CANADA

PROVINCE OF QUEBEC
DISTRICT OF MONTRÉAL

No. : 500-11-036133-094

SUPERIOR COURT

Commercial Division
(Sitting as a court designated pursuant to the *Companies' Creditors Arrangement Act*, R.S.C., c. C-36, as amended)

IN THE MATTER OF THE PLAN OF COMPROMISE OR ARRANGEMENT OF:

ABITIBIBOWATER INC.,

and

ABITIBI-CONSOLIDATED INC.,

and

BOWATER CANADIAN HOLDINGS INC.,

and

the Petitioners listed on Schedules A , B and C

Petitioners

and

ERNST & YOUNG INC.

Monitor

and

AURELIUS CAPITAL MANAGEMENT, LP

and

CONTRARIAN CAPITAL MANAGEMENT, L.L.C.

Petitioner-Noteholders

LIST OF EXHIBITS OF THE PETITIONERS

(In support of the *Contestation of the Motion for the Issuance of an order directing Bowater Canada Finance Corporation to file an assignment in bankruptcy or alternatively, an order seeding the appointment of an independent and disinterested third party to investigate, assert, protect and pursue the claims and remedies of Bowater Canada Finance Corporation)*

DESCRIPTION		TAB
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Montréal, this 7th day of April, 2010

Stikeman Elliott LLP

STIKEMAN ELLIOTT LLP
Attorneys for Petitioners

SUPERIOR COURT
Commercial Division
(Sitting as a court designated pursuant to the *Companies' Creditors Arrangement Act*)

N°. 500-11-036133-094

CANADA
PROVINCE OF QUEBEC
DISTRICT OF MONTRÉAL

In the matter of Plan of Compromise or Arrangement of:

ABITIBIBOWATER INC. *& al*

Petitioners

- and -
ERNST & YOUNG INC.

Monitor

- and -
AURELIUS CAPITAL MANAGEMENT, LP *& al*

Petitioner-Noteholders

BS0350 **n/dos.:** 041053-1170

LIST OF EXHIBITS AND EXHIBITS D-1 TO D-3

ORIGINAL

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Montréal, Québec H3B 3V2

#10541746 v1

EXHIBIT D-1

CONFIDENTIAL

D. Owens

$600,000,000

BOWATER

Bowater Canada Finance Corporation

Unconditionally Guaranteed by

Bowater Incorporated

7.95% Notes due 2011

The initial purchasers are offering the notes inside the United States to qualified institutional buyers in reliance on Rule 144A under the Securities Act of 1933. In addition, the initial purchasers, through their respective selling agents, are offering the notes outside the United States to non-U.S. persons in reliance on Regulation S under the Securities Act.

We will pay interest on the notes on May 15 and November 15 of each year. Interest payments will begin on May 15, 2002. We may redeem all or a portion of the notes at any time at the redemption prices set forth in this offering circular. We will make all payments in respect of the notes in U.S. dollars.

The notes will be our senior obligations and will rank equally with our other senior unsecured debt, if any. Our parent company, Bowater Incorporated, will fully and unconditionally guarantee the notes. Bowater Incorporated's guarantees of the notes will rank equally with its other senior unsecured debt, which totaled $1,843.8 million at September 30, 2001 (which includes $62.8 million of guarantees).

We and Bowater have agreed to file a registration statement with the Securities and Exchange Commission under which we will make an exchange offer in which the notes may be exchanged for identical securities that are registered under the Securities Act or register the notes for resale by the holders. If the appropriate registration statement is not filed or does not become effective or if the exchange offer is not consummated within certain time periods, we will pay the holders of the notes increased interest at the rates and for the periods specified in the global note.

See "Risk Factors" beginning on page 7 to read about certain factors you should consider before buying the notes.

Offering Price: 99.683%

The offering price set forth above does not include accrued interest, if any. Interest on the notes will accrue from November 6, 2001 and must be paid by the initial purchasers if the notes are delivered after November 6, 2001.

The notes have not been registered under the Securities Act and are being offered and sold in the United States only to qualified institutional buyers in reliance on Rule 144A under the Securities Act and to non-U.S. persons outside the United States in reliance on Regulation S under the Securities Act. Prospective purchasers are hereby notified that the seller of the notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A or Regulation S. The notes are not transferable except in accordance with the restrictions described under "Notice to Investors".

The initial purchasers expect to deliver the notes in book-entry form only through the facilities of The Depository Trust Company against payment in New York, New York on or about November 6, 2001.

Goldman, Sachs & Co. **JPMorgan**

Banc of America Securities LLC **SunTrust Robinson Humphrey**

BMO Nesbitt Burns

BNY Capital Markets, Inc.

Scotia Capital

TD Securities

Wachovia Securities

Offering Circular dated October 31, 2001.

This offering circular is confidential. You are authorized to use this offering circular solely for the purpose of considering the purchase of the 7.95% notes due 2011 described in this offering circular. Bowater Canada Finance Corporation and other sources identified in this offering circular have provided the information contained in this offering circular. The initial purchasers named herein make no representation or warranty, express or implied, as to the accuracy or completeness of such information, and nothing contained in this offering circular is, or shall be relied upon as, a promise or representation by the initial purchasers. You may not reproduce or distribute this offering circular, in whole or in part, and you may not disclose any of the contents of this offering circular for any purpose other than considering an investment in the notes. You agree to the foregoing by accepting delivery of this offering circular.

