement or arrangement, each of which is for the purpose of hedging the interest rate exposure associated with the Abitibi Entities' operations and not for speculative purposes.

"Internal Revenue Code" shall mean the U.S. Internal Revenue Code of 1986, as amended to the date hereof and from time to time hereafter, and any successor statute.

"Investment" means, as to any Person, any direct or indirect acquisition or investment by such Person, whether by means of (a) the purchase or other acquisition of Securities of another Person, (b) a loan, advance or capital contribution to, Guarantee or assumption of debt of, or purchase or other acquisition of any other debt or equity participation or interest in, another Person, including any partnership or joint venture interest in such other Person and any arrangement pursuant to which the investor Guarantees Indebtedness of such other Person, or (c) the purchase or other acquisition (in one transaction or a series of transactions) of assets of another Person that constitute a business unit. For purposes of covenant compliance, the amount of any Investment shall be the amount actually invested, without adjustment for subsequent increases or decreases in the value of such Investment.

"Laws" shall mean, as to any Person, collectively, all applicable international, foreign, federal (U.S. or Canadian), state, provincial and local statutes, treaties, rules, guidelines, regulations, ordinances, codes and administrative or judicial precedents or authorities, including the interpretation or administration thereof by any Governmental Authority charged with the enforcement, interpretation or administration thereof, and all applicable administrative orders, directed duties, requests, licenses, authorizations and permits of, and agreements with, any Governmental Authority, in each case binding on such Person or to which such Person or any of its property or assets is subject.

"Lien" shall mean any lien, mortgage, hypothec, pledge, assignment, security interest, charge or encumbrance of any kind (including any agreement to give any of the foregoing, any conditional sale or other title retention agreement, and any lease or license in the nature thereof) and any option, trust or other preferential arrangement having the practical effect of any of the foregoing.

"Liquidity" shall mean, on any date of determination, the sum of (a) the Dollar Equivalent of the combined amount of Unrestricted Cash of the Abitibi Entities on such date (excluding, however, any such Unrestricted Cash of the Abitibi Entities that are not Canadian Persons or US Persons) plus (b) the Securitization Availability on such date plus (c) the principal amount of loans available to be borrowed under the Abitibi DIP Term Facility on such date.

"Material Adverse Effect" shall mean (A) a material adverse effect on (i) the financial condition, business, operations, assets, liabilities or prospects of the Abitibi Entities taken as a whole, (ii) the ability of ACI or any Guarantor to perform any of its obligations under any of the Transaction Documents to which it is a party or (iii) the legality, validity or enforceability of the

Transaction Documents (including, without limitation, the validity, enforceability or priority of the ownership or security interests granted thereunder) or (B) a material impairment of the rights or remedies of the Agent or the Banks under any of the Transaction Documents; *provided* that a Material Adverse Effect shall not be deemed to exist as a result of the Bankruptcy Case and the Canadian Case or the effect thereof or the circumstances and events leading up thereto.

“**Moody’s**” shall mean Moody’s Investors Service, Inc. and any successor thereto.

“**Multiemployer Plan**” shall mean any Employee Benefit Plan which is a “**multiemployer plan**” as defined in Section 3(37) of ERISA.

“**Narrative Report**” shall mean, with respect to the financial statements for which such narrative report is required, a narrative report describing the operations of the Abitibi Entities in the form prepared for presentation to senior management thereof for the applicable Fiscal Year.

“**Non-Public Information**” shall mean information which has not been disseminated in a manner making it available to investors generally, within the meaning of Regulation FD.

“**Obligors**” shall have the meaning specified in the Preamble hereto.

“**Organizational Documents**” shall mean (a) with respect to any corporation or company, its certificate, articles or memorandum of incorporation, organization, association or amalgamation, its letters patent or other constituting documents, in each case, as amended, and its by-laws, if any, as amended, (b) with respect to any limited partnership, its certificate or declaration of limited partnership, as amended, and its partnership agreement, as amended, (c) with respect to any general partnership, its partnership agreement, as amended and (d) with respect to any limited liability company, its articles of organization, as amended, and its operating or incorporation agreement, as amended. In the event any term or condition of this Agreement or any other Transaction Document requires any Organizational Document to be certified by a secretary of state or similar governmental official, the reference to any such “**Organizational Document**” shall only be to a document of a type customarily certified by such governmental official.

“**PATRIOT Act**” shall mean the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act (Title III of Pub. L. 107-56 (signed into law October 26, 2001)).

“**PBGC**” shall mean the Pension Benefit Guaranty Corporation or any successor thereto.

“**PCTFA**” the Proceeds of Crime (Money Laundering) and Terrorist Financing Act (Canada).

“**Pension Plan**” shall mean, (a) in respect of any Abitibi Entity that is a US Person, any Employee Benefit Plan, other than a Multiemployer Plan, which is subject to Title IV of ERISA and is subject to Section 412 of the Internal Revenue Code or Section 302 of ERISA, and (b) in respect of any Abitibi Entity that is a Canadian Person, each pension, supplementary pension, retirement savings or other retirement income plan or arrangement of any kind, registered or

non-registered, established, maintained or contributed to by such Abitibi Entity in respect of its employees or former employees, but does not include the Canada Pension Plan or the Québec Pension Plan.

“**Person**” shall mean any natural person, corporation, limited liability company, trust, joint venture, association, company, partnership, Governmental Authority or other entity.

“**Pre-Petition Payment**” shall mean a payment by an Abitibi Entity that is a party to any of the Cases (by way of adequate protection or otherwise) of principal or interest on, or otherwise on account of, any Indebtedness of any Abitibi Entity that is a party to any of the Cases existing on the Petition Date.

“**Projections**” shall have the meaning specified in Section 3.06(a).

“**Property**” shall mean any real property (including all buildings, fixtures or other improvements located thereon) now, hereafter or heretofore owned, leased, operated or used by any Abitibi Entity or any of their respective predecessors or Affiliates.

“**Québec Pension Plan**” shall mean the public pension plan created pursuant to An Act respecting the Québec Pension Plan, R.S.Q. C.R-9.

“**RCRA**” shall mean the Resource Conservation and Recovery Act (42 U.S.C. § 6901 et. seq.).

“**Release**” shall mean any release, spill, emission, leaking, pumping, pouring, injection, escaping, deposit, disposal, discharge, dispersal, dumping, leaching or migration of any Hazardous Material into the indoor or outdoor environment (including the abandonment or disposal of any barrels, containers or other closed receptacles containing any Hazardous Material) or the movement of any Hazardous Material through the air, soil, surface water or groundwater.

“**Reorganization Plan**” shall mean a plan of reorganization in any of the US Cases or a plan of compromise or arrangement in the Canadian Case.

“**Restricted Junior Payment**” shall mean (a) any dividend or other distribution, direct or indirect, on account of any shares of any class of stock of ACI or Donohue now or hereafter outstanding, except a dividend payable solely in shares of that class of stock to the holders of that class; (b) any redemption, retirement, sinking fund or similar payment, purchase or other acquisition for value, direct or indirect, of any shares of any class of stock of ACI or Donohue now or hereafter outstanding; (c) any payment made to retire, or to obtain the surrender of, any outstanding warrants, options or other rights to acquire shares of any class of stock of ACI or Donohue (or any direct or indirect parent thereof) now or hereafter outstanding; and (d) any payment or prepayment of principal of, premium, if any, or interest on, or redemption, purchase, retirement, defeasance (including in-substance or legal defeasance), sinking fund or similar payment with respect to, (i) any pre-petition Indebtedness or (ii) any Indebtedness that is subordinated to (or that is required to be subordinated to) the Guaranteed Obligations.

“**S&P**” shall mean Standard & Poor’s Ratings Services, a division of The McGraw–Hill Companies, Inc. and any successor thereto.

“**Securities**” shall mean any stock, shares, partnership interests, voting trust certificates, certificates of interest or participation in any profit–sharing agreement or arrangement, options, warrants, bonds, debentures, notes, or other evidences of indebtedness, secured or unsecured, convertible, subordinated or otherwise, or in general any instruments commonly known as “**securities**” or any certificates of interest, shares or participations in temporary or interim certificates for the purchase or acquisition of, or any right to subscribe to, purchase or acquire, any of the foregoing.

“**Securitization Availability**” shall mean, on any date of determination, (a) the lesser of (i) Collateral Availability and (ii) the Purchase Limit, *minus* (b) the aggregate outstanding Capital of Receivable Interests.

“**Subsidiary**” shall mean with respect to any Person, (a) a corporation a majority of the voting Equity Interests of which are at the time, directly or indirectly, owned by such Person; or (b) any other Person (other than a corporation), including, a partnership, limited liability company, business trust or joint venture, in which such Person, at the time thereof, directly or indirectly, has at least a majority ownership interest entitled to vote in the election of directors, managers or trustees thereof (or other Person performing similar functions). Unless otherwise qualified, all references to a “**Subsidiary**” or to “**Subsidiaries**” in this Agreement shall refer to a Subsidiary or Subsidiaries of ACI or Donohue.

“**Superpriority Claim**” shall mean a claim against any Guarantor or any of their Subsidiaries in any of the US Cases which is an administrative expense claim having priority over any or all administrative expenses of the kind specified in Sections 503(b) or 507(b) of the Bankruptcy Code.

“**Tax**” shall mean any present or future tax, levy, impost, duty, assessment, charge, fee, deduction or withholding of any nature and whatever called (including any GST or PST), including any interest, additions to tax or penalties thereto, by whomsoever, on whomsoever and wherever imposed, levied, collected, withheld or assessed; *provided* that, “**Tax on the overall net income**” of a Person shall be construed as a reference to a tax imposed by the jurisdiction in which that Person is organized or in which that Person’s applicable principal office is located or in which that Person is deemed to be doing business on all or part of the net income, profits or gains (whether worldwide, or only insofar as such income, profits or gains are considered to arise in or to relate to a particular jurisdiction, or otherwise) of that Person.

“**Transferred Receivables**” shall have the meaning specified in the Originator Purchase Agreement.

“**UCC**” shall mean the personal property security laws as from time to time in effect in any applicable United States jurisdiction which govern the validity, perfection (or opposability), effect of perfection or of non–perfection or priority of security interests.

“**Unrestricted Cash**” shall mean cash and Cash Equivalents that would not appear in the combined financial statements of the Abitibi Entities, prepared on a combined basis and otherwise in accordance with GAAP, as a line item on the balance sheet as “restricted cash” or similar caption.

“**US Cases**” shall mean, collectively, the Chapter 11 Cases and the Chapter 15 Case.

“**US GAAP**” shall mean generally accepted accounting principles in the United States of America as in effect from time to time.

“**US Person**” shall mean any Person that is organized under the laws of the United States or any state thereof.

“**US Subsidiary**” shall mean each Subsidiary that is a US Person.

(b) *Terms Defined in the ARRPA.* As used in this Agreement, the following terms shall have the meanings set forth in the ARRPA:

Adequate Protection Claims
Bankruptcy Code
Bankruptcy Court
Business Day
CAD
Canadian Amended Order
Canadian Court
Canadian Dollar Equivalent
Capital
CCAA
Collateral
Collateral Availability
Collections
Dollars
Dollar Equivalent
Eligible Assignee
GST
Indemnified Amounts
Indemnified Party
Insurance Policy
Insurance Policy Event
Majority Banks
Originator
Originator Purchase Agreement
Originator Receivable
Petition Date
PPSA
PST
Purchase Limit

Receivable
Receivable Interest
Related Security
Securitization Provisions
Settlement Date (Yield and Fees)
Superpriority Guaranty Claims
Superpriority Receivables Claims
Syndication Agent
Termination Amount
Transaction Documents
US Final Order
US Interim Order
Yield

SECTION 1.02. Terms Generally. Except where the context requires otherwise, the definitions in Section 1.01 shall apply equally to the singular and plural forms of the terms defined. Whenever the context may require, any pronoun shall include the corresponding masculine, feminine and neuter forms. The words “**include**”, “**includes**” and “**including**” shall be deemed to be followed by the phrase “**without limitation**”. Unless otherwise stated, references to Sections, Articles, Schedules and Exhibits made herein are to Sections, Articles, Schedules or Exhibits, as the case may be, of this Agreement. “**Writing**”, “**written**” and comparable terms refer to printing, typing and other means of reproducing words in a visible form. References to any agreement or contract are to such agreement or contract as amended, modified or supplemented from time to time in accordance with the terms hereof and thereof. References to any Person include the successors and permitted assigns of such Person. References “**from**” or “**through**” any date mean, unless otherwise specified, “**from and including**” or “**through and including**”, respectively. Unless otherwise stated, references herein to any Dollar amount shall include a reference to the Canadian Dollar Equivalent thereof.

ARTICLE 2

Guarantees

SECTION 2.01. The Guarantees. Each Guarantor hereby unconditionally guarantees the full and punctual payment (whether at stated maturity, upon acceleration or otherwise) of the Guaranteed Obligations. Upon failure by the Seller to pay punctually any amounts in respect of the Guaranteed Obligations, the Guarantors shall forthwith on demand pay the amount not so paid at the place and in the manner specified in the ARPPA.

SECTION 2.02. Guarantee Unconditional. The obligations of each Guarantor hereunder shall be unconditional and absolute and, without limiting the generality of the foregoing, shall not be released, discharged or otherwise affected by:

(a) any extension, renewal, settlement, compromise, waiver or release in respect of any obligation of the Seller under any Transaction Document, by operation of law or otherwise;

- (b) any modification or amendment of or supplement to any Transaction Document;
- (c) any release, impairment, non-perfection or invalidity of any direct or indirect security for any obligation of the Seller, any Guarantor or any other Person under any Transaction Document;
- (d) any change in the corporate existence, structure or ownership of the Seller, any Guarantor or any other Person or any of their respective subsidiaries, or any insolvency, bankruptcy, reorganization or other similar proceeding affecting the Seller, any Guarantor or any other Person or any of their assets or any resulting release or discharge of any obligation of the Seller, any Guarantor or any other Person under any Transaction Document;
- (e) the existence of any claim, set off or other right that such Guarantor may have at any time against the Seller, any Guarantor, any Bank or any other Person, whether in connection with the Transaction Documents or any unrelated transactions; *provided* that nothing herein shall prevent the assertion of any such claim by separate suit or compulsory counterclaim;
- (f) any invalidity or unenforceability relating to or against the Seller, any Guarantor or any other Person for any reason of any Transaction Document, or any provision of applicable law or regulation purporting to prohibit the payment of the Guaranteed Obligations by the Seller, any Guarantor or any other Person; or
- (g) any other act or omission to act or delay of any kind by the Seller, any Guarantor, any other party to any Transaction Document, any Bank or any other Person, or any other circumstance whatsoever that might, but for the provisions of this clause (g), constitute a legal or equitable discharge of or defense to any obligation of any Guarantor hereunder.

