AbitibiBowater Inc. (ABH)

10-Q
Quarterly report pursuant to sections 13 or 15(d)
Filed on 11/14/2011
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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 SEPTEMBER 30, 2011

☐ **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)

111 Duke Street, Suite 5000; Montreal, Quebec; Canada H3C 2MI
(Address of principal executive offices) (Zip Code)

(514) 875-2515
(Registrant's telephone number, including area code)

1155 Metcalfe Street, Suite 800; Montreal, Quebec; Canada H3B 5H2
(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 such filing requirements for 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 (§232.405 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 ☐ (Do not check if a smaller reporting company)	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 ☑

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes ☑ No ☐

As of October 31, 2011, there were 97,089,416 shares of AbitibiBowater Inc. common stock outstanding.

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ABITIBIBOWATER INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited, in millions except per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	Successor	Predecessor	**Successor**	Predecessor
	2011	2010	**2011**	2010
Sales	**$ 1,224**	$ 1,192	**$ 3,609**	$ 3,474
Costs and expenses:				
Cost of sales, excluding depreciation, amortization and cost of timber harvested	**893**	892	**2,726**	2,758
Depreciation, amortization and cost of timber harvested	**55**	119	**164**	376
Distribution costs	**141**	133	**415**	411
Selling, general and administrative expenses	**45**	40	**122**	109
Closure costs, impairment and other related charges	**17**	(3)	**34**	5
Net loss (gain) on disposition of assets	**1**	(1)	**(3)**	(14)
Operating income (loss)	**72**	12	**151**	(171)
Interest expense (contractual interest of $159 and $528 in the three and nine months ended September 30, 2010, respectively)	**(19)**	(99)	**(77)**	(417)
Other (expense) income, net	**(68)**	(6)	**(51)**	32
(Loss) income before reorganization items and income taxes	**(15)**	(93)	**23**	(556)
Reorganization items, net (Note 2)	**–**	(731)	**–**	(1,084)
(Loss) income before income taxes	**(15)**	(824)	**23**	(1,640)
Income tax (provision) benefit	**(27)**	(5)	**26**	5
Net (loss) income including noncontrolling interests	**(42)**	(829)	**49**	(1,635)
Net (income) loss attributable to noncontrolling interests	**(2)**	–	**(2)**	9
Net (loss) income attributable to AbitibiBowater Inc.	**$ (44)**	$ (829)	**$ 47**	$ (1,626)
Net (loss) income per share attributable to AbitibiBowater Inc. common shareholders:				
Basic	**$ (0.46)**	$ (14.35)	**$ 0.48**	$ (28.18)
Diluted	**(0.46)**	(14.35)	**0.48**	(28.18)
Weighted-average number of AbitibiBowater Inc. common shares outstanding:				
Basic	**97.1**	57.7	**97.1**	57.7
Diluted	**97.1**	57.7	**97.1**	57.7

See accompanying notes to unaudited interim consolidated financial statements.

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ABITIBIBOWATER INC.
CONSOLIDATED BALANCE SHEETS
(Unaudited, in millions, except per share amount)

	Successor	
	September 30, 2011	December 31, 2010
Assets		
Current assets:		
Cash and cash equivalents	**$ 295**	$ 319
Accounts receivable, net	**879**	854
Inventories, net	**470**	438
Assets held for sale	**41**	698
Deferred income tax assets	**46**	47
Other current assets	**97**	88
Total current assets	**1,828**	2,444
Fixed assets, net	**2,485**	2,641
Amortizable intangible assets, net	**18**	19
Deferred income tax assets	**1,679**	1,736
Other assets	**299**	316
Total assets	**$ 6,309**	$ 7,156
Liabilities and equity		
Current liabilities:		
Accounts payable and accrued liabilities	**$ 554**	$ 568
Current portion of long-term debt	**85**	–
Liabilities associated with assets held for sale	**6**	289
Total current liabilities	**645**	857
Long-term debt, net of current portion	**627**	905
Pension and other postretirement projected benefit obligations	**1,106**	1,272
Deferred income tax liabilities	**75**	72
Other long-term liabilities	**67**	63
Total liabilities	**2,520**	3,169
Commitments and contingencies		
Equity:		
AbitibiBowater Inc. shareholders' equity:		
Common stock, $0.001 par value. 114.1 shares issued and 97.1 shares outstanding as of September 30, 2011 and December 31, 2010	**–**	–
Additional paid-in capital	**3,673**	3,709
Retained earnings	**47**	–
Accumulated other comprehensive loss	**(4)**	–
Treasury stock at cost, 17.0 shares as of September 30, 2011 and December 31, 2010	**–**	–
Total AbitibiBowater Inc. shareholders' equity	**3,716**	3,709
Noncontrolling interests	**73**	278
Total equity	**3,789**	3,987
Total liabilities and equity	**$ 6,309**	$ 7,156

See accompanying notes to unaudited interim consolidated financial statements.

ABITIBIBOWATER INC.
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
(Unaudited, in millions)

	Successor						
	AbitibiBowater Inc. Shareholders' Equity						
	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Non-controlling Interests	Total Equity
Balance as of December 31, 2010	$ –	$ 3,709	$ –	$ –	$ –	$ 278	$ 3,987
Share-based compensation costs for equity-classified awards	–	2	–	–	–	–	2
Net income	–	–	47	–	–	2	49
Dividends and distribution paid to noncontrolling interests	–	–	–	–	–	(19)	(19)
Acquisition of noncontrolling interest (Note 11 and Note 13)	–	(28)	–	–	–	(105)	(133)
Disposition of investment in ACH Limited Partnership (Note 6 and Note 11)	–	–	–	(8)	–	(99)	(107)
Contribution of capital to noncontrolling interest	–	(10)	–	–	–	15	5
Other comprehensive income	–	–	–	4	–	1	5
Balance as of September 30, 2011	**$ –**	**$ 3,673**	**$ 47**	**$ (4)**	**$ –**	**$ 73**	**$ 3,789**

As of December 31, 2009, the balance of noncontrolling interests was $122 million. During the nine months ended September 30, 2010, amounts attributable to noncontrolling interests consisted of $9 million of net loss and $3 million of other comprehensive income, net of tax, which resulted in a balance of noncontrolling interests of $116 million as of September 30, 2010.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(Unaudited, in millions)

	Nine Months Ended September 30,	
	Successor	Predecessor
	2011	2010
Net income (loss) including noncontrolling interests	**$ 49**	$ (1,635)
Other comprehensive income (loss):		
Change in unamortized prior service costs, net of tax of $0 in 2010	**–**	2
Change in unamortized actuarial gains and losses, net of tax of $1 in 2010	**–**	(72)
Foreign currency translation	**4**	(2)
Change in unrecognized gain on hedged transactions, net of tax of $0 in 2011	**1**	–
Other comprehensive income (loss), net of tax	**5**	(72)
Comprehensive income (loss) including noncontrolling interests	**54**	(1,707)
Less: Comprehensive (income) loss attributable to noncontrolling interests:		
Net (income) loss	**(2)**	9
Foreign currency translation	**(1)**	(3)
Comprehensive (income) loss attributable to noncontrolling interests	**(3)**	6
Comprehensive income (loss) attributable to AbitibiBowater Inc.	**$ 51**	$ (1,701)

See accompanying notes to unaudited interim consolidated financial statements.

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ABITIBIBOWATER INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited, in millions)

	Nine Months Ended September 30,	
	Successor	Predecessor
	2011	2010
Cash flows from operating activities:		
Net income (loss) including noncontrolling interests	**$ 49**	$ (1,635)
Adjustments to reconcile net income (loss) including noncontrolling interests to net cash provided by operating activities:		
Share-based compensation	**2**	3
Depreciation, amortization and cost of timber harvested	**164**	376
Closure costs, impairment and other related charges	**32**	5
Write-downs of inventory	**1**	–
Deferred income taxes	**(25)**	(3)
Net pension (contributions) expense	**(146)**	6
Net gain on disposition of assets	**(3)**	(14)
Loss on translation of foreign currency denominated deferred income taxes	**58**	–
(Gain) loss on translation of foreign currency denominated pension and other postretirement projected benefit obligations	**(36)**	13
Gain on extinguishment of debt	**(4)**	–
Amortization of debt discount (premium) and debt issuance costs, net	**–**	11
Loss on translation of foreign currency denominated debt	**–**	11
Non-cash interest expense	**–**	217
Non-cash reorganization items, net	**–**	999
Debtor in possession financing costs	**–**	6
Changes in working capital:		
Accounts receivable	**(27)**	(82)
Inventories	**(33)**	(12)
Other current assets	**23**	29
Accounts payable and accrued liabilities	**(21)**	67
Other, net	**(19)**	18
Net cash provided by operating activities	**15**	15
Cash flows from investing activities:		
Cash invested in fixed assets	**(55)**	(42)
Disposition of investment in ACH Limited Partnership (Note 11)	**296**	–
Disposition of other assets	**19**	83
Proceeds from insurance settlements	**8**	–
Increase in restricted cash	**(2)**	(85)
Increase in deposit requirements for letters of credit, net	**(2)**	(2)
Release of pension trust assets	**–**	8
Net cash provided by (used in) investing activities	**264**	(38)
Cash flows from financing activities:		
Dividends and distribution to noncontrolling interests	**(19)**	–
Acquisition of noncontrolling interest (Note 11)	**(15)**	–
Payments of long-term debt	**(269)**	–
Decrease in secured borrowings, net	**–**	(21)
Debtor in possession financing costs	**–**	(6)
Payment of debtor in possession financing	**–**	(166)
Net cash used in financing activities	**(303)**	(193)
Net decrease in cash and cash equivalents	**(24)**	(216)
Cash and cash equivalents:		
Beginning of period	**319**	756
End of period	**$ 295**	$ 540

See accompanying notes to unaudited interim consolidated financial statements.

ABITIBIBOWATER INC.
Notes to Unaudited Interim Consolidated Financial Statements

Note 1. Organization and Basis of Presentation

Nature of operations

AbitibiBowater Inc. (with its subsidiaries and affiliates, either individually or collectively, unless otherwise indicated, referred to as "AbitibiBowater," "we," "our," "us" or the "Company") is incorporated in Delaware. We are a global forest products company with a market presence in newsprint, coated mechanical and specialty papers, market pulp and wood products. We operate pulp and paper manufacturing facilities in Canada, the United States and South Korea, as well as wood products manufacturing facilities and hydroelectric facilities in Canada.

Financial statements

Our interim consolidated financial statements are unaudited and have been prepared in accordance with the requirements of the United States Securities and Exchange Commission (the "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 the fair presentation of the unaudited interim consolidated financial statements have been made. All amounts are expressed in U.S. dollars, unless otherwise indicated. The results for the interim period ended September 30, 2011 are not necessarily indicative of the results to be expected for the full year. These unaudited interim consolidated financial statements should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2010, filed with the SEC on April 5, 2011. Certain prior year amounts in the unaudited interim Consolidated Statements of Cash Flows have been reclassified to conform to the 2011 presentation. The reclassification had no effect on total cash and cash equivalents.

Basis of presentation

Effective upon the commencement of the Creditor Protection Proceedings (as defined in Note 2, "Creditor Protection Proceedings") on April 16 and 17, 2009 and through the Convenience Date (as defined below), we applied the guidance in Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 852, "Reorganizations" ("FASB ASC 852"), in preparing our consolidated financial statements. The guidance in FASB ASC 852 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, during the Creditor Protection Proceedings, we: (i) recorded certain expenses, charges and credits incurred or realized that were directly associated with or resulting from the reorganization and restructuring of the business in "Reorganization items, net" in our Consolidated Statements of Operations and (ii) ceased recording interest expense on certain of our pre-petition debt obligations. For additional information, see Note 2, "Creditor Protection Proceedings," and Note 11, "Liquidity and Debt."

As further discussed in Note 2, "Creditor Protection Proceedings," on December 9, 2010, we emerged from the Creditor Protection Proceedings. In accordance with FASB ASC 852, fresh start accounting ("fresh start accounting") was required upon our emergence from the Creditor Protection Proceedings, which we applied effective December 31, 2010 (the "Convenience Date"). For additional information, see Note 1, "Organization and Basis of Presentation – Basis of presentation – Upon Emergence from Creditor Protection Proceedings," included in our consolidated financial statements for the year ended December 31, 2010.

The implementation of the Plans of Reorganization (as defined in Note 2, "Creditor Protection Proceedings") and the application of fresh start accounting materially changed the carrying amounts and classifications reported in our consolidated financial statements and resulted in the Company becoming a new entity for financial reporting purposes. Accordingly, our consolidated financial statements as of December 31, 2010 and for periods subsequent to December 31, 2010 are not comparable to our consolidated financial statements for periods prior to December 31, 2010. References to "Successor" or "Successor Company" refer to the Company on or after December 31, 2010, after giving effect to the implementation of the Plans of Reorganization and the application of fresh start accounting. References to "Predecessor" or "Predecessor Company" refer to the Company prior to December 31, 2010. Additionally, references to periods on or after December 31, 2010 refer to the Successor and references to periods prior to December 31, 2010 refer to the Predecessor.

Information on our significant accounting policies is presented in Note 2, "Summary of Significant Accounting Policies," included in our consolidated financial statements for the year ended December 31, 2010. Pursuant to fresh start accounting, all assets and liabilities reflected in our Consolidated Balance Sheet as of December 31, 2010 were recorded at fair value (except for deferred income taxes and pension and other postretirement ("OPEB") projected benefit obligations). Except for the impact of the application of fresh start accounting on the carrying values of our assets and liabilities as of December 31, 2010, the accounting policies adopted by the Successor Company and applied to the carrying values of our assets and liabilities reflected in our Consolidated Balance Sheet as of September 30, 2011 were consistent with the Predecessor Company's significant accounting policies, as disclosed in our consolidated financial statements for the year ended December 31, 2010.

Note 2. Creditor Protection Proceedings

Emergence from Creditor Protection Proceedings

AbitibiBowater Inc. and all but one of its debtor affiliates (as discussed below) successfully emerged from creditor protection proceedings under Chapter 11 of the United States Bankruptcy Code, as amended ("Chapter 11") and the *Companies' Creditors Arrangement Act* (Canada) (the "CCAA"), as applicable (collectively, the "Creditor Protection Proceedings") on December 9, 2010 (the "Emergence Date"). In the third quarter of 2010, the creditors under the Creditor Protection Proceedings, with one exception, voted in the requisite numbers to approve the respective Plan of Reorganization (as defined below). Creditors of Bowater Canada Finance Corporation ("BCFC"), an indirect, wholly-owned subsidiary of ours, did not vote in the requisite numbers to approve the Plans of Reorganization. Accordingly, we did not seek sanction of the *CCAA Plan of Reorganization and Compromise* or confirmation of the *Debtors' Second Amended Joint Plan of Reorganization under Chapter 11 of the Bankruptcy Code* (collectively, the "Plans of Reorganization" and each, a "Plan of Reorganization") with respect to BCFC. See Note 22, "Commitments and Contingencies – BCFC Bankruptcy and Insolvency Act filing," included in our consolidated financial statements for the year ended December 31, 2010 for information regarding BCFC's Bankruptcy and Insolvency Act filing on December 31, 2010 and our deconsolidation of BCFC as of December 31, 2010. The Plans of Reorganization became effective on the Emergence Date.

From the 97,134,954 shares of Successor Company common stock issued for claims in the Creditor Protection Proceedings, we established a reserve of 23,382,073 shares for claims that remained in dispute as of the Emergence Date, from which we have made and will make supplemental interim distributions to unsecured creditors as disputed claims are resolved. As of October 31, 2011, there were 20,508,137 shares remaining in this reserve. The remaining claims are claims that we believe should be disallowed because they are duplicative, without merit, overstated or should be disallowed for other reasons. We have made significant progress to address the claims that remained in dispute at the time of our emergence from the substantial number and amount of claims filed during the Creditor Protection Proceedings. The majority of the remaining disputed claims will be disposed through ongoing litigation before the United States Bankruptcy Court for the District of Delaware (the "U.S. Court") or a claims officer appointed by the Superior Court of Quebec in Canada (the "Canadian Court" and, together with the U.S. Court, the "Courts"). The ultimate completion of the claims resolution process could therefore take some time to complete. We may be required to settle certain disputed claims in cash under certain specific circumstances. As such, included in "Accounts payable and accrued liabilities" in our Consolidated Balance Sheets as of September 30, 2011 and December 31, 2010 is a liability of approximately $16 million and $35 million, respectively, for the estimated cash settlement of such claims. To the extent there are shares remaining after all disputed claims have been resolved, these shares will be reallocated ratably among unsecured creditors with allowed claims in the Creditor Protection Proceedings pursuant to the Plans of Reorganization.

Events prior to emergence from Creditor Protection Proceedings

During the Creditor Protection Proceedings, we remained in possession of our assets and properties and operated our business and managed 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, the entities that were subject to the Creditor Protection Proceedings were authorized to operate as ongoing businesses, but could not engage in transactions outside the ordinary course of business without the approval of the applicable Court(s) or Ernst & Young Inc. (which, under the terms of a Canadian Court order, served as the court-appointed monitor under the CCAA proceedings), as applicable.

Subject to certain exceptions under Chapter 11 and the CCAA, our filings and orders of the Canadian Court automatically enjoined, or stayed, the continuation of any judicial or administrative proceedings or other actions against us and our property to recover, collect or secure a claim arising prior to the filing of the Creditor Protection Proceedings. Chapter 11 and orders of the Canadian Court gave us the ability to reject certain contracts, subject to Court oversight. We engaged in a

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review of our various agreements and rejected and repudiated a number of unfavorable agreements and leases, including leases of real estate and equipment. The creditors affected by these actions were given the opportunity to file proofs of claims in the Creditor Protection Proceedings.

Reorganization items, net

FASB ASC 852 requires separate disclosure of reorganization items such as certain expenses, provisions for losses and other charges and credits directly associated with or resulting from the reorganization and restructuring of the business that were realized or incurred during the Creditor Protection Proceedings. As a result, during the Creditor Protection Proceedings, all charges related to the commencement of an indefinite idling or permanent closure of a mill or a paper machine subsequent to the commencement of the Creditor Protection Proceedings were recorded in "Reorganization items, net," whereas all charges related to the commencement of an indefinite idling or permanent closure of a mill or a paper machine prior to the commencement of the Creditor Protection Proceedings were recorded in "Closure costs, impairment and other related charges," both in our Consolidated Statements of Operations. The recognition of Reorganization items, net, unless specifically prescribed otherwise by FASB ASC 852, was in accordance with other applicable U.S. GAAP, including accounting for impairments of long-lived assets, accelerated depreciation, severance and termination benefits and costs associated with exit and disposal activities (including costs incurred in a restructuring).

Reorganization items, net for the three and nine months ended September 30, 2010 were comprised of the following:

	Predecessor	
(Unaudited, in millions)	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2010
Professional fees [(1)]	$ 44	$ 97
Provision for repudiated or rejected executory contracts [(2)]	20	169
Charges related to indefinite idlings and permanent closures [(3)]	12	276
Gains on disposition of assets [(4)]	–	(60)
Write-off of debt discounts and issuance costs [(5)]	550	550
Revaluation of debt due to currency exchange [(5)]	548	548
Reversal of post-petition accrued interest on certain debt obligations [(6)]	(447)	(447)
Gain on deconsolidation of BPCL (as defined below) [(7)]	–	(27)
Gain on deconsolidation of a variable interest entity ("VIE") [(8)]	–	(16)
Debtor in possession financing costs [(9)]	5	10
Other [(10)]	(1)	(16)
	$ 731	$ 1,084

(1) Professional fees directly related to the Creditor Protection Proceedings and the establishment of the Plans of Reorganization, including legal, accounting and other professional fees, as well as professional fees incurred by our creditors.

(2) Represented provision for estimated claims arising from repudiated or rejected executory contracts, supply contracts and equipment leases.

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(3) Represented charges primarily related to: (i) the indefinite idling of our Saint-Fulgence, Quebec and Petit Saguenay, Quebec sawmills in the third quarter of 2010; (ii) the indefinite idling of our Gatineau, Quebec paper mill in the second quarter of 2010; (iii) the indefinite idling of a de-inking line and paper machine at our Thorold, Ontario paper mill in the first quarter of 2010 and (iv) an impairment charge in the second quarter of 2010 related to our Lufkin, Texas paper mill to reduce the carrying value of the assets to their estimated fair value prior to the sale of these assets. Such charges for the three and nine months ended September 30, 2010 were comprised of the following:

	Predecessor	
	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2010
Accelerated depreciation	$ 12	$ 222
Long-lived asset impairment	–	10
Severance and pension curtailment	–	29
Write-downs of inventory	–	15
	$ 12	$ 276

(4) Represented gains on the disposition of various mills and other assets as part of our work toward a comprehensive restructuring plan, including the write-off of related asset retirement obligations. Such gains for the three months ended September 30, 2010 were less than $1 million and included the remaining assets of our Lufkin paper mill and our Albertville, Alabama sawmill, all of which we sold for proceeds of approximately $14 million. Such gains for the nine months ended September 30, 2010 also included our Mackenzie, British Columbia paper mill and sawmills, four previously permanently closed paper mills that were bundled and sold together, our Westover, Alabama sawmill, our recycling division's material recycling facilities located in Arlington, Houston and San Antonio, Texas and various other assets, all of which we sold for proceeds of approximately $54 million.

(5) FASB ASC 852 requires that debt discounts and premiums, as well as debt issuance costs, be viewed as part of the valuation of the related pre-petition debt in arriving at the net carrying amount of the debt. When the debt becomes an allowed claim and the allowed claim differs from the net carrying amount of the debt, the recorded debt obligations should be adjusted to the amount of the allowed claim. In the third quarter of 2010, pursuant to the Canadian Court's sanction of the CCAA Reorganization Plan (which included the approval of allowed debt claims) on September 23, 2010, we adjusted the net carrying amount of the CCAA filers' debt obligations to the allowed amount of the claims, which resulted in: (i) a write-off of the unamortized balance of debt discounts and issuance costs and (ii) a revaluation of the debt obligations to reflect the impact of a fixed exchange rate.