THE NOTES OFFERED BY THIS OFFERING CIRCULAR HAVE NOT BEEN RECOMMENDED BY ANY UNITED STATES FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS OFFERING CIRCULAR. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

The distribution of this offering circular and the offer and sale of the notes in certain jurisdictions may be restricted by law. Bowater Incorporated, Bowater Canada Finance Corporation and the initial purchasers require persons into whose possession this offering circular comes to inform themselves about and to observe any such restrictions. This offering circular does not constitute an offer of, or an invitation to purchase, any of the notes in any jurisdiction in which such offer or invitation would be unlawful.

IN CONNECTION WITH THIS OFFERING, GOLDMAN, SACHS & CO. AND J.P. MORGAN SECURITIES INC. AND ITS AFFILIATES, ON BEHALF OF THE INITIAL PURCHASERS, MAY OVER-ALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICES OF THE NOTES AT LEVELS ABOVE THOSE THAT MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH TRANSACTIONS MAY BE EFFECTED IN OVER-THE-COUNTER MARKETS OR OTHERWISE. SUCH TRANSACTIONS, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

If you need any additional information to verify or supplement this offering circular, you may request it from Bowater Incorporated before investing in the notes. This offering circular summarizes certain documents and other information, and we refer you to them for a more complete understanding of what we discuss in this offering circular. You should rely only on the information that we have included (or referred you to) in this offering circular and any information that Bowater Incorporated may provide in response to your requests. We have not authorized anyone to provide you with information that is different.

NOTICE TO NEW HAMPSHIRE RESIDENTS

Neither the fact that a registration statement or an application for a license has been filed under Chapter 421-B of the New Hampshire Revised Statutes with the State of New Hampshire nor the fact that a security is effectively registered or a person is licensed in the State of New Hampshire constitutes a finding by the Secretary of the State that any document filed under RSA 421-B is true, complete and not misleading. Neither any such fact nor the fact that an exemption or exception is available for a security or a transaction means that the Secretary of the State has passed in any way upon the merits or qualifications of, or recommended or given approval to, any person, security or transaction. It is unlawful to make, or cause to be made, to any prospective purchaser, customer or client any representation inconsistent with the provisions of this paragraph.

NOTICE TO INVESTORS

Because of the following restrictions, purchasers are advised to consult legal counsel prior to making any offer, resale, pledge or other transfer of the Notes offered hereby.

Each purchaser of the notes offered hereby will be deemed to have represented and agreed as follows (terms used herein that are defined in Rule 144A ("Rule 144A") or Regulation S ("Regulation S") under the Securities Act are used herein as defined therein):

(1) You are (A)(i) a qualified institutional buyer, (ii) are aware that the sale of the notes to you is being made in reliance on Rule 144A and (iii) are acquiring such notes for your own account or for the account of a qualified institutional buyer, as the case may be or (B) are not a U.S. person as such term is defined in Rule 902 under the Securities Act, and are purchasing the notes in accordance with Regulation S.

(2) You understand that the notes have not been and will not be registered under the Securities Act and may not be reoffered, resold, pledged or otherwise transferred except (A)(i) to a person who you reasonably believe is a qualified institutional buyer in a transaction meeting the requirements of Rule 144A, (ii) in an offshore transaction complying with Rule 903 or Rule 904 of Regulation S and the applicable laws of such offshore jurisdiction, or (iii) pursuant to an exemption from registration under the Securities Act provided by Rule 144 thereunder (if available) and (B) in accordance with all applicable securities laws of the states of the United States and any jurisdiction outside the United States.

(3) The notes will bear a legend to the following effect, unless we determine otherwise in compliance with applicable law:

> "THE NOTES EVIDENCED HEREBY HAVE NOT BEEN REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933 (THE "SECURITIES ACT") AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (A) BY THE INITIAL INVESTOR (1) TO A PERSON WHO THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (2) IN AN OFFSHORE TRANSACTION COMPLYING WITH RULE 903 OR RULE 904 OF REGULATIONS UNDER THE SECURITIES ACT AND APPLICABLE SECURITIES LAWS OF SUCH OFFSHORE JURISDICTION, OR (3) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT PROVIDED BY RULE 144 THEREUNDER (IF AVAILABLE), AND (B) BY SUBSEQUENT INVESTORS, AS SET FORTH IN (A) ABOVE OR (4) TO AN INSTITUTIONAL ACCREDITED INVESTOR IN A TRANSACTION EXEMPT FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT, IN EACH CASE, IN ACCORDANCE WITH APPLICABLE SECURITIES LAWS OF THE STATES OF THE UNITED STATES AND ANY JURISDICTION OUTSIDE THE UNITED STATES."

FORWARD-LOOKING STATEMENTS

We and Bowater have made forward-looking statements within the meaning of Sections 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 in this offering circular and in the documents incorporated by reference in this offering circular. These forward-looking statements include, for example, statements about Bowater's business outlook, assessment of market conditions, strategies, future plans, future sales, prices of Bowater's major products, inventory levels, capital spending and tax rates. These forward-looking statements are not guarantees of future performance. For these statements, we and Bowater claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995. These statements are based on management's expectations and involve a number of business risks and uncertainties, any of which could cause actual results to differ materially from those expressed in or implied by the forward-looking statements. For further discussion of these risks, see "Risk Factors" beginning on page 7 of this offering circular. Other risks besides those listed in "Risk Factors" also could adversely affect us or Bowater. Neither we nor Bowater undertakes any obligation to publicly update or revise any forward-looking statements.

SUMMARY

You should read the following summary together with the more detailed information included or incorporated by reference in this offering circular about us, our parent company, Bowater Incorporated, and this offering.