SECTION 2.03. *Discharge Only Upon Payment In Full; Reinstatement In Certain Circumstances.*

(a) Each Guarantor's obligations hereunder shall remain in full force and effect until all Guaranteed Obligations shall have been paid in full. If at any time any payment of any Guaranteed Obligation is rescinded or must be otherwise restored or returned upon the insolvency, bankruptcy or reorganization of the Seller or otherwise, the Guarantors' obligations hereunder with respect to such payment shall be reinstated as though such payment had been due but not made at such time.

(b) Each Guarantor agrees that (i) its obligations under this Agreement shall not be discharged by the entry of an order confirming a Reorganization Plan (and each of the Guarantors, pursuant to Section 1141(d)(4) of the Bankruptcy Code, hereby waives any such discharge) and (ii) the Superpriority Guaranty Claims granted to the Agent and the Banks pursuant to the US Interim Order (or the US Final Order, as applicable) shall not be affected in any manner by the entry of an order confirming a Reorganization Plan in any of the Cases.

SECTION 2.04. *Waiver By Guarantors.* Each Guarantor irrevocably waives acceptance hereof, diligence, presentment, demand, protest and any notice not provided for herein, as well as

any requirement that at any time any action be taken by any Person or entity against the Guarantor, the Seller, any Guarantor or any other Person or entity.

SECTION 2.05. Subrogation. A Guarantor that makes a payment with respect to a Guaranteed Obligation or by reason of contribution against any other guarantor of such Guaranteed Obligation hereunder shall be subrogated to the rights of the payee against the Seller with respect to such payment; *provided* that no Guarantor shall enforce any payment by way of subrogation against the Seller so long as any Guaranteed Obligation remains unpaid.

SECTION 2.06. Stay Of Acceleration. If acceleration of the time for payment of any Guaranteed Obligation is stayed upon the insolvency, bankruptcy or reorganization of the Seller, all such Guaranteed Obligations otherwise subject to acceleration under the terms of the Transaction Documents shall nonetheless be payable by the Guarantors hereunder forthwith on demand by the Banks.

SECTION 2.07. Payments. All payments made by any Guarantor pursuant to this Article 2 shall be made to the Agent for the ratable benefit of the Banks.

ARTICLE 3

Representations And Warranties Of The Obligors

Each Obligor represents and warrants, to the Agent and the Banks that:

SECTION 3.01. Existence, Qualification And Power; Compliance With Laws. Each Abitibi Entity (a) is a Person duly organized or formed, validly existing and in good standing, in each case where such concept exists, under the Laws of the jurisdiction of its incorporation or organization, except, in the case of an Abitibi Entity that is not the Seller or an Obligor, to the extent failure to be duly organized or formed and in good standing would not be reasonably expected to have a Material Adverse Effect, (b) subject to the entry by the Bankruptcy Court of (x) the US Interim Order at any time prior to the entry of the US Final Order and (y) the US Final Order thereafter, and subject to the entry by the Canadian Court of the Canadian Amended Order, and in each such case, subject to the terms thereof, has all requisite constitutional, corporate or other similar power and authority to (i) own or lease its material assets and carry on its business substantially as currently conducted and (ii) execute, deliver and perform its obligations under the Transaction Documents to which it is a party, except, in the case of clause (b)(i), to the extent that failure to have any requisite power or authority would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect, (c) subject to the entry by the Bankruptcy Court of (x) the US Interim Order at any time prior to the entry of the US Final Order and (y) the US Final Order thereafter, and subject to the entry by the Canadian Court of the Canadian Amended Order, and in each such case, subject to the terms thereof, is duly qualified and in good standing, in each case where such concept exists, under the Laws of each jurisdiction where its ownership, lease or operation of properties or the conduct of its business requires such qualification; except to the extent that failure to be duly qualified and in good standing would not, individually or in the aggregate, be reasonably expected to have a Material Adverse Effect, (d) is in compliance with all Laws, orders, writs and injunctions except

to the extent failure to comply therewith is permitted by the Bankruptcy Code or the CCAA or the Canadian Amended Order and except to the extent failure to comply therewith would not, individually or in the aggregate, reasonably be expected to cause a Material Adverse Effect and (e) subject to the entry by the Bankruptcy Court of (x) the US Interim Order at any time prior to the entry of the US Final Order and (y) the US Final Order thereafter, and subject to the entry by the Canadian Court of the Canadian Amended Order, has all requisite governmental licenses, authorizations, consents and approvals to operate its business as currently conducted except to the extent that failure to have any requisite governmental license, authorization, consent and approval would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect.

SECTION 3.02. *Authorization; No Contravention.* Subject to the entry by the Bankruptcy Court of (x) the US Interim Order at any time prior to the entry of the US Final Order and (y) the US Final Order thereafter, and subject to the entry by the Canadian Court of the Canadian Amended Order, and in each such case, subject to the terms thereof, the execution, delivery and performance by each Obligor of each Transaction Document to which such Person is a party, and the consummation of the transactions contemplated thereby, are within such Person's corporate or other powers, have been duly authorized by all necessary corporate or other organizational action, and do not and will not (a) contravene the terms of any of such Person's Organizational Documents; (b) conflict with or result in any breach or contravention of, or the creation of any Lien on any of the properties or assets of any Abitibi Entity (other than Liens created under the Transaction Documents), or require any payment to be made under (i) any Contractual Obligation to which such Person is a party or affecting such Person or the properties of such Person or any of its Subsidiaries or (ii) any order, injunction, writ or decree of any Governmental Authority or any arbitral award to which such Person or its property is subject; or (iii) any Law; except with respect to any conflict, breach or contravention or payment (but not creation of Liens) referred to in this clause (b), to the extent that such conflict, breach, contravention or payment could not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect.

SECTION 3.03. *Governmental Authorization; Other Consents.* No approval, consent, exemption, authorization, or other action by, or notice to, or filing with, any Governmental Authority (except as required under the Bankruptcy Code and the CCAA and applicable state, federal (U.S. or Canadian) and provincial bankruptcy rules) or any other Person is necessary for or required of an Obligor as a condition to the execution, delivery or performance by such Obligor, or enforcement against such Obligor, of any Transaction Document other than the filings necessary to perfect the interest of the Seller, the Agent (for the benefit of the Banks) in the Receivables Interests.

SECTION 3.04. *Binding Effect.* Subject to the entry by the Bankruptcy Court of (x) the US Interim Order at any time prior to the entry of the US Final Order and (y) the US Final Order thereafter, and subject to the entry by the Canadian Court of the Canadian Amended Order, and in each such case, subject to the terms thereof, this Agreement and each other Transaction Document has been duly executed and delivered by each Obligor that is a party thereto. Subject to the entry by the Bankruptcy Court of (x) the US Interim Order at any time prior to the entry of the US Final Order and (y) the US Final Order thereafter, and subject to the entry by the Canadian Court of the Canadian Amended Order, and in each such case, subject to the terms

thereof, this Agreement and each other Transaction Document constitutes a legal, valid and binding obligation of each Obligor that is a party thereto, enforceable against such Obligor in accordance with its terms.

SECTION 3.05. *Historical Financial Statements.* The Historical Financial Statements were prepared in conformity with GAAP (except, with respect to the financial statements for Fiscal Year 2008, to the extent that the combination of the financial statements of ACI and Donohue is not in accordance with GAAP) and fairly present, in all material respects, the financial position, on a consolidated or combined basis, as applicable, of the Persons described in such financial statements as at the respective dates thereof and the results of operations and cash flows, on a combined basis, of the Persons described therein for each of the periods then ended, subject, in the case of any such unaudited financial statements, to changes resulting from normal year-end audit adjustments. Except as otherwise publicly disclosed by ABH and its Affiliates prior to the Effective Date, as of the Effective Date no Abitibi Entity has any contingent liability or liability for taxes, long-term lease or unusual forward or long-term commitment that is not reflected in the Historical Financial Statements or the notes thereto and which in any such case is material in relation to the business, operations, properties, assets or condition (financial or otherwise) of the Abitibi Entities taken as a whole.

SECTION 3.06. *Projections.* (a) On and as of the Effective Date, the projections of the Abitibi Entities (taken as a whole) for the period of Fiscal Year 2009 through and including Fiscal Year 2010 (the “**Projections**”) are based on good faith estimates and assumptions made by the management of the Abitibi Entities; *provided* that the Projections are not to be viewed as facts and that actual results during the period or periods covered by the Projections may differ from such Projections and that the differences may be material; *provided further* that, as of the Effective Date, management of the Abitibi Entities believed that the Projections were reasonable and attainable.

(b) The Obligors have disclosed any material assumptions with respect to the 13-Week Projection and affirm that the 13-Week Projection was prepared in good faith upon assumptions believed to be reasonable at the time of preparation.

SECTION 3.07. *Material Litigation.* Other than the Cases, any proceedings that have been stayed as a result of the Cases and as disclosed on Schedules 3.07 and 3.11, there are no Adverse Proceedings, individually or in the aggregate, that could reasonably be expected to have a Material Adverse Effect. No Abitibi Entity (a) is in violation of any applicable laws (including Environmental Laws) that, individually or in the aggregate, could reasonably be expected to have a Material Adverse Effect, or (b) is subject to or in default with respect to any unstayed final judgments, writs, injunctions, decrees, rules or regulations of any court or any federal (U.S. or Canadian), state, provincial, municipal or other governmental department, commission, board, bureau, agency or instrumentality, domestic or foreign, that, individually or in the aggregate, could reasonably be expected to have a Material Adverse Effect.

SECTION 3.08. *Ownership Of Property; Liens.* Each Abitibi Entity has (a) good, sufficient and legal title to (in the case of fee interests in real property), (b) valid leasehold interests in (in the case of leasehold interests in real or personal property), (c) valid licensed rights in (in the case of licensed interests in real or intellectual property) and (d) good title to (in

the case of all other personal property) all of their respective material properties and assets reflected in the most recent Historical Financial Statements referred to in Section 3.05 and in the most recent financial statements delivered pursuant to Section 4.01, in each case except (i) for assets disposed of since the date of such financial statements in the ordinary course of business or as otherwise permitted under Section 5.04 and (ii) in the case of Abitibi Entities other than the Seller or an Obligor, to the extent that the failure to have such title, interests or rights could not reasonably be expected to have a Material Adverse Effect. Except as permitted by this Agreement, all such properties and assets are free and clear of Liens.

SECTION 3.09. *Environmental Matters.* In each case, except as set forth on Schedule 3.09:

(a) No Abitibi Entity nor any of its respective facilities or operations are subject to any outstanding written order, consent decree or settlement agreement with any Person relating to any Environmental Law, any Environmental Claim, or any Hazardous Materials Activity that, individually or in the aggregate, could reasonably be expected to have a Material Adverse Effect. No Abitibi Entity has received any letter or request for information under Section 104 of the Comprehensive Environmental Response, Compensation, and Liability Act (42 U.S.C. § 9604 et seq.) or any comparable federal (U.S. or Canada), state, foreign or provincial law with respect to any environmental condition that could reasonably be expected to have a Material Adverse Effect. There are and, to the knowledge of ACI and Donohue, have been no conditions, occurrences, or Hazardous Materials Activities which could reasonably be expected to form the basis of an Environmental Claim against any Abitibi Entity that, individually or in the aggregate, could reasonably be expected to have a Material Adverse Effect. Each Abitibi Entity is in compliance with all applicable Environmental Laws, which compliance includes obtaining, maintaining and complying with any Governmental Authorizations required under all applicable Environmental Laws necessary to operate its business, except for any non-compliance that, individually or in the aggregate, could not reasonably be expected to have a Material Adverse Effect. No Abitibi Entity has been issued or been required to obtain a Governmental Authorization for the treatment, storage or disposal of hazardous waste for any of its facilities pursuant to the RCRA, or any comparable federal, state, foreign or provincial Environmental Law, nor are any such facilities regulated as “interim status” facilities required to undergo corrective action pursuant to RCRA or any comparable federal, state, provincial or foreign law, the failure of which to obtain or comply with could reasonably be expected to have a Material Adverse Effect. Compliance with all current or reasonably foreseeable future requirements pursuant to or under Environmental Laws could not be reasonably expected to have, individually or in the aggregate, a Material Adverse Effect. No event or condition has occurred or is occurring with respect to any Abitibi Entity relating to any Environmental Law, any Release of Hazardous Materials or any Hazardous Materials Activity or which is reasonably likely to give rise to any liability or responsibility pursuant to any Environmental Law, in either case which individually or in the aggregate has had, or could reasonably be expected to have, a Material Adverse Effect.

(b) Each Obligor hereby acknowledges and agrees that neither the Agent nor any Bank: (i) is now, or has ever (A) owned, occupied or been in charge, management or control of any Property, or (B) been in charge, management or control of any Obligor’s affairs or operations, or (ii) has or has ever had the capacity or the authority through the provisions of the Transaction Documents or otherwise to direct or influence any (A) Obligor’s conduct with respect to the

ownership, operation or management of any Property, (B) undertaking, work or task performed by any employee, agent or contractor of any Obligor or the manner in which such undertaking, work or task may be carried out or performed, or (C) compliance with Environmental Laws.

SECTION 3.10. Taxes. In each case except to the extent failure to do so is permitted by Chapter 11 of the Bankruptcy Code or the CCAA or the Canadian Amended Order or to the extent the failure to file or pay could not reasonably be expected to have a Material Adverse Effect, all federal (U.S. and Canadian), provincial and other Tax returns and reports of the Abitibi Entities (including all GST and PST returns) required to be filed by any of them have been timely filed, and all federal (U.S. and Canadian), provincial and other (including all GST and PST returns) Taxes shown on such Tax returns and reports to be due and payable and all assessments, fees and other governmental charges upon the Abitibi Entities and upon their respective properties, assets, income, businesses and franchises which are due and payable have been paid when due and payable. Except as could not reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect, ACI and Donohue know of no proposed Tax assessment against any Abitibi Entity which is not being actively contested by such Abitibi Entity in good faith and by appropriate proceedings; *provided* that such reserves or other appropriate provisions, if any, as shall be required in conformity with GAAP shall have been made or provided therefor.