(6) We had recorded post-petition accrued interest on the CCAA filers' pre-petition unsecured debt obligations, based on the expectation that such accrued interest would be a permitted claim under the CCAA Proceedings. However, pursuant to the CCAA Reorganization Plan sanctioned by the Canadian Court on September 23, 2010, the CCAA filers' pre-petition unsecured debt obligations did not include the amount of such post-petition accrued interest for distribution purposes and therefore, such accrued interest was then accounted for as not having been approved as a permitted claim. Accordingly, we reversed such post-petition accrued interest as a Reorganization item in the third quarter of 2010 and ceased accruing interest on the CCAA filers' pre-petition unsecured debt obligations.

(7) As discussed in Note 1, "Organization and Basis of Presentation – Bridgewater Administration," included in our consolidated financial statements for the year ended December 31, 2010, we are no longer consolidating Bridgewater Paper Company Limited ("BPCL"), an indirect, wholly-owned subsidiary of ours, in our consolidated financial statements. Upon the deconsolidation of BPCL, we derecognized our negative investment in BPCL, which resulted in a gain.

(8) As discussed in Note 4, "Creditor Protection Proceedings Related Disclosures – Reorganization items, net," included in our consolidated financial statements for the year ended December 31, 2010, we are no longer consolidating in our consolidated financial statements a VIE that was placed into receivership. Upon the deconsolidation of this VIE, we derecognized our negative investment in this VIE, which resulted in a gain.

(9) Debtor in possession financing costs were incurred during the third quarter of 2010 in connection with an amendment and an exit fee related to one of our debtor in possession financing arrangements and in the second quarter of 2010 in connection with the extension of one of our debtor in possession financing arrangements and an amendment to our former accounts receivable securitization program.

(10) For the nine months ended September 30, 2010, "Other" primarily represented: (i) the write-off of environmental liabilities related to our Newfoundland and Labrador properties that were expropriated and for which no claim was filed against us in the Creditor Protection Proceedings; (ii) charges related to our estimated liability for an environmental claim filed against us by the current owner of a site previously owned by one of our subsidiaries and

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(iii) employee termination charges resulting from our work toward a comprehensive restructuring plan related to a workforce reduction at our Catawba, South Carolina paper mill. "Other" for the three and nine months ended September 30, 2010 also included interest income.

In the three and nine months ended September 30, 2010, we paid $38 million and $85 million, respectively, relating to reorganization items, which were comprised of: (i) professional fees of $37 million and $79 million, respectively, and (ii) debtor in possession financing costs of $1 million and $6 million, respectively. Payments relating to professional fees and debtor in possession financing costs were included in cash flows from operating activities and cash flows from financing activities, respectively, in our Consolidated Statements of Cash Flows.

Note 3. Closure Costs, Impairment and Other Related Charges

Closure costs, impairment and other related charges for the three and nine months ended September 30, 2011 and 2010 were comprised of the following:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	Successor	Predecessor	**Successor**	Predecessor
(Unaudited, in millions)	**2011**	2010	**2011**	2010
Accelerated depreciation	**$ 1**	$ –	**$ 5**	$ –
Impairment of long-lived assets	**10**	–	**17**	2
Severance and other costs	**6**	(3)	**12**	3
	$ 17	$ (3)	**$ 34**	$ 5

Accelerated depreciation

During the three months ended September 30, 2011, we recorded accelerated depreciation charges of $1 million related to the permanent closure of our Saint-Prime, Quebec remanufacturing wood products facility. During the nine months ended September 30, 2011, we also recorded accelerated depreciation charges of $1 million related to the permanent closure of a de-inking line at our Alma, Quebec paper mill, $2 million related to the permanent closure of a paper machine and a thermomechanical pulp line at our Baie-Comeau, Quebec paper mill and $1 million as a result of the decision to cease paperboard production at our Coosa Pines, Alabama paper mill.

Impairment of long-lived assets

During the three months ended September 30, 2011, we recorded long-lived asset impairment charges of $7 million related to our Mokpo, South Korea paper mill and $3 million related to certain scrapped equipment at our Calhoun, Tennessee paper mill to reduce the carrying value of the assets to their estimated fair value, which was determined based on the assets' estimated sale or salvage values. During the nine months ended September 30, 2011, we also recorded long-lived asset impairment charges of $7 million as a result of the decision to cease paperboard production at our Coosa Pines paper mill to reduce the carrying value of the assets to their estimated fair value, which was determined based on the assets' estimated salvage values.

During the nine months ended September 30, 2010, we recorded long-lived asset impairment charges of $2 million related to our previously permanently closed Covington, Tennessee facility to further reduce the carrying value of the assets to their estimated fair value, which was determined based on the mill's estimated sales value.

Severance and other costs

During the three months ended September 30, 2011, we recorded $6 million of severance and other costs primarily for an early retirement severance program for employees at our Mokpo paper mill and miscellaneous adjustments to severance liabilities. During the nine months ended September 30, 2011, we also recorded $3 million of severance costs and a $3 million OPEB plan curtailment loss as a result of the decision to cease paperboard production at our Coosa Pines paper mill.

During the three months ended September 30, 2010, we recorded a credit of $3 million in severance and other costs, primarily for miscellaneous adjustments to severance liabilities and asset retirement obligations. During the nine months ended September 30, 2010, we also recorded $6 million of severance and other costs, primarily for miscellaneous adjustments to severance liabilities and asset retirement obligations, as well as other costs, primarily for a lawsuit related to a closed mill.

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Note 4. Assets Held for Sale, Liabilities Associated with Assets Held for Sale and Net (Loss) Gain on Disposition of Assets

Assets held for sale as of September 30, 2011 and December 31, 2010 were comprised of the following:

	Successor	
(Unaudited, in millions)	**September 30, 2011**	December 31, 2010
Cash and cash equivalents	**$ 2**	$ 10
Accounts receivable, net	**5**	4
Inventories, net	**1**	–
Other current assets	**1**	1
Fixed assets, net	**32**	149
Amortizable intangible assets	**–**	528
Other assets	**–**	6
	$ 41	$ 698

Liabilities associated with assets held for sale as of September 30, 2011 and December 31, 2010 were comprised of the following:

	Successor	
(Unaudited, in millions)	**September 30, 2011**	December 31, 2010
Accounts payable and accrued liabilities	**$ 6**	$ 9
Long-term debt	**–**	280
	$ 6	$ 289

As of December 31, 2010, we held for sale the following assets: our investment in ACH Limited Partnership ("ACH"), our Kenora, Ontario and Alabama River, Alabama paper mills, our Saint-Fulgence and Petit Saguenay sawmills and various other assets. These assets and liabilities held for sale were carried in our Consolidated Balance Sheet as of December 31, 2010 at fair value (as a result of the application of fresh start accounting) less costs to sell. Since we had control over ACH, our consolidated financial statements included this entity on a fully consolidated basis.

As of September 30, 2011, we held for sale the following assets: our Petit Saguenay sawmill, our U.S. recycling operations and various other assets. The assets held for sale are carried in our Consolidated Balance Sheet as of September 30, 2011 at the lower of carrying value or fair value less costs to sell. We expect to complete a sale of all of these assets within the next twelve months for amounts that equal or exceed their individual carrying values.

During the three months ended September 30, 2011, we sold our Alabama River paper mill and various other assets for cash proceeds of $11 million, resulting in a net loss on disposition of assets of $1 million. Additionally, during the nine months ended September 30, 2011, we sold our investment in ACH (for additional information, see Note 11, "Liquidity and Debt"), our Kenora paper mill and various other assets for proceeds of $304 million, resulting in a net gain on disposition of assets of $4 million.

During the three months ended September 30, 2010, we sold various assets for proceeds of $2 million, resulting in a net gain on disposition of assets of $1 million. During the nine months ended September 30, 2010, we sold timberlands and other assets for proceeds of $15 million, resulting in a net gain on disposition of assets of $14 million. Additionally, during the nine months ended September 30, 2010, as part of our work toward a comprehensive restructuring plan, we sold various mills and other assets. For additional information, see Note 2, "Creditor Protection Proceedings – Events prior to emergence from Creditor Protection Proceedings – Reorganization items, net."

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Note 5. Other (Expense) Income, Net

Other (expense) income, net for the three and nine months ended September 30, 2011 and 2010 was comprised of the following:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	Successor	Predecessor	**Successor**	Predecessor
(Unaudited, in millions)	**2011**	2010	**2011**	2010
Foreign exchange (loss) gain	**$ (60)**	$ (7)	**$ (30)**	$ 30
Post-emergence costs [1]	**(13)**	–	**(35)**	–
Income (loss) from equity method investments	**2**	–	**1**	(3)
Gain on extinguishment of debt (Note 11)	**–**	–	**4**	–
Interest income [2]	**–**	–	**1**	–
Miscellaneous income	**3**	1	**8**	5
	$ (68)	$ (6)	**$ (51)**	$ 32

(1) Primarily represents ongoing legal and other professional fees for the resolution and settlement of disputed creditor claims, as well as costs for other post-emergence activities.

(2) During the Creditor Protection Proceedings, interest income of the entities that were subject to the Creditor Protection Proceedings was recorded in "Reorganization items, net" in our Consolidated Statements of Operations.

Note 6. Accumulated Other Comprehensive Loss

Accumulated other comprehensive loss as of September 30, 2011 was comprised of foreign currency translation gains of $3 million and unrecognized gains on hedging transactions of $1 million (net of a deferred tax provision of zero). No tax effect was recorded for foreign currency translation since the investment in foreign net assets translated is deemed indefinitely invested. Accumulated other comprehensive loss as of September 30, 2011 is net of $8 million that was transferred and included in "Net (loss) gain on disposition of assets" in our Consolidated Statements of Operations for the nine months ended September 30, 2011 as a result of the sale of our investment in ACH. In connection with the application of fresh start accounting as of December 31, 2010, accumulated other comprehensive loss of the Predecessor Company was eliminated.

Note 7. Net (Loss) Income Per Share

The weighted-average number of common shares outstanding used to calculate basic and diluted net (loss) income per share attributable to AbitibiBowater Inc. common shareholders was 97.1 million for both the three and nine months ended September 30, 2011 and 57.7 million for both the three and nine months ended September 30, 2010.

No adjustments to net (loss) income attributable to AbitibiBowater Inc. common shareholders were necessary to calculate basic and diluted net (loss) income per share for all periods presented.

For both the three and nine months ended September 30, 2011, the dilutive impact of 0.5 million option shares and 0.1 million equity-classified restricted stock units ("RSUs") and deferred stock units ("DSUs") on the weighted-average number of common shares outstanding used to calculate diluted net (loss) income per share was nominal. For both the three and nine months ended September 30, 2010, 3.3 million option shares and 0.1 million RSUs were excluded from the calculation of diluted net loss per share as the impact would have been anti-dilutive. For both the three and nine months ended September 30, 2010, no adjustment to the diluted weighted-average number of common shares outstanding for the assumed conversion of the pre-petition convertible notes, which were outstanding at that time, was necessary as the impact would have been anti-dilutive.

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Note 8. Inventories, Net

Inventories, net as of September 30, 2011 and December 31, 2010 were comprised of the following:

	Successor	
(Unaudited, in millions)	**September 30, 2011**	December 31, 2010
Raw materials and work in process	**$ 127**	$ 136
Finished goods	**182**	184
Mill stores and other supplies	**161**	118
	$ 470	$ 438

During the nine months ended September 30, 2011, we recorded charges of $1 million for write-downs of inventory as a result of the decision to cease paperboard production at our Coosa Pines paper mill. These charges were included in "Cost of sales, excluding depreciation, amortization and cost of timber harvested" in our Consolidated Statements of Operations.

During the nine months ended September 30, 2010, we recorded charges of $15 million for write-downs of inventory, primarily associated with our indefinitely idled Gatineau paper mill, as well as an indefinitely idled paper machine and de-inking line at our Thorold paper mill. These charges were incurred as part of our restructuring and were included in "Reorganization items, net" in our Consolidated Statements of Operations.

Note 9. Restricted Cash

In connection with the sale of our investment in Manicouagan Power Company ("MPCo") in December 2009, we provided certain undertakings and indemnities to Alcoa Canada Ltd., our former partner in MPCo, including an indemnity for potential tax liabilities arising from the transaction. As of September 30, 2011 and December 31, 2010, we maintained a reserve of approximately Cdn$85 million ($81 million, based on the exchange rate in effect on September 30, 2011) and Cdn$80 million ($80 million, based on the exchange rate in effect on December 31, 2010), respectively, to secure those obligations. This reserve was included as restricted cash in "Other assets" in our Consolidated Balance Sheets as of September 30, 2011 and December 31, 2010.

Note 10. Severance Related Liabilities

The activity in our severance related liabilities for the nine months ended September 30, 2011 was as follows:

(Unaudited, in millions)	**2011 Initiatives**	**2010 Initiatives**	**Total**
Balance as of December 31, 2010 (Successor)	$ –	$ 2	$ 2
Charges	18	–	18
Payments	(12)	(2)	(14)
Balance as of September 30, 2011 (Successor)	**$ 6**	**$ –**	**$ 6**

During the nine months ended September 30, 2011, we recorded severance costs primarily as a result of corporate employee terminations, the decision to close our Greenville, South Carolina office, the decision to cease paperboard production at our Coosa Pines paper mill and an early retirement severance program for employees at our Mokpo paper mill.

Severance costs incurred in the nine months ended September 30, 2011 were included in "Selling, general and administrative expenses" or "Closure costs, impairment and other related charges" in our Consolidated Statements of Operations. The severance accruals were included in "Accounts payable and accrued liabilities" in our Consolidated Balance Sheets as of September 30, 2011 and December 31, 2010.

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Note 11. Liquidity and Debt

Overview

As of September 30, 2011, in addition to cash and cash equivalents and net cash provided by operations, our principal external source of liquidity was the ABL Credit Facility, which is defined and discussed below. As of September 30, 2011, we had cash and cash equivalents of $295 million and had $519 million of availability under the ABL Credit Facility.

Interest expense recorded in our Consolidated Statements of Operations totaled $19 million and $77 million for the three and nine months ended September 30, 2011, respectively, and $99 million and $417 million for the three and nine months ended September 30, 2010, respectively. The decrease in interest expense was primarily due to significantly lower debt levels in connection with our emergence from the Creditor Protection Proceedings in December 2010. Additionally, interest expense for the nine months ended September 30, 2010 included a cumulative adjustment of $43 million to increase the accrued interest on the unsecured U.S. dollar denominated debt obligations of the CCAA filers to a fixed exchange rate. In accordance with FASB ASC 852, during the Creditor Protection Proceedings, we recorded interest expense on our pre-petition debt obligations only to the extent that: (i) interest would be paid during the Creditor Protection Proceedings or (ii) it was probable that interest would be an allowed priority, secured or unsecured claim. Contractual interest expense was $159 million and $528 million for the three and nine months ended September 30, 2010, respectively.

On May 27, 2011, we announced the sale of our 75% equity interest in ACH. Cash proceeds from the sale, including cash available at closing, were approximately Cdn$290 million ($296 million, based on the exchange rate in effect on May 27, 2011). The proceeds were applied in accordance with the terms of the 2018 Notes (as defined below) indenture, which requires, among other things, that the first $100 million of net proceeds from the sale of certain assets, including our interest in ACH, be used to redeem 2018 Notes (including accrued and unpaid interest) if the closing occurs within six months of the Emergence Date (as further discussed below). We also redeemed an additional $85 million of principal amount of the 2018 Notes and repaid $90 million of other long-term debt (as further discussed below) with the proceeds from the sale of ACH. The purchaser assumed the outstanding debt of ACH. Accordingly, ACH's total long-term debt ($280 million as of December 31, 2010) is no longer reflected in our Consolidated Balance Sheet.

As further discussed below, on November 4, 2011, we redeemed an additional $85 million of principal amount of the 2018 Notes.

10.25% senior secured notes due 2018

Information on our 10.25% senior secured notes due 2018 (the "2018 Notes") is presented in Note 17, "Liquidity and Debt," included in our consolidated financial statements for the year ended December 31, 2010.

As a result of our application of fresh start accounting, as of December 31, 2010, the 2018 Notes were recorded at their fair value of $905 million, which resulted in a premium of $55 million, which is being amortized to interest expense using the effective interest method over the term of the notes. On June 13, 2011, we applied the first $100 million of net proceeds from the sale of ACH (as discussed above) to redeem $94 million of principal amount of the 2018 Notes at a redemption price of 105% of the principal amount, plus accrued and unpaid interest. Additionally, on June 29, 2011, we redeemed $85 million of principal amount of the 2018 Notes at a redemption price of 103% of the principal amount, plus accrued and unpaid interest. As a result of these redemptions, during the nine months ended September 30, 2011, we recorded a net gain on extinguishment of debt of approximately $4 million, which was included in "Other (expense) income, net" in our Consolidated Statements of Operations. As of September 30, 2011, the carrying value of the 2018 Notes (including the unamortized premium of approximately $41 million) was approximately $712 million.

On November 4, 2011, we redeemed an additional $85 million of principal amount of the 2018 Notes at a redemption price of 103% of the principal amount, plus accrued and unpaid interest. This $85 million of principal amount of the 2018 Notes was included in "Current portion of long-term debt" and the remaining balance of the 2018 Notes of $627 million was included in "Long-term debt, net of current portion" in our Consolidated Balance Sheet as of September 30, 2011.

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ABL Credit Facility

On December 9, 2010, AbitibiBowater Inc. and two of its wholly-owned subsidiaries, AbiBow US Inc. and AbiBow Recycling LLC, (collectively, the "U.S. Borrowers") and AbiBow Canada Inc. (the "Canadian Borrower" and, together with the U.S. Borrowers, the "Borrowers") entered into a senior secured asset-based revolving credit facility (the "ABL Credit Facility") with certain lenders and Citibank, N.A., as administrative agent and collateral agent (the "agent"). Additional information regarding the ABL Credit Facility is presented in Note 17, "Liquidity and Debt," included in our consolidated financial statements for the year ended December 31, 2010.

The borrowing base availability of each borrower is subject to certain reserves, which are established by the agent in its discretion. The reserves may include dilution reserves, inventory reserves, rent reserves and any other reserves that the agent determines are necessary and have not already been taken into account in the calculation of the borrowing base. As of June 30, 2011, an additional reserve of $259 million was in place against the borrowing base of the Canadian Borrower until the adoption, by the governments of Quebec and Ontario, of regulations to implement previously-announced funding relief with respect to aggregate solvency deficits in our material Canadian registered pension plans, as discussed in Note 20, "Pension and Other Postretirement Benefit Plans – Resolution of Canadian pension situation," included in our consolidated financial statements for the year ended December 31, 2010. As of the third quarter of 2011, both the provinces of Quebec and Ontario had adopted these funding relief regulations. As a result, this reserve against the borrowing base of the Canadian Borrower was removed in the third quarter of 2011.

On October 28, 2011, the Borrowers and the subsidiaries of AbitibiBowater Inc. that are guarantors of the ABL Credit Facility entered into an amendment to the credit agreement that governs the ABL Credit Facility. The ABL Credit Facility, as amended, provides for an asset-based, revolving credit facility with an aggregate lender commitment of up to $600 million at any time outstanding, subject to borrowing base availability, including a $60 million (increased from $20 million) swingline sub-facility and a $200 million (increased from $150 million) letter of credit sub-facility. The ABL Credit Facility includes a $400 million tranche available to the Borrowers and a $200 million tranche available solely to the U.S. Borrowers, in each case subject to the borrowing base availability of those Borrowers.

The amendment extends the maturity of the ABL Credit Facility from December 9, 2014 to October 28, 2016.

The amendment reduces the interest rate margin applicable to borrowings under the ABL Credit Facility to 1.75% – 2.25% per annum with respect to Eurodollar rate and bankers' acceptance rate borrowings (reduced from 2.75% – 3.25%) and 0.75% – 1.25% per annum with respect to base rate and Canadian prime rate borrowings (reduced from 1.75% – 2.25%), in each case depending on excess availability under the ABL Credit Facility. Additionally, the amendment reduces the unutilized commitment fee payable by the Borrowers under the ABL Credit Facility to 0.375% – 0.50% per annum (reduced from 0.50% – 0.75%), subject to monthly pricing adjustments based on the unutilized commitment of the ABL Credit Facility.

The amendment reduces to 1.0:1.0 (reduced from 1.1:1.0) the minimum consolidated fixed charge coverage ratio required if at any time excess availability falls below the greater of: (i) $60 million and (ii) 12.5% of the lesser of (A) the total commitments and (B) the borrowing base then in effect. Prior to the effectiveness of the amendment, this springing fixed charge coverage ratio covenant was triggered if excess availability fell below 15% of the total commitments then in effect.

The amendment also eases certain other covenants, including covenants restricting the Company's ability to: (i) prepay certain indebtedness, (ii) consummate permitted acquisitions and (iii) make certain restricted payments.

As of September 30, 2011, the Borrowers had no borrowings and $62 million of letters of credit outstanding under the ABL Credit Facility. As of September 30, 2011, we had $519 million of availability under the ABL Credit Facility, which was comprised of $290 million for the U.S. Borrowers and $229 million for the Canadian Borrower.

Promissory note

As of December 31, 2010, Augusta Newsprint Company ("ANC"), which operates our newsprint mill in Augusta, Georgia, was owned 52.5% by us. Our consolidated financial statements included this entity on a fully consolidated basis. On January 14, 2011, we acquired the noncontrolling interest in ANC and ANC became a wholly-owned subsidiary of ours. As part of the consideration for the transaction, ANC paid cash of $15 million and issued a secured promissory note (the "note") in the principal amount of $90 million. The acquisition of the noncontrolling interest in ANC was accounted for as an equity transaction. On June 30, 2011, the note, including accrued interest, was repaid with cash in full.