Bowater Incorporated

Bowater is a global leader in the manufacture, sale and distribution of newsprint. Bowater also manufactures, sells and distributes uncoated groundwood specialties, coated groundwood paper, market pulp and lumber. As a result of Bowater's acquisition of Alliance Forest Products Inc., Bowater has 12 pulp and paper mills in the United States, Canada and South Korea and 13 North American sawmills that produce softwood and hardwood lumber. As of September 30, 2001, Bowater managed and controlled approximately 1.8 million acres of timberlands in the United States and Canada and had 32 million acres of timber cutting rights in Canada to support these facilities. In October 2001, Bowater entered into contracts under which it has agreed to sell approximately 238,000 acres and leasehold interests in approximately 26,000 acres of timberlands for cash and promissory notes in the aggregate amount of approximately $230 million.

Overview. Bowater has five divisions: the Newsprint Division, the Coated and Specialty Papers Division, the Pulp Division, the Forest Products Division and the Canadian Forest Products Division. Except for the Pulp Division, each division is responsible for the sales and marketing of distinct product lines and the operation of certain manufacturing sites. The Pulp Division is primarily a remarketing and distribution division.

The following table sets forth, pro forma for the Alliance acquisition, certain sales and production data for Bowater for the year ended December 31, 2000.

Product	Sales (in millions)	Sales (percent of total)	Production capacity
Newsprint	$1,749	53%	3,487,000 mt
Coated and specialty papers	$ 759	23%	1,143,000 mt
Market pulp	$ 561	17%	1,259,000 mt
Lumber, timber and other wood products	$ 231	7%	1,031,000 mbf

mt: metric tons   mbf: thousands of board feet

Newsprint Division. The Newsprint Division operates six manufacturing sites in the United States, Canada and South Korea. The principal product line at these manufacturing sites is newsprint, but several of the sites also produce market pulp and uncoated groundwood specialties. The Division is responsible for the worldwide marketing and sales of newsprint. Bowater is the largest manufacturer of newsprint in the United States and the second largest in North America. After the Alliance acquisition, Bowater has approximately 20% market share in the North American newsprint market.

Coated and Specialty Papers Division. The Coated and Specialty Papers Division operates a manufacturing site that produces coated groundwood paper, newsprint, market pulp and uncoated groundwood specialties and a coating facility, both located in the United States. This Division is responsible for the marketing and sales of coated and uncoated groundwood specialty papers produced by those facilities and by the facilities operated by the Newsprint Division and the Canadian Forest Products Division.

Pulp Division. The Pulp Division markets and distributes market pulp produced at the operations of Bowater's Newsprint Division and Coated and Specialty Papers Division at Calhoun, Tennessee; Catawba, South Carolina; Thunder Bay, Ontario; and Coosa Pines, Alabama. The Division sells northern and southern kraftwood pulp and fluff pulp. The financial results for the production and sale of market pulp are included in the financial results of the Newsprint Division and the Coated and Specialty Papers Division, depending upon which site manufactures the product.

Forest Products Division. The Forest Products Division manages 1.4 million acres of timberland owned or leased in the United States and Canada and over 8 million acres of Crown-owned land in Canada on which Bowater has cutting rights. The Division also operates three softwood sawmills, supplies wood fiber to Bowater's pulp and paper production sites and markets timber and lumber in North America.

Canadian Forest Products Division. The Canadian Forest Products Division operates four manufacturing sites in Canada. Bowater acquired a significant portion of these operations in connection with its acquisition of Alliance Forest Products Inc., as described below. The principal product lines at these manufacturing sites are newsprint and uncoated groundwood specialties. The Division is also responsible for Bowater's 10 sawmill operations in Quebec and New Brunswick and for all lumber sales from Bowater's Canadian sawmills. The Division manages 400,000 acres of timberland owned in Canada and about 24 million acres of Crown-owned land in Canada on which Bowater has cutting rights.

The principal offices of Bowater are at 55 East Camperdown Way, Greenville, South Carolina 29602, and its telephone number at that address is (864) 271-7733.

Properties

The following table lists Bowater's mills by location and does not give effect to the Alliance acquisition:

Mills by Geographical Regions	Mill Location	Mill Type	Approximate Annual Capacity
United States	Usk, Washington	Newsprint	253,000 mt
	Grenada, Mississippi	Newsprint	244,000 mt
	Albertville, Alabama	Lumber	99,000 mbf
	Calhoun, Tennessee	Newsprint/Specialty	774,000 mt
		Market pulp	199,000 mt
	Catawba, South Carolina	Coated paper	325,000 mt
		Market pulp	245,000 mt
		Newsprint/Specialty	247,000 mt
	Benton Harbor, Michigan	Paper coating	126,000 mt
Canada	Thunder Bay, Ontario	Newsprint	501,000 mt
		Market pulp	544,000 mt
	Gatineau, Quebec	Newsprint	518,000 mt
	Maniwaki, Quebec	Lumber	79,000 mbf
	Dalhousie, New Brunswick	Newsprint	239,000 mt
	Liverpool, Nova Scotia	Newsprint	251,000 mt
	Oakhill, Nova Scotia	Lumber	110,000 mbf
Asia	Mokpo, South Korea	Newsprint	276,000 mt

mt: metric tons   mbf: thousands of board feet

As a result of the Alliance acquisition, Bowater acquired the following mills:

Mills by Geographical Regions	Mill Location	Mill Type	Approximate Annual Capacity
United States	Coosa Pines, Alabama	Newsprint	410,000 mt
		Market Pulp	272,000 mt
	Westover, Alabama	Lumber	58,000 mbf
Canada	Dolbeau, Quebec	Specialty	220,000 mt
	Donnacona, Quebec	Specialty	245,000 mt
	Mastassini, Quebec	Lumber	175,000 mbf
	Saint-Félicien, Quebec	Lumber	160,000 mbf
	Dégelis, Quebec	Lumber	60,000 mbf
	Baker Brook, New Brunswick	Lumber	75,000 mbf
	Rivière-Bleue, Quebec	Lumber	30,000 mbf
	Lac-des-Aigles, Quebec	Lumber	20,000 mbf
	Price, Quebec	Lumber	85,000 mbf
	Girardville, Quebec	Lumber	30,000 mbf
	Baie-Trinité, Quebec	Lumber	50,000 mbf

mt: metric tons   mbf: thousands of board feet

Acquisition of Alliance Forest Products Inc.