SECTION 3.11. ERISA and Pension Plan Compliance. (a) Except as set forth on Schedule 3.11: (i) each Abitibi Entity and each of their respective ERISA Affiliates is in compliance with all applicable provisions and requirements of ERISA and the Internal Revenue Code and the regulations and published interpretations thereunder with respect to each Employee Benefit Plan, and have performed all its obligations under each Employee Benefit Plan, except where the failure to so comply or perform could not reasonably be expected to have a Material Adverse Effect; (ii) no material liability to the PBGC (other than required premium payments or contributions in the ordinary course of business), the Internal Revenue Service, any Employee Benefit Plan or any trust established under Title IV of ERISA has been or is expected to be incurred by any Abitibi Entity; (iii) no ERISA Event has occurred or is reasonably expected to occur that could reasonably be expected to have a Material Adverse Effect; (iv) except to the extent required under Section 4980B of the Internal Revenue Code or similar state laws or as required under any collective bargaining agreement, no Abitibi Entity has any liability with respect to an Employee Benefit Plan that provides health or welfare benefits (through the purchase of insurance or otherwise) for any retired or former employee of any Abitibi Entity or any of their respective ERISA Affiliates, except for any such liability that could not reasonably be expected to have a Material Adverse Effect; (v) except as could not reasonably be expected to have a Material Adverse Effect, the present value of the aggregate benefit liabilities under each Pension Plan sponsored, maintained or contributed to by any Abitibi Entity or any of their ERISA Affiliates (determined as of the end of the most recent plan year on the basis of the actuarial assumptions specified for funding purposes in the most recent actuarial valuation for such Pension Plan), did not exceed the aggregate current value of the assets of such Pension Plan as of such date; (vi) as of the most recent valuation date for each Multiemployer Plan for which the actuarial report is available, the potential liability of the Abitibi Entities and their respective ERISA Affiliates for a complete withdrawal from such Multiemployer Plan (within the meaning of Section 4203 of ERISA), when aggregated with such potential liability for a complete

withdrawal from all Multiemployer Plans, based on information available pursuant to Section 4221(e) of ERISA is zero; and (vii) each Abitibi Entity and each of their ERISA Affiliates have complied with the requirements of Section 515 of ERISA with respect to each Multiemployer Plan and are not in material "default" (as defined in Section 4219(c)(5) of ERISA) with respect to payments to a Multiemployer Plan.

(b) Except as set forth on Schedule 3.11: (i) in respect of each Abitibi Entity that is a Canadian Person, the Pension Plans that are required to be registered are duly registered under all applicable Laws which require registration (including the Income Tax Act (Canada)), have been administered in accordance with the Income Tax Act (Canada) and such other applicable Laws (other than the payment of the special amortization payments since the Petition Date and the transfer of commuted values out of the plans) and no event has occurred which is reasonably likely to cause the loss of such registered status, except to the extent that the failure to be registered could not reasonably be expected to have a Material Adverse Effect, (ii) all obligations of each Canadian Obligor (including fiduciary, contribution, funding, investment and administration obligations) required to be performed in connection with the Employee Benefit Plans, the Pension Plans and any funding agreements therefor under the terms thereof and applicable statutory and regulatory requirements (other than the payment of the special amortization payments since the Petition Date and the transfer of commuted values out of the plans), have been performed in a timely fashion in accordance with the terms thereof, except to the extent that the failure to so perform could not reasonably be expected to have a Material Adverse Effect, (iii) no promises of benefit improvements under the Pension Plans or the Employee Benefit Plans (other than improvements required to be implemented pursuant to court orders under the Canadian Case) have been made except where such improvement could not reasonably be expected to have a Material Adverse Effect, (iv) all employer and employee payments, contributions, and premiums (other than the payment of the special amortization payments since the commencement of the Canadian Case) required to be remitted or paid to or in respect of the Pension Plans and the Employee Benefit Plans have been paid or remitted in accordance with their respective terms and applicable statutory and regulatory requirements, except to the extent that the failure to so pay or remit could not reasonably be expected to have a Material Adverse Effect, (v) there have been no improper withdrawals or applications of the assets of the Pension Plans or the Employee Benefit Plans that could reasonably be expected to have a Material Adverse Effect, (vi) there are no outstanding disputes concerning the assets or liabilities of the Pension Plans or the Employee Benefit Plans that could reasonably be expected to have a Material Adverse Effect and (vii) each Pension Plan is funded to the extent required by Law, except (x) in respect of the payment of the special amortization payments thereto since the Petition Date and (y) to the extent that the failure to be so funded could not reasonably be expected to have a Material Adverse Effect.

SECTION 3.12. *Subsidiaries; Equity Interests.* Donohue has no Subsidiaries other than those disclosed in Schedule 3.12, and all of the outstanding Equity Interests owned by Donohue (or any Subsidiary of Donohue) in such Subsidiaries have been validly issued and are fully paid and all Equity Interests owned by Donohue (or any Subsidiary of Donohue) in such Subsidiaries are owned free and clear of all Liens except Liens permitted under Section 5.01. Schedule 3.12 sets forth the name, jurisdiction and ownership interest of Donohue and each of its Subsidiaries.

SECTION 3.13. Margin Regulations; Investment Company Act. (a) No Abitibi Entity is engaged nor will it engage, principally or as one of its important activities, in the business of purchasing or carrying margin stock (within the meaning of Regulation U issued by the FRB), or extending credit for the purpose of purchasing or carrying margin stock.

(b) No Abitibi Entity is or is required to be registered as an “investment company” under the Investment Company Act of 1940.

SECTION 3.14. Disclosure. No representation or warranty of any Obligor contained in any Transaction Document or in any other documents, certificates or written statements furnished to the Agent or any Bank by or on behalf of any Abitibi Entity for use in connection with the transactions contemplated hereby, together with all other representations, warranties, documents, certificates and statements so furnished taken as a whole, contains any untrue statement of a material fact or omits to state a material fact (known to ACI and Donohue in the case of any document not furnished by any of them) necessary in order to make the statements contained herein or therein not misleading in light of the circumstances in which the same were made. Any projections and pro forma financial information contained in such materials are based upon good faith estimates and assumptions believed by the Obligors to be reasonable at the time made, it being recognized by the Banks that such projections as to future events are not to be viewed as facts and that actual results during the period or periods covered by any such projections may differ from the projected results. There are no facts known (or which should upon the reasonable exercise of diligence be known) to ACI and Donohue (other than matters of a general economic nature) that, individually or in the aggregate, could reasonably be expected to result in a Material Adverse Effect and that have not been disclosed herein or in such other documents, certificates and statements furnished to the Banks for use in connection with the transactions contemplated hereby.

SECTION 3.15. Labor Matters. Except for matters that have been stayed as a result of the Cases, (a) no Abitibi Entity is engaged in any unfair labor practice that could reasonably be expected to have a Material Adverse Effect, (b) there is no unfair labor practice complaint or other labor proceeding (including certification) pending against any Abitibi Entity, or to the knowledge of ACI and Donohue, threatened against any of them before the National Labor Relations Board or a labor board of any other jurisdiction, and no grievance or arbitration proceeding arising out of or under any applicable collective bargaining agreement is pending against any Abitibi Entity or, to the best knowledge of ACI and Donohue, threatened against any of them and there is no Abitibi Entity in violation of any applicable collective agreement, in each case which, individually or in the aggregate, could reasonably be expected to have a Material Adverse Effect, (c) there is no strike or work stoppage in existence or, to the knowledge of ACI and Donohue, threatened involving any Abitibi Entity which, individually or in the aggregate, could reasonably be expected to have a Material Adverse Effect, (d) to the knowledge of ACI and Donohue, no application for recognition, petition for certification or representation petition or union organizing activities are taking place with respect to the employees of any Abitibi Entity which either individually or in the aggregate could reasonably be expected to have a Material Adverse Effect and (e) all payments due from ACI for employee health and welfare insurance have been paid or accrued as a liability on the books of ACI and ACI has withheld and remitted all employee withholdings to be withheld or remitted by it and has made all employer contributions to be made by it (other than the payment of the special amortization payments

since the Petition Date), in each case pursuant to applicable Law, including on account of the Canada Pension Plan and Québec Pension Plan maintained by the Government of Canada and the Province of Québec, respectively, employment insurance, employee income taxes, and any other required payroll deduction, except where the failure to do so, individually or in the aggregate, could not reasonably be expected to have a Material Adverse Effect.

SECTION 3.16. *The US Interim Order, the US Final Order and the Canadian Amended Order.* At the time that any of the Guaranteed Obligations become due and payable, the Banks shall, subject to the provisions of Article 6 and the applicable provisions of (i) the US Interim Order (at any time prior to the entry of the US Final Order), (ii) the US Final Order (thereafter) and (iii) the Canadian Amended Order, be entitled to immediate payment of such Guaranteed Obligations, and to enforce the remedies provided for hereunder, without further application to or order by the Bankruptcy Courts.

SECTION 3.17. *Material Contracts.* Each Abitibi Entity is in material compliance with each contract entered into by it after the Petition Date the breach or loss of which could reasonably be expected to have a Material Adverse Effect.

SECTION 3.18. *PATRIOT Act.* To the extent applicable, each Abitibi Entity is in compliance, in all material respects, with (a) the Trading with the Enemy Act, as amended, and each of the foreign assets control regulations of the United States Treasury Department (31 CFR, Subtitle B, Chapter V, as amended) and any other enabling legislation or executive order relating thereto, (b) the PATRIOT Act, (c) the PCTFA and (d) each of (i) Part II.1 of the Criminal Code (Canada), (ii) the Regulations Implementing the United Nations Resolutions on the Suppression of Terrorism (Canada), (iii) the United Nations Al-Qaida and Taliban Regulations (Canada) and (iv) any other Canadian Laws (including those administered by Foreign Affairs and International Trade Canada and the Department of Public Safety Canada (collectively, the “**Departments**”)) which (x) prohibit Canadians from engaging in transactions with, or providing services to, Persons on the lists created under various federal statutes and regulations, or (y) block Persons, foreign countries and territories subject to Canadian sanctions administered by, *inter alia*, the Departments.

SECTION 3.19. *Priority.* (a) Each Guarantor hereby covenants, represents and warrants that, upon entry of (i) the US Interim Order at any time prior to the entry of the US Final Order and (ii) the US Final Order thereafter, the obligations of such Guarantor hereunder shall at all times constitute an allowed superpriority claim pursuant to section 364(c)(1) of the Bankruptcy Code with priority above all other administrative expenses of the kind specified in sections 503(b) and 507(b) of the Bankruptcy Code (other than the Adequate Protection Claims), subject in all respects to the Carve-Out and (b) ACSC hereby covenants, represents and warrants that, upon entry of (i) the US Interim Order at any time prior to the entry of the US Final Order and (ii) the US Final Order thereafter, the obligations of ACSC under the ARSPA and the Originator Purchase Agreement shall at all times constitute an allowed superpriority claim pursuant to section 364(c)(1) of the Bankruptcy Code with priority above all other administrative expenses of the kind specified in sections 503(b) and 507(b) of the Bankruptcy Code, subject in all respects to the Carve-Out.

(b) Except for the Carve-Out (and solely with respect to the Superpriority Guaranty Claims, except for the Adequate Protection Claims against each Guarantor), the Superpriority Guaranty Claims and the Superpriority Receivables Claims of the Agent and the Banks against each Guarantor shall at all times be senior to the rights of any chapter 11 trustee and, subject to section 726 of the Bankruptcy Code, any chapter 7 trustee, or any other creditor (including, without limitation, post-petition counterparties and other post-petition creditors) in the US Cases or any subsequent proceedings under the Bankruptcy Code, including, without limitation, any chapter 7 cases if any of the US Cases are converted to cases under chapter 7 of the Bankruptcy Code as against each Guarantor.

ARTICLE 4

Affirmative Covenants

Until the date on which no Capital of or Yield on any Receivable Interest shall be outstanding, all other amounts owed by the Seller under the ARPPA to the Banks or the Agent shall have been paid in full and the Banks shall have no further obligation to purchase Receivable Interests pursuant to the ARPPA, the Obligors shall, and shall cause each of their Subsidiaries (other than the Seller) to:

SECTION 4.01. Financial Statements. (a) Deliver to the Agent for prompt further distribution to each Bank, as soon as available, and in any event within 30 days after the end of each month ending after the Effective Date (other than the third month of each Fiscal Quarter), commencing with the month in which the Effective Date occurs, the combined balance sheet of the Abitibi Entities as at the end of such month and the related combined statements of income and cash flows of the Abitibi Entities for such month and for the period from the beginning of the then current Fiscal Year to the end of such month, setting forth, in the case of any financial statements for a period commencing on or after January 1, 2010, in comparative form the corresponding figures for the corresponding periods of the previous Fiscal Year, to the extent prepared on a monthly basis, all in reasonable detail, together with an Authorized Officer Certification;

(b) Deliver to the Agent for prompt further distribution to each Bank, as soon as available, and in any event within 50 days after the end of each Fiscal Quarter of each Fiscal Year (other than the last Fiscal Quarter of each Fiscal Year), commencing with the Fiscal Quarter ending June 30, 2009, the combined balance sheets of the Abitibi Entities as at the end of such Fiscal Quarter and the related combined statements of income and cash flows of the Abitibi Entities for such Fiscal Quarter and for the period from the beginning of the then current Fiscal Year to the end of such Fiscal Quarter, setting forth in the case of any financial statements for a period commencing on or after January 1, 2010, in comparative form the corresponding figures for the corresponding periods of the previous Fiscal Year, all in reasonable detail, together with an Authorized Officer Certification;

(c) Deliver to the Agent for prompt further distribution to each Bank, as soon as available, and in any event within 105 days after the end of each Fiscal Year, commencing with Fiscal Year 2009, (i) the combined balance sheets of the Abitibi Entities as at the end of such

Fiscal Year and the related combined statements of income, stockholders' equity and cash flows of the Abitibi Entities for such Fiscal Year, setting forth in the case of any financial statements for a period commencing on or after January 1, 2010, in comparative form the corresponding figures for the previous Fiscal Year, in reasonable detail, together with an Authorized Officer Certification and a Narrative Report with respect thereto; and (ii) with respect to such combined financial statements a report thereon of PricewaterhouseCoopers LLP or other independent certified public (or, in the case of ACI, chartered) accountants of recognized national standing selected by ACI and Donohue, and reasonably satisfactory to the Agent (which report shall be unqualified (other than with respect to the Cases), and shall state that such combined financial statements fairly present, in all material respects, the combined financial position of the Abitibi Entities as at the dates indicated and the results of their operations and their cash flows for the periods indicated on a combined basis and otherwise in conformity with GAAP applied on a basis consistent with prior years (except as otherwise disclosed in such financial statements);

(d) [Reserved];

(e) Documents required to be delivered pursuant to this Section 4.01 may be delivered electronically and if so delivered, shall be deemed to have been delivered on the date on which the Obligors (or any direct or indirect parent of the Obligors) post such documents, or provides a link thereto on the website on the Internet at the website address listed on Schedule 4.01; *provided* that: (i) upon written request by the Agent or any Bank, the Obligors shall deliver paper copies of such information to the Agent or such Bank (as applicable) and (ii) the Obligors shall notify (which may be by facsimile or electronic mail) the Agent of the posting of any such documents.