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Note 12. Pension and Other Postretirement Benefit Plans

The components of net periodic benefit cost relating to our pension and OPEB benefit plans for the three and nine months ended September 30, 2011 and 2010 were as follows:

Pension Plans:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	Successor	Predecessor	**Successor**	Predecessor
(Unaudited, in millions)	**2011**	2010	**2011**	2010
Service cost	**$ 10**	$ 10	**$ 28**	$ 30
Interest cost	**82**	88	**248**	259
Expected return on plan assets	**(86)**	(89)	**(260)**	(269)
Amortization of prior service cost	**–**	–	**–**	2
Recognized net actuarial loss	**–**	1	**–**	3
Curtailments and settlements	**–**	1	**–**	5
	$ 6	$ 11	**$ 16**	$ 30

OPEB Plans:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	Successor	Predecessor	**Successor**	Predecessor
(Unaudited, in millions)	**2011**	2010	**2011**	2010
Service cost	**$ 1**	$ 1	**$ 3**	$ 3
Interest cost	**5**	5	**16**	17
Amortization of prior service credit	**–**	(2)	**–**	(6)
Recognized net actuarial loss	**–**	1	**–**	2
Curtailment	**–**	–	**3**	–
	$ 6	$ 5	**$ 22**	$ 16

Event impacting net periodic benefit cost for the nine months ended September 30, 2011

In February 2011, as a result of the decision to cease paperboard production at our Coosa Pines paper mill, approximately 137 positions were eliminated. As a result, a curtailment loss of $3 million was included in the net periodic benefit cost of our OPEB plans.

Events impacting net periodic benefit cost for the three and nine months ended September 30, 2010

In July 2010, certain employees received lump-sum payments from two of our retirement pension plans. As a result, a settlement loss of $1 million was included in the net periodic benefit cost of our pension plans.

In May 2010, as a result of the indefinite idling of our Gatineau paper mill, approximately 330 positions were impacted. As a result, a curtailment loss of $4 million was included in the net periodic benefit cost of our pension plans.

Canadian pension funding relief

As of the third quarter of 2011, both the provinces of Quebec and Ontario had adopted specific regulations to implement the previously-announced funding relief with respect to aggregate solvency deficits in our material Canadian registered pension plans. The basic funding parameters are described in Note 20, "Pension and Other Postretirement Benefit Plans – Resolution of Canadian pension situation," included in our consolidated financial statements for the year ended December 31, 2010. The regulations also provide that corrective measures would be required if the aggregate solvency ratio in the registered pension plans falls below a prescribed level under the target provided by the regulations as of December 31 in any year through 2014. Such measures may include additional funding over five years to attain the target solvency ratio prescribed in the regulations. Thereafter, additional funding would be required if the aggregate solvency ratio in the registered pension plans falls below a prescribed level under the target provided by the regulations as of December 31 in any year on or after 2015 for the remainder of the period covered by the regulations.

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Note 13. Income Taxes

The income tax benefit attributable to (loss) income before income taxes differs from the amounts computed by applying the United States federal statutory income tax rate of 35% for the three and nine months ended September 30, 2011 and 2010 as a result of the following:

	Three Months Ended September 30,		**Nine Months Ended September 30,**	
	Successor	Predecessor	**Successor**	Predecessor
(Unaudited, in millions)	**2011**	2010	**2011**	2010
(Loss) income before income taxes	**$ (15)**	$ (824)	**$ 23**	$ (1,640)
Income tax (provision) benefit:				
Expected income tax benefit (provision)	**5**	288	**(8)**	574
Change in income tax benefit (provision) resulting from:				
Valuation allowance	**(3)**	(173)	**(4)**	(384)
Foreign exchange	**(30)**	(78)	**(16)**	(58)
Deferred tax adjustment	**–**	–	**10**	–
Tax reserve adjustment [(1)]	**1**	2	**45**	2
State income taxes, net of federal income tax benefit	**–**	–	**–**	2
Foreign taxes	**(1)**	(33)	**–**	(130)
Other, net	**1**	(11)	**(1)**	(1)
	$ (27)	$ (5)	**$ 26**	$ 5

(1) During the nine months ended September 30, 2011, we reversed certain accruals for uncertain tax positions pursuant to FASB ASC 740, "Income Taxes," as effectively settled, as certain tax authority examinations were completed during the second quarter of 2011. The total tax benefit recorded as a result of the reversal of these accruals for uncertain tax positions was $44 million.

During the three and nine months ended September 30, 2010, income tax benefits generated on the majority of our losses were entirely offset by tax charges to increase our valuation allowance related to these tax benefits.

As a result of the acquisition of the noncontrolling interest in ANC, we established a deferred tax liability of approximately $28 million. Since this acquisition was accounted for as an equity transaction, as discussed in Note 11, "Liquidity and Debt – Promissory note," the recording of this deferred tax liability resulted in a reduction of "Additional paid-in capital" in our Consolidated Balance Sheet as of September 30, 2011.

Note 14. Commitments and Contingencies

We are involved in various legal proceedings relating to contracts, commercial disputes, taxes, environmental issues, employment and workers' compensation claims, Aboriginal 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 (including legal costs expected to be incurred) 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 the debtors in the Creditor Protection Proceedings (AbitibiBowater Inc. and certain of its U.S. and Canadian subsidiaries, excluding our wholly-owned subsidiary that operates our Mokpo, South Korea operations and almost all of our less than wholly-owned subsidiaries) that arose out of pre-petition conduct or acts was subject to the automatic stay provisions of Chapter 11 and the CCAA and the orders of the Courts rendered thereunder, and subject to certain exceptions, any recovery by the plaintiffs in those matters will be treated consistently with all other general unsecured claims in the Creditor Protection Proceedings, i.e., to the extent a disputed general unsecured claim

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becomes an accepted claim, the claimholder would be entitled to receive a ratable amount of Successor Company common stock from the reserve established on the Emergence Date for this purpose, as discussed in Note 2, "Creditor Protection Proceedings." As a result, we believe that these matters will not have a material adverse effect on our results of operations or financial position.

On March 31, 2010, the Canadian Court dismissed a motion for declaratory judgment brought by the province of Newfoundland and Labrador, awarding costs in our favor, and thus confirmed our position that the five orders the province issued under section 99 of its Environmental Protection Act on November 12, 2009 were subject to the stay of proceedings pursuant to the Creditor Protection Proceedings. The province of Newfoundland and Labrador's orders could have required us to proceed immediately with the environmental remediation of various sites we formerly owned or operated, some of which the province expropriated in December 2008. The Quebec Court of Appeal denied the province's request for leave to appeal on May 18, 2010. An appeal of that decision is now pending before the Supreme Court of Canada, which will hear the matter on November 16, 2011. If leave to appeal is ultimately granted and the appeal is allowed, we could be required to make additional environmental remediation payments without regard to the Creditor Protection Proceedings, which payments could have a material impact on our results of operations or financial condition.

Information on our commitments and contingencies is presented in Note 22, "Commitments and Contingencies," included in our consolidated financial statements for the year ended December 31, 2010. There have been no material developments to the commitments and contingencies described in our consolidated financial statements for the year ended December 31, 2010.

Note 15. Share-Based Compensation

On the Emergence Date and pursuant to the Plans of Reorganization, all previously-issued and outstanding equity-based awards under our various share-based compensation plans were terminated and the 2010 AbitibiBowater Inc. Equity Incentive Plan (the "2010 LTIP") became effective. The 2010 LTIP, administered by the Human Resources and Compensation/Nominating and Governance Committee of the Board of Directors (the "HR Board Committee"), provides for the grant of equity-based awards, including stock options, stock appreciation rights, restricted stock, RSUs, DSUs (collectively, "stock incentive awards") and cash incentive awards to certain of our officers, directors, employees, consultants and advisors. We have been authorized to issue stock incentive awards for up to 9,020,060 shares under the 2010 LTIP.

As of September 30, 2011, all of our outstanding stock incentive awards were accounted for as equity-classified, service-based awards and approximately 8.5 million shares were available for issuance under the 2010 LTIP. As of September 30, 2010, our outstanding stock incentive awards consisted of both equity-classified and liability-classified awards, some of which included performance conditions. For both the three months ended September 30, 2011 and 2010, share-based compensation expense was $1 million. For the nine months ended September 30, 2011 and 2010, share-based compensation expense was $2 million and $3 million, respectively.

Modification of stock incentive awards

On July 20, 2011, the HR Board Committee approved a modification of the stock incentive awards granted to employees on January 9, 2011. Employees who will meet certain retirement eligibility criteria prior to the end of the four-year vesting period will be allowed to continue vesting in their awards after retirement in accordance with the normal vesting schedule. Nine employees' awards were impacted by this modification. As a result, we reduced the requisite service periods for their awards to reflect their individual retirement eligibility dates.

Stock options

On January 9, 2011, we issued 626,720 stock options to our non-employee directors and to certain officers and employees, with an exercise price of $23.05. The stock options become exercisable ratably over a period of four years, except for the modified awards described above, and, unless terminated earlier in accordance with their terms, expire 10 years from the date of grant.

We calculated the grant-date fair value of the stock options using the Black-Scholes option pricing model, which resulted in a fair value of $10.75 each. This calculation was based on an expected dividend yield of zero, an expected volatility of 40.5%, a risk-free interest rate of 2.5% and an expected life of 6.25 years.

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The payment of dividends is subject to certain restrictions under the 2018 Notes indenture and the credit agreement that governs the ABL Credit Facility; therefore, we assumed an expected dividend yield of zero. Due to the short trading history of the Successor Company's common stock, we estimated the expected volatility based on the historical volatility of a peer group within our industry measured over a term approximating the expected life of the options. We estimated the risk-free interest rate based on a zero-coupon U.S. Treasury instrument with a remaining term approximating the expected life of the options. Historical exercise data attributable to stock incentive awards granted after the Successor Company's common stock began publicly trading is non-existent; therefore, we used the simplified method permitted by Staff Accounting Bulletin Topic 14 to estimate the expected life of the options. Under this approach, the expected life is presumed to be the midpoint between the vesting date and the end of the contractual term.

During the nine months ended September 30, 2011, 174,941 options were forfeited, which reduced the number of options outstanding as of September 30, 2011 to 451,779, of which 21,043 were exercisable. As of September 30, 2011, there was approximately $3 million of unrecognized compensation cost related to these stock options, which is expected to be recognized over a remaining requisite service period of 3.2 years.

Restricted stock units and deferred stock units

The activity of RSUs and DSUs issued to our non-employee directors and to certain officers and employees for the nine months ended September 30, 2011 was as follows:

(Unaudited)	Number of Units	Weighted-Average Fair Value at Grant Date
Outstanding as of December 31, 2010 (Successor)	–	$ –
Granted	107,369	24.10
Vested	(22,210)	27.13
Forfeited	(25,027)	23.05
Outstanding as of September 30, 2011 (Successor)	**60,132**	**$ 23.41**

Each RSU and DSU provides the holder the right to receive one share of our common stock upon vesting. RSUs and DSUs vest ratably over a period of one year for directors and four years for officers and employees, except for the modified awards described above. As of September 30, 2011, there was approximately $1 million of unrecognized compensation cost related to these RSUs and DSUs, which is expected to be recognized over a remaining requisite service period of 2.9 years.

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 income (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 (loss) gain on disposition of assets 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. Additionally, beginning in 2011, all selling, general and administrative expenses, excluding employee termination costs, are allocated to our segments.

ABITIBIBOWATER INC.
Notes to Unaudited Interim Consolidated Financial Statements

Information about segment sales and operating income (loss) for the three and nine months ended September 30, 2011 and 2010 was as follows:

(Unaudited, in millions)	Newsprint	Coated Papers	Specialty Papers	Market Pulp[1]	Wood Products	Corporate and Other	Consolidated Total
Sales							
Third quarter 2011 (Successor)	**$ 468**	**$ 140**	**$ 316**	**$ 175**	**$ 125**	**$ –**	**$ 1,224**
Third quarter 2010 (Predecessor)	429	128	347	184	104	–	1,192
First nine months 2011 (Successor)	**1,359**	**406**	**966**	**522**	**356**	**–**	**3,609**
First nine months 2010 (Predecessor)	1,318	348	975	519	314	–	3,474
Operating income (loss) [2]							
Third quarter 2011 (Successor)	**$ 18**	**$ 18**	**$ 27**	**$ 36**	**$ (3)**	**$ (24)**	**$ 72**
Third quarter 2010 (Predecessor)	(8)	13	(6)	55	(1)	(41)	12
First nine months 2011 (Successor)	**63**	**44**	**38**	**73**	**(20)**	**(47)**	**151**
First nine months 2010 (Predecessor)	(159)	14	(39)	92	4	(83)	(171)

(1) Market pulp sales excluded inter-segment sales of $2 million and $5 million for the three months ended September 30, 2011 and 2010, respectively, and $10 million and $17 million for the nine months ended September 30, 2011 and 2010, respectively.

(2) Corporate and other operating loss for the three and nine months ended September 30, 2011 and 2010 included the following special items:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	Successor	Predecessor	**Successor**	Predecessor
(Unaudited, in millions)	**2011**	2010	**2011**	2010
Net (loss) gain on disposition of assets	**$ (1)**	$ 1	**$ 3**	$ 14
Closure costs, impairment and other related charges	**(17)**	3	**(34)**	(5)
Write-downs of inventory	**–**	–	**(1)**	–
Employee termination (costs) credit	**(5)**	–	**(12)**	8
	$ (23)	$ 4	**$ (44)**	$ 17

ABITIBIBOWATER INC.
Notes to Unaudited Interim Consolidated Financial Statements

Note 17. Condensed Consolidating Financial Information

The following information is presented in accordance with Rule 3-10 of Regulation S-X and the public information requirements of Rule 144 promulgated pursuant to the Securities Act of 1933, as amended, in connection with AbitibiBowater Inc.'s issuance of the 2018 Notes that are fully and unconditionally guaranteed, on a joint and several basis, by all of our 100% owned material U.S. subsidiaries (the "Guarantor Subsidiaries"). The 2018 Notes are not guaranteed by our foreign subsidiaries and our less than 100% owned U.S. subsidiaries (the "Non-guarantor Subsidiaries").

The following condensed consolidating financial information sets forth the Statements of Operations for the three and nine months ended September 30, 2011 and 2010, the Balance Sheets as of September 30, 2011 and December 31, 2010 and the Statements of Cash Flows for the nine months ended September 30, 2011 and 2010 for AbitibiBowater Inc. (the "Parent"), the Guarantor Subsidiaries on a combined basis and the Non-guarantor Subsidiaries on a combined basis. The condensed consolidating financial information reflects the investments of the Parent in the Guarantor Subsidiaries and Non-guarantor Subsidiaries, as well as the investments of the Guarantor Subsidiaries in the Non-guarantor Subsidiaries, using the equity method of accounting. The principal consolidating adjustments are elimination entries to eliminate the investments in subsidiaries and intercompany balances and transactions.

CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS
For the Three Months Ended September 30, 2011 (Successor)

(Unaudited, in millions)	Parent	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Sales	**$ –**	**$808**	**$ 811**	**$(395)**	**$1,224**
Costs and expenses:					
Cost of sales, excluding depreciation, amortization and cost of timber harvested	**–**	**686**	**602**	**(395)**	**893**
Depreciation, amortization and cost of timber harvested	**–**	**22**	**33**	**–**	**55**
Distribution costs	**–**	**38**	**103**	**–**	**141**
Selling, general and administrative expenses	**18**	**22**	**5**	**–**	**45**
Closure costs, impairment and other related charges	**–**	**4**	**13**	**–**	**17**
Net (gain) loss on disposition of assets	**–**	**(1)**	**2**	**–**	**1**
Operating (loss) income	**(18)**	**37**	**53**	**–**	**72**
Interest expense	**(36)**	**(1)**	**(3)**	**21**	**(19)**
Other income (expense), net	**–**	**14**	**(61)**	**(21)**	**(68)**
Parent's equity in loss of subsidiaries	**(29)**	**–**	**–**	**29**	**–**
(Loss) income before income taxes	**(83)**	**50**	**(11)**	**29**	**(15)**
Income tax benefit (provision)	**39**	**(38)**	**(28)**	**–**	**(27)**
Net (loss) income including noncontrolling interests	**(44)**	**12**	**(39)**	**29**	**(42)**
Net income attributable to noncontrolling interests	**–**	**–**	**(2)**	**–**	**(2)**
Net (loss) income attributable to AbitibiBowater Inc.	**$ (44)**	**$ 12**	**$ (41)**	**$ 29**	**$ (44)**

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ABITIBIBOWATER INC.
Notes to Unaudited Interim Consolidated Financial Statements

CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS
For the Nine Months Ended September 30, 2011 (Successor)

(Unaudited, in millions)	Parent	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Sales	**$ –**	**$2,376**	**$2,364**	**$(1,131)**	**$3,609**
Costs and expenses:					
Cost of sales, excluding depreciation, amortization and cost of timber harvested	**–**	**2,025**	**1,832**	**(1,131)**	**2,726**
Depreciation, amortization and cost of timber harvested	**–**	**67**	**97**	**–**	**164**
Distribution costs	**–**	**118**	**297**	**–**	**415**
Selling, general and administrative expenses	**19**	**45**	**58**	**–**	**122**
Closure costs, impairment and other related charges	**–**	**18**	**16**	**–**	**34**
Net gain on disposition of assets	**–**	**(1)**	**(2)**	**–**	**(3)**
Operating (loss) income	**(19)**	**104**	**66**	**–**	**151**
Interest expense	**(118)**	**(6)**	**(16)**	**63**	**(77)**
Other income (expense), net	**12**	**53**	**(53)**	**(63)**	**(51)**
Parent's equity in income of subsidiaries	**152**	**–**	**–**	**(152)**	**–**
Income (loss) before income taxes	**27**	**151**	**(3)**	**(152)**	**23**
Income tax benefit (provision)	**20**	**17**	**(11)**	**–**	**26**
Net income (loss) including noncontrolling interests	**47**	**168**	**(14)**	**(152)**	**49**
Net income attributable to noncontrolling interests	**–**	**–**	**(2)**	**–**	**(2)**
Net income (loss) attributable to AbitibiBowater Inc.	**$ 47**	**$ 168**	**$ (16)**	**$ (152)**	**$ 47**

ABITIBIBOWATER INC.
Notes to Unaudited Interim Consolidated Financial Statements

CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS
For the Three Months Ended September 30, 2010 (Predecessor)

(Unaudited, in millions)	Parent	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Sales	$ –	$718	$ 842	$(368)	$1,192
Costs and expenses:					
Cost of sales, excluding depreciation, amortization and cost of timber harvested	–	609	651	(368)	892
Depreciation, amortization and cost of timber harvested	–	33	86	–	119
Distribution costs	–	34	99	–	133
Selling, general and administrative expenses	7	11	22	–	40
Closure costs, impairment and other related charges	–	–	(3)	–	(3)
Net gain on disposition of assets	–	(1)	–	–	(1)
Operating (loss) income	(7)	32	(13)	–	12
Interest expense	–	(20)	(80)	1	(99)
Other (expense) income, net	(1)	(6)	2	(1)	(6)
Parent's equity in loss of subsidiaries	–	–	–	–	–
(Loss) income before reorganization items and income taxes	(8)	6	(91)	–	(93)
Reorganization items, net	(15)	58	(774)	–	(731)
(Loss) income before income taxes	(23)	64	(865)	–	(824)
Income tax provision	–	(4)	(1)	–	(5)
Net (loss) income including noncontrolling interests	(23)	60	(866)	–	(829)
Net loss attributable to noncontrolling interests	–	–	–	–	–
Net (loss) income attributable to AbitibiBowater Inc.	$ (23)	$ 60	$(866)	$ –	$ (829)

ABITIBIBOWATER INC.
Notes to Unaudited Interim Consolidated Financial Statements

CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS
For the Nine Months Ended September 30, 2010 (Predecessor)

(Unaudited, in millions)	Parent	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Sales	$ –	$2,028	$ 2,486	$(1,040)	$ 3,474
Costs and expenses:					
Cost of sales, excluding depreciation, amortization and cost of timber harvested	–	1,770	2,028	(1,040)	2,758
Depreciation, amortization and cost of timber harvested	–	100	276	–	376
Distribution costs	–	100	311	–	411
Selling, general and administrative expenses	28	31	50	–	109
Closure costs, impairment and other related charges	–	2	3	–	5
Net gain on disposition of assets	–	(5)	(9)	–	(14)
Operating (loss) income	(28)	30	(173)	–	(171)
Interest expense	–	(86)	(334)	3	(417)
Other (expense) income, net	(1)	(13)	49	(3)	32
Parent's equity in loss of subsidiaries	–	–	–	–	–
Loss before reorganization items and income taxes	(29)	(69)	(458)	–	(556)
Reorganization items, net	(15)	27	(1,096)	–	(1,084)
Loss before income taxes	(44)	(42)	(1,554)	–	(1,640)
Income tax (provision) benefit	–	(3)	8	–	5
Net loss including noncontrolling interests	(44)	(45)	(1,546)	–	(1,635)
Net loss attributable to noncontrolling interests	–	–	9	–	9
Net loss attributable to AbitibiBowater Inc.	$(44)	$ (45)	$(1,537)	$ –	$(1,626)

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ABITIBIBOWATER INC.
Notes to Unaudited Interim Consolidated Financial Statements

CONDENSED CONSOLIDATING BALANCE SHEET
As of September 30, 2011 (Successor)

(Unaudited, in millions)	Parent	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Assets					
Current assets:					
Cash and cash equivalents	$ –	$ 143	$ 152	$ –	$ 295
Accounts receivable, net	–	390	489	–	879
Accounts receivable from affiliates	–	6	226	(232)	–
Inventories, net	–	139	331	–	470
Assets held for sale	–	37	4	–	41
Deferred income tax assets	–	30	16	–	46
Note and interest receivable from parent	–	925	–	(925)	–
Note receivable from affiliate	–	7	–	(7)	–
Other current assets	–	18	79	–	97
Total current assets	–	1,695	1,297	(1,164)	1,828
Fixed assets, net	–	922	1,563	–	2,485
Amortizable intangible assets, net	–	–	18	–	18
Deferred income tax assets	–	511	1,168	–	1,679
Note receivable from affiliate	–	3	–	(3)	–
Investments in and advances to consolidated subsidiaries	5,887	2,408	–	(8,295)	–
Other assets	–	27	159	113	299
Total assets	$ 5,887	$5,566	$4,205	$(9,349)	$6,309
Liabilities and equity					
Current liabilities:					
Accounts payable and accrued liabilities	$ 34	$ 168	$ 352	$ –	$ 554
Current portion of long-term debt	85	–	–	–	85
Liabilities associated with assets held for sale	–	6	–	–	6
Accounts payable to affiliates	165	–	–	(165)	–
Note and interest payable to a subsidiary	925	–	–	(925)	–
Note payable to affiliate	–	–	7	(7)	–
Total current liabilities	1,209	174	359	(1,097)	645
Long-term debt, net of current portion	627	–	–	–	627
Long-term debt due to affiliate	–	–	3	(3)	–
Pension and other postretirement projected benefit obligations	–	364	742	–	1,106
Deferred income tax liabilities	–	–	75	–	75
Other long-term liabilities	–	33	34	–	67
Total liabilities	1,836	571	1,213	(1,100)	2,520
Total equity	4,051	4,995	2,992	(8,249)	3,789
Total liabilities and equity	$ 5,887	$5,566	$4,205	$(9,349)	$6,309