Bowater completed the acquisition of all of the outstanding capital stock of Alliance on September 24, 2001. Following this acquisition, Bowater changed Alliance's name to Bowater Canadian Forest Products Inc.

The aggregate purchase price to shareholders for the acquisition was approximately $486 million, consisting of 5,035,863 shares of Bowater's common stock (including Toronto Stock Exchange listed shares exchangeable on a one-for-one basis for shares of Bowater's common stock) and $251 million in cash. Bowater also repaid approximately $273 million of Alliance's outstanding debt. Bowater financed the cash portion of the purchase price and the debt repayment with $500 million of borrowings under a bridge credit agreement provided by Goldman, Sachs Credit Partners, L.P. and J. P. Morgan Securities Inc., as co-arrangers. The proceeds from this offering ultimately will be used to repay all amounts outstanding under the bridge credit agreement and to repay other short-term borrowings of Bowater. See "Use of Proceeds."

Bowater expects that the acquisition will increase earnings. Bowater expects to achieve annual cost savings and operating synergies in connection with the acquisition of approximately $60 million by the end of 2002. Through this acquisition, Bowater has increased its annual newsprint, coated and uncoated groundwood specialty papers capacity to approximately 4.6 million metric tons, and Bowater has increased its annual lumber capacity to approximately 1.0 billion board feet.

Bowater Canada Finance Corporation

We are an unlimited liability company organized under the laws of the Province of Nova Scotia, Canada and a wholly-owned subsidiary of Bowater. Bowater formed us for the purpose of providing financing to Bowater in Canada. We have no independent operations and prior to this offering, we had no material assets or liabilities. We will use the proceeds from this offering to acquire 99% of Bowater Canada Finance Limited Partnership from Bowater and to capitalize our wholly owned subsidiary, Bowater Canada Treasury Corporation, which will then acquire the remaining 1% of Bowater Canada Finance Limited Partnership from Bowater Ventures Inc., a wholly-owned subsidiary of Bowater. Bowater Canada Finance Limited Partnership was formed to facilitate the financing of the acquisition of Alliance and the recapitalization of Bowater Canadian Holdings Incorporated and Bowater Canada Inc., wholly-owned subsidiaries of Bowater.

Our principal offices are c/o Bowater Incorporated at 55 East Camperdown Way, Greenville, South Carolina 29602 and our telephone number at that address is (864) 271-7733.

Recent Developments

The following table sets forth selected unaudited financial data for Bowater for the nine months ended September 30, 2000 and 2001. Results of operations for the nine months ended September 30, 2001 are not necessarily indicative of results that may be expected for the full year. You should read the table below in conjunction with Bowater's Current Report on Form 8-K filed on October 23, 2001 and incorporated by reference in this offering circular.

	Nine months ended	
	September 30, 2000	September 30, 2001
	(in millions)	
Income Statement Data:		
Sales	$ 1,842.4	$ 1,748.9
Cost of sales	1,150.5	1,155.1
Depreciation, amortization and cost of timber harvested	217.0	228.6
Distribution costs	127.2	120.1
Selling and administrative expense	86.8	77.1
Net gain on sale of assets	3.4	83.5
Operating income	264.3	251.5
Income before income taxes and minority interests	169.1	162.1
Net income	100.9	54.5
Balance Sheet Data:		
Cash and cash equivalents	$ 21.8	$ 15.8
Timber and timberlands	271.5	261.1
Fixed assets, net	2,939.1	3,819.2
Total assets	4,991.1	5,855.4
Total debt	1,942.8	2,369.9
Long term debt, net of current installments	1,450.3	1,232.3
Other long term liabilities	345.3	332.2
Consolidated Cash Flow Data:		
Cash flow from operating activities	$ 273.5	$ 231.5
Cash invested in fixed assets, timber and timberlands	164.5	173.0

In the third quarter of 2001, Bowater curtailed newsprint production by approximately 120,000 metric tons. Market pulp production was curtailed by approximately 35,000 metric tons. In anticipation of continued weakness in demand, Bowater plans to take approximately the same amount of newsprint downtime and approximately 25,000 metric tons of market pulp downtime in the fourth quarter.

In October 2001, Bowater announced a reorganization of its Coosa Pines, Alabama mill which Bowater will complete by January 31, 2002. The reorganization involves the permanent shutdown of a paper machine used to manufacture newsprint, woodyard operations and other pulping and support equipment. Approximately 300 employees will be eliminated out of a current work force at the mill of approximately 1,000 workers.

The Offering

The following summary of the terms of the notes is not a complete description. See "Description of Notes" for further information regarding the terms of the notes.