(f) The Obligors and each Bank acknowledge that certain of the Banks may be "public-side" Banks (Banks that do not wish to receive material Non-Public Information with respect to ABH, the Obligors, their respective Subsidiaries or their Securities) and, if documents or notices required to be delivered pursuant to this Section 4.01 or otherwise are being distributed through Intralinks (the "Platform"), any document or notice that ACI or Donohue has indicated contains Non-Public Information shall not be posted on that portion of the Platform designated for such public-side Banks. ACI and Donohue agree to clearly designate all information provided to the Agent by or on behalf of the Obligors which is suitable to be made available to public-side Banks. If the Obligors have not indicated whether a document or notice delivered pursuant to this Section 4.01 contains material Non-Public Information, Agent shall post such document or notice solely on that portion of the Platform designated for Banks who wish to receive material Non-Public Information with respect to ABH, the Obligors, their respective Subsidiaries and their Securities.

SECTION 4.02. Other Information. (a) Deliver to the Agent for prompt further distribution to each Bank:

(i) promptly upon their becoming available, copies of (A) all financial statements, reports, notices and proxy statements sent or made available generally by the ABH, ACI or Donohue to their security holders acting in such capacity or by any Subsidiary of any of the foregoing to its security holders other than any other Abitibi Entity or ABH, (B) all regular and periodic reports and all registration statements and

prospectuses, if any, filed by any Abitibi Entity with any securities exchange or with the U.S. Securities and Exchange Commission, the Ontario Securities Commission, the Québec Autorité des marchés financiers or any other governmental or private regulatory authority, (C) all press releases and other statements made available generally by any Abitibi Entity to the public concerning material developments in the business of any Abitibi Entity, and (D) such other information and data with respect to any Abitibi Entity as from time to time may be reasonably requested by Agent or any Bank;

(ii) promptly, such additional information regarding the business, legal, financial or corporate affairs of the Abitibi Entities, or compliance with the terms of the Transaction Documents, as the Agent or any Bank through the Agent may from time to time reasonably request;

(iii) (A) as soon as practicable in advance of filing with the Bankruptcy Court or the Canadian Court or delivering to the official creditors' committee appointed in the US Cases (the "**Creditors' Committee**") or to the United States Trustee for the District of Delaware (the "**US Trustee**"), as the case may be, all other proposed orders and pleadings related to the Facility (which must be in form and substance reasonably satisfactory to the Banks), any Reorganization Plan and/or any disclosure statement related thereto and (B) substantially simultaneously with the filing with the Bankruptcy Court or the Canadian Court or delivering to the Creditors' Committee or to the US Trustee, as the case may be, all other notices, filings, motions, pleadings or other information concerning the financial condition of the Obligors or other Indebtedness of the Obligors that may be filed with the Bankruptcy Court or the Canadian Court or delivered to the Creditors' Committee or to the US Trustee; and

(iv) simultaneously with delivery to the lenders under the Abitibi DIP Term Facility, each notice, report or other information required to be delivered pursuant to the terms of the Abitibi DIP Term Facility (other than routine administrative notices and correspondence unrelated to any failure of any Abitibi Entity to perform thereunder) to the extent not otherwise required to be delivered hereunder.

(b) On a quarterly basis, at regularly scheduled times reasonably acceptable to the Agent (but in any event on at least five (5) Business Days' notice to the Agent), the Obligors shall hold an update call with an Authorized Officer of each of ACI and Donohue and such other members of senior management of the Obligors as the Obligors deems appropriate and the Banks and their respective representatives, advisors and independent contractors to discuss the state of the Abitibi Entities' business, including but not limited to recent performance, current business and market conditions and material performance changes.

SECTION 4.03. Notices. Deliver to the Agent for prompt further distribution to each Bank:

(a) promptly upon any officer of ACI or Donohue obtaining actual knowledge (i) of any condition or event that constitutes a Default or an Event of Default or that notice has been given to ACI or Donohue with respect thereto; (ii) that any Person has given any notice to any Abitibi Entity or the Seller or taken any other action with respect to any default or event of

default under the Abitibi DIP Term Facility; or (iii) of the occurrence of any event or change that has caused, or of the existence of, either in any case or in the aggregate, a Material Adverse Effect, a certificate of an Authorized Officer specifying the nature and period of existence of such condition, event or change, or specifying the notice given and action taken by any such Person and the nature of such claimed Event of Default, Default, default, event or condition, and what action ACI or Donohue has taken, is taking and proposes to take with respect thereto;

(b) promptly upon any officer of ACI or Donohue obtaining actual knowledge of (i) any Adverse Proceeding not previously disclosed in writing to the Banks, or (ii) any development in any Adverse Proceeding that, in the case of either clause (i) or (ii), if adversely determined could be reasonably expected to have a Material Adverse Effect, or seeks to enjoin or otherwise prevent the consummation of, or to recover any damages or obtain relief as a result of, the transactions contemplated hereby, written notice thereof together with such other unprivileged information as may be reasonably available to ACI or Donohue to enable the Banks and their counsel to evaluate such matters;

(c) promptly upon the occurrence thereof, written notice describing in reasonable detail (i) any Release required to be reported to any federal (U.S. or Canadian), state, provincial or local governmental or regulatory agency under any applicable Environmental Laws reasonably likely to lead to liability or expenses in excess of \$1,000,000, (ii) any remedial action taken by any Person in response to (A) any Hazardous Materials Activities, the existence of which has a reasonable possibility of resulting in one or more Environmental Claims or any liability under any Environmental Laws which could reasonably be expected to have a Material Adverse Effect, or (B) any Environmental Claims which could reasonably be expected to result, individually or in the aggregate, in a Material Adverse Effect, and (ii) ACI's or Donohue's discovery of any occurrence or condition on any real property adjoining or in the vicinity of any Property that could cause such Property or any part thereof to be subject to any material restrictions on the ownership, occupancy, transferability or use thereof under any Environmental Laws which could reasonably be expected to have a Material Adverse Effect; and

(d) as soon as practicable following the sending or receipt thereof by any Abitibi Entity, a copy of any and all written communications with respect to (i) any Environmental Claims which could reasonably be expected to result, individually or in the aggregate, in liability or expenses in excess of \$1,000,000, (ii) any Release required to be reported to any Governmental Authority which would be reasonably be expected to result, individually or in the aggregate, in liability or expenses in excess of \$1,000,000 and (iii) any request for information from any Governmental Authority that suggests such Governmental Authority is investigating whether any Abitibi Entity may be potentially responsible for any Hazardous Materials Activity which could reasonably be expected to result in, individually or in the aggregate, liability or expenses in excess of \$1,000,000.

SECTION 4.04. 13-Week Projections. Deliver to the Agent for prompt further distribution to each Bank, on the fifth Business Day following the last Business Day of each calendar week (with each calendar week deemed to end on Friday), (i) an updated 13-Week Projection and (ii) a statement setting forth the combined cash flow of the Abitibi Entities (other than Augusta Newsprint) and the Seller for such calendar week.

SECTION 4.05. *Payment of Taxes and Claims; Compliance with Obligations.* (a) In accordance with the Bankruptcy Code and the CCAA and the Canadian Amended Order and subject to any required approval of the Bankruptcy Courts, pay all federal (U.S. and Canadian) and other material post-petition Taxes imposed upon it or any of its properties or assets or in respect of any of its income, businesses or franchises (including any GST and PST) before any penalty or fine accrues thereon, and all federal (U.S. and Canadian) and other material claims (including claims for labor, services, materials and supplies) for sums that have become due and payable and that by law have or may become a Lien upon any of its properties or assets, prior to the time when any penalty or fine (or, in the case of such federal (U.S. and Canadian) and other material claims, any material penalty or fine) shall be incurred with respect thereto; *provided* that no such federal (U.S. and Canadian) or other material Tax or claim need be paid if it is being contested in good faith by appropriate proceedings promptly instituted and diligently conducted, so long as (i) adequate reserve or other appropriate provision, as shall be required in conformity with GAAP shall have been made therefor, and (ii) in the case of a federal (U.S. and Canadian) or other material Tax or claim which has or may become a Lien against any of the Collateral, such contest proceedings conclusively operate to stay the sale of any portion of the Collateral to satisfy such federal (U.S. and Canadian) or other material Tax or claim.

(b) Subject to the effect of the Cases, the Bankruptcy Code and the CCAA and all orders of the Bankruptcy Courts entered with the consent of (or non-objection by) the Banks, comply in all material respects with all Contractual Obligations entered into on or after the Petition Date, except to the extent that any failure to so comply could not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect.

SECTION 4.06. *Preservation of Existence, Etc.* Except as otherwise permitted under Section 5.04, at all times preserve and keep in full force and effect (i) its existence and (ii) all rights and franchises, licenses and permits material to its business, except in the case of clause (ii) where the failure to do so could not reasonably be expected to result in a Material Adverse Effect; *provided* that no such Person shall be required to preserve any such existence, right or franchise, licenses and permits if such Person's board of directors (or similar governing body) shall determine that the preservation thereof is no longer desirable in the conduct of the business of such Person, and that the loss thereof is not disadvantageous in any material respect to such Person or to the interests of the Banks under the Transaction Documents;

SECTION 4.07. *Maintenance of Properties.* Maintain or cause to be maintained, in all material respects, in good repair, working order and condition, ordinary wear and tear excepted, all material properties used or useful in the business of the Abitibi Entities and from time to time will make or cause to be made all appropriate repairs, renewals and replacements thereof; *provided, however*, that nothing contained herein shall be construed (a) to restrict or prohibit the closure of any property or facility or (b) to require the maintenance of any closed property or facility.

SECTION 4.08. *Maintenance of Insurance.* Maintain with reputable insurance companies, insurance with respect to its assets, properties and business against loss or damage to the extent available on commercially reasonable terms of the kinds customarily insured against by Persons of similar size engaged in the same or similar industry, of such types and in such amounts (after giving effect to any self-insurance (including captive industry insurance)

reasonable and customary for similarly situated Persons of similar size engaged in the same or similar businesses as the Abitibi Entities) as are customarily carried under similar circumstances by such other Persons.

SECTION 4.09. Maintenance of Insurance Policy. Cause the Insurance Policy to be maintained in full force and effect.

SECTION 4.10. Compliance With Laws. Except as otherwise excused by the Bankruptcy Code or the CCAA, comply with, and cause all other Persons, if any, on or occupying any facilities to comply with, the requirements of all applicable Laws (including all Environmental Laws), rules, regulations and orders of any Governmental Authority, noncompliance with which could reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect.

SECTION 4.11. Books and Records; Inspections. (a) Keep proper books of record and accounts in which full, true and correct entries in conformity in all material respects with GAAP shall be made of all dealings and transactions in relation to its and their business and activities and (b) permit any authorized representatives designated by any Bank to visit and inspect any of its or their properties, to inspect, copy and take extracts from its and their financial and accounting records, and to discuss its and their affairs, finances and accounts with its and their respective officers and independent public (or in the case of ACI, chartered) accountants, all upon reasonable notice and at such reasonable times during normal business hours and as often as may reasonably be requested.

SECTION 4.12. ERISA and Pension Plans. (a) Promptly upon becoming aware of the occurrence of or forthcoming occurrence of any ERISA Event, deliver to the Agent for prompt further distribution to each Bank a written notice specifying the nature thereof, what action any Abitibi Entities or any of their respective ERISA Affiliates has taken, is taking or proposes to take with respect thereto and, when known, any action taken or threatened by the Internal Revenue Service, the United States Department of Labor or the PBGC with respect thereto; (b) with reasonable promptness, upon request by Agent, deliver to the Agent for prompt further distribution to each Bank copies of (i) each Schedule B (Actuarial Information) to the annual report (Form 5500 Series) filed by any Abitibi Entity or any of their respective ERISA Affiliates with the Internal Revenue Service with respect to each Pension Plan; (ii) all notices received by any Abitibi Entity or any of their respective ERISA Affiliates from a Multiemployer Plan sponsor concerning an ERISA Event; and (iii) copies of such other documents or governmental reports or filings relating to any Employee Benefit Plan as Agent shall reasonably request; and (c) in respect of ACI, deliver to the Agent for prompt further distribution to each Bank (i) copies of each annual and other return, report or valuation with respect to each registered Pension Plan as filed with any applicable Governmental Authority; (ii) promptly after receipt thereof, a copy of any direction, order, notice, ruling or opinion that ACI may receive from any applicable Governmental Authority with respect to any registered Pension Plan; and (iii) notification within 30 days of any increases having a cost to ACI in excess of \$1,000,000 per annum in the aggregate, in the benefits of any existing Pension Plan or Employee Benefit Plan, or the establishment of any new Pension Plan or Employee Benefit Plan, or the commencement of contributions to any such plan to which ACI was not previously contributing.

SECTION 4.13. Further Assurances.