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CONDENSED CONSOLIDATING BALANCE SHEET
As of December 31, 2010 (Successor)

(Unaudited, in millions)	Parent	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Assets					
Current assets:					
Cash and cash equivalents	$ –	$ 164	$ 155	$ –	$ 319
Accounts receivable	–	348	506	–	854
Accounts receivable from affiliates	40	–	287	(327)	–
Inventories	–	158	280	–	438
Assets held for sale	–	15	683	–	698
Deferred income tax assets	–	31	16	–	47
Note and interest receivable from parent	–	864	–	(864)	–
Note receivable from affiliate	–	10	–	(10)	–
Other current assets	–	25	63	–	88
Total current assets	40	1,615	1,990	(1,201)	2,444
Fixed assets	–	858	1,783	–	2,641
Amortizable intangible assets	–	–	19	–	19
Deferred income tax assets	–	439	1,297	–	1,736
Note receivable from affiliate	–	30	–	(30)	–
Investments in and advances to consolidated subsidiaries	5,977	2,933	–	(8,910)	–
Other assets	–	34	168	114	316
Total assets	$ 6,017	$5,909	$5,257	$(10,027)	$7,156
Liabilities and equity					
Current liabilities:					
Accounts payable and accrued liabilities	$ 26	$ 175	$ 367	$ –	$ 568
Accounts payable to affiliates	178	99	–	(277)	–
Note and interest payable to a subsidiary	864	–	–	(864)	–
Note payable to affiliate	–	–	10	(10)	–
Liabilities associated with assets held for sale	–	–	289	–	289
Total current liabilities	1,068	274	666	(1,151)	857
Long-term debt	905	–	–	–	905
Long-term debt due to affiliate	–	–	30	(30)	–
Pension and other postretirement projected benefit obligations	–	362	910	–	1,272
Deferred income tax liabilities	–	–	72	–	72
Other long-term liabilities	–	32	31	–	63
Total liabilities	1,973	668	1,709	(1,181)	3,169
Total equity	4,044	5,241	3,548	(8,846)	3,987
Total liabilities and equity	$ 6,017	$5,909	$5,257	$(10,027)	$7,156

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ABITIBIBOWATER INC.
Notes to Unaudited Interim Consolidated Financial Statements

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
For the Nine Months Ended September 30, 2011 (Successor)

(Unaudited, in millions)	Parent	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Net cash provided by (used in) operating activities	**$ –**	**$ 108**	**$ (93)**	**$ –**	**$ 15**
Cash flows from investing activities:					
Cash invested in fixed assets	**–**	**(21)**	**(34)**	**–**	**(55)**
Disposition of investment in ACH	**–**	**–**	**296**	**–**	**296**
Disposition of other assets	**–**	**11**	**8**	**–**	**19**
Proceeds from insurance settlements	**–**	**–**	**8**	**–**	**8**
Increase in restricted cash	**–**	**–**	**(2)**	**–**	**(2)**
Increase in deposit requirements for letters of credit, net	**–**	**–**	**(2)**	**–**	**(2)**
Advances from (to) affiliate	**–**	**150**	**(150)**	**–**	**–**
Net cash provided by investing activities	**–**	**140**	**124**	**–**	**264**
Cash flows from financing activities:					
Dividends and distribution to noncontrolling interests	**–**	**–**	**(19)**	**–**	**(19)**
Acquisition of noncontrolling interest	**–**	**–**	**(15)**	**–**	**(15)**
Payments of long-term debt	**–**	**(269)**	**–**	**–**	**(269)**
Net cash used in financing activities	**–**	**(269)**	**(34)**	**–**	**(303)**
Net decrease in cash and cash equivalents	**–**	**(21)**	**(3)**	**–**	**(24)**
Cash and cash equivalents:					
Beginning of period	**–**	**164**	**155**	**–**	**319**
End of period	**$ –**	**$ 143**	**$ 152**	**$ –**	**$ 295**

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
For the Nine Months Ended September 30, 2010 (Predecessor)

(Unaudited, in millions)	Parent	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Net cash provided by (used in) operating activities	$ –	$ 45	$ (30)	$ –	$ 15
Cash flows from investing activities:					
Cash invested in fixed assets	–	(11)	(31)	–	(42)
Disposition of assets	–	38	45	–	83
Increase in restricted cash	–	(33)	(52)	–	(85)
Collections on note receivable from affiliate	–	24	–	(24)	–
Increase in deposit requirements for letters of credit, net	–	–	(2)	–	(2)
Release of pension trust assets	–	8	–	–	8
Net cash provided by (used in) investing activities	–	26	(40)	(24)	(38)
Cash flows from financing activities:					
Decrease in secured borrowings, net	–	(21)	–	–	(21)
Debtor in possession financing costs	–	(6)	–	–	(6)
Payment of debtor in possession financing	–	(134)	(32)	–	(166)
Payments of note payable to affiliate	–	–	(24)	24	–
Net cash used in financing activities	–	(161)	(56)	24	(193)
Net decrease in cash and cash equivalents	–	(90)	(126)	–	(216)
Cash and cash equivalents:					
Beginning of period	–	418	338	–	756
End of period	$ –	$ 328	$ 212	$ –	$ 540

ABITIBIBOWATER INC.
Notes to Unaudited Interim Consolidated Financial Statements

Note 18. Subsequent Events

The following significant events occurred subsequent to September 30, 2011:

- As more fully discussed in Note 11, "Liquidity and Debt," on October 28, 2011, we entered into an amendment to the credit agreement that governs the ABL Credit Facility whereby, among other things, the maturity date of the ABL Credit Facility was extended to October 28, 2016, the interest rate margin applicable to borrowings under the ABL Credit Facility and the unutilized commitment fee were reduced and certain covenants were eased.
- As more fully discussed in Note 11, "Liquidity and Debt," on November 4, 2011, we redeemed an additional $85 million of principal amount of the 2018 Notes.

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. (with its subsidiaries and affiliates, either individually or collectively, unless otherwise indicated, referred to as "AbitibiBowater," "we," "our," "us" or the "Company") provides information that we believe is useful in understanding our results of operations, cash flows and financial condition for the three and nine months ended September 30, 2011. This 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").

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

Statements in this Quarterly Report on Form 10-Q ("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: efforts to continue to reduce costs and increase revenues and profitability, including our cost reduction initiatives regarding selling, general and administrative ("SG&A") expenses; business outlook; assessment of market conditions; liquidity outlook, prospects, growth strategies and the industry in which we operate; and strategies for achieving our goals generally, including the strategies described under "Business Strategy and Outlook" below. 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," "attempt," "project" and other terms with similar meaning indicating possible future events or potential impact on our business or AbitibiBowater's shareholders.

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. The potential risks and uncertainties that could cause our actual future financial condition, results of operations and performance to differ materially from those expressed or implied in this Form 10-Q are enumerated under Part I, Item 1A, "Risk Factors," of our Annual Report on Form 10-K for the year ended December 31, 2010, filed with the United States Securities and Exchange Commission (the "SEC") on April 5, 2011 (the "2010 Annual Report"). 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 Form 10-Q are expressly qualified by the cautionary statements contained or referred to in this section and in our other filings with the 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, except as required by law.

Market and industry data

Information about industry or general economic conditions contained in this 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.

Basis of Presentation

Effective upon the commencement of the Creditor Protection Proceedings (as defined below) on April 16 and 17, 2009 and through the Convenience Date (as defined below), we applied the guidance in Financial Accounting Standards Board Accounting Standards Codification 852, "Reorganizations" ("FASB ASC 852"), in preparing our consolidated financial statements. The guidance in FASB ASC 852 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, during the Creditor Protection Proceedings, we: (i) recorded certain expenses, charges and credits incurred or realized that were directly associated with or resulting from the reorganization and restructuring of the business in "Reorganization items, net" in our Consolidated Statements of Operations included in our Unaudited Interim Consolidated Financial Statements ("Consolidated Statements of Operations") and (ii) ceased recording interest expense on certain of our pre-petition debt obligations. For additional information, see "Emergence from Creditor Protection Proceedings" below and Note 11, "Liquidity and Debt," to our Unaudited Interim Consolidated Financial Statements.

ABITIBIBOWATER INC.

As further discussed below, on December 9, 2010, we emerged from the Creditor Protection Proceedings. In accordance with FASB ASC 852, fresh start accounting ("fresh start accounting") was required upon our emergence from the Creditor Protection Proceedings, which we applied effective December 31, 2010 (the "Convenience Date"). For additional information, see Item 1, "Business – Creditor Protection Proceedings – Basis of presentation – Upon Emergence from Creditor Protection Proceedings," included in our 2010 Annual Report.

The implementation of the Plans of Reorganization (as defined below) and the application of fresh start accounting materially changed the carrying amounts and classifications reported in our consolidated financial statements and resulted in the Company becoming a new entity for financial reporting purposes. Accordingly, our consolidated financial statements as of December 31, 2010 and for periods subsequent to December 31, 2010 are not comparable to our consolidated financial statements for periods prior to December 31, 2010. References to "Successor" or "Successor Company" refer to the Company on or after December 31, 2010, after giving effect to the implementation of the Plans of Reorganization and the application of fresh start accounting. References to "Predecessor" or "Predecessor Company" refer to the Company prior to December 31, 2010. Additionally, references to periods on or after December 31, 2010 refer to the Successor and references to periods prior to December 31, 2010 refer to the Predecessor.

Emergence from Creditor Protection Proceedings

AbitibiBowater Inc. and all but one of its debtor affiliates (as discussed below) successfully emerged from creditor protection proceedings under Chapter 11 of the United States Bankruptcy Code, as amended and the *Companies' Creditors Arrangement Act* (Canada) (the "CCAA"), as applicable (collectively, the "Creditor Protection Proceedings") on December 9, 2010 (the "Emergence Date"). In the third quarter of 2010, the creditors under the Creditor Protection Proceedings, with one exception, voted in the requisite numbers to approve the respective Plan of Reorganization (as defined below). Creditors of Bowater Canada Finance Corporation ("BCFC"), an indirect, wholly-owned subsidiary of ours, did not vote in the requisite numbers to approve the Plans of Reorganization. Accordingly, we did not seek sanction of the *CCAA Plan of Reorganization and Compromise* or confirmation of the *Debtors' Second Amended Joint Plan of Reorganization under Chapter 11 of the Bankruptcy Code* (collectively, the "Plans of Reorganization" and each, a "Plan of Reorganization") with respect to BCFC. See Item 3, "Legal Proceedings – BCFC Bankruptcy and Insolvency Act Filing," included in our 2010 Annual Report for information regarding BCFC's Bankruptcy and Insolvency Act filing on December 31, 2010. The Plans of Reorganization became effective on the Emergence Date.

From the 97,134,954 shares of Successor Company common stock issued for claims in the Creditor Protection Proceedings, we established a reserve of 23,382,073 shares for claims that remained in dispute as of the Emergence Date, from which we have made and will make supplemental interim distributions to unsecured creditors as disputed claims are resolved. As of October 31, 2011, there were 20,508,137 shares remaining in this reserve. The remaining claims are claims that we believe should be disallowed because they are duplicative, without merit, overstated or should be disallowed for other reasons. We have made significant progress to address the claims that remained in dispute at the time of our emergence from the substantial number and amount of claims filed during the Creditor Protection Proceedings. The majority of the remaining disputed claims will be disposed through ongoing litigation before the United States Bankruptcy Court for the District of Delaware (the "U.S. Court") or a claims officer appointed by the Superior Court of Quebec in Canada (the "Canadian Court" and, together with the U.S. Court, the "Courts"). The ultimate completion of the claims resolution process could therefore take some time to complete. We may be required to settle certain disputed claims in cash under certain specific circumstances. As such, as of September 30, 2011 and December 31, 2010, "Accounts payable and accrued liabilities" in our Consolidated Balance Sheets included in our Unaudited Interim Consolidated Financial Statements ("Consolidated Balance Sheets") included a liability of approximately $16 million and $35 million, respectively, for the estimated cash settlement of such claims. To the extent there are shares remaining after all disputed claims have been resolved, these shares will be reallocated ratably among unsecured creditors with allowed claims in the Creditor Protection Proceedings pursuant to the Plans of Reorganization.

Business Strategy and Outlook

We emerged from the Creditor Protection Proceedings with a more flexible, lower-cost operating platform and a more conservative capital structure. Through aggressive capacity reductions, we streamlined our asset base and the substantial majority of our remaining assets have a competitive cost structure. We reduced our debt levels from approximately $6.2 billion at the time of filing for creditor protection to approximately $905 million as of December 31, 2010 (excluding the long-term debt of ACH Limited Partnership ("ACH") of $280 million, which was included in "Liabilities associated with assets held for sale" in our Consolidated Balance Sheet as of December 31, 2010). We have substantially lowered our annual fixed costs, our debt service charges, as well as our SG&A expenses. We have also lowered overall manufacturing costs including significant reductions in salary and labor wages and costs.

During the first nine months of 2011, we experienced cost pressures as a result of inflation on our input costs, including higher energy and recycled fiber costs. We expect these cost pressures to continue in 2011; however, we also expect to mitigate some of the cost increases with actions to further lower manufacturing costs. Additionally, the Canadian dollar has a significant impact on the financial performance of our Canadian manufacturing sites. Based on our operating projections for 2011, a one-cent increase in the Canadian-U.S. dollar exchange rate is expected to decrease our annual operating income by approximately $22 million.

Business strategy

Our business strategy, which builds on the successful restructuring that began at the time of the merger that created the Company in 2007 and continued through the Creditor Protection Proceedings, is based on three core areas of focus: operational excellence, corporate initiatives and strategic opportunities.

Operational excellence

We plan to improve our performance and margins by: (i) leveraging our lower-cost position, (ii) continuing to prioritize further manufacturing cost reductions, (iii) capitalizing on our economical access to international ports through our network of mills located near deep sea ports to strengthen the export portion of our newsprint segment in growing markets such as Asia, Latin America and the Middle East and (iv) pursuing our strategy of not building inventory. We also regularly reevaluate our network of manufacturing assets and consider ways to further optimize our overall production and costs.

Corporate initiatives

Building on our aggressive focus on reducing manufacturing costs, we will continue our efforts to reduce overhead and spend our capital in a disciplined, strategic and focused manner, concentrated on the sites we believe are viable for the longer term. We significantly reduced our SG&A costs from $332 million in 2008 to $155 million in 2010 and have targeted further reductions in annual SG&A for 2011.

Reducing debt and the associated interest charges is one of our primary financial goals. We believe this would improve our financial flexibility and support the implementation of our strategic objectives. Including the redemption of an additional $85 million of principal amount of 2018 Notes (as defined under "Liquidity and Capital Resources") on November 4, 2011, we have redeemed over $350 million of debt using the proceeds from the sale of our interest in Ontario power generation assets (ACH) and cash on hand, as further discussed below under "Liquidity and Capital Resources."

Strategic opportunities

We believe there will be continued consolidation in the paper and forest products industry as we and our competitors continue to explore ways to increase efficiencies and diversify customer offerings. We will take an opportunistic approach to strategic opportunities that reduce our cost position even further, improve our product diversification or expand into future growth markets.

Plans of Reorganization

As a result of the implementation of the Plans of Reorganization and the application of fresh start accounting, as well as other actions taken during the Creditor Protection Proceedings, the consolidated financial statements of the Successor Company are not comparable to the consolidated financial statements of the Predecessor Company. Beginning with the first quarter of 2011, the consolidated statements of operations of the Successor Company are and will continue to be significantly different from the Predecessor Company due to, among other things, the following:

- higher cost of sales, excluding depreciation, amortization and cost of timber harvested, as a result of the increase in the carrying value of finished goods inventory as of December 31, 2010 to reflect fair value, which increased cost of sales, excluding depreciation, amortization and cost of timber harvested, in the first quarter of 2011 as the inventory was sold;

- lower depreciation, amortization and cost of timber harvested as a result of the rationalization of facilities, sale of assets, reductions in the carrying values of fixed assets and amortizable intangible assets to reflect fair values and updated useful lives of fixed assets and amortizable intangible assets;
- lower labor and salary costs as a result of the implementation of our new labor agreements (costs of sales, excluding depreciation, amortization and cost of timber harvested) and salary reductions at the corporate level (SG&A expenses);
- significantly lower interest expense as a result of the settlement or extinguishment of the Predecessor Company's secured and unsecured debt obligations, partially offset by interest expense on our exit financing;
- the Predecessor Company's consolidated statements of operations included significant costs for reorganization items, which were directly associated with or resulted from the reorganization and restructuring of the business. In 2011, we have incurred and will continue to incur costs associated with the finalization of outstanding restructuring and reorganization matters, primarily for the resolution and settlement of disputed creditor claims. These post-emergence costs are recorded in "Other (expense) income, net" in the Successor Company's consolidated statements of operations; and
- income taxes are no longer impacted by the valuation allowances established on substantially all of the Predecessor Company's deferred income tax assets. Such valuation allowances were reversed in connection with the implementation of the Plans of Reorganization. We established approximately $1,783 million of deferred income tax assets as of December 31, 2010, which were reduced by $474 million of valuation allowances. As a result, we do not expect to pay significant cash taxes until these deferred income tax assets are fully utilized.

Business and Financial Review

Overview

Through our subsidiaries, we manufacture newsprint, coated and specialty papers, market pulp and wood products. We operate pulp and paper manufacturing facilities in Canada, the United States and South Korea, as well as wood products manufacturing facilities and hydroelectric facilities in Canada.

As discussed further below, newsprint, coated papers and specialty papers (particularly lightweight and directory grades) experienced a decrease in North American demand in the first nine months of 2011 compared to the same period of 2010. Global shipments of market pulp increased during the first nine months of 2011 compared to the same period of 2010, primarily due to increased Chinese demand. Our wood products segment continues to be impacted by low demand due to a weak U.S. housing market.

As discussed above, due to the implementation of the Plans of Reorganization and the application of fresh start accounting, as well as other actions taken during the Creditor Protection Proceedings, the operating results and financial condition of the Successor Company are not comparable to the operating results and financial condition of the Predecessor Company.

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ABITIBIBOWATER INC.

Consolidated Results of Operations

	Three Months Ended September 30,			Nine Months Ended September 30,		
	Successor	Predecessor		**Successor**	Predecessor	
(Unaudited, in millions, except per share amounts)	**2011**	2010	**Change**	**2011**	2010	**Change**
Sales	**$ 1,224**	$ 1,192	**$ 32**	**$ 3,609**	$ 3,474	**$ 135**
Operating income (loss)	**72**	12	**60**	**151**	(171)	**322**
Net (loss) income attributable to AbitibiBowater Inc.	**(44)**	(829)	**785**	**47**	(1,626)	**1,673**
Net (loss) income per share attributable to AbitibiBowater Inc. – basic	**(0.46)**	(14.35)	**13.89**	**0.48**	(28.18)	**28.66**
Net (loss) income per share attributable to AbitibiBowater Inc. – diluted	**(0.46)**	(14.35)	**13.89**	**0.48**	(28.18)	**28.66**
Significant items that favorably (unfavorably) impacted operating income (loss):						
Product pricing			**$ 72**			**$ 285**
Shipments			**(40)**			**(150)**
Change in sales			**32**			**135**
Change in cost of sales, excluding depreciation, amortization and cost of timber harvested			**(1)**			**32**
Change in depreciation, amortization and cost of timber harvested			**64**			**212**
Change in distribution costs			**(8)**			**(4)**
Change in selling, general and administrative expenses			**(5)**			**(13)**
Change in closure costs, impairment and other related charges			**(20)**			**(29)**
Change in net loss (gain) on disposition of assets			**(2)**			**(11)**
			$ 60			**$ 322**

Three months ended September 30, 2011 versus September 30, 2010

Sales

Sales increased $32 million, or 2.7%, from $1,192 million in the third quarter of 2010 to $1,224 million in the third quarter of 2011. The increase was primarily due to higher transaction prices for newsprint, coated papers, specialty papers and wood products and higher shipments for newsprint and wood products, partially offset by lower transaction prices for market pulp and lower shipments for coated papers and specialty papers. The impact of each of these items is discussed further below under "Segment Results of Operations."

Operating income (loss)

Operating income (loss) increased $60 million to $72 million in the third quarter of 2011 compared to $12 million in the third quarter of 2010. The above table presents the major items that impacted operating income (loss). A brief explanation of these major items follows.

Cost of sales, excluding depreciation, amortization and cost of timber harvested, increased $1 million in the third quarter of 2011 compared to the third quarter of 2010, primarily due to a significantly unfavorable currency exchange ($26 million, primarily due to the Canadian dollar), higher volumes ($2 million) and higher costs for wood and fiber ($10 million), energy ($7 million) and chemicals ($8 million). These higher costs were partially offset by lower costs for fuel ($6 million), labor and benefits ($14 million), maintenance ($13 million) and other favorable cost variances. As discussed above, cost of sales, excluding depreciation, amortization and cost of timber harvested, in the third quarter of 2011 was favorably impacted by lower costs for labor and benefits as a result of actions taken during the Creditor Protection Proceedings.

Depreciation, amortization and cost of timber harvested decreased $64 million in the third quarter of 2011 compared to the third quarter of 2010, primarily as a result of actions taken during the Creditor Protection Proceedings and the application of fresh start accounting, as discussed above.

Distribution costs increased $8 million in the third quarter of 2011 compared to the third quarter of 2010 due to higher distribution costs per ton, partially offset by lower shipment volumes.

Selling, general and administrative costs increased $5 million in the third quarter of 2011 compared to the third quarter of 2010, primarily due to approximately $5 million of corporate employee termination costs recorded in the third quarter of 2011.