Issuer	Bowater Canada Finance Corporation
Notes offered	$600 million in principal amount of 7.95% notes due 2011.
Maturity	November 15, 2011
Interest	Interest will accrue from the issue date of the notes at a rate equal to 7.95% per year. We will pay interest on the notes on May 15 and November 15 of each year, beginning on May 15, 2002.
Ranking	The notes will be our senior obligations and will rank equally with our existing and future senior unsecured debt. Upon completion of this offering, we will not have any senior debt outstanding other than the notes.
Guarantees	Our parent company, Bowater, will fully and unconditionally guarantee the notes. Bowater's guarantees of the notes will rank equally with its other senior unsecured debt, which totaled $1,843.8 million as of September 30, 2001 (which includes $62.8 million of guarantees).
Redemption by us	We may redeem all or a portion of the notes from time to time at a price equal to the greater of: • 100% of the principal amount thereof; or • the sum of the present value of the principal amount and interest on the notes being redeemed plus a make-whole premium.
Restrictive covenants	The indenture governing the notes will restrict our ability and the ability of Bowater to create certain liens, enter into sale and leaseback transactions and merge or consolidate.
Registration rights	In an effort to give you the opportunity in the future to exchange the notes for exchange notes with identical terms that may be publicly traded, we and Bowater have agreed to: • file a registration statement for the exchange notes within 90 days after the issue date of the notes; • cause the registration statement to become effective within 150 days of the issue date of the notes; and • consummate the exchange offer within 45 days of the effective date of our registration statement. In addition, we and Bowater have agreed, in certain circumstances, to file a "shelf registration statement" that would allow some or all of the notes to be offered to the public. If we commit a registration default by failing to meet the deadlines listed above, the annual interest rate on the

notes will increase by 0.25%. As soon as we cure the registration default, the interest rate on the notes will revert to its original level.

For additional information concerning the above, see "Description of Notes — Registration and Exchange Offer."

Transfer restrictions	We have not registered the notes under the Securities Act or any state or foreign securities law. The notes are subject to certain transfer restrictions and may be offered or sold only pursuant to an exemption from the registration requirements of, or in a transaction not subject to, the Securities Act. See "Notice to Investors."
Governing law	The notes and the indenture governing the notes will be governed by the laws of the state of New York.
Use of proceeds	We and a wholly-owned subsidiary will use the proceeds from this offering to purchase Bowater Canada Finance Limited Partnership from Bowater and Bowater Ventures Inc., a wholly-owned subsidiary of Bowater. Bowater and Bowater Ventures Inc. will then use the proceeds from that sale to repay all amounts outstanding under the bridge credit agreement and to repay other short-term borrowings of Bowater.
Risk Factors	You should carefully consider all of the information contained in this offering circular, including the discussions under the caption "Risk Factors" beginning on page 7, regarding specific risks involved in investing in the notes.

RISK FACTORS

Before purchasing the notes, you should carefully consider the following risk factors as well as the other information contained in or incorporated by reference into this offering circular.

Risks Related to the Notes

We are a financing subsidiary with no independent operations and, accordingly, will depend on the cash flow of Bowater and its subsidiaries to satisfy our obligations under the notes.

We are a financing subsidiary with no independent operations, sources of income or assets, other than our equity interests in our subsidiaries. Accordingly, we will depend on payments on intercompany loans to our subsidiaries or other distributions or payments to us by Bowater to make payments on the notes. These subsidiaries are separate legal entities that have no obligation to pay any amounts due pursuant to the notes. Consequently, we cannot assure you that the amounts we receive from Bowater or our subsidiaries will be sufficient to enable us to service our obligations on the notes.

Bowater's substantial indebtedness could adversely affect its financial health and prevent us from fulfilling our obligations under the notes.

After giving effect to this offering, Bowater will have a significant amount of indebtedness. As of September 30, 2001, after giving effect to this offering, Bowater would have had outstanding total debt of $2,375.4 million, a ratio of earnings to fixed charges of 2.4x and stockholders' equity of $2,041.0 million.

Bowater's substantial amount of debt could have important consequences for you. For example, it could:

- make it more difficult for us to satisfy our obligations with respect to the notes;
- limit Bowater's ability to obtain additional financing, if needed, for working capital, capital expenditures, acquisitions, debt service requirements or other purposes;
- increase Bowater's vulnerability to adverse economic and industry conditions;
- require Bowater to dedicate a substantial portion of its cash flow from operations to us so that we can make payments on our debt, thereby reducing funds available for operations, future business opportunities or other purposes;
- limit Bowater's flexibility in planning for, or reacting to, changes in its business and its industry; and
- place Bowater at a competitive disadvantage compared to its competitors that have less debt.

If an active trading market does not develop for the notes, you may not be able to resell.

There is currently no established market for the notes. We do not intend to list the notes on any securities exchange. The initial purchasers have advised us that they intend to make a market in the notes after this offering is completed and, if issued, the exchange notes. However, they are not obligated to do so and may discontinue market-making at any time without notice.

The liquidity of any market for the notes will depend upon various factors, including:

- the number of holders of the notes;
- the interest of securities dealers in making a market for the notes;
- the overall market for investment grade securities;
- our financial performance and prospects; and

• the prospects for companies in our industry generally.

In addition, the liquidity of the trading market in the notes, and the market price quoted for the notes, may be adversely affected by changes in the overall market for fixed income securities generally. As a result, an active trading market may not develop for the notes. If no active trading market develops, you may not be able to resell your notes at their fair market value or at all.

Failure to have the registration statement declared effective could adversely affect the liquidity and price of the notes.