(a) Execute any and all further documents, agreements and instruments, and take all further action that may be required under applicable Laws, or that the Banks or the Agent may reasonably request, in order to effectuate the transactions contemplated by the Transaction Documents.

(b) Cause any subsequently acquired or formed wholly-owned US Subsidiary of Donohue (including, for the avoidance of doubt, Augusta Newsprint and any other Person any of the Equity Interests of which are presently owned by Donohue or any of its US Subsidiaries that becomes a wholly-owned US Subsidiary of Donohue after the Effective Date) to become a Guarantor and an Obligor by executing and delivering a joinder to this Agreement, in form and substance reasonably acceptable to the Administrative Agent, within ten Business Days after such acquisition or formation; *provided*, that the foregoing requirement shall be inapplicable to Augusta Newsprint if (x) the transaction pursuant to which Augusta Newsprint becomes a wholly-owned US Subsidiary of Donohue (or in the case of any series of transactions pursuant to which Augusta Newsprint becomes a wholly-owned US Subsidiary of Donohue, each such transaction), including, to the extent of any recourse to any Guarantor or to any asset of any Guarantor, any financing required to effect such transaction or transactions (collectively, the “**Augusta Financing**”) is approved by the Bankruptcy Court, (y) the Augusta Financing (including any Guarantee thereof) is permitted under Section 5.03 and (z) the terms of the Augusta Financing (A) do not provide for recourse against any Abitibi Entity or against the assets of any Abitibi Entity other than (1) Augusta Newsprint and its assets and (2) solely to the extent that it has guaranteed the Augusta Financing, ACSC and the Equity Interests of Augusta Newsprint held by ACSC and (B) prohibit Augusta Newsprint from becoming a Guarantor.

(c) Promptly upon request by the Agent or the Banks, correct any material defect or error that may be discovered in any Transaction Document or in the execution, acknowledgment, filing or recordation thereof.

SECTION 4.14. Credit Ratings. Use commercially reasonable efforts to (a) obtain credit ratings in respect of the Facility from S&P and at least one other nationally recognized statistical rating organization within thirty (30) days after the Effective Date and (b) maintain in effect credit ratings in respect of the Facility from such ratings organizations thereafter; *provided* that nothing in this Section 4.14 shall obligate any Abitibi Entity to maintain any particular credit rating in respect of the Facility.

ARTICLE 5
Negative Covenants

Until the date on which no Capital of or Yield on any Receivable Interest shall be outstanding, all other amounts owed by the Seller under the ARRPA to the Banks or the Agent shall have been paid in full and the Banks shall have no further obligation to purchase Receivable Interests pursuant to the ARRPA, the Obligors shall not (and shall not apply to either

of the Bankruptcy Courts for authority to), and shall cause each of their Subsidiaries (other than the Seller) not to:

SECTION 5.01. Liens. Directly or indirectly, create, incur, assume or permit to exist any Lien on or with respect to any property, asset or undertaking of any kind (including any document or instrument in respect of goods or accounts receivable) of any Abitibi Entity, whether now owned or hereafter acquired or licensed, or any income or profits or royalties therefrom, or file or permit the filing of, or permit to remain in effect for more than ten Business Days, any financing statement or other similar notice of any Lien with respect to any such property, asset, income, profits or royalties under the UCC of any state or the PPSA of any province or under any similar recording or notice statute or under any applicable intellectual property laws, rules or procedures, except:

(a) Liens (other than Liens permitted under Section 5.01(n)) existing on the Petition Date;

(b) Liens created pursuant to orders of the Bankruptcy Courts entered on or prior to the Effective Date, including in respect of adequate protection;

(c) Liens created pursuant to the Transaction Documents, the US Interim Order, the Canadian Initial Order, the Canadian Amended Order and the US Final Order;

(d) Liens for Taxes if obligations with respect to such Taxes either (i) accrued prior to the Petition Date or (ii) are being contested in good faith by appropriate proceedings promptly instituted and diligently conducted and, in the case of clause (ii), so long as such reserves or other appropriate provisions, if any, as shall be required by GAAP shall have been made for any such contested amounts;

(e) Liens of landlords, banks (and rights of set-off), of carriers, warehousemen, mechanics, repairmen, workmen and materialmen, and other similar Liens (other than any such Lien imposed pursuant to Section 430(k) of the Internal Revenue Code or ERISA or a violation of Section 436 of the Internal Revenue Code), in each case incurred in the ordinary course of business (i) prior to the Petition Date, (ii) for amounts not more than 30 days overdue or (iii) for amounts that are more than 30 days overdue and that are being contested in good faith by appropriate proceedings, so long as such reserves or other appropriate provisions, if any, as shall be required by GAAP shall have been made for any such contested amounts;

(f) Liens incurred in the ordinary course of business in connection with workers' compensation, unemployment insurance and other types of social security, or to secure the performance of tenders, statutory obligations, surety and appeal bonds, bids, leases, government contracts, permits, licenses, trade contracts, performance and return-of-money bonds and other similar obligations (exclusive of obligations for the payment of borrowed money or other Indebtedness);

(g) easements, rights-of-way, restrictions, encroachments, and other minor defects or irregularities in title, in each case which do not and will not interfere in any material respect with the ordinary conduct of the business of any Abitibi Entity;

- (h) any interest or title of a lessor or sublessor under any lease of real estate permitted hereunder;
 - (i) purported Liens evidenced by the filing of precautionary UCC or financing statements or Liens evidenced by the filing of PPSA financing statements, in either case relating solely to operating leases of personal property entered into in the ordinary course of business;
 - (j) Liens in favor of customs and revenue authorities arising as a matter of law to secure payment of customs duties in connection with the importation of goods;
 - (k) any zoning or similar law or right reserved to or vested in any governmental office or agency to control or regulate the use of any real property;
 - (l) non-exclusive outbound licenses of patents, copyrights, trademarks and other intellectual property rights granted by any Abitibi Entity in the ordinary course of business and not interfering in any respect with the ordinary conduct of or materially detracting from the value of the business of such Abitibi Entity;
 - (m) ground leases of underutilized or vacant properties of any Abitibi Entity to third parties with which any Abitibi Entity has a production, co-production, operating or other arrangement or to third-party providers of energy, transportation services or raw materials in the ordinary course of business, in each case which do not and will not interfere in any material respect with the ordinary conduct of the business of any Abitibi Entity;
 - (n) Liens on an aggregate amount of \$160,000,000 of cash collateral securing Indebtedness permitted under Section 5.03(j) or 5.03(k);
 - (o) Liens granted by any Abitibi Entity in favor of the Seller or any Guarantor;
 - (p) Liens on any insurance policy (other than the Insurance Policy) securing Indebtedness incurred to purchase such insurance policy to the extent permitted under Section 5.03(l);
 - (q) Liens securing judgments that do not constitute an Event of Default hereunder; *provided* that enforcement of any such Liens is stayed and claims secured by such Liens are being actively contested in good faith and by appropriate proceedings;
 - (r) Liens on assets of any Abitibi Petitioner securing Indebtedness permitted under Section 5.03(c) or clause (i) of Section 5.03(n);
 - (s) Liens on the assets and Equity Interests of Augusta Newsprint securing Indebtedness permitted under Section 5.03(o);
 - (t) Liens on specific items of inventory or other goods of a Person and the proceeds thereof (other than proceeds constituting Collateral) securing such Person's obligations in respect of bankers' acceptances issued or created for the account of such Person to facilitate the purchase, shipment or storage of such inventory or other goods;
-

- (u) Statutory Liens arising pursuant to the Ontario Pension Benefits Act;
- (v) Liens on the assets of Bridgewater and its Subsidiaries; and
- (w) Liens securing Indebtedness permitted under Sections 5.03(f) and 5.03(g); *provided* that any such Lien shall encumber only the asset acquired with the proceeds of such Indebtedness.

It is acknowledged and agreed that any reference in this Agreement to a Lien that is permitted hereunder (or words to similar effect) is not intended to subordinate or postpone, and shall not be interpreted as subordinating or postponing, or as any agreement to subordinate or postpone, any Lien in favor of the Seller, the Agent or any Bank created or to be created pursuant to any of the Transaction Documents to any such permitted Lien).

SECTION 5.02. Investments. Make or hold any Investments, except:

- (a) Investments existing on the Petition Date;
- (b) Investments in cash or Cash Equivalents;
- (c) equity Investments owned as of the Effective Date in any Subsidiary and Investments made after the Effective Date in the Seller or any Guarantor; *provided*, that in the case of Investments in the form of intercompany advances or loans made to a Guarantor, the applicable Indebtedness is permitted under Section 5.03(e);
- (d) Investments in the form of intercompany advances or loans made to any Abitibi Petitioner to the extent the applicable Indebtedness is permitted under Section 5.03(e);
- (e) Investments (i) in any Securities received in satisfaction or partial satisfaction thereof from financially troubled account debtors and (ii) deposits, prepayments and other credits to suppliers made in the ordinary course of business consistent with the past practices of the Abitibi Entities;
- (f) Investments consisting of Hedge Agreements entered into in the ordinary course of business consistent with past practice;
- (g) Investments in the form of non-cash consideration received (i) from any Asset Sale permitted hereunder (other than to the extent such Asset Sale involves the sale or disposition of cash or Cash Equivalents) or (ii) from any sale or other disposition not constituting an Asset Sale (other than a sale or disposition of cash or Cash Equivalents);
- (h) Investments in the form of loans and advances to, and Guarantees of the obligations of, employees of any of the Abitibi Entities or employees of ABH incurred in the ordinary course of business, in an aggregate amount not to exceed (x) \$5,000,000 to the extent directly attributable to the relocation of the corporate headquarters of ABH and (y) in addition to the Investments permitted pursuant to the preceding clause (x), \$2,000,000, in each case at any one time outstanding;

- (i) Investments consisting of Guarantees of Indebtedness otherwise permitted under Section 5.03;
- (j) Investments in the form of payment of intercompany expenses to the extent permitted under clause (vi) of Section 5.07;
- (k) the acquisition or redemption of Equity Interests of Augusta Newsprint not owned on the Effective Date by ABH or any of its Subsidiaries; *provided*, that Augusta Newsprint shall have become a Guarantor to the extent required under Section 4.13(b); and
- (l) other Investments in an aggregate amount not to exceed \$30,000,000 at any time outstanding; *provided*, that the aggregate amount of Investments made by Guarantors in reliance on this Section 5.02(l) shall not exceed \$10,000,000 at any time outstanding.

SECTION 5.03. Indebtedness. Directly or indirectly create, incur, assume, guarantee or otherwise become or remain directly or indirectly liable with respect to any Indebtedness, except:

- (a) Indebtedness (other than Indebtedness permitted under Section 5.03(k)) outstanding on the Petition Date;
- (b) Indebtedness of any Obligor created under the Transaction Documents;
- (c) Indebtedness of ACI in respect of the Abitibi DIP Term Facility in an aggregate principal amount not to exceed \$250,000,000 at any time outstanding;
- (d) Indebtedness of Bridgewater Paper Company Limited and its Subsidiaries in respect of hedging obligations entered into in the ordinary course of business and not for speculative purposes;
- (e) Indebtedness of any Abitibi Entity owing to any other Abitibi Entity; *provided* that (x) any such Indebtedness of a Guarantor that is owed to another Guarantor shall have administrative priority status in the US Case (or, with respect to any such Indebtedness of an Abitibi Entity that has become a Guarantor after the Effective Date, in a proceeding under Chapter 11 of the Bankruptcy Code commenced by such Abitibi Entity after the Effective Date) of the applicable Guarantor pursuant to Section 507(a)(2) of the Bankruptcy Code and (y) any such Indebtedness of ACI that is owed to a Guarantor shall be secured by a charge on the assets of ACI pursuant to paragraph 63 of the Canadian Initial Order with the priority set forth in paragraph 89 thereof;
- (f) Indebtedness in respect of Capital Leases in an aggregate amount not to exceed \$15,000,000 at any time outstanding;
- (g) purchase money Indebtedness of the Abitibi Entities; *provided* that, any such Indebtedness shall be secured only by the asset acquired, constructed, developed or improved in connection with the incurrence of such Indebtedness;

(h) Indebtedness in respect of workers' compensation claims, unemployment or other insurance or self-insurance obligations, and similar obligations, in each case incurred in the ordinary course of business;

(i) Indebtedness in respect of netting services, overdraft protections and otherwise in connection with deposit accounts;

(j) Indebtedness under Hedge Agreements entered into in the ordinary course of business consistent with past practice;

(k) letters of credit issued in the ordinary course of business having an aggregate face amount not to exceed, as of any date of incurrence of such Indebtedness, \$135,000,000;

(l) Indebtedness solely in respect of premium financing or similar deferred obligations with respect to insurance policies purchased in the ordinary course of business;

(m) Guarantees in the ordinary course of business of the obligations of suppliers, customers, franchisees and licensees of any Abitibi Entity;

(n) Indebtedness in respect of any Guarantee made by (i) any Abitibi Petitioner of Indebtedness permitted under Section 5.03(c) and (ii) any Abitibi Entity of Indebtedness (other than Indebtedness permitted under Section 5.03(c)) of any other Abitibi Entity otherwise permitted hereunder; *provided*, that any such Indebtedness in respect of a Guarantee made by a Guarantor shall be subordinated to the Guaranteed Obligations of such Guarantor pursuant to an Intercompany Subordination Agreement substantially in the form of Exhibit A unless an order of the Bankruptcy Court provides that such Indebtedness shall have administrative priority status in the US Case of such Guarantor pursuant to Section 507(a)(2) of the Bankruptcy Code;

(o) (i) Indebtedness of Augusta Newsprint incurred after the Petition Date to finance the acquisition or redemption of Equity Interests of Augusta Newsprint not owned on the Effective Date by ABH or any of its Subsidiaries, in an aggregate principal amount not to exceed \$100,000,000 at any time outstanding ("**Redemption Indebtedness**") and (ii) Indebtedness in respect of Guarantees made by ACSC of Redemption Indebtedness; *provided*, that the aggregate amount of Redemption Indebtedness so guaranteed by ACSC shall not exceed the product of (x) the percentage of Augusta Newsprint's outstanding Equity Interests held by ACSC and (y) the aggregate principal amount of Redemption Indebtedness then outstanding;

(p) Indebtedness of any Abitibi Entity (other than the Seller) arising from agreements of such Abitibi Entity providing for indemnification, adjustment of purchase price or similar obligations, in each case, entered into in connection with the sale or other disposition of any business, assets or Equity Interest of any such Abitibi Entity permitted under this Agreement, other than Guarantees of Indebtedness incurred by any Person acquiring all or any portion of such business, assets or Equity Interest; *provided* that the maximum aggregate liability in respect of all such Indebtedness shall at no time exceed the net proceeds, whether or not cash, actually received by the Abitibi Entities in connection with such disposition; and

(q) other unsecured Indebtedness of the Abitibi Entities in an aggregate principal amount not to exceed \$25,000,000 at any time outstanding.