We recorded $17 million of closure costs, impairment and other related charges in the third quarter of 2011 compared to a net credit of $3 million in the third quarter of 2010. We recorded a net loss on disposition of assets of $1 million in the third quarter of 2011 compared to a net gain of $1 million in the third quarter of 2010. For additional information, see "Segment Results of Operations – Corporate and Other" below.

Net (loss) income attributable to AbitibiBowater Inc.

Net (loss) income attributable to AbitibiBowater Inc. in the third quarter of 2011 was $44 million of net loss, or $0.46 per diluted common share, an improvement of $785 million, or $13.89 per diluted common share, compared to $829 million of net loss, or $14.35 per diluted common share, in the third quarter of 2010. The improvement was due to the improvement in operating income (loss), as discussed above, as well as decreases in interest expense and reorganization items, net, as discussed below, partially offset by an increase in other expense (primarily foreign exchange), net and an increase in the income tax provision, as discussed below.

Nine months ended September 30, 2011 versus September 30, 2010

Sales

Sales increased $135 million, or 3.9%, from $3,474 million in the first nine months of 2010 to $3,609 million in the same period of 2011. The increase was primarily due to higher transaction prices for newsprint, coated papers, specialty papers and market pulp and higher shipments for wood products, partially offset by lower transaction prices for wood products and lower shipments for newsprint, coated papers, specialty papers and market pulp. The impact of each of these items is discussed further below under "Segment Results of Operations."

Operating income (loss)

Operating income (loss) improved $322 million to operating income of $151 million in the first nine months of 2011 compared to an operating loss of $171 million in the same period of 2010. The above table presents the major items that impacted operating income (loss). A brief explanation of these major items follows.

Cost of sales, excluding depreciation, amortization and cost of timber harvested, decreased $32 million in the first nine months of 2011 compared to the same period of 2010, primarily due to lower volumes ($151 million) and lower costs for fuel ($6 million), labor and benefits ($50 million) and maintenance ($12 million). These lower costs were partially offset by a significantly unfavorable currency exchange ($97 million, primarily due to the Canadian dollar) and higher costs for wood and fiber ($33 million), energy ($28 million), chemicals ($19 million) and other unfavorable cost variances. As discussed above, cost of sales, excluding depreciation, amortization and cost of timber harvested, in the first quarter of 2011 was unfavorably impacted by the increase in the carrying value of finished goods inventory as of December 31, 2010 to reflect fair value pursuant to fresh start accounting. In addition, as discussed above, such costs in the first nine months of 2011 were favorably impacted by lower costs for labor and benefits as a result of actions taken during the Creditor Protection Proceedings. Additionally, in the second quarter of 2011, we were approved for entry in the Northern Industrial Electricity Rate Program ("NIER Program") in which we will earn rebates on electricity purchased and consumed by our paper mills in the province of Ontario from April 1, 2010 through March 31, 2013. During the second quarter of 2011, we recorded a rebate of approximately $19 million, of which approximately $14 million represented a retroactive rebate from April 1, 2010 through the first quarter of 2011.

Depreciation, amortization and cost of timber harvested decreased $212 million in the first nine months of 2011 compared to the same period of 2010, primarily as a result of actions taken during the Creditor Protection Proceedings and the application of fresh start accounting, as discussed above.

Distribution costs increased $4 million in the first nine months of 2011 compared to the same period of 2010 due to higher distribution costs per ton, partially offset by lower shipment volumes.

Selling, general and administrative costs increased $13 million in the first nine months of 2011 compared to the same period of 2010, primarily due to the reversal of a $17 million bonus accrual in the first quarter of 2010, as well as approximately $12 million of corporate employee termination costs recorded in the first nine months of 2011, partially offset by our continued cost reduction initiatives, including salary reductions at the corporate level, as discussed above.

We recorded $34 million of closure costs, impairment and other related charges in the first nine months of 2011 compared to $5 million in the same period of 2010. We recorded a net gain on disposition of assets of $3 million in the first nine months of 2011 compared to $14 million in the same period of 2010. For additional information, see "Segment Results of Operations – Corporate and Other" below.

Net (loss) income attributable to AbitibiBowater Inc.

Net (loss) income attributable to AbitibiBowater Inc. in the first nine months of 2011 was $47 million of net income, or $0.48 per diluted common share, an improvement of $1,673 million, or $28.66 per diluted common share, compared to $1,626 million of net loss, or $28.18 per diluted common share, in the same period of 2010. The improvement was due to the improvement in operating income (loss), as discussed above, as well as decreases in interest expense and reorganization items, net and an increase in the income tax benefit, all of which are discussed below, partially offset by a decrease in other income (primarily foreign exchange), as discussed below.

Non-operating items – three and nine months ended September 30, 2011 versus September 30, 2010

Interest expense

Interest expense decreased $80 million from $99 million in the third quarter of 2010 to $19 million in the third quarter of 2011. Interest expense decreased $340 million from $417 million in the first nine months of 2010 to $77 million in the same period of 2011. These decreases were primarily due to significantly lower debt levels in connection with our emergence from the Creditor Protection Proceedings. Additionally, interest expense in the first nine months of 2010 included a first quarter cumulative adjustment of $43 million to increase the accrued interest on the unsecured U.S. dollar denominated debt obligations of the CCAA filers to a fixed exchange rate.

Other (expense) income, net

Other expense, net in the third quarter of 2011 was $68 million and was primarily comprised of foreign currency exchange losses ($60 million) and costs for the resolution and settlement of disputed creditor claims and other post-emergence activities ($13 million). Other expense, net in the first nine months of 2011 was $51 million and was primarily comprised of foreign currency exchange losses ($30 million) and costs for the resolution and settlement of disputed creditor claims and other post-emergence activities ($35 million), partially offset by a gain on extinguishment of debt ($4 million). Other expense, net in the third quarter of 2010 was $6 million and was primarily comprised of foreign currency exchange losses. Other income, net in the first nine months of 2010 was $32 million and was primarily comprised of foreign currency exchange gains.

Reorganization items, net

In the third quarter and first nine months of 2010, pursuant to FASB ASC 852, we recorded reorganization items, net of $731 million and $1,084 million, respectively, for certain expenses, provisions for losses and other charges and credits directly associated with or resulting from the reorganization and restructuring of the business that were realized or incurred in the Creditor Protection Proceedings. For additional information, see Note 2, "Creditor Protection Proceedings – Events prior to emergence from Creditor Protection Proceedings – Reorganization items, net," to our Unaudited Interim Consolidated Financial Statements.

Income tax (provision) benefit

In the third quarter of 2011, an income tax provision of $27 million was recorded on a loss before income taxes of $15 million, resulting in an effective tax rate of (180)%. The income tax provision on a loss before income taxes was primarily affected by a loss on the translation of Canadian dollar net monetary assets for which no tax benefit was recorded and taxes on foreign currency translation gains, both relating to our principal Canadian operating subsidiary. In the first nine months of 2011, an income tax benefit of $26 million was recorded on income before income taxes of $23 million, resulting in an effective tax rate of (113)%. The income tax benefit on income before income taxes was primarily affected by a tax reserve adjustment and certain deferred tax adjustments, partially offset by the tax treatment of our foreign currency translation gains and losses relating to our principal Canadian operating subsidiary. For additional information, see Note 13, "Income Taxes," to our Unaudited Interim Consolidated Financial Statements. Our effective tax rate in the third quarter of 2010 was 1%, resulting from the recording of a tax provision of $5 million on a loss before income taxes of $824 million. Our effective tax rate in the first nine months of 2010 was less than 1%, resulting from the recording of a tax benefit of $5 million on a loss before income taxes of $1,640 million. In the third quarter and first nine months of 2010, income tax benefits of approximately $173 million and $384 million, respectively, generated on the majority of our losses in these periods were entirely offset by tax charges to increase our valuation allowance related to these tax benefits.

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 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.

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. None of the income or loss items following "Operating income (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 (loss) gain on disposition of assets and other discretionary charges or credits are not allocated to our segments. Additionally, beginning in 2011, all SG&A expenses, excluding employee termination costs, are allocated to our segments. Share-based compensation expense and depreciation expense are also allocated to our segments. For additional information regarding our segments, see Note 16, "Segment Information," to our Unaudited Interim Consolidated Financial Statements.

As discussed above, due to the implementation of the Plans of Reorganization and the application of fresh start accounting, the operating results of the Successor Company are not comparable to the operating results of the Predecessor Company. To the extent that the items discussed above under "Plans of Reorganization" are allocated to our segments, the results of operations in the third quarter and first nine months of 2011 for all of our segments were impacted by the actions taken during the Creditor Protection Proceedings, the implementation of the Plans of Reorganization and the application of fresh start accounting. Additionally, the results of operations in the third quarter and first nine months of 2011 for all of our segments were impacted by the allocation of SG&A expenses, excluding employee termination costs, to our segments, as discussed above.

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Newsprint

	Three Months Ended September 30,			Nine Months Ended September 30,		
	Successor	Predecessor		**Successor**	Predecessor	
	2011	2010	**Change**	**2011**	2010	**Change**
Average price (per metric ton)	**$ 663**	$ 619	**$ 44**	**$ 660**	$ 585	**$ 75**
Average cost (per metric ton)	**$ 638**	$ 631	**$ 7**	**$ 629**	$ 656	**$ (27)**
Shipments (thousands of metric tons)	**706**	694	**12**	**2,059**	2,252	**(193)**
Downtime (thousands of metric tons)	**13**	207	**(194)**	**66**	727	**(661)**
Inventory at end of period (thousands of metric tons)	**81**	109	**(28)**	**81**	109	**(28)**
(Unaudited, in millions)						
Segment sales	**$ 468**	$ 429	**$ 39**	**$ 1,359**	$ 1,318	**$ 41**
Segment operating income (loss)	**18**	(8)	**26**	**63**	(159)	**222**
Significant items that favorably (unfavorably) impacted segment operating income (loss):						
Product pricing			**$ 31**			**$ 168**
Shipments			**8**			**(127)**
Change in sales			**39**			**41**
Change in cost of sales, excluding depreciation, amortization and cost of timber harvested			**(35)**			**71**
Change in depreciation, amortization and cost of timber harvested			**33**			**118**
Change in distribution costs			**(3)**			**10**
Change in selling, general and administrative expenses			**(8)**			**(18)**
			$ 26			**$ 222**

Three months ended September 30, 2011 versus September 30, 2010

Segment sales increased $39 million, or 9.1%, from $429 million in the third quarter of 2010 to $468 million in the third quarter of 2011 due to higher transaction prices and higher shipment volumes. Shipments in the third quarter of 2011 increased 12,000 metric tons, or 1.7%, compared to the third quarter of 2010.

Segment operating income (loss) improved $26 million to operating income of $18 million in the third quarter of 2011 compared to an operating loss of $8 million in the third quarter of 2010. The above table presents the items that impacted segment operating income (loss). A brief explanation of the major items follows.

Segment cost of sales, excluding depreciation, amortization and cost of timber harvested, increased $35 million in the third quarter of 2011 compared to the third quarter of 2010, primarily due to an unfavorable currency exchange ($13 million, primarily due to the Canadian dollar), higher volumes ($8 million) and higher costs for wood and fiber ($6 million), energy ($9 million) and other unfavorable cost variances, partially offset by lower costs for fuel ($1 million), labor and benefits ($3 million) and maintenance ($1 million).

Segment depreciation, amortization and cost of timber harvested decreased $33 million in the third quarter of 2011 compared to the third quarter of 2010, primarily as a result of actions taken during the Creditor Protection Proceedings and the application of fresh start accounting, as discussed above.

Segment distribution costs increased $3 million in the third quarter of 2011 compared to the third quarter of 2010 due to higher distribution costs per ton and higher shipment volumes.

Nine months ended September 30, 2011 versus September 30, 2010

Segment sales increased $41 million, or 3.1%, from $1,318 million in the first nine months of 2010 to $1,359 million in the same period of 2011 due to higher transaction prices, partially offset by lower shipment volumes. Shipments in the first nine months of 2011 decreased 193,000 metric tons, or 8.6%, compared to the same period of 2010.

Downtime at our facilities was significantly lower in the first nine months of 2011 compared to the same period of 2010 due to capacity reductions.

Segment operating income (loss) improved $222 million to operating income of $63 million in the first nine months of 2011 compared to an operating loss of $159 million in the same period of 2010. The above table presents the items that impacted segment operating income (loss). A brief explanation of the major items follows.

Segment cost of sales, excluding depreciation, amortization and cost of timber harvested, decreased $71 million in the first nine months of 2011 compared to the same period of 2010, primarily due to lower volumes ($115 million) and lower costs for labor and benefits ($12 million) and other favorable cost variances, partially offset by an unfavorable currency exchange ($39 million, primarily due to the Canadian dollar) and higher costs for wood and fiber ($16 million), energy ($11 million), fuel ($1 million), chemicals ($2 million) and maintenance ($1 million). In addition, as discussed above, such costs in the first nine months of 2011 were favorably impacted by approximately $9 million for the NIER Program retroactive rebate recorded in the second quarter of 2011.

Segment depreciation, amortization and cost of timber harvested decreased $118 million in the first nine months of 2011 compared to the same period of 2010, primarily as a result of actions taken during the Creditor Protection Proceedings and the application of fresh start accounting, as discussed above.

Segment distribution costs decreased $10 million in the first nine months of 2011 compared to the same period of 2010 due to lower shipment volumes, partially offset by higher distribution costs per ton.

Newsprint Third-Party Data: In the first nine months of 2011, North American newsprint demand declined 6.8% compared to the same period of 2010. In the first nine months of 2011, North American net exports of newsprint were 0.3% lower than the same period of 2010. Inventories for North American mills as of September 30, 2011 were 191,000 metric tons, which is 16.6% lower than as of September 30, 2010. The North American operating rate for newsprint was 92% in both the first nine months of 2011 and 2010.

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Coated Papers

	Three Months Ended September 30,			Nine Months Ended September 30,		
	Successor	Predecessor		**Successor**	Predecessor	
	2011	2010	**Change**	**2011**	2010	**Change**
Average price (per short ton)	**$ 837**	$ 733	**$ 104**	**$ 818**	$ 696	**$ 122**
Average cost (per short ton)	**$ 730**	$ 661	**$ 69**	**$ 730**	$ 668	**$ 62**
Shipments (thousands of short tons)	**167**	175	**(8)**	**497**	500	**(3)**
Downtime (thousands of short tons)	**–**	–	**–**	**2**	10	**(8)**
Inventory at end of period (thousands of short tons)	**31**	23	**8**	**31**	23	**8**
(Unaudited, in millions)						
Segment sales	**$ 140**	$ 128	**$ 12**	**$ 406**	$ 348	**$ 58**
Segment operating income	**18**	13	**5**	**44**	14	**30**

	Three Months Change	Nine Months Change
Significant items that favorably (unfavorably) impacted segment operating income:		
Product pricing	**$ 17**	**$ 60**
Shipments	**(5)**	**(2)**
Change in sales	**12**	**58**
Change in cost of sales, excluding depreciation, amortization and cost of timber harvested	**(4)**	**(17)**
Change in depreciation, amortization and cost of timber harvested	**(1)**	**(4)**
Change in selling, general and administrative expenses	**(2)**	**(7)**
	$ 5	**$ 30**

Three months ended September 30, 2011 versus September 30, 2010

Segment sales increased $12 million, or 9.4%, from $128 million in the third quarter of 2010 to $140 million in the third quarter of 2011 due to higher transaction prices, partially offset by lower shipment volumes.

Segment operating income increased $5 million to $18 million in the third quarter of 2011 compared to $13 million in the third quarter of 2010. The above table presents the items that impacted segment operating income. A brief explanation of the major items follows.

Segment cost of sales, excluding depreciation, amortization and cost of timber harvested, increased $4 million in the third quarter of 2011 compared to the third quarter of 2010, primarily due to higher costs for wood and fiber ($2 million), energy ($2 million), chemicals ($9 million) and other unfavorable cost variances, partially offset by lower volumes ($8 million) and lower costs for fuel ($1 million) and labor and benefits ($1 million).

Nine months ended September 30, 2011 versus September 30, 2010

Segment sales increased $58 million, or 16.7%, from $348 million in the first nine months of 2010 to $406 million in the same period of 2011 due to higher transaction prices, partially offset by lower shipment volumes.

Segment operating income increased $30 million to $44 million in the first nine months of 2011 compared to $14 million in the same period of 2010. The above table presents the items that impacted segment operating income. A brief explanation of the major items follows.

Segment cost of sales, excluding depreciation, amortization and cost of timber harvested, increased $17 million in the first nine months of 2011 compared to the same period of 2010, primarily due to higher costs for wood and fiber ($5 million), energy ($4 million), fuel ($1 million), chemicals ($17 million), maintenance ($2 million) and other unfavorable cost variances, partially offset by lower volumes ($13 million) and lower costs for labor and benefits ($1 million).

Coated Papers Third-Party Data: North American demand for coated mechanical papers decreased 8.6% in the first nine months of 2011 compared to the same period of 2010. The North American operating rate for coated mechanical papers was 89% in the first nine months of 2011 compared to 88% in the same period of 2010. North American coated mechanical mill inventories were at 21 days of supply as of September 30, 2011 compared to 12 days of supply as of September 30, 2010.

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Specialty Papers

	Three Months Ended September 30,			Nine Months Ended September 30,		
	Successor	Predecessor		**Successor**	Predecessor	
	2011	2010	**Change**	**2011**	2010	**Change**
Average price (per short ton)	**$ 747**	$ 687	**$ 60**	**$ 722**	$ 682	**$ 40**
Average cost (per short ton)	**$ 682**	$ 698	**$ (16)**	**$ 693**	$ 709	**$ (16)**
Shipments (thousands of short tons)	**422**	505	**(83)**	**1,337**	1,429	**(92)**
Downtime (thousands of short tons)	**7**	11	**(4)**	**65**	91	**(26)**
Inventory at end of period (thousands of short tons)	**82**	90	**(8)**	**82**	90	**(8)**
(Unaudited, in millions)						
Segment sales	**$ 316**	$ 347	**$ (31)**	**$ 966**	$ 975	**$ (9)**
Segment operating income (loss)	**27**	(6)	**33**	**38**	(39)	**77**
Significant items that favorably (unfavorably) impacted segment operating income (loss):						
Product pricing			**$ 29**			**$ 57**
Shipments			**(60)**			**(66)**
Change in sales			**(31)**			**(9)**
Change in cost of sales, excluding depreciation, amortization and cost of timber harvested			**48**			**43**
Change in depreciation, amortization and cost of timber harvested			**19**			**58**
Change in distribution costs			**2**			**2**
Change in selling, general and administrative expenses			**(5)**			**(17)**
			$ 33			**$ 77**

Three months ended September 30, 2011 versus September 30, 2010

Segment sales decreased $31 million, or 8.9%, from $347 million in the third quarter of 2010 to $316 million in the third quarter of 2011 due to lower shipment volumes, partially offset by higher transaction prices.

Segment operating income (loss) improved $33 million to operating income of $27 million in the third quarter of 2011 compared to an operating loss of $6 million in the third quarter of 2010. The above table presents the items that impacted segment operating income (loss). A brief explanation of the major items follows.

Segment cost of sales, excluding depreciation, amortization and cost of timber harvested, decreased $48 million in the third quarter of 2011 compared to the third quarter of 2010, primarily due to lower volumes ($41 million) and lower costs for energy ($4 million), fuel ($5 million), labor and benefits ($5 million), maintenance ($1 million) and other favorable cost variances, partially offset by an unfavorable Canadian dollar currency exchange ($10 million).

Segment depreciation, amortization and cost of timber harvested decreased $19 million in the third quarter of 2011 compared to the third quarter of 2010, primarily as a result of actions taken during the Creditor Protection Proceedings and the application of fresh start accounting, as discussed above.

Nine months ended September 30, 2011 versus September 30, 2010

Segment sales decreased $9 million, or 0.9%, from $975 million in the first nine months of 2010 to $966 million in the same period of 2011 due to lower shipment volumes, partially offset by higher transaction prices.

Downtime at our facilities was significantly lower in the first nine months of 2011 compared to the same period of 2010 due to capacity reductions.

Segment operating income (loss) improved $77 million to operating income of $38 million in the first nine months of 2011 compared to an operating loss of $39 million in the same period of 2010. The above table presents the items that impacted segment operating income (loss). A brief explanation of the major items follows.

Segment cost of sales, excluding depreciation, amortization and cost of timber harvested, decreased $43 million in the first nine months of 2011 compared to the same period of 2010, primarily due to lower volumes ($73 million) and lower costs for fuel ($8 million), chemicals ($1 million), labor and benefits ($6 million), maintenance ($1 million) and other favorable cost variances. These lower costs were partially offset by an unfavorable Canadian dollar currency exchange ($31 million) and higher costs for wood and fiber ($7 million) and energy ($9 million). In addition, as discussed above, such costs in the first nine months of 2011 were favorably impacted by approximately $3 million for the NIER Program retroactive rebate recorded in the second quarter of 2011.

Segment depreciation, amortization and cost of timber harvested decreased $58 million in the first nine months of 2011 compared to the same period of 2010, primarily as a result of actions taken during the Creditor Protection Proceedings and the application of fresh start accounting, as discussed above.

Specialty Papers Third-Party Data: In the first nine months of 2011 compared to the same period of 2010, North American demand for supercalendered high gloss papers was unchanged, for lightweight and directory grades was down 20.2%, for standard uncoated mechanical papers was down 7.2% and in total for all specialty papers was down 5.8%. The North American operating rate for all specialty papers was 89% in both the first nine months of 2011 and 2010. North American uncoated mechanical mill inventories were at 16 days of supply as of September 30, 2011 compared to 15 days of supply as of September 30, 2010.