The notes have not been registered under the Securities Act or any state or foreign securities laws and, unless so registered, may not be offered or sold except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable state or foreign securities laws. We intend to file a registration statement under the Securities Act with respect to exchange notes and to use our reasonable best efforts to have such registration statement declared effective by the Securities and Exchange Commission. The SEC, however, has broad discretion to determine whether any registration statement will be declared effective and may for a variety of reasons delay or deny the effectiveness of any such registration statement.

Risks Related to Bowater's Business

Cyclical industry conditions may adversely affect Bowater's results of operations and financial condition.

Bowater's operating results reflect the cyclical pattern of the forest products industry. Most of Bowater's products are world-traded commodity products. Prices for Bowater's products have been volatile historically, and Bowater, like other participants in the forest products industry, has limited direct influence over the timing and extent of price changes for its products. Instead, these price changes depend primarily on industry supply and customer demand. Industry supply depends primarily on available manufacturing capacity, and customer demand depends on a variety of factors, including the health of the economy in general and the strength of both print media advertising and new home construction. A prolonged and severe weakness in the markets for one or more of Bowater's principal products could seriously impair its results of operations and adversely affect its financial condition.

Intense competition in the forest products industry could adversely affect Bowater's operating results and financial condition.

The markets for Bowater's products are all highly competitive. Actions by competitors can affect the ability of Bowater to sell its products and can negatively affect the prices at which its products are sold. Bowater's industry is capital intensive, which leads to high fixed costs. Some of Bowater's competitors may be lower-cost producers in some of the businesses in which Bowater operates, and accordingly these competitors may be less adversely affected than Bowater by price declines.

Developments in electronic data transmission and storage could adversely affect the demand for Bowater's products.

Bowater's newspaper, magazine and catalog publishing customers increasingly may use, and compete with businesses that use, electronic data transmission and storage instead of newsprint, coated paper, uncoated groundwood specialty papers or other products made by Bowater. Bowater cannot predict the timing or the extent of this trend; however, a continued shift to electronic transmission could cause a decline in demand for these products and, accordingly, Bowater's sales.

Changes in laws and regulations could require substantial additional expenditures by Bowater to comply with these laws and regulations.

Bowater is subject to a variety of national and local laws and regulations dealing with trade, transportation, currency controls or the environment. Changes in these laws or regulations have required in the past, and could require in the future, substantial expenditures by Bowater. For example, changes in environmental laws and regulations could require Bowater to spend substantial amounts to comply with restrictions on air emissions, wastewater discharge, waste management and landfill sites, including remediation costs.

Environmental laws are becoming increasingly more stringent. Consequently, Bowater's compliance and remediation costs could increase materially. For example, in April 1998, the Environmental Protection Agency promulgated new air and water quality standards for the paper industry, known as the "Cluster Rule," aimed at further reductions of pollutants. Bowater anticipates spending approximately $160 million to enable its Catawba, South Carolina, facility to comply with the Cluster Rule and anticipates completing this work by April 2004.

Bowater may be subject to unforeseen environmental liabilities.

As an owner and operator of real estate and manufacturing and processing facilities, Bowater may be liable under environmental laws for cleanup and other costs and damages, including tort liability, resulting from past or present spills or releases of hazardous or toxic substances on or from its properties. Bowater may incur liability under these laws without regard to whether Bowater knew of, was responsible for or owned the property at the time of, any spill or release of hazardous or toxic substances on its property. In some cases, this liability may not be limited to the value of the property.

Bowater is exposed to currency fluctuations.

Certain of Bowater's products are sold in currencies other than the U.S. dollar and nearly half of its manufacturing costs and certain financial liabilities are denominated in Canadian dollars. Accordingly, changes in currency exchange rates will impact Bowater's revenues and costs. Increases in the value of the Canadian dollar versus the U.S. dollar would reduce Bowater's earnings, which are reported in U.S. dollars.

Bowater competes with North American, European and Asian producers in most of its product lines. Variations in the exchange rates between the U.S. dollar and other currencies, particularly those of Canada, Sweden, Finland, and certain Asian countries, significantly affect the competitive position of Bowater compared to many of its competitors.

Bowater is exposed to changes in banking and capital markets and changes in interest rates.

Bowater requires both short-term and long-term financing to fund its operations, including capital expenditures. Changes in the banking or capital markets could adversely affect the cost or availability of financing. In addition, Bowater is exposed to changes in interest rates with respect to its floating rate debt and all new debt issues. Changes in the capital markets or prevailing interest rates can increase the cost or decrease the availability of financing for Bowater.

Changes in the political or economic conditions in the United States or other countries in which Bowater's products are manufactured or sold can adversely affect Bowater's results of operations.

Bowater manufactures its products in the United States, Canada and South Korea, and sells its products throughout the world. The economic and political climate of each region has a significant impact on costs, prices of and demand for Bowater's products. Changes in regional economies or political stability can adversely affect the cost of manufacturing and distributing Bowater's products, pricing and sales volume, directly affecting Bowater's results of operations. These changes could also affect the availability or cost of insurance for its facilities.

High costs of raw materials and energy could seriously harm Bowater's operating results.

Bowater buys energy, chemicals, wood fiber, recycled paper and other raw materials on the open market. The prices for these raw materials are volatile and may change rapidly, directly affecting Bowater's results of operations. Bowater is a major user of renewable natural resources, specifically water and wood fiber. Accordingly, significant changes in climate and agricultural diseases or infestation could adversely affect the financial condition and results of operations of Bowater.

Bowater does not maintain insurance for losses to its standing timber from natural disasters or other causes.

The volume and value of timber that Bowater can harvest from its lands may be limited by natural disasters such as fire, insect infestation, disease, ice storms, wind storms, flooding and other weather conditions and other causes. As is typical in the industry, Bowater does not maintain insurance for any loss to its standing timber from natural disasters or other causes.