SECTION 5.04. Fundamental Changes; Disposition Of Assets; Acquisitions. Enter into any transaction of merger, amalgamation, reorganization or consolidation, or liquidate, wind-up or dissolve itself (or suffer any liquidation or dissolution), or convey, sell, lease or license, exchange, transfer or otherwise dispose of, in one transaction or a series of transactions, all or any part of its business, assets or property of any kind whatsoever, whether real, personal or mixed and whether tangible or intangible, whether now owned or hereafter acquired, leased or licensed, or acquire by purchase or otherwise (other than purchases or other acquisitions of inventory, materials and equipment and Capital Expenditures in the ordinary course of business) the business, property or fixed assets of, or stock or other evidence of beneficial ownership of, any Person or any division or line of business or other business unit of any Person, except:

(a) (i) any Abitibi Entity may be merged or amalgamated with or merged into any Guarantor; *provided* that (x) in the case of any such merger or amalgamation involving a Guarantor, the continuing or surviving Person shall be a Guarantor and (y) in the case of any such merger or amalgamation involving ACI, the continuing or surviving Person (1) shall have assumed all of ACI's obligations under the Transaction Documents pursuant to documentation reasonably satisfactory to the Agent and (2) shall have delivered to the Agent proper financing statements, financing change statements and/or financing statement amendments under the UCC and PPSA of all jurisdictions that the Agent deems reasonably necessary or desirable in order to continue the perfection of the ownership and security interests contemplated by the Transaction Documents and (3) shall have delivered to the Agent such legal opinions with respect to the foregoing matters as the Agent shall have reasonably requested, and (ii) any Abitibi Entity may be liquidated, wound up or dissolved, or all or any part of its business, property or assets may be conveyed, sold, leased, transferred or otherwise disposed of, in one transaction or a series of transactions, to any Guarantor;

(b) (i) any Abitibi Entity that is not a Guarantor may be merged or amalgamated with or merged into any other Abitibi Entity that is not a Guarantor; *provided* that in the case of any such merger or amalgamation involving ACI, the continuing or surviving Person shall have satisfied the requirements set forth in subclauses (y)(1), (y)(2) and (y)(3) of Section 5.04(a) and (ii) any Abitibi Entity (other than ACI) that is not a Guarantor may be liquidated, wound up or dissolved, or all or any part of its business, property or assets may be conveyed, sold, leased, transferred or otherwise disposed of, in one transaction or a series of transactions, to any Abitibi Entity that is not a Guarantor;

(c) sales or other dispositions of assets that do not constitute Asset Sales;

(d) disposals of obsolete, worn out or surplus equipment in the ordinary course of business or as approved by the Bankruptcy Court, in the case of the Guarantors, or the Canadian Court, in the case of the other Abitibi Entities;

(e) sales of accounts receivable, payment intangibles, collections thereon and related assets and Related Security by ACI and ACSC to the Seller, and sales of such accounts receivables, payment intangibles, collections thereon and related assets and Related Security by

the Seller, in each case pursuant to the Originator Purchase Agreement and the ARPPA; *provided that*, except as contemplated by the Originator Purchase Agreement, no such sales shall take the form of capital contributions or other Investments;

(f) Investments made in accordance with Section 5.02;

(g) any liquidation, winding-up or dissolution of Augusta Newsprint or of Bridgewater or any of its Subsidiaries or of all or any part of their respective business, assets or property;

(h) the disposition of (i) all or substantially all of the Equity Interests or assets of Lufkin, Manicouagan Power Company and ACH Limited Partnership, (ii) any timberland assets and (iii) any assets associated with a mill or other facility that has been permanently closed;

(i) other Asset Sales (other than Equity Interests of ACI, the Seller or any Guarantor) in an aggregate amount not to exceed \$100,000,000, so long as no Default or Event of Default shall have occurred and be continuing at the time of such Asset Sale or shall be caused thereby.

SECTION 5.05. *Disposal of Subsidiary Equity Interests.* Except for any sale of all of its interests in the Equity Interests of any of its Subsidiaries in compliance with the provisions of Section 5.04, directly or indirectly sell, assign, pledge or otherwise encumber or dispose of any Equity Interests of any of its Subsidiaries, except to qualify directors if required by applicable law.

SECTION 5.06. *Conduct of Business.* Except as required by the Bankruptcy Code or the Canadian Court, engage in any business other than the businesses engaged in by such Obligor or such Subsidiary on the Effective Date.

SECTION 5.07. *Transactions with Affiliates.* Enter into any transaction of any kind with any Affiliate other than (i) transactions entered into in the ordinary course of business and on terms that are no less favorable to the relevant Abitibi Entity than those terms that might reasonably have been obtained in a comparable transaction at such time on an arm's length basis by the relevant Abitibi Entity and an unrelated Person, (ii) transactions between or among Guarantors, (iii) compensation, retirement, expense reimbursement, insurance and indemnification arrangements with directors, officers, employees or consultants in the ordinary course of business consistent with the 13-Week Projection; (iv) allocation of customer orders between the Abitibi Entities and the Bowater Entities determined in the ordinary course of business in a manner consistent with past practice; (v) payments in the ordinary course of business to the Bowater Entities of amounts received by Abitibi Entities and representing payments on accounts receivable of the Bowater Entities consistent with past practice and permitted by orders of the Bankruptcy Court and/or the Canadian Court, as applicable; (vi) allocation of selling, general and administrative expenses between Abitibi Entities and Bowater Entities in the ordinary course of business in a manner consistent with past practice; (vii) joint purchasing agreements between or among the Abitibi Entities and the Bowater Entities whereby the parties thereto agree to jointly purchase goods or services from third parties; *provided that* such joint purchasing agreements are on terms no less favorable than would be obtainable in a comparable arm's length transaction with a Person that is not an Affiliate and (viii) transactions contemplated by the ARPPA and the Originator Purchase Agreement.

SECTION 5.08. Restricted Junior Payments. Make any Restricted Junior Payment, except (a) payments made pursuant to “first day” orders in the US Cases, the Canadian Initial Order, the Canadian Amended Order or other orders entered by the Bankruptcy Courts or action approved by the monitor pursuant to the Canadian Amended Order with notice to the Agent and (y) payments in respect of Adequate Protection Claims to the extent authorized by the Bankruptcy Court; *provided* that payments of regularly scheduled interest shall be permitted (i) with respect to post-petition Indebtedness and (ii) with respect to pre-petition Indebtedness to the extent authorized by an order of the Bankruptcy Courts; *provided further*, that Indebtedness secured by a Lien permitted under Section 5.01 on an asset that is disposed of pursuant to a transaction permitted under Section 5.04 may be prepaid with the proceeds of such disposition. Notwithstanding the foregoing, the following, to the extent not covered by an existing order of the US and Canadian Courts, shall be permitted:

(1) any payment solely to reimburse ABH or its Affiliates for actual out-of-pocket expenses, not including fees paid directly or indirectly to ABH or its Affiliates, for the provision of services by unaffiliated third parties to the Abitibi Entities;

(2) payments to, or on behalf of, ABH solely to permit ABH to pay its reasonable accounting, legal and administrative expenses when due, in an aggregate amount in any Fiscal Year not to exceed 50% of the amount of such expenses incurred by ABH during such Fiscal Year; *provided*, that the amount of such payments permitted to be made during any Fiscal Year shall be increased by the amount of such expenses allocated by ABH to Bowater Incorporated, Bowater Newsprint South LLC or any of their Subsidiaries for such Fiscal Year (such amount to be equal to 50% of the amount of such expenses incurred by ABH during such Fiscal Year), but only to the extent such Persons have failed to pay such amount; *provided further*, that the aggregate amount of such payments made in reliance on the preceding proviso after the Effective Date shall not exceed the sum of (x) \$15,000,000 plus (y) the excess (if any) of (i) the aggregate amount of payments permitted to be made pursuant to this clause (2) in all previous Fiscal Years over (ii) the aggregate amount of payments actually made pursuant to this clause (2) in all previous Fiscal Years (in each case without giving effect to the provisos thereto); and

(3) for so long as any Abitibi Entity is a member of a group filing a consolidated or combined tax return with ABH (each an “**Applicable Abitibi Entity**”), payments to ABH in respect of the portion of ABH’s consolidated tax liability that is attributable to the Applicable Abitibi Entities (“**Tax Payments**”); *provided* that the Tax Payments shall not exceed the taxes (including any penalties and interest) that would have been payable by the Abitibi Entities as a stand-alone group, taking into account any carryovers and carrybacks of tax attributes (such as net operating losses) of the Abitibi Entities from other taxable years.

SECTION 5.09. Actions Voiding Coverage Under the Insurance Policy. Take any action or knowingly fail to take any action where such action or failure to act voids, or could reasonably be expected to void, coverage under the Insurance Policy.

SECTION 5.10. Accounting Changes. Make any change in its Fiscal Year without the prior written consent of the Agent.

SECTION 5.11. Chapter 11 Claims. In the Chapter 11 Cases, incur, create, assume, suffer to exist or permit any other Superpriority Claim which is senior to or *pari passu* with the Superpriority Guaranty Claims or the Superpriority Receivables Claims, except for the Carve-Out and, in the case of the Superpriority Guaranty Claims, the Adequate Protection Claims.

SECTION 5.12. Carve-out. Permit any portion of the Carve-Out or any proceeds of any purchase or reinvestment made pursuant to the ARRPA to be used for the payment of professional fees and disbursements incurred in connection with (a) asserting any claims or causes of action against the Agent or the Banks and/or challenging or raising any defense to the Guaranteed Obligations or any other obligations of ACI, ACSC or the Seller under the Transaction Documents, (b) asserting or prosecuting any action for preferences, fraudulent conveyances, or other avoidance power claims against the Agent or the Banks or (c) objecting to or contesting the true sale nature of the sale and/or contribution of the Transferred Receivables, or permit more than \$50,000 of the Carve-Out, or any proceeds received by any Abitibi Entity from the purchase by the Banks of Receivable Interests, or the reinvestment with the Seller of any Collections, in each case pursuant to the ARRPA, to be used to pay professional fees and disbursements for investigation of such claims, causes of action or defenses by any committee or any representative of the estate.

SECTION 5.13. Amendments or Waivers of Organizational Documents and Certain Related Agreements. Agree to any amendment, restatement, supplement or other modification to, or waiver of, any of its Organizational Documents after the Effective Date if such amendment, restatement, supplement or other modification or waiver would be adverse to the interests of the Banks in any material respect; *provided, however*, that any amendment, restatement, supplement or other modification to, or waiver of, any of the Organizational Documents of Augusta Newsprint or of Bridgewater or any of its Subsidiaries shall be deemed to be not adverse to the interests of the Banks in any material respect.

SECTION 5.14. Minimum Cumulative Consolidated EBITDAR. Permit Cumulative Consolidated EBITDAR (determined on the basis of the Authorized Officer Certification most recently delivered pursuant to Section 4.01(b) or 4.01(c)) for any period set forth in the table below (in each case considered as a single accounting period) to be less than the corresponding amount set forth for such period:

Period	Minimum Cumulative Consolidated EBITDAR
Fiscal Quarter Ending June 30, 2009	\$ 45,000,000
Period of Two Consecutive Fiscal Quarters Ending September 30, 2009	\$ 90,000,000
Period of Three Consecutive Fiscal Quarters Ending December 31, 2009	\$135,000,000
Period of Four Consecutive Fiscal Quarters Ending March 31, 2010	\$180,000,000
Period of Four Consecutive Fiscal Quarters Ending June 30, 2010	\$180,000,000
Period of Four Consecutive Fiscal Quarters Ending September 30, 2010	\$180,000,000

; provided that failure to comply with the foregoing shall not constitute an Event of Default on any date (the “**Applicable Date**”) if (x) (i) the daily average Liquidity for the most recent four calendar week period (with each calendar week being deemed to end on Friday) ending prior to the Applicable Date is at least \$100,000,000 and (ii) Liquidity on the Applicable Date is at least \$75,000,000 or (y) the Applicable Date is prior to August 20, 2009.

SECTION 5.15. Minimum Liquidity. (a) Permit Liquidity to be less than \$25,000,000 at any time on or after the Effective Date or (b) permit daily average Liquidity for any four consecutive calendar week period (with each calendar week being deemed to end on Friday) commencing with the four consecutive calendar week period ending on the first Friday following the Effective Date to be less than \$50,000,000.