Market Pulp

	Three Months Ended September 30,			Nine Months Ended September 30,		
	Successor	Predecessor		**Successor**	Predecessor	
	2011	2010	**Change**	**2011**	2010	**Change**
Average price (per metric ton)	**$ 741**	$ 776	**$ (35)**	**$ 747**	$ 738	**$ 9**
Average cost (per metric ton)	**$ 587**	$ 546	**$ 41**	**$ 642**	$ 608	**$ 34**
Shipments (thousands of metric tons)	**236**	236	**–**	**698**	702	**(4)**
Downtime (thousands of metric tons)	**2**	1	**1**	**40**	46	**(6)**
Inventory at end of period (thousands of metric tons)	**79**	70	**9**	**79**	70	**9**
(Unaudited, in millions)						
Segment sales	**$ 175**	$ 184	**$ (9)**	**$ 522**	$ 519	**$ 3**
Segment operating income	**36**	55	**(19)**	**73**	92	**(19)**
Significant items that (unfavorably) favorably impacted segment operating income:						
Product pricing			**$ (9)**			**$ 6**
Shipments			**–**			**(3)**
Change in sales			**(9)**			**3**
Change in cost of sales, excluding depreciation, amortization and cost of timber harvested			**(8)**			**(19)**
Change in depreciation, amortization and cost of timber harvested			**5**			**15**
Change in distribution costs			**(2)**			**(4)**
Change in selling, general and administrative expenses			**(5)**			**(14)**
			$ (19)			**$ (19)**

Three months ended September 30, 2011 versus September 30, 2010

Segment sales decreased $9 million, or 4.9%, from $184 million in the third quarter of 2010 to $175 million in the third quarter of 2011 due to lower transaction prices.

Segment operating income decreased $19 million to $36 million in the third quarter of 2011 compared to $55 million in the third quarter of 2010. The above table presents the items that impacted segment operating income. A brief explanation of the major items follows.

Segment cost of sales, excluding depreciation, amortization and cost of timber harvested, increased $8 million in the third quarter of 2011 compared to the third quarter of 2010, primarily due to an unfavorable Canadian dollar currency exchange ($4 million), higher volumes ($4 million) and higher costs for energy ($1 million) and fuel ($1 million). These higher costs were offset by lower costs for wood and fiber ($1 million) and chemicals ($1 million).

Segment depreciation, amortization and cost of timber harvested decreased $5 million in the third quarter of 2011 compared to the third quarter of 2010, primarily as a result of actions taken during the Creditor Protection Proceedings and the application of fresh start accounting, as discussed above.

Nine months ended September 30, 2011 versus September 30, 2010

Segment sales increased $3 million, or 0.6%, from $519 million in the first nine months of 2010 to $522 million in the same period of 2011 due to slightly higher transaction prices, partially offset by slightly lower shipment volumes.

Segment operating income decreased $19 million to $73 million in the first nine months of 2011 compared to $92 million in the first nine months of 2010. The above table presents the items that impacted segment operating income. A brief explanation of the major items follows.

Segment cost of sales, excluding depreciation, amortization and cost of timber harvested, increased $19 million in the first nine months of 2011 compared to the same period of 2010, primarily due to an unfavorable Canadian dollar currency exchange ($11 million), higher volumes ($8 million) and higher costs for energy ($4 million), chemicals ($2 million) and other unfavorable cost variances. These higher costs were offset by lower costs for wood and fiber ($4 million), fuel ($1 million) and labor and benefits ($3 million). In addition, as discussed above, such costs in the first nine months of 2011 were favorably impacted by approximately $2 million for the NIER Program retroactive rebate recorded in the second quarter of 2011.

Segment depreciation, amortization and cost of timber harvested decreased $15 million in the first nine months of 2011 compared to the same period of 2010, primarily as a result of actions taken during the Creditor Protection Proceedings and the application of fresh start accounting, as discussed above.

Market Pulp Third-Party Data: World shipments for market pulp increased 4.7% in the first nine months of 2011 compared to the same period of 2010. Shipments were down 1.7% in Western Europe (the world's largest pulp market), down 2.7% in North America, up 36.7% in China, down 2.7% in Latin America and up 0.7% in Africa and Asia (excluding China and Japan). World market pulp producers shipped at 90% of capacity in the first nine months of 2011 compared to 91% in the same period of 2010. World market pulp producer inventories of softwood and hardwood grades were at 32 days and 44 days, respectively, of supply as of September 30, 2011 compared to 27 days and 38 days, respectively, of supply as of September 30, 2010. World market pulp producer inventories of all grades were at 38 days of supply as of September 30, 2011 compared to 32 days of supply as of September 30, 2010.

Wood Products

	Three Months Ended September 30,			Nine Months Ended September 30,		
	Successor	Predecessor		**Successor**	Predecessor	
	2011	2010	**Change**	**2011**	2010	**Change**
Average price (per thousand board feet)	**$ 298**	$ 289	**$ 9**	**$ 299**	$ 306	**$ (7)**
Average cost (per thousand board feet)	**$ 305**	$ 291	**$ 14**	**$ 316**	$ 301	**$ 15**
Shipments (millions of board feet)	**417**	363	**54**	**1,189**	1,028	**161**
Downtime (millions of board feet)	**157**	154	**3**	**400**	799	**(399)**
Inventory at end of period (millions of board feet)	**137**	133	**4**	**137**	133	**4**
(Unaudited, in millions)						
Segment sales	**$ 125**	$ 104	**$ 21**	**$ 356**	$ 314	**$ 42**
Segment operating (loss) income	**(3)**	(1)	**(2)**	**(20)**	4	**(24)**
Significant items that favorably (unfavorably) impacted segment operating (loss) income:						
Product pricing			**$ 4**			**$ (6)**
Shipments			**17**			**48**
Change in sales			**21**			**42**
Change in cost of sales, excluding depreciation, amortization and cost of timber harvested			**(14)**			**(48)**
Change in depreciation, amortization and cost of timber harvested			**2**			**9**
Change in distribution costs			**(5)**			**(14)**
Change in selling, general and administrative expenses			**(6)**			**(13)**
			$ (2)			**$ (24)**

Three months ended September 30, 2011 versus September 30, 2010

Segment sales increased $21 million, or 20.2%, from $104 million in the third quarter of 2010 to $125 million in the third quarter of 2011 due to higher shipment volumes and higher transaction prices.

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In the third quarter of 2011, downtime at our facilities was primarily market related.

Segment operating loss increased $2 million to $3 million in the third quarter of 2011 compared to $1 million in the third quarter of 2010. The above table presents the items that impacted segment operating loss. A brief explanation of the major items follows.

Segment cost of sales, excluding depreciation, amortization and cost of timber harvested, increased $14 million in the third quarter of 2011 compared to the third quarter of 2010, primarily due to higher volumes ($40 million) and higher costs for wood and fiber ($2 million), partially offset by lower costs for energy ($1 million), labor and benefits ($8 million), maintenance ($12 million) and other favorable cost variances.

Segment depreciation, amortization and cost of timber harvested decreased $2 million in the third quarter of 2011 compared to the third quarter of 2010, primarily as a result of actions taken during the Creditor Protection Proceedings and the application of fresh start accounting, as discussed above.

Segment distribution costs increased $5 million in the third quarter of 2011 compared to the third quarter of 2010 due to higher shipment volumes and higher distribution costs per ton.

Nine months ended September 30, 2011 versus September 30, 2010

Segment sales increased $42 million, or 13.4%, from $314 million in the first nine months of 2010 to $356 million in the same period of 2011 due to higher shipment volumes, partially offset by lower transaction prices.

In the first nine months of 2011, downtime at our facilities was primarily market related.

Segment operating (loss) income decreased $24 million to an operating loss of $20 million in the first nine months of 2011 compared to operating income of $4 million in the same period of 2010. The above table presents the items that impacted segment operating (loss) income. A brief explanation of the major items follows.

Segment cost of sales, excluding depreciation, amortization and cost of timber harvested, increased $48 million in the first nine months of 2011 compared to the same period of 2010, primarily due to an unfavorable Canadian dollar currency exchange ($16 million), higher volumes ($43 million) and higher costs for wood and fiber ($8 million), fuel ($1 million) and other unfavorable cost variances, partially offset by lower costs for labor and benefits ($9 million) and maintenance ($12 million).

Segment depreciation, amortization and cost of timber harvested decreased $9 million in the first nine months of 2011 compared to the same period of 2010, primarily as a result of actions taken during the Creditor Protection Proceedings and the application of fresh start accounting, as discussed above.

Segment distribution costs increased $14 million in the first nine months of 2011 compared to the same period of 2010 due to higher shipment volumes and higher distribution costs per ton.

Wood Products Third-Party Data: Privately-owned housing starts in the U.S. increased 10.2% to a seasonally-adjusted annual rate of 658,000 units in September 2011, compared to 597,000 units in September 2010.

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Corporate and Other

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 income (loss) in our Consolidated Statements of Operations.

	Three Months Ended September 30,			Nine Months Ended September 30,		
	Successor	Predecessor		Successor	Predecessor	
(Unaudited, in millions)	2011	2010	Change	2011	2010	Change
Cost of sales, excluding depreciation, amortization and cost of timber harvested	$ (3)	$ (15)	$ 12	$ (7)	$ (9)	$ 2
Depreciation, amortization and cost of timber harvested	–	(6)	6	–	(16)	16
Distribution costs	–	–	–	–	(2)	2
Selling, general and administrative expenses	(3)	(24)	21	(9)	(65)	56
Closure costs, impairment and other related charges	(17)	3	(20)	(34)	(5)	(29)
Net (loss) gain on disposition of assets	(1)	1	(2)	3	14	(11)
Operating loss	$ (24)	$ (41)	$ 17	$ (47)	$ (83)	$ 36

Cost of sales, excluding depreciation, amortization and cost of timber harvested

Cost of sales, excluding depreciation, amortization and cost of timber harvested, in corporate and other included ongoing costs related to closed mills and other miscellaneous adjustments. Additionally, in the first nine months of 2011, we recorded charges of $1 million for write-downs of inventory as a result of the decision to cease paperboard production at our Coosa Pines, Alabama paper mill.

Selling, general and administrative expenses

Beginning in 2011, all selling, general and administrative expenses, excluding employee termination costs, are allocated to our segments. Prior to 2011, only direct selling expenses were allocated to our segments, with the balance of selling, general and administrative expenses included in corporate and other. In the third quarter and first nine months of 2011, we recorded approximately $5 million and $12 million, respectively, of corporate employee termination costs, as well as $2 million of bad debt recoveries in both periods. In the first nine months of 2010, selling, general and administrative expenses included in corporate and other included the reversal of a $17 million bonus accrual.

Closure costs, impairment and other related charges

In the third quarter of 2011, we recorded $17 million of closure costs, impairment and other related charges for accelerated depreciation related to the permanent closure of our Saint-Prime, Quebec remanufacturing wood products facility, long-lived asset impairment charges related to our Mokpo, South Korea paper mill and certain scrapped equipment at our Calhoun, Tennessee paper mill and severance and other costs primarily for an early retirement program for employees at our Mokpo paper mill and miscellaneous adjustments to severance liabilities. In the first nine months of 2011, we also recorded $17 million of closure costs, impairment and other related charges for accelerated depreciation related to the permanent closures of a de-inking line at our Alma, Quebec paper mill and a paper machine and a thermomechanical pulp line at our Baie-Comeau, Quebec paper mill, as well as accelerated depreciation, long-lived asset impairment charges, severance costs and an other postretirement benefit plan curtailment loss as a result of the decision to cease paperboard production at our Coosa Pines paper mill.

In the third quarter of 2010, we recorded a net credit of $3 million in closure costs, impairment and other related charges for miscellaneous adjustments to severance liabilities and asset retirement obligations. In the first nine months of 2011, we recorded costs of $5 million for closure costs, impairment and other related charges for long-lived asset impairment charges related to our previously permanently closed Covington, Tennessee facility, as well as costs for a lawsuit related to a closed mill and miscellaneous adjustments to severance liabilities and asset retirement obligations.

For additional information, see Note 3, "Closure Costs, Impairment and Other Related Charges," to our Unaudited Interim Consolidated Financial Statements.

Net (loss) gain on disposition of assets

During the third quarter of 2011, we recorded a net loss on disposition of assets of $1 million related to the sale of our Alabama River, Alabama paper mill and various other assets. During the first nine months of 2011, we recorded a net gain on disposition of assets of $3 million related to the sale of our investment in ACH, our Alabama River paper mill and various other assets. During the third quarter and first nine months of 2010, we recorded a net gain on disposition of assets of $1 million and $14 million, respectively, related to the sale of various assets.

For additional information, see Note 4, "Assets Held for Sale, Liabilities Associated with Assets Held for Sale and Net (Loss) Gain on Disposition of Assets," to our Unaudited Interim Consolidated Financial Statements.

Liquidity and Capital Resources

Overview

In addition to cash and cash equivalents and net cash provided by operations, our principal external source of liquidity is the ABL Credit Facility, which is defined and discussed below. As of September 30, 2011, we had cash and cash equivalents of $295 million and had $519 million of availability under the ABL Credit Facility. We believe that these sources will be sufficient to provide us with adequate liquidity for at least the next twelve months.

On May 27, 2011, we announced the sale of our 75% equity interest in ACH. Cash proceeds from the sale, including cash available at closing, were approximately Cdn$290 million ($296 million, based on the exchange rate in effect on May 27, 2011). The proceeds were applied in accordance with the terms of the 2018 Notes indenture, which requires, among other things, that the first $100 million of net proceeds from the sale of certain assets, including our interest in ACH, be used to redeem 2018 Notes (including accrued and unpaid interest) if the closing occurs within six months of the Emergence Date (as further discussed below). We also redeemed an additional $85 million of principal amount of the 2018 Notes and repaid $90 million of other long-term debt (as further discussed below) with the proceeds from the sale of ACH. The purchaser assumed the outstanding debt of ACH. Accordingly, ACH's total long-term debt ($280 million as of December 31, 2010) is no longer reflected in our Consolidated Balance Sheet.

As further discussed below, on November 4, 2011, we redeemed an additional $85 million of principal amount of the 2018 Notes.

10.25% senior secured notes due 2018

Information on our 10.25% senior secured notes due 2018 (the "2018 Notes") is presented under Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources," included in our 2010 Annual Report.

As a result of our application of fresh start accounting, as of December 31, 2010, the 2018 Notes were recorded at their fair value of $905 million, which resulted in a premium of $55 million, which is being amortized to interest expense using the effective interest method over the term of the notes. On June 13, 2011, we applied the first $100 million of net proceeds from the sale of ACH (as discussed above) to redeem $94 million of principal amount of the 2018 Notes at a redemption price of 105% of the principal amount, plus accrued and unpaid interest. Additionally, on June 29, 2011, we redeemed $85 million of principal amount of the 2018 Notes at a redemption price of 103% of the principal amount, plus accrued and unpaid interest. As a result of these redemptions, during the nine months ended September 30, 2011, we recorded a net gain on extinguishment of debt of approximately $4 million, which was included in "Other (expense) income, net" in our Consolidated Statements of Operations. As of September 30, 2011, the carrying value of the 2018 Notes (including the unamortized premium of approximately $41 million) was approximately $712 million.

On November 4, 2011, we redeemed an additional $85 million of principal amount of the 2018 Notes at a redemption price of 103% of the principal amount, plus accrued and unpaid interest.

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ABL Credit Facility

On December 9, 2010, AbitibiBowater Inc. and two of its wholly-owned subsidiaries, AbiBow US Inc. and AbiBow Recycling LLC, (collectively, the "U.S. Borrowers") and AbiBow Canada Inc. (the "Canadian Borrower" and, together with the U.S. Borrowers, the "Borrowers") entered into a senior secured asset-based revolving credit facility (the "ABL Credit Facility") with certain lenders and Citibank, N.A., as administrative agent and collateral agent (the "agent"). Additional information regarding the ABL Credit Facility is presented in Note 17, "Liquidity and Debt," included in our consolidated financial statements for the year ended December 31, 2010.

The borrowing base availability of each borrower is subject to certain reserves, which are established by the agent in its discretion. The reserves may include dilution reserves, inventory reserves, rent reserves and any other reserves that the agent determines are necessary and have not already been taken into account in the calculation of the borrowing base. As of June 30, 2011, an additional reserve of $259 million was in place against the borrowing base of the Canadian Borrower until the adoption, by the governments of Quebec and Ontario, of regulations to implement previously-announced funding relief with respect to aggregate solvency deficits in our material Canadian registered pension plans, as discussed in Note 20, "Pension and Other Postretirement Benefit Plans – Resolution of Canadian pension situation," included in our consolidated financial statements for the year ended December 31, 2010. As of the third quarter of 2011, both the provinces of Quebec and Ontario had adopted these funding relief regulations. As a result, this reserve against the borrowing base of the Canadian Borrower was removed in the third quarter of 2011.

On October 28, 2011, the Borrowers and the subsidiaries of AbitibiBowater Inc. that are guarantors of the ABL Credit Facility entered into an amendment to the credit agreement that governs the ABL Credit Facility. The ABL Credit Facility, as amended, provides for an asset-based, revolving credit facility with an aggregate lender commitment of up to $600 million at any time outstanding, subject to borrowing base availability, including a $60 million (increased from $20 million) swingline sub-facility and a $200 million (increased from $150 million) letter of credit sub-facility. The ABL Credit Facility includes a $400 million tranche available to the Borrowers and a $200 million tranche available solely to the U.S. Borrowers, in each case subject to the borrowing base availability of those Borrowers.

The amendment extends the maturity of the ABL Credit Facility from December 9, 2014 to October 28, 2016.

The amendment reduces the interest rate margin applicable to borrowings under the ABL Credit Facility to 1.75% – 2.25% per annum with respect to Eurodollar rate and bankers' acceptance rate borrowings (reduced from 2.75% – 3.25%) and 0.75% – 1.25% per annum with respect to base rate and Canadian prime rate borrowings (reduced from 1.75% – 2.25%), in each case depending on excess availability under the ABL Credit Facility. Additionally, the amendment reduces the unutilized commitment fee payable by the Borrowers under the ABL Credit Facility to 0.375% – 0.50% per annum (reduced from 0.50% – 0.75%), subject to monthly pricing adjustments based on the unutilized commitment of the ABL Credit Facility.

The amendment reduces to 1.0:1.0 (reduced from 1.1:1.0) the minimum consolidated fixed charge coverage ratio required if at any time excess availability falls below the greater of: (i) $60 million and (ii) 12.5% of the lesser of (A) the total commitments and (B) the borrowing base then in effect. Prior to the effectiveness of the amendment, this springing fixed charge coverage ratio covenant was triggered if excess availability fell below 15% of the total commitments then in effect.

The amendment also eases certain other covenants, including covenants restricting the Company's ability to: (i) prepay certain indebtedness, (ii) consummate permitted acquisitions and (iii) make certain restricted payments.

As of September 30, 2011, the Borrowers had no borrowings and $62 million of letters of credit outstanding under the ABL Credit Facility. As of September 30, 2011, we had $519 million of availability under the ABL Credit Facility, which was comprised of $290 million for the U.S. Borrowers and $229 million for the Canadian Borrower.

Promissory note

As of December 31, 2010, Augusta Newsprint Company ("ANC"), which operates our newsprint mill in Augusta, Georgia, was owned 52.5% by us. Our consolidated financial statements included this entity on a fully consolidated basis. On January 14, 2011, we acquired the noncontrolling interest in ANC and ANC became a wholly-owned subsidiary of ours. As part of the consideration for the transaction, ANC paid cash of $15 million and issued a secured promissory note (the "note") in the principal amount of $90 million. On June 30, 2011, the note, including accrued interest, was repaid with cash in full.

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Flow of funds

Summary of cash flows

A summary of cash flows for the nine months ended September 30, 2011 and 2010 was as follows:

	Successor	Predecessor
(Unaudited, in millions)	**2011**	2010
Net cash provided by operating activities	**$ 15**	$ 15
Net cash provided by (used in) investing activities	**264**	(38)
Net cash used in financing activities	**(303)**	(193)
Net decrease in cash and cash equivalents	**$ (24)**	$ (216)

Cash provided by operating activities

Cash provided by operating activities in the first nine months of 2011 was flat compared to the same period of 2010. Net income in the first nine months of 2011 compared to a net loss in the same period of 2010 was partially offset by higher pension contributions in the first nine months of 2011 (primarily due to $67 million of additional and accelerated contributions to our Canadian pension plans in the third quarter of 2011 and suspended contributions of prior service costs to our Canadian pension plans in the first nine months of 2010 as a result of the Creditor Protection Proceedings), as well as a reduction in the change in accounts payable and accrued liabilities in the first nine months of 2011 (primarily due to the favorable impact in the first nine months of 2010 of the stay of interest payments related to certain pre-petition debt obligations).

Cash provided by (used in) investing activities

The $302 million increase in cash provided by investing activities in the first nine months of 2011 compared to the same period of 2010 was primarily due to higher proceeds from the disposition of assets (primarily the disposition of our investment in ACH) in the first nine months of 2011 and a reduction in the increase in restricted cash in the first nine months of 2011, partially offset by an increase in cash invested in fixed assets in the first nine months of 2011.

Capital expenditures for both periods include compliance, maintenance and projects to increase returns on production assets.

Cash used in financing activities

The $110 million increase in cash used in financing activities in the first nine months of 2011 compared to the same period of 2010 was primarily due to the repayments of long-term debt, the acquisition of the noncontrolling interest in ANC and dividends and distribution to noncontrolling interests in the first nine months of 2011, partially offset by the payment of debtor in possession financing and the decrease in secured borrowings, net in the first nine months of 2010.

Canadian pension funding relief

As of the third quarter of 2011, both the provinces of Quebec and Ontario had adopted specific regulations to implement the previously-announced funding relief with respect to aggregate solvency deficits in our material Canadian registered pension plans. The basic funding parameters are described in Note 20, "Pension and Other Postretirement Benefit Plans – Resolution of Canadian pension situation," included in our consolidated financial statements for the year ended December 31, 2010. The regulations also provide that corrective measures would be required if the aggregate solvency ratio in the registered pension plans falls below a prescribed level under the target provided by the regulations as of December 31 in any year through 2014. Such measures may include additional funding over five years to attain the target solvency ratio prescribed in the regulations. Thereafter, additional funding would be required if the aggregate solvency ratio in the registered pension plans falls below a prescribed level under the target provided by the regulations as of December 31 in any year on or after 2015 for the remainder of the period covered by the regulations.