Bowater may not be able to integrate acquisitions successfully.

As part of its business strategy, Bowater has consummated several acquisitions, including the acquisition of Alliance, and may seek additional acquisition opportunities. Bowater may not succeed in integrating acquired operations. Successful integration of acquired operations, including those of Alliance, will depend primarily on Bowater's ability to consolidate operations, systems and procedures and to eliminate redundancies and excess costs. Acquisitions also may have an adverse effect on Bowater's operating results, particularly in the fiscal quarters immediately following the acquisition while Bowater integrates the acquired operations. Even after Bowater integrates these operations, their revenues and profits may be less than Bowater expects. In addition, Bowater may not realize expected synergies and cost savings in connection with the Alliance acquisition or other future acquisitions.

USE OF PROCEEDS

We will use the proceeds from this offering to acquire 99% of Bowater Canada Finance Limited Partnership from Bowater and to capitalize our wholly owned subsidiary, Bowater Canada Treasury Corporation, which then will acquire the remaining 1% of Bowater Canada Finance Limited Partnership from Bowater Ventures Inc., a wholly-owned subsidiary of Bowater. Bowater and Bowater Ventures Inc. then will use the proceeds from that sale to repay all amounts outstanding under the bridge credit agreement and to repay other short-term borrowings of Bowater.

Bowater's borrowings under the bridge credit agreement will mature on November 6, 2001 and will total $500.6 million at that date, including accrued interest at a variable rate based upon a one month eurodollar rate, which was equal to 3.4% per year at October 31, 2001. These borrowings were used to finance the cash portion of the purchase price of the Alliance acquisition and the repayment of Alliance's outstanding debt. Affiliates of the initial purchasers are lenders under the bridge credit agreement and, as a result, will receive a portion of the proceeds of this offering.

Bowater will use the balance of the proceeds of this offering to repay amounts outstanding under its 364-day and 5-year credit facilities. These borrowings presently incur interest at 5.5% per year.

CAPITALIZATION

The following table sets forth the capitalization of Bowater at June 30, 2001 on a historical basis and on a pro forma basis giving effect to the acquisition of Alliance, the sale of the notes and application of the proceeds. See "Use of Proceeds."

	At June 30, 2001	
	Historical	Pro forma
	(Dollars in millions)	
Short term debt:		
Bridge credit agreement	$ —	$ —
Commercial paper and other short-term borrowings	489.6	446.0
Total short term debt	489.6	446.0
Long term debt, including current installments:		
7.95% notes due 2011 offered hereby	$ —	$ 600.0
9.00% Debentures due 2009	250.0	250.0
9.38% Debentures due 2021	200.0	200.0
10.62% Notes due 2010	98.0	98.0
10.50% Notes due at various dates from 2002 to 2010	91.8	91.8
9.50% Debentures due in 2012	125.0	125.0
10.85% Debentures due 2014	82.1	82.1
9.25% Debentures due 2002	59.1	59.1
10.60% Notes due 2011	70.0	70.0
7.75% recycling facilities revenue bonds due 2022	62.0	62.0
7.40% recycling facilities revenue bonds due 2022	39.5	39.5
7.62% recycling facilities revenue bonds due 2016	30.0	30.0
10.26% Notes due at various dates from 2002 to 2011	22.0	22.0
Government of Quebec note due 2008	—	9.4
Pollution control revenue bonds due at various dates from 2002 to 2010 with interest at varying rates from 7.4% to 7.62%	13.4	13.4
Industrial revenue bonds due 2029 with interest at floating rates	33.5	33.5
8.50% Notes due 2001	18.1	18.1
Bank term loan at floating rates due 2001	11.4	11.4
10.25% Debentures due 2003	7.4	7.4
UDAG loan agreement due 2010 with interest varying rates from 5% to 6.5%	7.8	7.8
11.00% Subordinated debt due 2003	3.9	3.9
Total principal amount of long term debt, including current installments	1,225.0	1,834.4
Net premiums principally from assumed debt of a prior acquisition	107.2	105.3
Total long term debt, including current installments	1,332.2	1,939.7
Minority interests in subsidiaries	89.0	89.0
Shareholders' equity:		
Common stock, $1.00 par value, 100,000,000 shares authorized, 62,028,167 and 66,207,793 shares issued and outstanding at June 30, 2001, historical and pro forma, respectively	62.0	66.2
Exchangeable shares, no par value, unlimited shares authorized, 1,199,550 and 2,055,787 shares issued and outstanding at June 30, 2001, historical and pro forma, respectively	58.4	98.3
Additional paid-in capital	1,373.5	1,564.3
Retained earnings	845.2	845.2
Accumulated other comprehensive income (loss)	(19.5)	(19.5)
Treasury stock, at cost	(487.0)	(487.0)
Total shareholders' equity	1,832.6	2,067.5
Total capitalization	$3,743.4	$4,542.2

SELECTED SUMMARY FINANCIAL DATA

Bowater Selected Consolidated Financial Data

The following table sets forth selected "Income Statement Data" and "Balance Sheet Data" for, and as of the end of, each of the years in the five-year period ended December 31, 2000, and are derived from the consolidated financial statements of Bowater and its subsidiaries which have been audited by KPMG LLP, independent accountants. The selected financial data presented below as of and for the six-month periods ended June 30, 2000 and 2001 are derived from the unaudited consolidated financial statements of Bowater and its subsidiaries and, in Bowater's opinion, reflect all adjustments (consisting of normal accruals) necessary to present fairly the data for those periods. Bowater's results of operations for the six months ended June 30, 2001 may not be indicative of results that may be expected for the full year. You should read the table below in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Bowater's consolidated financial statements, and notes thereto included in this offering circular.