SECTION 5.16. Combined Capital Expenditures. Permit Combined Capital Expenditures for any period set forth in the table below to be greater than the corresponding amount for such period set forth in such table:

Period	Maximum Combined Capital Expenditures
Fiscal Year 2009	\$90,000,000
Fiscal Year 2010	\$90,000,000

ARTICLE 6
Events Of Default

If any of the following events (each an “**Event of Default**”) shall occur:

(a) *Failure to Make Payments When Due.* Any Guarantor shall fail to pay when and as required to be paid herein, any amount of the Guaranteed Obligations, or any Obligor shall fail to pay when due any other amount payable under this Agreement and such failure shall continue unremedied for a period of three Business Days;

(b) *Breach of Certain Covenants.* Any Obligor shall fail to perform or observe any term, covenant or agreement contained in Sections 4.01(a), 4.01(b), 4.01(c), 4.03(a), 4.06 or 4.09 or Article 5;

(c) *Other Defaults.* Any Obligor shall fail to perform or observe any other covenant or agreement (not specified in clauses (a) or (b) above) contained in this Agreement and such failure shall not have been remedied or waived within ten days (or, in the case of Section 4.04, within two Business Days) after an officer of ACI, Donohue or such Obligor becoming aware of such failure;

(d) *Breach of Representations, Etc.* Any representation, warranty, certification or statement of fact made or deemed made by or on behalf of any other Obligor herein (or any certification by a Authorized Officer expressly contemplated by this Agreement) shall be incorrect or misleading in any material respect when made or deemed made;

(e) [Reserved];

(f) [Reserved];

(g) [Reserved];

(h) *Employee Benefit Plans.* One or more ERISA Events shall occur which, individually or in the aggregate, could reasonably be expected to result in liability of any Abitibi Entity or any of their respective ERISA Affiliates in excess of \$25,000,000 during the term hereof; (ii) any fact or circumstance shall exist that reasonably could be expected to result in the imposition of a Lien or security interest pursuant to Section 430(k) of the Internal Revenue Code or ERISA or a violation of Section 436 of the Internal Revenue Code, or (iii) in respect of any Abitibi Entity that is a Canadian Person, any event (other than the failure to make the payment of the special amortization payments since the Petition Date) shall occur which would entitle a Person (without the consent of any Abitibi Entity) to wind-up or terminate a Pension Plan in full or in part, or the institution of any steps by any Person to withdraw from, terminate participation in, wind-up or order the termination or wind-up of, in full or in part, any Pension Plan, or any Abitibi Entity that is a Canadian Person shall receive material correspondence from a Governmental Authority relating to a potential or actual, partial or full, termination or wind-up of any Pension Plan, or an event (other than the failure to make the payment of the special amortization payments since the Petition Date) shall occur respecting any Pension Plan which would result in the revocation of the registration of such Pension Plan or which could otherwise reasonably be expected to adversely affect the tax status of any such Pension Plan, or any Abitibi Entity that is a Canadian Person shall fail to make a required contribution to or payment under any Pension Plan when due (other than the failure to make the payment of the special amortization payments since the Petition Date);

(i) [Reserved];

(j) *Relief From Automatic Stay.* The Bankruptcy Court or the Canadian Court shall enter an order or orders granting relief from the automatic stay applicable under Section 362 of the Bankruptcy Code or the stay arising under the Canadian Amended Order, as applicable, to the holder or holders of any security interest to permit foreclosure (or the granting of a deed in lieu of foreclosure or the like) on any assets of any of the Abitibi Entities which have a value in excess of \$10,000,000 in the aggregate;

(k) [Reserved];

(l) *Pre-Petition Payments.* Any Abitibi Entity that is a party to any of the Cases shall make any Pre-Petition Payment other than Pre-Petition Payments authorized by the Bankruptcy Court in accordance with "first day" orders entered in the US Cases or as authorized by the Canadian Initial Order, the Canadian Amended Order, the US Interim Order or other orders of

the Bankruptcy Court or the Canadian Court entered with the consent of (or non-objection by) the Agent (acting at the direction of the Majority Banks);

(m) [Reserved];

(n) *Supportive Actions*. Any Abitibi Entity or ABH shall take any action in support of any matter set forth in paragraph (j) or (l) above or any other Person shall do so and such application is not contested in good faith by the Obligors and the relief requested is granted in an order that is not stayed pending appeal;

(o) *Collateral Matters*. A final non-appealable order of the Bankruptcy Court or the Canadian Court shall be entered that provides for the recovery from any portion of the Collateral of any costs or expenses of preserving or disposing of such Collateral under section 506(c) of the Bankruptcy Code; or any Abitibi Entity, ABH or the Seller shall bring a motion in any of the Cases seeking, or otherwise consent to, authority from the Bankruptcy Court or the Canadian Court (i) to recover from any portions of the Collateral any costs or expenses of preserving or disposing of such Collateral under section 506(c) of the Bankruptcy Code or (ii) to effect any other action or actions adverse to the Agent or Banks or their rights and remedies hereunder or their interest in the Collateral, except to the extent such action (or actions) is an integral part of a transaction expressly permitted under this Agreement;

(p) *Material Impairment of Rights*. Any Abitibi Entity, ABH or the Seller shall seek to, or shall support (whether by way of motion or other pleadings filed with the Bankruptcy Court or the Canadian Court or any other writing executed by any Abitibi Entity, ABH or the Seller or by oral argument) any other Person's motion to, (1) disallow in whole or in part any of the obligations arising under this Agreement or any other Transaction Document, (2) challenge the validity and enforceability of the claims granted or confirmed herein or in the US Interim Order (prior to the entry of the US Final Order), the US Final Order (thereafter) or the Securitization Provisions of the Canadian Amended Order, in each case as applicable, in favor of the Agent and the Banks or (3) challenge the validity or the true sale/contribution nature of the transfers of the Originator Receivables from the Originators to the Seller;

(q) *Change of Control*. A Change of Control shall occur; or

(r) *Event of Termination*. An "Event of Termination" (as defined in the ARPPA) shall occur and be continuing;

then, and during the continuation of any such event, the Agent may, or at the written direction of the Majority Banks shall, by written or telecopied notice to ACI and Donohue (with a copy to counsel for the Official Creditors' Committee appointed in the Cases, the United States Trustee for the District of Delaware and the monitor in the Canadian Case), take any or all of the following actions, at the same or different times, in each case without further order of or application to the Bankruptcy Court or the Canadian Court (*provided*, that with respect to clause (ii) below, the Agent shall provide ACI and Donohue (with a copy to counsel for the Official Creditors' Committee in the Cases, the United States Trustee for the District of Delaware and the monitor in the Canadian Case) with five (5) Business Days' written notice prior to taking the action contemplated thereby; in any hearing after the giving of the aforementioned notice, the

only issue that may be raised by any party in opposition thereto being whether, in fact, an Event of Default has occurred and is continuing); (i) declare the Guaranteed Obligations and all other monetary obligations of the Obligors hereunder to be forthwith due and payable, without presentment, demand, protest or any other notice of any kind, all of which are hereby expressly waived, anything contained herein to the contrary notwithstanding, (ii) set off amounts in any accounts maintained with the Agent and apply such amounts to the obligations of the Obligors hereunder and in the other Transaction Documents and (iii) exercise any and all remedies under the Transaction Documents and under applicable law available to the Agent and the Banks.

ARTICLE 7
Miscellaneous

SECTION 7.01. Notices. All notices and other communications hereunder shall, unless otherwise stated herein, be given in writing or by any telecommunication device capable of creating a written record, to the applicable party at its address set forth below or at such other address as shall be designated by such party in a notice to the other parties hereto given as provided herein.

(a) If to any Guarantor, in all cases (other than in respect of service of process in accordance with Section 7.08(d)) to:

Abitibi–Consolidated Inc.
1155 Metcalfe Street, Suite 800
Montreal QC H3B 542
Canada
Attention: Treasury Department
Facsimile No.: 514–394–2267

With a copy to:

Abitibi–Consolidated Inc.
1155 Metcalfe Street, Suite 800
Montreal QC H3B 542
Canada
Attention: Stephanie Leclaire, Chief Legal Officer
Facsimile No.: 514–394–3644

(b) If to any Guarantor (in respect of service of process in accordance with Section 7.08(d)) to:

Abitibi Consolidated Sales Corporation
55 E. Camperdown Way
Greenville, SC 29601
Attention: Treasury
Facsimile No.: 514–394–2267

With a copy to:

Abitibi-Consolidated Inc.
1155 Metcalfe Street, Suite 800
Montreal QC H3B 542
Canada
Attention: Stephanie Leclaire, Chief Legal Officer
Facsimile No.: 514-394-3644

(c) If to ACI, in all cases to:

Abitibi-Consolidated Inc.
1155 Metcalfe Street, Suite 800
Montreal QC H3B 542
Canada
Attention: Treasury Department
Facsimile No.: 514-394-2267

With a copy to:

Abitibi-Consolidated Inc.
1155 Metcalfe Street, Suite 800
Montreal QC H3B 542
Canada
Attention: Stephanie Leclaire, Chief Legal Officer
Facsimile No.: 514-394-3644

(d) If to the Agent, in all cases to:

Citibank, N.A.
390 Greenwich Street
1st Floor
New York, New York 10013
Attention: David Jaffe
Facsimile No.: 212-723-8721

(e) If to any Bank, in accordance with Section 10.02 of the ARRPA.

All notices and other communications given to any party hereto in accordance with the provisions of this Agreement shall be deemed to have been given on the date of receipt if delivered by hand or overnight courier service or sent by telecopy equipment of the sender, or on the date five Business Days after dispatch by certified or registered mail if mailed, in each case delivered, sent or mailed (properly addressed) to such party as provided in this Section 7.01 or in accordance with the latest unrevoked direction from such party given in accordance with this Section 7.01.

SECTION 7.02. *Survival of Agreements, Representations and Warranties, Etc.* All warranties, representations and covenants made by any Obligor herein or in any certificate or other instrument delivered by any Obligor or on its behalf in connection with the Transaction Documents shall be considered to have been relied upon by the Banks and the other parties hereto and shall survive the execution and delivery of the Transaction Documents and the purchase of any Receivable Interests by the Banks pursuant to the ARRPA, regardless of any investigation made by the Banks or such other parties or on their behalf and notwithstanding that the Agent or any Bank may have notice or knowledge of any Default or incorrect representation or warranty at the time any such purchase, and shall continue in full force and effect so long as any amount due or to become due under the Transaction Documents is outstanding and unpaid and any Purchase Limit remains in effect.

SECTION 7.03. *No Waiver.* No failure or delay by the Agent in exercising any right, power or privilege under this Agreement or the ARRPA shall operate as a waiver thereof nor shall any single or partial exercise thereof preclude any other or further exercise thereof or the exercise of any other right, power or privilege.

SECTION 7.04. *Amendments and Waivers.* Any provision of this Agreement may be amended or waived if, but only if, such amendment or waiver is in writing and is signed by the Agent (acting in accordance with Section 10.01 of the ARRPA) and the Obligors.

SECTION 7.05. *Successors and Assigns.* This Agreement shall be binding upon the Obligors and their successors and assigns, for the benefit of the Banks and their successors and assigns, except that no Obligor may transfer or assign any or all of its rights or obligations hereunder without the prior written consent of the Agent.

SECTION 7.06. *Damages Waiver.* To the extent permitted by applicable law, no Obligor shall assert, and each hereby waives, any claim against any Indemnified Party, on any theory of liability, for special, indirect, consequential or punitive damages (as opposed to direct or actual damages) arising out of, in connection with, or as a result of, this Agreement or any other Transaction Document.

SECTION 7.07. *Severability.* In case any one or more of the provisions contained in this Agreement shall be invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained therein shall not in any way be affected or impaired thereby. The parties shall endeavor in good faith negotiations to replace the invalid, illegal or unenforceable provisions with valid provisions the economic effect of which comes as close as possible to that of the invalid, illegal or unenforceable provisions.

SECTION 7.08. *Governing Law; Jurisdiction; Etc.* (a) This Agreement shall be construed in accordance with and governed by the law of the State of New York.

(b) Each party hereto hereby irrevocably and unconditionally submits, for itself and its property, to the nonexclusive jurisdiction of the Bankruptcy Court and, if the Bankruptcy Court does not have (or abstains from) jurisdiction, any New York State or Federal court sitting in New York City in any action or proceeding arising out of or relating to this Agreement or the other Transaction Documents, or for recognition or enforcement of any judgment, and each party

hereto hereby irrevocably and unconditionally agrees that all claims in respect of any such action or proceeding may be heard and determined in any such New York State court or, to the extent permitted by law, in such Federal court. The parties hereto hereby irrevocably waive, to the fullest extent they may effectively do so, the defense of an inconvenient forum to the maintenance of such action or proceeding. The parties hereto agree that a final judgment in any such action or proceeding shall be conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by law.

(c) Each party hereto irrevocably and unconditionally waives, to the fullest extent it may legally and effectively do so, any objection that it may now or hereafter have to the laying of venue of any suit, action or proceeding arising out of or relating to this Agreement or any other Transaction Document in any court referred to in subsection (b) of this Section. Each party hereto irrevocably waives, to the fullest extent permitted by law, the defense of an inconvenient forum to the maintenance of any such suit, action or proceeding in any such court.

(d) Each Guarantor consents to the service of any and all process in any such action or proceeding by the mailing of copies of such process to it in care of ACSC at its address specified in Section 7.01(b). ACI consents to the service of any and all process in any such action or proceeding by the mailing of copies of such process to the attention of the ACSC at its address specified in Section 7.01(c), or in any other manner permitted by applicable law. Nothing in this Section 7.08 shall affect the right of any Bank or the Agent to serve legal process in any other manner permitted by law.

SECTION 7.09. WAIVER OF JURY TRIAL. EACH PARTY HERETO HEREBY WAIVES, TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, TRIAL BY JURY IN ANY JUDICIAL PROCEEDING INVOLVING, DIRECTLY OR INDIRECTLY, ANY MATTER (WHETHER SOUNDING IN TORT, CONTRACT OR OTHERWISE) IN ANY WAY ARISING OUT OF, RELATED TO, OR CONNECTED WITH THIS AGREEMENT OR ANY OTHER TRANSACTION DOCUMENT OR ANY OTHER DOCUMENT EXECUTED OR DELIVERED PURSUANT HERETO.

SECTION 7.10. Counterparts; Integration. This Agreement may be executed in counterparts (and by different parties hereto on different counterparts), each of which shall constitute an original, but all of which when taken together shall constitute a single contract. Delivery by telecopier, PDF or other electronic means of an executed counterpart of a signature page to this Agreement shall be effective as delivery of an original executed counterpart of this Agreement. This Agreement, the other Transaction Documents and any separate letter agreements with respect to fees payable to the Agent constitute the entire contract among the parties relating to the subject matter hereof and supersede any and all previous agreements and understandings, oral or written, relating to the subject matter hereof.

SECTION 7.11. Judgment Currency. (a) If for the purposes of obtaining judgment in any court it is necessary to convert a sum due hereunder in Dollars into another currency, the parties hereto agree, to the fullest extent that they may effectively do so, that the rate of exchange used shall be that at which in accordance with normal banking procedures the Agent or its assigns could purchase Dollars with such other currency at New York, New York on the Business Day preceding that on which final judgment is given.