The aggregate solvency ratio in the Canadian registered pension plans covered by the Quebec and Ontario funding relief is determined annually as of December 31. The calculation is based on a number of factors and assumptions, including the accrued benefits to be provided by the plans, interest rate levels, membership data and demographic experience. In light of current low yields on government securities in Canada and the continued volatility in those yields as well as in the equity markets generally, absent any supplemental funding before the end of the year, it is possible that the aggregate solvency ratio in these Canadian registered plans could fall below the minimum level prescribed by the regulations and we would therefore be required to adopt corrective measures. At this time, we cannot estimate the additional contributions, if any, that may be required based on determinations to be made as of December 31, 2011, or any subsequent year, but they could be material.

Recent Accounting Guidance

There is no new accounting guidance issued which we have not yet adopted that is expected to materially impact our results of operations or financial condition.

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 September 30, 2011. Based on that evaluation, the President and Chief Executive Officer and the Senior 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 SEC.

(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

Information on our legal proceedings is presented under Part I, Item 3, "Legal Proceedings," in our 2010 Annual Report and updated under Part II, Item 1, "Legal Proceedings," in our Quarterly Report on Form 10-Q for the quarter ended March 31, 2011, filed with the SEC on May 16, 2011. Except as so updated, there have been no material changes to the legal proceedings described in our 2010 Annual Report.

ITEM 1A. RISK FACTORS

In addition to the other information set forth in this Form 10-Q, you should carefully consider the risk factors set forth under Part I, Item 1A, "Risk Factors," in our 2010 Annual Report, which could materially affect our business, financial condition or future results. The risks described in this report and in our 2010 Annual Report are not the only risks we are facing. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial may also 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 in our 2010 Annual Report.

The following risk factor replaces the risk factor labeled "If expected regulations are not adopted in a timely fashion in Quebec and Ontario to implement special funding parameters in respect of our material Canadian registered pension plans, or if we do not meet certain related undertakings, this could have a material impact on our financial condition" in our 2010 Annual Report.

The effect of not meeting certain conditions under the Canadian pension funding relief regulations could have a material impact on our financial condition.

As of the third quarter of 2011, both the provinces of Quebec and Ontario had adopted specific regulations to implement funding relief measures with respect to aggregate solvency deficits in our material Canadian registered pension plans, as contemplated by an agreement between each province and our principal Canadian operating subsidiary, effective as of our emergence from the Creditor Protection Proceedings for a period of 10 years. Those agreements include a number of undertakings by our principal Canadian operating subsidiary, which will apply for a minimum period of five years following the Emergence Date. Those undertakings and the basic funding parameters are described in our 2010 Annual Report under Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations — Employee Benefit Plans— Resolution of Canadian pension situation." We could lose the benefit of the funding relief regulations if we fail to comply with them or fail to meet our undertakings in the related agreements, which, in either case, could have a material impact on our financial condition.

The regulations also provide that corrective measures would be required if the aggregate solvency ratio in the registered pension plans falls below a prescribed level under the target provided by the regulations as of December 31 in any year through 2014. Such measures may include additional funding over five years to attain the target solvency ratio prescribed in the regulations. Thereafter, additional funding would be required if the aggregate solvency ratio in the registered pension plans falls below a prescribed level under the target provided by the regulations as of December 31 in any year on or after 2015 for the remainder of the period covered by the regulations. The aggregate solvency ratio in the Canadian registered pension plans covered by the Quebec and Ontario funding relief is determined annually as of December 31. The calculation is based on a number of factors and assumptions, including the accrued benefits to be provided by the plans, interest rate levels, membership data and demographic experience. In light of current low yields on government securities in Canada and the continued volatility in those yields as well as in the equity markets generally, absent any supplemental funding before the end of the year, it is possible that the aggregate solvency ratio in these Canadian registered plans could fall below the minimum level prescribed by the regulations and we would therefore be required to adopt corrective measures. At this time, we cannot estimate the additional contributions, if any, that may be required based on determinations to be made as of December 31, 2011, or any subsequent year, but they could be material.

It is also possible that provinces other than Quebec and Ontario could attempt to assert jurisdiction and to compel additional funding of certain of our Canadian registered pension plans in respect of plan members associated with sites we formerly operated in their respective provinces.

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ABITIBIBOWATER INC.

ITEM 6. EXHIBITS

Exhibit No.	Description
10.1*	Amendment No. 2, dated October 28, 2011, to ABL Credit Agreement, dated as of December 9, 2010, among AbitibiBowater Inc., AbiBow US Inc. (f/k/a Bowater Incorporated) and AbiBow Recycling LLC (f/k/a Abitibi-Consolidated Corp.) and AbiBow Canada Inc. (f/k/a Abitibi-Consolidated Inc.), and Citibank, N.A., as administrative agent and collateral agent (incorporated by reference from Exhibit 10.1 to AbitibiBowater Inc.'s Current Report on Form 8-K filed October 31, 2011, SEC File No. 001-33776).
†10.2**	Offer Letter between Jo-Ann Longworth and AbitibiBowater Inc., dated July 25, 2011.
†10.3**	Agreement of Executive Severance Terms between AbitibiBowater Inc. and William G. Harvey, dated July 20, 2011.
†10.4**	Letter of terms and conditions of retirement between Alain Grandmont and AbitibiBowater Inc., dated August 9, 2011.
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.
101.INS ***	XBRL Instance Document.
101.SCH ***	XBRL Taxonomy Extension Schema Document.
101.CAL ***	XBRL Taxonomy Extension Calculation Linkbase Document.
101.LAB ***	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE ***	XBRL Taxonomy Extension Presentation Linkbase Document.
101.DEF ***	XBRL Taxonomy Extension Definition Linkbase Document.

* Previously filed and incorporated herein by reference.

** Filed with this Form 10-Q.

*** Interactive data files furnished with this Form 10-Q, which represent the following materials from this Form 10-Q formatted in XBRL (eXtensible Business Reporting Language): (i) the Consolidated Statements of Operations, (ii) the Consolidated Balance Sheets, (iii) the Consolidated Statement of Changes in Equity, (iv) the Consolidated Statements of Comprehensive Income (Loss), (v) the Consolidated Statements of Cash Flows and (vi) the Notes to Unaudited Interim Consolidated Financial Statements (tagged as blocks of text). Pursuant to applicable securities laws and regulations, the Company is deemed to have complied with the reporting obligation relating to the submission of interactive data files in such exhibits and is not subject to liability under any anti-fraud provisions or other liability provisions of the federal securities laws as long as the Company has made a good faith attempt to comply with the submission requirements and promptly amends the interactive data files after becoming aware that the interactive data files fail to comply with the submission requirements. In addition, users of this data are advised that, pursuant to Rule 406T of Regulation S-T, these interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933 or Section 18 of the Securities Exchange Act of 1934 and otherwise are not subject to liability under these sections.

† This is a management contract or compensatory plan or arrangement.

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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/ Jo-Ann Longworth

Jo-Ann Longworth
Senior Vice President and
Chief Financial Officer

By /s/ Joseph B. Johnson

Joseph B. Johnson
Senior Vice President, Finance and Chief
Accounting Officer

Dated: November 14, 2011

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ABITIBIBOWATER INC.

EXHIBIT INDEX

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† This is a management contract or compensatory plan or arrangement.

EXHIBIT 10.2

[LETTERHEAD OF ABITIBIBOWATER INC.]

July 25, 2011

Ms. Jo-Ann Longworth
89 Celtic Drive
Beaconsfield, Québec
H9W 3M6

Re: ***Terms and Conditions of Employment between Jo-Ann Longworth and AbitibiBowater Inc.***

Dear Jo-Ann,

I am pleased to confirm our offer of employment regarding the position of Senior Vice President and Chief Financial Officer in AbitibiBowater Inc. This position will be based in Montreal, and is effective August 31, 2011.

The terms and conditions, as they apply to your compensation package, are described below:

Annual Base Salary

Your base salary will be at an annual rate of CA$350,000, payable in monthly installments less applicable deductions. The monthly installments will be deposited directly into your personal bank account.

Position Classification

Your position of Senior Vice President and Chief Financial Officer will be classified in Grade 46 under AbitibiBowater's Job/Salary Structure.

Short Term Incentive Plan

Effective on your date of hire, you will be eligible to AbitibiBowater's 2011 Short Term Incentive Plan, which will provide you with a targeted incentive of 100% and an opportunity of up to 150% of your annual salary. The amount of the award is prorated to your date of hire and is dependent on the achievement of specific objectives while ensuring that the overall maximum incentive payout cannot exceed 7% of the free cash flow generated by the Company in 2011.

Long Term Incentive Plan

You will be eligible to participate in the Company's Long Term Incentive Plan and to receive grants under such plan as determined by the Board of Directors from time to time, at its discretion. For 2011 and subject to Board approval, you will be eligible to an annual grant equivalent to 125% of your annual base salary.

Pension Plan

You will be eligible to participate in the AbiBow Canada Inc. Defined Contribution Pension Plan and the AbitibiBowater 2010 DC Supplemental Executive Retirement Plan (DC SERP) at the following levels of contribution:

Employee Contributions	Company Contributions
5% of eligible earnings*	20.5% of eligible earnings

* Up to the US compensation limit currently set at $245,000.

Health and Insurance Benefits

You will be eligible to participate in the Canadian AbiBow Flex program starting on your first day of work.

Vacation

You will be eligible to five weeks of vacation per year.

Other Benefits

You will also be eligible to receive an allowance of CA$12,000 per year to cover perquisites of your choosing such as club membership, fiscal and financial advice and tax preparation. The Company will also provide an annual medical examination at its expense for you and your spouse (up to a maximum of $1,500 per person) and parking.

If you have any questions about this offer, please contact me or Isabel Pouliot, Director, Corporate Compensation and Services at 514-394-3277. I look forward to your formal acceptance of this offer, and ask that you sign and return a copy to confirm your acceptance on or before July 29, 2011.

I look forward to you joining our team and working with you.

/s/ Richard Garneau

Richard Garneau
President and Chief Executive Officer

I have read the herein letter and hereby accept these terms and conditions.

/s/ Jo-Ann Longworth

Jo-Ann Longworth

Date: July 25, 2011

EXHIBIT 10.3

AGREEMENT OF

EXECUTIVE SEVERANCE TERMS ("Agreement")

ABITIBIBOWATER INC. ("Company")

AND

WILLIAM G. HARVEY ("Executive")

A.	Status and Effective Date	Executive's employment will terminate on August 31, 2011 ("Termination Date"). Executive will be deemed to have resigned as officer and director of any and all subsidiaries and affiliates, as applicable, effective on the Termination Date. Until the Termination Date, Executive agrees to continue to perform diligently and in good faith the normal duties and responsibilities associated with his position with the Company. Executive shall follow and implement all Company employee policies and all management policies and decisions communicated to Executive by the Board of Directors or Chief Executive Officer of the Company. These provisions constitute material terms of this Agreement to induce the Company to enter into this Agreement.
B.	Compensation	
	1. Severance Pay and Benefits	Severance pay of $1,303,681.44, less legally required withholdings and sums owing to the Company, if any. Severance pay is in line with the Severance Policy - CEO and Direct Reports (the "Policy") as follows: 104 weeks (6 weeks * 20.31 years of service, maximum 104 weeks) of Eligible Pay, defined as the sum of Executive's annual base salary as of the Termination Date and the average of the last two regular incentive awards paid to the Executive (annualized), up to 125% of bonus target.[1] The Company will also pay the Executive an amount of $42,500 as a retroactive salary adjustment for the period of January 1, 2011 through August 31, 2011. The Executive's welfare benefits, if any, to cease as of August 31, 2011. All other benefits (i.e. disability and business travel insurance)

[1] $226,840.72, being the average of (i) the STIP 2010 payout of $198,687.52 annualized at $397,375.04; and (ii) the award paid pursuant to the AIP 2007 of $46,922 annualized at $56,306.40.

to also cease on August 31, 2011. If eligible for retiree medical, the Executive may timely enroll in retiree medical at a 50 percent (50%) cost share or $1,219.51 per month on the same basis as other eligible retirees. If not eligible for retiree medical and if the Executive timely enrolls, Executive (and Executive's eligible dependents) will be eligible for COBRA coverage in accordance with the terms of the benefit plans, including premiums required by the plans, and COBRA. Executive will be obligated to pay the full cost of COBRA coverage, plus a two percent (2%) administrative charge. All of the terms and conditions of the company-sponsored medical, vision and/or dental plans, as amended from time to time, shall be applicable to the Executive (and Executive's eligible dependents).

The Executive may continue his life insurance coverage by contacting the US Payroll & Benefits Service Center (800-921-3244). The Executive has thirty-one (31) days from his Termination Date to enroll.

Senior executive level outplacement services will be provided by an external outplacement consulting firm selected by Executive and reasonably acceptable by the Company and will cover a period of twelve (12) months, as long as services are initiated within seven (7) months following the Termination Date. Human Resources to open file with external outplacement services once contacted by the Executive.

Executive will not be entitled to receive any of the payments or benefits set forth in this Section B.1 if, prior to the Termination Date, Executive terminates his employment voluntarily other than for Good Reason or has his employment terminated by the Company for Cause. For all purposes of this Agreement, "Cause" and "Good Reason" have the meanings defined on Schedule A attached hereto.

As a condition to the receipt of severance pay and benefits and the consulting arrangement under this Agreement, the Executive must execute and not revoke a Waiver and Release Agreement in the form attached hereto as Exhibit A on or about the Termination Date. Pursuant to the Waiver and Release Agreement, the Executive shall waive all claims against the Company, its subsidiaries and affiliates, except (i) as provided in this Agreement and (ii) with respect to the following amounts: $252,268 for regular and synergy bonuses pursuant to the 2008 Annual Incentive Plan, $133,279 related to the Executive's relocation process following the Abitibi/Bowater Merger (without any admission from the Company that the Executive did relocate to Canada), $135,000 for education allowance, and $10,208.19 for reimbursement of tax penalty, each of which shall be settled, if and when allowed, to the extent provided in accordance with applicable bankruptcy rules and procedures. The Executive expressly waives all other claims against AbitibiBowater Inc. and all other subsidiaries and affiliates.

	The Executive will have 45 days to review and consider the Waiver and Release Agreement and seven (7) days for revoking same. The above cash severance payments in the total amount of $1,346,181.40 will be paid in the form of a lump sum payment 15 days after the Eligible Executive signs the Waiver and Release Agreement (provided the seven (7) day period for revoking such agreement expires without revocation by the Executive), but in no event later than December 31, 2011. The outstanding balance of the Executive's Amex card (other than allowable business expenses approved in normal course) will be withheld from the net severance should the outstanding balance of the same amount on the Corporate Amex card not be paid by Executive prior to payment of severance.
2. Vacations	All accrued but unused vacation due to the Executive under the Company's vacation pay policy as of the Termination Date will be paid in a lump sum, less applicable deductions (namely 42.5 days plus three floaters, less floaters and vacation actually taken by the Executive through the Termination Date, plus twelve percent (12%) of the Executive's 2011 base salary actually earned and paid through the Termination Date).

3. Equity and Incentive Awards	Executive's entitlement to STIP and LTIP as follows:
	• Entitlement to 2011 STIP on a pro-rata basis in accordance with plan text and as per normal payment terms; i.e. if and when approved for payment by the Board in 2012 consistent with other senior executives; and
	• LTIP grants: Pro rata vesting through December 9, 2011:
	    • 7,876 Options;
	    • 1,225 RSUs, settled in shares; and
	    • Options will expire on December 9, 2012.

4. Pension plans	Qualified Pension Plans and SERPs – entitlements in accordance with the terms of the plans to the extent then vested, consistent with payments to other participants. Mercer to provide details on qualified plans and SERPs entitlements.

US plans:

- AbiBow US Retirement Plan
- AbitibiBowater 2010 DC Supplemental Executive Retirement Plan

Canadian plans:

- Employees' Retirement Plan (1988) of Bowater Canadian Forest Products Inc.
- AbiBow Canada 2010 Supplemental Retirement Plan

5. Consulting Agreement

Executive to serve as a consultant to the Company for seven months after the Termination Date (the "Consulting Period"), consulting with and providing assistance to the then in place Senior Vice President and Chief Financial Officer. During the Consulting Period, Executive will not devote more than 20% of the time devoted to his full-time employment during the 36 months preceding the Termination Date. The Termination Date is intended to be a "separation from service" under Internal Revenue Code Section 409A. Consulting fees will be in the amount of $40,000 per month. Executive will perform all his consulting services from within the United States. The Executive will be an independent contractor and will not be entitled to any benefits or other amounts from the Company during the consulting term. This Consulting Agreement shall not be construed to create any employment or other form of business relationship, agency, partnership or joint venture between the Company and the Executive. The Executive shall not be empowered to act on behalf of or bind the Company with third parties as a result of this consulting agreement. The Company will reimburse the Executive's business expenses incurred as a result of the consultancy arrangement.

Consulting Agreement may be terminated sooner by the Company or the Executive upon 5 days notice, provided that the Executive will be entitled to continue to receive monthly payments through the end of the Consulting Period if the Executive's consulting agreement is terminated prior to the end of the Consulting Period (i) by the Company other than for Cause, (ii) by the Executive for Good Reason as defined on Schedule "A", or (iii) upon Executive's death or disability.

Executive's consulting obligations will not preclude Executive from engaging in other full-time employment or business endeavors.

6.	Professional Fees	The Company will pay Executive's reasonable professional fees incurred to negotiate and prepare this Agreement and all related agreements and documents, not to exceed $10,000.

C. Restrictive Covenants and General Provisions

1.	Non-Competition	During the 12 months following the Termination Date, the Executive shall not, without the prior written consent from the Company: i) engage or become interested, whether on his own account or in conjunction with or on behalf of any other person, and whether as an employee, director, officer, partner, principal, agent, advisor, financial backer, shareholder (except as a passive investor in a public Company) or in any other capacity whatsoever, business which competes with the Business of the Company in Canada and the United States of America; or ii) assist financially or in any manner whatsoever any person, firm, association or Company, whether as principal, agent, officer, employee, manager, advisor, financial backer, shareholder (except as a passive investor in a public Company) or in any capacity whatsoever to enter into, develop, carry on or maintain a business which competes with the Business of the Company in Canada or the United States of America. For the purpose of this agreement, "Business of the Company" means the manufacture, sale and/or dealing in newsprint, commercial printing papers, market pulp and wood products, as well as research into, development, production, manufacture, sale, supply, import, export or marketing of any product which is the same or similar to or competitive with any product researched, developed, produced, manufactured, sold, supplied, imported, exported or marketed by the Company or by any of its subsidiaries and affiliates in the context of the above described activities as of July 31, 2011.
2.	Non-Disclosure	For a period of 5 years following the Termination Date, the Executive hereby covenants and agrees with the Company that he will not, except with the prior written consent, directly or indirectly, disclose to any person or in any way make use of in any manner, any of Confidential Information, provided that such Confidential Information shall be deemed not to include information (i) disclosed pursuant a subpoena or other such legal process or (ii) which is or becomes generally available to the public other than as a result of disclosure by the Executive.

3. Non-Solicitation of Customers	For a period of 12 months following the Termination Date and except with prior written consent, the Executive agrees not to, whether on his own behalf or in conjunction with or on behalf of any other person, directly or indirectly, solicit, assist in soliciting, accept, facilitate the acceptance of the business (which competes with the Business of the Company) of any person to whom the Company or its Affiliates has supplied goods or services at any time between January 1, 2008 and July 31, 2011 and with whom Executive had material business-related contact on behalf of Company within the five-year period preceding the Termination Date.
4. Non-Solicitation of Employees	For a period of 12 months following the Termination Date, the Executive shall not at any time, directly or indirectly, in his own capacity or otherwise, attempt to induce, cause, or persuade another person to terminate his or her employment relationship with the Company or any other Releasee (as defined in the Waiver and Release Agreement), or at any time to violate the terms of any agreement between such person and the Company or any other Releasee.
5. Confidential Information	I agree not to disclose any trade secrets or other confidential and proprietary information ("Confidential Information") with regard to the business of the Company and/or any of the other Releasees at any time, directly or indirectly, to any third party or otherwise use such Confidential Information for my or their own benefit or the benefit of others, except as directed by an authorized officer of the Company or as may be required pursuant to legal process. "Confidential Information" means all valuable and/or proprietary information in any form belonging to or pertaining to Company (including subsidiaries or affiliates of Company), its customers and vendors, that would be useful to Company's competitors or otherwise damaging to Company if disclosed. Confidential Information may include, but is not necessarily limited to: (i) the identity of Company's customers or potential customers, their purchasing histories, and the terms or proposed terms upon which Company offers or may offer its products and services to such customers, (ii) the identity of Company's vendors or potential vendors, and the terms or proposed terms upon which Company may purchase products and services from such vendors, (iii) technology and methods used in Company products and services or planned products and services, (iv) the terms and conditions upon which Company employs its employees and contracts with independent contractors, (v) marketing and/or business plans and strategies, and (vi) financial reports and analyses regarding Company revenues, expenses, profitability and operations. The payment of my supplemental severance pay and other benefits and my consulting arrangement are contingent on my keeping the confidentiality promises contained in this paragraph.

6. Applicability to Affiliates	The obligations undertaken by the Executive may be enforced directly against the Executive by any Affiliate of the Company, to the extent applicable.
7. Provisions in the Event of Breach	The Executive agrees that, in the event of any actual or threatened breach by the Executive of any of the covenants or agreements contained in this provision, without prejudice to any and all other rights and recourses of the Company, the Company shall have the right to enforce the terms and provisions thereof by means of compelling specific performance and/or by means of injunction (including, without limitation, provisional, interlocutory and permanent). In addition, and without restriction to the foregoing, in the event of a breach by the Executive of his non compete, non solicitation and confidentiality obligations, liquidated damages in the sum of $650,000 hereof shall be deemed to have been forfeited in its entirety and the Company shall be entitled to seek reimbursement of this gross amount.
8. Return of Material	The Executive agrees to immediately return all files, forms, brochures, books, materials, written correspondence, memoranda, documents, manuals, computer disks, software products and lists (including financial and other information and lists of customers, suppliers, products and prices) pertaining to the Company or to any of its Affiliates and containing Confidential Information in the possession of the Executive or directly or indirectly under the control of the Executive and to destroy all electronic copies thereof. The Executive agrees not to make, for his personal or business use or that of any other person, reproductions or copies of any such property or other property of the Company or of any of its Affiliates.
9. No Harassing or Disparaging Conduct	Executive and Company mutually further agree and promise that neither such party will engage in, or induce other persons or entities to engage in, any harassing or disparaging conduct or negative or derogatory statements directed at the other such party or, in the case of Company, its subsidiaries or affiliates, the activities of the other such party (and Company's subsidiaries or affiliates), or the Releasees (as defined in the Release) at any time in the future. For such purpose, "Company" shall refer to its officers, the Special Advisor to the President and Chief Executive Officer, members of the Board of Directors of Company and Company's human resources managers. Notwithstanding the foregoing, this Section C.8 may not be used to penalize either party for providing truthful testimony under oath in a judicial or administrative proceeding or complying with an order of a court or government agency of competent jurisdiction.

10. Construction of Agreement and Venue for Disputes	This Agreement shall be deemed to have been jointly drafted by the Parties and shall not be construed against either Party. Each of the Parties (a) consents to submit itself to the personal jurisdiction of the Court of Chancery of the State of Delaware or any court of the United States located in the State of Delaware, in the event any dispute arises out of this Agreement or any of the transactions contemplated by this Agreement, (b) agrees that it will not attempt to deny or defeat such personal jurisdiction by motion or other request for leave from any such court, (c) agrees that it will not bring any action relating to this Agreement or any of the transactions contemplated by this Agreement in any court other than the Court of Chancery of the State of Delaware or, if under applicable law exclusive jurisdiction is vested in the federal courts, any court of the United States located in the State of Delaware. Without limiting other means of service of process permissible under applicable law, the Parties agree that service of any process summons, notice or document by U.S. registered mail to their respective last known addresses shall be effective service of process for any suit or proceeding in connection with this Agreement or the transactions contemplated hereby.
11. Waiver of Jury Trial	EACH OF THE PARTIES IRREVOCABLY WAIVES ANY AND ALL RIGHT TO TRIAL BY JURY IN ANY LEGAL PROCEEDING BETWEEN THE PARTIES ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY.
12. Severability	If any provision of this Agreement shall be held void, voidable, invalid or inoperative, no other provision of this Agreement shall be affected as a result thereof, and accordingly, the remaining provisions of this Agreement shall remain in full force and effect as though such void, voidable, invalid or inoperative provision had not been contained herein.
13. No Reliance Upon Other Statements	This Agreement is entered into without reliance upon any statement or representation of any Party hereto or any Party hereby released other than the statements and representations contained in writing in this Agreement (including all Exhibits hereto).
14. Entire Agreement	This Agreement, including all Exhibits hereto (which are incorporated herein by this reference), contains the entire agreement and understanding concerning the subject matter hereof between the Parties hereto. No waiver, termination or discharge of this Agreement, or any of the terms or provisions hereof, shall be binding

	upon either Party hereto unless confirmed in writing. This Agreement may not be modified or amended, except by a writing executed by both Parties hereto. No waiver by either Party hereto of any term or provision of this Agreement or of any default hereunder shall affect such Party's rights thereafter to enforce such term or provision or to exercise any right or remedy in the event of any other default, whether or not similar.
15. Further Assurance; Cooperation	Upon the reasonable request of the other Party, each Party hereto agrees to take any and all actions, including, without limitation, the execution of certificates, documents or instruments, necessary or appropriate to give effect to the terms and conditions set forth in this Agreement. Executive agrees to fully cooperate with the Special Advisor to the President and Chief Executive Office between the date of this Agreement and the Termination Date.
16. No Assignment	Neither Party may assign this Agreement, in whole or in part, without the prior written consent of the other Party, and any attempted assignment not in accordance herewith shall be null and void and of no force or effect. The foregoing to the contrary notwithstanding, Company shall assign this Agreement and delegate all of its obligations hereunder to any successor to all or substantially all of its business.
17. Binding Effect	This Agreement shall be binding on and inure to the benefit of the Parties and their respective heirs, representatives, successors and permitted assigns. In the event of the death of Executive prior to payment of all amounts due under this Agreement, such amounts shall be paid to the legal representative of his estate.
18. Indemnification	Company understands and agrees that any indemnification obligations under its governing documents or the indemnification agreement between Company and Executive, a copy of which is attached hereto as Exhibit B, with respect to Executive's service as an officer of Company and/or director of Company or any of its subsidiaries shall remain in effect and survive the termination of Executive's employment under this Agreement as set forth in such governing documents or indemnification agreement. Notwithstanding Section B.5 of this Agreement, in the event that Executive is authorized in writing to act as an agent of Company during the Consulting Period, such indemnification, and coverage as an insured under any applicable officers' and directors' liability insurance, shall apply to Executive's consulting services to the same scope and effect as applies to Executive's acts and omissions to act while employed by Company.

19. Section 409A

(a) It is intended that any payment or benefit which is provided pursuant to or in connection with this Agreement which is considered to be deferred compensation subject to Section 409A of the Internal Revenue Code of 1986, as amended ("Code") shall be paid and provided in a manner, and at such time and form, as complies with the applicable requirements of Section 409A of the Code to avoid the unfavorable tax consequences provided therein for non-compliance.

(b) Neither Company nor Executive shall take any action to accelerate or delay the payment of any monies and/or provision of any benefits in any manner which would not be in compliance with Section 409A of the Code (including any transition or grandfather rules thereunder).

(c) If Executive is a "specified employee" for purposes of Section 409A(a)(2)(B)(i) of the Code at such time, any payments to be made or benefits to be delivered in connection with Executive's "separation from service" (as under 409A of the Code) that constitute deferred compensation subject to Section 409A of the Code shall not be made until the earlier of (i) Executive's death or (ii) six months after Executive's Separation from Service (the "409A Deferral Period") as required by Section 409A of the Code. Payments otherwise due to be made in installments or periodically during the 409A Deferral Period shall be accumulated and paid in a lump sum as soon as the 409A Deferral Period ends, and the balance of the payment shall be made as otherwise scheduled. Any such benefits subject to the rule may be provided under the 409A Deferral Period at Executive's expense, with Executive having a right to reimbursement from Company once the 409A Deferral Period ends, and the balance of the benefits shall be provided as otherwise scheduled.

(d) For purposes of this Agreement, all rights to payments and benefits hereunder shall be treated as rights to receive a series of separate payments and benefits to the fullest extent allowed by Section 409A of the Code.

(e) For purposes of this Agreement, with respect to any amounts that constitute deferred compensation subject to Section 409A of the Code, termination of employment shall mean a "separation from service" within the meaning of Section 409A of the Code where it is reasonably anticipated that no further services would be performed after such date or that the level of bona fide services Executive would perform after that date (whether as an employee or independent contractor) would permanently decrease to less than fifty percent (50%) of the average level of bona fide services Executive performed over the immediately preceding thirty-six (36) month period. The Company and Executive agree that a "separation from service" will occur no later than the Termination Date and Executive will not be expected to perform any consulting or other services thereafter that would negate a separation from service on the Termination Date.

(f) Notwithstanding any other provision of this Agreement, neither Company nor its subsidiaries or affiliates shall be liable to Executive if any payment or benefit which is to be provided pursuant to this Agreement and which is considered deferred compensation subject to Section 409A of the Code otherwise fails to comply with, or be exempt from, the requirements of Section 409A of the Code.

20. Governing Law — This Agreement and any dispute arising out of, in connection with or relating to this Agreement shall be governed by and construed in accordance with the laws of the State of Delaware, without giving effect to the conflicts of laws principles thereof.

We trust that the above to be satisfactory. Please confirm your agreement by signing in the space below.

ABITIBIBOWATER INC.

Per: /s/ Richard Garneau

RICHARD GARNEAU

Acknowledged and accepted

/s/ William G. Harvey

WILLIAM G. HARVEY

Dated: July 20, 2011

SCHEDULE A

"Cause" means any of the following:

(1) Executive's gross negligence or willful misconduct in connection with the performance of Executive's duties with Company (whether as an employee or consultant);

(2) Executive's conviction of, or entering of a guilty plea or plea of no contest with respect to, any felony; or

(3) Executive's material breach of a material term of this Agreement.

"Good Reason" means any of the following:

(1) a material adverse change in the Executive's status, title, position, duties or responsibilities (including in reporting line relationships), except for any change in the foregoing as described herein and the appointment of Jo-Ann Longworth as Special Advisor to the President and Chief Executive Officer;

(2) a material reduction in compensation and benefits, in the aggregate, to those provided for under the employee compensation and benefit plans, programs and practices in which the Executive was participating;

(3) a material reduction of the Executive's salary;

(4) a relocation of Executive's primary place of employment from his current primary place of employment, which is Greenville, South Carolina, which requires the Executive to move his residence, without the Executive's express written consent to such relocation; or

(5) the Company's material breach of a material term of this Agreement.

EXHIBIT A

(1) **General Release**. In consideration for the supplemental severance pay, outplacement services and other benefits to be provided to me under the Agreement of Executive Severance Terms between **ABITIBIBOWATER INC.** (the "Company") and me dated , 2011 (the "Severance Agreement"), I, on behalf of myself and my spouse, family and heirs, executors, administrators, attorneys, agents and assigns, hereby waive, release and forever discharge the Company and its subsidiaries, divisions and affiliates, whether direct or indirect, and their joint ventures and joint venturers (including its and their respective directors, officers, associates, employees, shareholders, partners and agents, past, present and future), and each of their respective predecessors, successors and assigns (collectively referred to as "Releasees"), from any and all known or unknown actions, causes of action, claims or liabilities of any kind which have been or could be asserted against the Releasees related to my employment with and/or separation from employment with the Company and/or any other occurrence up to and including the date of this Waiver and Release Agreement ("Agreement"), including but not limited to:

(a) claims, actions, causes of action or liabilities arising under the Worker Adjustment and Retraining Notification Act as amended (the "WARN Act"), Title VII of the Civil Rights Act of 1964, as amended, the Age Discrimination in Employment Act, as amended (the "ADEA"), Sections 1981 through 1988 of Title 42 of the United States Code, as amended, and the Civil Rights Act of 1991, as amended, the Fair Labor Standards Act, as amended, the Federal Occupational Safety and Health Act, as amended, the Employee Retirement Income Security Act, as amended, the Rehabilitation Act of 1973, as amended, the Americans with Disabilities Act, as amended, the Family and Medical Leave Act, the Sarbanes-Oxley Act, and/or any other federal, state, municipal or local employment discrimination statutes, laws, regulations, ordinances or executive orders (including, but not limited to, claims based on age, sex, attainment of benefit plan rights or entitlement to plan benefits, entitlement to prior notice, race, color, religion, national origin, source of income, union activities, marital status, sexual orientation, ancestry, harassment, parental status, handicap, disability, retaliation and veteran status); and/or

(b) claims, actions, causes of action or liabilities arising under any other federal, state, municipal or local statute, law, ordinance, regulation, constitution or executive order; and/or

(c) any other claim whatsoever including, but not limited to, claims for severance pay, claims for salary/wages/commissions/bonus, claims for expense reimbursement, claims based upon breach of contract, wrongful termination, defamation, intentional infliction of emotional distress, tort, personal injury, invasion of privacy, violation of public policy, negligence and/or any other common law, statutory or other claim whatsoever relating to my employment with and/or separation from employment with the Company and/or any of the other Releasees.

(2) **Exclusions from General Release**. Excluded from the General Release above are (i) any claims or rights which cannot be waived by law, including my right, if any, to accrued vacation; (ii) any rights I have under the Severance Agreement; and (iii) any rights I may have to the following amounts: $252,268 for regular and synergy bonuses pursuant to the 2008 Annual Incentive Plan, $133,279 related to my relocation process following the Abitibi/Bowater Merger (without any admission from the Company whether I actually relocated to Canada), $135,110 for education allowances, and $10,208.19 for reimbursement of tax penalty, each of which may be settled, if and when allowed, but only to the extent provided in accordance with applicable bankruptcy rules and procedures. Nothing herein constitutes an admission by the Company that I am entitled to, or will receive, any of the foregoing amounts described under clause (iii), and the Company is not obligating itself hereunder to pay any such amounts. In addition, nothing in this Waiver and Release Agreement limits my rights (or the rights of any government agency) of access to, or to cooperate or participate with, any government agency, or to file a charge with any administrative agency or participate in any agency investigation, including without limitation, the United States Equal Employment Opportunity Commission. I am, however, freely waiving my right to any recovery of money or other relief in connection with any such charge or investigation, whether initiated by me or any other individual or by the Equal Employment Opportunity Commission or any other federal, state or local agency. I also am freely waiving my rights, if any, to any other amounts or benefits from the Company that are not specifically set forth under the terms of my Severance Agreement, except as specifically described in this paragraph (2), including, without limitation, waiving any right to participate in, or receive any payments or benefits under, the Retention Bonus Pay Plan For Greenville Employees. I am not waiving any rights or claims which arise after I execute this Agreement.

(3) **Covenant Not to Sue**. I understand that a "covenant not to sue" is a legal term which means I am promising not to file a lawsuit in court. It is different from the General Release of claims contained in paragraph (1) above because, in addition to waiving and releasing the claims covered by paragraph (1) above, I further agree never to sue any of the Releasees or become party to a lawsuit in any forum for any reason, including but not limited to claims of any type or based on any laws or theories whatsoever covered by the General Release language in paragraph (1) above. Notwithstanding this covenant not to sue, I may bring a claim or lawsuit to (i) challenge the validity of this Agreement under the ADEA or (ii) with respect to any claim or right excluded from this Waiver and Release Agreement under paragraph (2) above. I am, however, specifically waiving my right to any monetary recovery or other relief under the ADEA.

(4) **Company's Remedies**. I further acknowledge and agree in the event that I breach the provisions of paragraph (3) above and I fail to cure such breach within thirty (30) days after I have been given notice of such breach, then (a) the Company shall be entitled to apply for and receive an injunction to restrain any violation of paragraph (3) above; plus either (b) the Company may cease providing the supplemental severance pay and benefits to me and I shall be obligated upon demand to pay to the Company all but $1,000 of the supplemental severance pay, or alternatively at the Company's option (c) I shall be obligated to pay to the Company its costs and expenses in successfully enforcing this Agreement and successfully defending against such lawsuit (including court costs, expenses, reasonable legal fees and any other litigation costs).

(5) **Employee Acknowledgements**. I further agree that: (i) I have been paid for all hours worked, including overtime; (ii) I have not suffered any on-the-job injury for which I have not already filed a claim; and (iii) I have received all leave I requested and for which I was eligible.

(6) **Confidentiality of Agreement**. I further agree that I shall keep all terms of this Agreement confidential to the extent not otherwise publicly disclosed by the Company, except that I may make necessary disclosures to attorneys or tax advisors that I retain to advise me in connection with this Agreement.

(7) **No Future Employment**. I promise not to seek future employment with the Company and/or any of the other Releasees in any position or capacity. In the event I am hired by any Releasee, I recognize my employment can be lawfully terminated based on this paragraph (10), which termination I promise not to contest.

(8) **Additional Company Remedies**. I also acknowledge the Releasees' right to enforce this Agreement in any court of competent jurisdiction. I further agree that if I breach any of my promises in paragraphs (6) through (7) above, the affected Releasee(s) shall be irreparably harmed as a matter of law and shall be entitled to immediate injunctive relief, plus its reasonable attorneys' fees and any other litigation costs incurred in enforcing this Agreement.

(9) **Non-Admissions**. The facts and terms of this Agreement are not an admission by the Company and/or any other Releasee of liability or other wrongdoing under any law.

(10) **Additional Employee Acknowledgements**. I further agree that:

- I am entering into this Agreement knowingly and voluntarily;
- I have been advised to consult with an attorney before signing this Agreement;
- I have received, along with this Agreement, a listing of job titles and ages of Company employees selected and not selected for termination in connection with the Company's 2011 involuntary group termination program.
- I understand I may take at least forty-five (45) days to consider this Agreement before signing it;
- I have carefully read and fully understand all the provisions of this Agreement, and am voluntarily entering into this Agreement by signing below;
- I am not otherwise entitled to the supplemental severance pay or other benefits set forth in the Severance Agreement; and

- The Severance Agreement and this Agreement are the sole agreements between me and the Company regarding the termination of my employment with the Company.

(11) **Revocation/Payment**. I further understand I may revoke this Agreement within seven (7) days after its signing and that any revocation shall be made in writing and submitted within this seven (7) day period to the Catawba address listed below. If I do not revoke this Agreement within the seven (7) day period, the Agreement shall become irrevocable. I further understand that if I revoke this Agreement, I shall not receive the supplemental severance pay.

(12) **Known and Unknown Claims**. I FURTHER UNDERSTAND THAT THIS AGREEMENT INCLUDES A RELEASE OF ALL KNOWN AND UNKNOWN CLAIMS.

(13) **Severability**. I further acknowledge and agree that if any provision of this Agreement is found, held or deemed by a court of competent jurisdiction to be void, unlawful or unenforceable under any controlling law, the remainder of this Agreement shall continue in full force and effect.

(14) **Governing Law**. This Agreement shall in all respects be interpreted, enforced and governed under applicable federal law and in the event reference shall be made to state law, the internal laws of the State of Delaware shall apply, without regard to choice of law principles.

(Date)

PLEASE RETURN THE SIGNED AND DATED WAIVER AND RELEASE AGREEMENT TO THE DIRECTOR OF HUMAN RESOURCES AT THE FOLLOWING ADDRESS:

Human Resources
Corporate US
5300 Cureton Ferry Road
Catawba, SC 29704

SAMPLE PROGRAM DISCLOSURE STATEMENT

As required under the Older Workers Benefit Protection Act, this is a listing of job titles and ages of XXXX employees as of [Insert Date] who were selected or not selected for involuntary termination in connection with the **[Insert business reasons for the group termination.]** Selected employees are eligible for separation benefits if they sign a Group Waiver and Release Agreement.

Employees were selected for termination based on .

Selected For Termination/ Eligible For Benefits		Not Selected For Termination/ Ineligible For Benefits	
Job Title	Age*	Job Title	Age*
INSERT JOB TITLE	39	INSERT JOB TITLE	62
INSERT JOB TITLE	54	INSERT JOB TITLE	47
		INSERT JOB TITLE	42
		INSERT JOB TITLE	49
		INSERT JOB TITLE	48
		INSERT JOB TITLE	40
			56
			58
			61
			61
			31
			43
			42

* Ages listed are as of XXXXX.

EXHIBIT B

[Indemnification Agreement]

[Form of Indemnification Agreement for Executive Officers and Directors previously filed and incorporated herein by reference from Exhibit 10.31 to AbitibiBowater Inc.'s Annual Report on Form 10-K for the year ended December 31, 2010 filed April 5, 2011, SEC File No. 001-33776].

EXHIBIT 10.4

August 9, 2011

Dear Alain,

This letter will confirm the terms and conditions of your retirement on September 1, 2011, as approved by the Human Resources & Compensation/ Nomination and Governance Committee. (HRC/NG) of the Board of Directors of AbitibiBowater Inc

1. Dental and medical group insurance coverage: You will benefit from continued coverage for a period of 4 years (Option 3 for medical insurance and Option 1 for dental insurance). Your contributions for these benefits will be of $56.48 per month, to be paid by post dated cheques. Life insurance, accident, dismemberment, short-term and long-term disability insurance will cease on August 31, 2011.

2. Medisys executive services: You and your spouse will continue to benefit from these services for a period of 2 years, namely:

- An annual medical examination up to $1,500 each
- Medical referral, including vaccination, up to $1,000 per year each

3. Emergence equity grants: Notwithstanding anything to the contrary, you will continue vesting in the restricted share units and options awarded to you by the Company in January 2011 as per normal vesting schedule. Options will expiry one year after the vesting of the last tranche of options, namely December 9, 2015.

12/9/2011	12/9/2012	12/9/2013	12/9/2014	12/9/2015
Vesting of 1st tranche (25% of grant); RSUs settled immediately in shares; options exercisable until 12/9/2015	Vesting of 2nd tranche; RSUs settled immediately in shares; options exercisable until 12/9/2015	Vesting of 3rd tranche; RSUs settled immediately in shares; options exercisable until 12/9/2015	Vesting of 4th and last tranche; RSUs settled immediately in shares; options exercisable until 12/9/2015	All options be to exercised by 12/9/2015

4. DC SERP: The HRC/NG has approved full vesting of your benefits.

5. DB SERP: Your DB SERP benefits will be secured by letter of credit as per your employment agreement dated February 7, 2011, which states:

> "As regards your DB SERP, the Company intends to pay you such benefits as a lump sum (in two instalments) once you retire, unless and until these benefits have been secured as further described, in which case they would be paid in the form of monthly payments. The Company undertakes to put in place a letter of credit to guarantee a percentage of your DB SERP benefits corresponding to the weighted average solvency ratio of the Company's registered defined benefit pension plans for its Canadian non union employees (the "Benchmark") as of December 31, 2010. The percentage of your DB SERP guaranteed by letter of credit will be revised yearly and will be increased to reflect improvements to the Benchmark, in line with agreements reached with Ontario and Québec on pension relief measures."

6. Corporate indemnification in accordance with relevant charters, by-laws and applicable law, and consistent with the plans of reorganization. D&O coverage: applicable post-termination/post-service tail coverage.

If you have any question on the content of this letter, please contact Isabel Pouliot or Benoit Brière.

Alain, thank you again for your important contributions to AbitibiBowater and best of luck in your new endeavours,

Sincerely,
/s/ Richard Garneau

Richard Garneau

c.c. Isabel Pouliot
Benoit Brière

EXHIBIT 31.1

Certification

I, Richard Garneau, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the quarterly period ended September 30, 2011 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: November 14, 2011

/s/ Richard Garneau
Richard Garneau
President and Chief Executive Officer

EXHIBIT 31.2

Certification

I, Jo-Ann Longworth, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the quarterly period ended September 30, 2011 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: November 14, 2011

/s/ Jo-Ann Longworth
Jo-Ann Longworth
Senior Vice President and Chief Financial Officer

EXHIBIT 32.1

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 September 30, 2011 (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: November 14, 2011

/s/ Richard Garneau

Name: Richard Garneau
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.

EXHIBIT 32.2

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 September 30, 2011 (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: November 14, 2011	/s/ Jo-Ann Longworth	
	Name:	Jo-Ann Longworth
	Title:	Senior 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.