(b) The obligations of the each Guarantor (each, a “Payor”) in respect of any sum due from such Payor to the Banks or the Agent (each, a “Recipient”) hereunder shall, notwithstanding any judgment in a currency other than Dollars, be discharged only to the extent that on the Business Day following such Recipient’s receipt of any sum adjudged to be so due in such other currency, such Recipient may, in accordance with normal banking procedures purchase (and remit in New York) Dollars with such other currency; if the Dollars so purchased and remitted are less than the sum originally due to such Recipient in Dollars, the relevant Payor agrees, as a separate obligation and notwithstanding any such judgment, to indemnify the relevant Recipient against such loss, and if the Dollars so purchased exceed the sum originally due to the relevant Recipient in Dollars, the relevant Recipient agrees to remit to the relevant Payor such excess.

SECTION 7.12. Assignment of Guaranteed Obligations. In accordance with the terms of Section 10.03 of the ARPPA, each Bank may from time to time without notice to the undersigned (or any of them), assign or transfer its Guaranteed Obligations or any interest therein to an Eligible Assignee. Notwithstanding any such assignment or transfer made in accordance with Section 10.03 of the ARPPA, such Guaranteed Obligations shall be and remain Guaranteed Obligations for the purposes of this Agreement, and each and every assignee or transferee of any of the Guaranteed Obligations or of any interest therein (to the extent such assignment or transfer was effected in accordance with Section 10.03 of the ARPPA) shall, to the extent of the interest of such assignee or transferee in the Guaranteed Obligations, be entitled to the benefits of this Guaranty to the same extent as if such assignee or transferee were a Bank as of the Effective Date.

SECTION 7.13. Execution By ACI. This Agreement shall be considered to be executed and delivered by ACI in the United States of America and once an authorized director or officer of ACI resident in the United States of America has executed the same.

SECTION 7.14. Interpretation (Québec). For purposes of any assets, liabilities or entities located in the Province of Québec and for all other purposes pursuant to which the interpretation or construction of this Agreement may be subject to the laws of the Province of Québec or a court or tribunal exercising jurisdiction in the Province of Québec, (a) “personal property” shall include “movable property”, (b) “tangible property” shall include “corporeal property”, (c) “intangible property” shall include “incorporeal property”, (d) “security interest”, “mortgage” and “lien” shall include a “hypothec”, (e) all references to filing, perfection, priority, remedies, registering or recording under the UCC or PPSA shall include publication under the Civil Code of Québec, (f) all references to “perfection” of or “perfected” liens or security interest shall include a reference to an “opposable” or “set up” lien or security interest as against third parties, (g) any “right of offset”, “right of setoff” or similar expression shall include a “right of compensation”, (h) “goods” shall include “corporeal movable property” other than chattel paper, documents of title, instruments, money and securities, (i) an “agent” shall include a “mandatary”, (j) “joint and several” shall include “solidary”; (k) “gross negligence or willful misconduct” shall be deemed to be “intentional or gross fault”; (l) “priority” shall include “prior claim”; (m) “state” shall include “province” and (n) “accounts” shall include “claims”.

SECTION 7.15. Language. This Agreement and all related documents have been written in the English language at the express request of the parties. *Le présent contrat ainsi que tous les documents s'y rattachant ont été rédigés en anglais à la demande expresse des parties.*

SECTION 7.16. Effectiveness. This Agreement shall become effective when (x) copies hereof which, when taken together, bear the signatures of ACI and each of the Guarantors shall have been received by the Agent and (y) the ARRPA shall have become effective in accordance with its terms.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed by their respective authorized officers as of the day and year first above written.

OBLIGORS:

ABITIBI-CONSOLIDATED INC., as an Obligor

By: _____
Name:
Title:

GUARANTORS AND OBLIGORS:

DONOHUE CORP., as a Guarantor and Obligor

By: _____
Name:
Title:

ABITIBI CONSOLIDATED SALES CORPORATION,
as a Guarantor and Obligor

By: _____
Name:
Title:

ABITIBI-CONSOLIDATED CORP.,
as a Guarantor and Obligor

By: _____
Name:
Title:

AUGUSTA WOODLANDS, LLC,
as a Guarantor and Obligor

By: ABITIBI-CONSOLIDATED CORP.,
its Sole Member

By: _____
Name:
Title:

ABITIBI-CONSOLIDATED ALABAMA CORPORATION,
as a Guarantor and Obligor

By: _____
Name:
Title:

ALABAMA RIVER NEWSPRINT COMPANY,
as a Guarantor and Obligor

By: _____
Name:
Title:

Agreed to and accepted by:
CITIBANK, N.A., as Agent

By: _____

Name:

Title:

EXHIBIT A
Form of Intercompany Subordination Agreement

SCHEDULE 3.07
Adverse Proceedings

All Adverse Proceedings as have been disclosed in AbitibiBowater Inc.'s Annual Report on Form 10-K filed on April 30, 2009 and Quarterly Report on Form 10-Q filed on May 15, 2009 (SEC File No. 001-33776), which include the following:

- *AbitibiBowater Inc. v. Government of Canada*: expropriation of AbitibiBowater's assets in the Province of Newfoundland and Labrador.
-

SCHEDULE 3.09
Environmental Matters

No known exceptions.

SCHEDULE 3.11
ERISA and Pension Plan Matters

I. Disclosures related to Canadian Law

Promises of Benefit Improvements:

- (1) Promise to amend some pension plans (the "2009 Plans") effective January 1, 2009 to provide cost of living increase of pensions in payment to eligible retirees effective January 1, 2009, January 1, 2011 and January 1, 2013 (for Alma, increases are January 1, 2010, January 1, 2012 and January 1, 2014).
- (2) Promise to amend the 2009 Plans effective May 1, 2009, including the following:
- Increase in member contributions to 7.5% of earnings from May 1, 2009 (7.3% at Thorold)
 - Increase in pension formula for all service from 1.70% to 1.75% of final (or best, as applicable) five-year average earnings for eligible employees retiring from active service (for Fort Frances, pension is based on greater of minimum formula which is being increased from 1.70% to 1.75% and formula of 2% with an offset which is being reduced from .15% to .08% of final average earnings up to final average YMPE; for Alma, formula is being increased to 1.79% of final average earnings times credited service, less offset equal to 1/35 of QPP pension)
 - Change in early retirement provisions to provide no reduction in the pension and bridge benefit amounts (subject to minimum reductions imposed by the tax rules) for eligible employees retiring from active service at age 57 with at least 20 years of service (For Alma, bridge benefit amount before age 60 also increased from \$32 to \$33).

The promise to amend the 2009 Plans referenced in paragraphs (1) and (2) above applies to unionized members that were covered by the applicable collective agreements.

The cost of living increase referenced in paragraph (1) has been paid since January 1, 2009 to the members of the 2009 Plans. The promises to amend the 2009 Plans referenced in paragraph (2) will not be implemented until amendments have been filed with and registered by the relevant pension regulatory authorities and the Canada Revenue Agency.

(3) Promise to amend other pension plans (the "2010 Plans") effective January 1, 2010 to provide cost of living increase of pensions in payment to eligible retirees effective January 1, 2010, January 1, 2012 and January 1, 2014.

- (4) Promise to amend the "2010 Plans effective May 1, 2010, including the following:
- Increase in member contributions to 7.5% of earnings from May 1, 2010



- Increase in pension formula for all service from 1.70% to 1.75% of final (or best, as applicable) five-year average earnings for eligible employees retiring from active service
- Change in early retirement provisions to provide no reduction in the pension and bridge benefit amounts (subject to minimum reductions imposed by the tax rules) for eligible employees retiring from active service at age 57 with at least 20 years of service.

Suspension of Non-Registered Plans Payments:

On April 17, 2009, ACI suspended any and all payments of all benefits under all non-registered Pension Plans.

Decision Received from the Quebec Pension Regulator:

On May 11, 2009, the Quebec pension regulator (“Régie des rentes du Québec”) ordered in a formal decision to limit the payments from the plans regulated by the Quebec pension regulator to monthly pension benefits paid and to be paid from the plans, transfers of additional voluntary contributions and contributions credited to a member in a defined contribution section of a plan and the payment of the plans’ administration fees and expenses. The Obligors have decided to apply this decision to all their Canadian pension plans.

Financial Services Tribunal-Hearing — ACI:

On July 22, 2008, ACI, filed a request for hearing regarding a Notice of Proposal of the Deputy Superintendent, Pensions (Ontario), dated June 27, 2008, to refuse to consent to transfers of assets effective January 1, 1998, from the Stone Salaried Plan and the Abitibi Non-Union Plan to the Stone Non-Union Plan under section 81 of the *PBA*. The pension plans impacted by the Notice of Proposal and the hearing before the Tribunal are: the “Pension Plan for Salaried Employees of Stone-Consolidated Corporation”, Ontario Registration Number 0202424, the “Pension Plan for Non-Union Employees of Abitibi-Consolidated Inc.”, Ontario Registration Number 0472928 and the “Pension Plan for Non-Union Employees of Abitibi Consolidated Inc.”, Quebec Registration Number 101793

On May 1, 2009, ACI advised the Tribunal that it was subject to an Order dated April 17, 2009 issued by the Superior Court of Quebec pursuant to the *Companies Creditors Arrangement Act*, and requested a stay of the Tribunal’s proceedings. Abitibi-Consolidated Inc. also advised that the Superintendent did not object to the request for a stay of these proceedings. The Tribunal granted an adjournment of the matter and directed Abitibi-Consolidated Inc. to provide the Tribunal with an update by November 2, 2009.

II. Disclosures related to U.S. law

The following ERISA Events have occurred or are reasonably expected to occur, without regard to whether any of such ERISA Events could reasonably be expected to have a Material Adverse Effect:

(A) The filing of the US Cases by AbitibiBowater Inc. constituted a reportable event as defined in PBGC Regulations §4043.35(a)(1) with respect to the AbitibiBowater Inc. Retirement Plan, the AbitibiBowater Inc. Pension Plan, the Abitibi Consolidated U.S. Pension Plan for Certain Hourly–Paid Employees, and the Abitibi Consolidated U.S. Retirement Plan. Notices of such reportable events were filed with the PBGC on May 18, 2009.

(B) It is anticipated that the announced closing of the Alabama River Newsprint paper mill owned by Abitibi–Consolidated Alabama Corporation will cause the number of active participants in the Abitibi Consolidated U.S. Retirement Plan to decrease to less than 80% of the active participants at the beginning of the 2009 plan year, which will constitute a reportable event as defined in PBGC Regulations §4043.23.

(C) The anticipated closing of the Alabama River Newsprint paper mill may also result in the imposition of joint and several liability on the Abitibi Entities that are US Persons pursuant to Section 4062(e) of ERISA.

(D) Corporate restructuring occurring pursuant to the US Cases may result in various other reportable events, including changes in contributing sponsors or members of the controlled group within the meaning of PBGC Regulations §4043.29 or transfers of benefit liabilities within the meaning of PBGC Regulations §4043.32

The following Employee Benefit Plans provide for health and welfare benefits to retired and former employees of Abitibi Entities or their ERISA Affiliates for which Abitibi Entities may be liable, without regard to whether such liabilities could reasonably be expected to have a Material Adverse Effect:

(A) AbitibiBowater Benefit Plan, as restated effective January 1, 2009, incorporating the retiree medical programs described in Section 1.04 thereof.

Although the most recent actuarial valuation for the AbitibiBowater Inc. Retirement Plan, the AbitibiBowater Inc. Pension Plan, the Abitibi Consolidated U.S. Pension Plan for Certain Hourly–Paid Employees, and the Abitibi Consolidated U.S. Retirement Plan, as of January 1, 2009, have not yet completed, it may be anticipated in light of recent market developments that the present value of the aggregate benefit liabilities of some or all of such plans may exceed the aggregate value of the assets of such plan, although the amount of such excess, and whether it could reasonably be expected to have a Material Adverse Effect, cannot be determined at this time.

SCHEDULE 3.12
Donohue Subsidiaries

Subsidiary	Jurisdiction	Ownership (direct or indirect)
Abitibi–Consolidated Corp.	Delaware	100%
Abitibi–Consolidated U.S. Funding Corp.	Delaware	100%
Abitibi Consolidated Sales Corporation	Delaware	100%
Abitibi–Consolidated Alabama Corporation	Alabama	100%
Alabama River Newsprint Company	Alabama	100%
Augusta Newsprint Company	Georgia	52.5%
Augusta Woodlands, LLC	Delaware	100%

SCHEDULE 4.01
Website Address

The website addresses on which links to documents required to be delivered pursuant to Section 4.01 may be posted are as follows:

- AbitibiBowater, Inc.: www.abitibibowater.com
- SEC EDGAR: www.sec.gov/edgar.shtml

Certification

I, David J. Paterson, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the quarterly period ended June 30, 2009 of ABITIBIBOWATER INC.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 11, 2009

/s/ David J. Paterson

David J. Paterson
President and Chief Executive Officer

Certification

I, William G. Harvey, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the quarterly period ended June 30, 2009 of ABITIBIBOWATER INC.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 11, 2009

/s/ William G. Harvey

William G. Harvey
Executive Vice President and Chief Financial Officer

Certification

Pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes–Oxley Act of 2002, the undersigned officer of ABITIBIBOWATER INC. (the “Company”), hereby certifies, to such officer’s knowledge, that the Company’s quarterly report on Form 10–Q for the quarter ended June 30, 2009 (the “Report”) fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: August 11, 2009

/s/ David J. Paterson

Name: David J. Paterson

Title: President and Chief Executive Officer

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to AbitibiBowater Inc. and will be retained by AbitibiBowater Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

The foregoing certification is being furnished solely pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes–Oxley Act of 2002, and is not being filed as part of the Report or as a separate disclosure document.

Certification

Pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes–Oxley Act of 2002, the undersigned officer of ABITIBIBOWATER INC. (the “Company”), hereby certifies, to such officer’s knowledge, that the Company’s quarterly report on Form 10–Q for the quarter ended June 30, 2009 (the “Report”) fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: August 11, 2009

/s/ William G. Harvey

Name: William G. Harvey

Title: Executive Vice President and Chief Financial Officer

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to AbitibiBowater Inc. and will be retained by AbitibiBowater Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

The foregoing certification is being furnished solely pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes–Oxley Act of 2002, and is not being filed as part of the Report or as a separate disclosure document.