	Year Ended and at December 31,					Six Months Ended and at June 30,	
	1996	1997	1998(1)(3)	1999(1)(2)	2000(1)	2000	2001
	(in millions, except ratios)						
Income Statement Data:							
Sales	$1,839.2	$1,598.9	$2,142.7	$2,311.7	$2,500.3	$1,170.5	$1,190.1
Costs of Sales	1,149.6	1,106.8	1,422.2	1,625.2	1,549.9	748.2	761.2
Depreciation, amortization and cost of timber harvested	174.4	169.8	229.6	300.2	295.2	142.3	151.6
Distribution costs	120.9	114.4	147.7	177.0	166.6	83.3	81.2
Selling and administrative expense	93.1	72.2	82.6	98.7	132.6	54.3	46.0
Impairment of assets	—	—	119.6	92.0	—	—	—
Net gain on sale of assets	98.1	0.8	21.1	225.4	7.3	3.3	79.2
Operating income	399.3	136.5	162.1	244.0	363.3	145.7	229.3
Income before income taxes and minority interests	353.2	89.5	15.6	155.8	239.2	84.9	161.0
Net income (loss)	200.2	53.7	(18.5)	78.7	159.4	50.9	56.3
Balance Sheet Data:							
Cash and cash equivalents	$ 85.3	$ 228.7	$ 58.3	$ 24.7	$ 20.0	$ 16.0	$ 19.7
Timber and timberlands	395.7	394.0	472.8	283.2	265.2	275.1	256.2
Fixed assets, net	1,636.7	1,554.5	2,885.2	2,581.3	2,981.1	2,576.8	2,968.0
Total assets	2,865.5	2,745.8	5,092.0	4,552.2	5,004.1	4,576.9	4,789.9
Total debt	760.6	758.9	1,830.8	1,505.1	1,931.1	1,618.8	1,821.8
Long term debt, net of current installments	759.0	757.1	1,534.6	1,454.6	1,304.7	1,446.8	1,228.3
Other long term liabilities	171.7	169.5	356.3	326.1	319.2	334.1	224.8
Additional Information:							
Cash flow from operating activities	$ 336.2	$ 195.6	$ 274.1	$ 147.0	$ 416.6	$ 128.2	$ 180.3
Cash invested in fixed assets, timber and timberlands	106.9	99.6	223.2	198.5	283.2	112.0	115.0
EBITDA(4)	573.7	306.3	391.7	544.2	658.5	288.0	380.9
Ratio of EBITDA to interest expense	8.0x	4.5x	4.0x	4.3x	4.9x	4.6x	5.5x
Ratio of total debt to EBITDA(5)	1.3x	2.5x	4.7x	2.8x	2.9x		
Ratio of earnings to fixed charges(6)	4.5x	2.1x	1.1x	2.1x	2.7x	2.3x	3.0x

(1) In 2000, Bowater acquired a newsprint mill in Grenada, Mississippi. In 1999, Bowater sold Great Northern Paper, Inc. In 1998, Bowater acquired Avenor Inc. (now named Bowater Pulp and Paper Canada Inc.) and a South Korean newsprint mill.

(2) Results for 1999 included a pre-tax net gain on sale of timberlands and other assets of $225.4 million ($128.9 million after tax or $2.34 per diluted share) and a pre-tax impairment charge of $92.0 million ($56.1 million after tax or $1.02 per diluted share).

(3) Results for 1998 included a pre-tax net gain on sale of timberlands of $21.1 million ($6.7 million after tax or $.14 per diluted share) and a pre-tax impairment charge of $119.6 million ($73.0 million after tax or $1.53 per diluted share).

(4) EBITDA represents operating income plus depreciation, amortization and cost of timber harvested. EBITDA is presented because it is a widely accepted financial indicator of a company's ability to service indebtedness. However, EBITDA should not be considered as an alternative to income from operations or to cash flows from operating activities (as determined in accordance with generally accepted accounting principles) and should not be construed as an indication of Bowater's operating performance or as a measure of liquidity. EBITDA as presented by Bowater is not necessarily comparable with similarly-titled measures presented by other companies.

(5) Not meaningful for six month periods.

(6) The ratio of earnings to fixed charges is computed by dividing "earnings" by fixed charges. Earnings consist of income before income taxes and minority interests plus interest expense (excluding interest capitalized during the period and amortization of previously capitalized interest) plus the portion of rental expense representative of the interest factor. Fixed charges consist of interest expense (including interest capitalized during the period), plus preference security dividends plus the portion of rental expense representative of the interest factor.

Alliance Selected Consolidated Financial Data

The following table sets forth selected consolidated financial data for, and as of the end of, each of the years in the five-year period ended December 31, 2000. The data are stated in Canadian dollars and are derived from the consolidated financial statements of Alliance, which consolidated financial statements have been audited by Raymond Chabot Grant Thornton General Partnership, Chartered Accountants. The selected consolidated financial data as of and for the six-month periods ended June 30, 2001 and 2000 are stated in Canadian dollars and are derived from unaudited consolidated financial statements of Alliance and, in Bowater's opinion, reflect all adjustments (consisting of normal accruals) necessary to present fairly the data for those periods. Bowater acquired Alliance on September 24, 2001. You should read the table below in conjunction with Alliance's consolidated financial statements and notes thereto incorporated by reference into this offering circular.

	Year Ended and at December 31,					Six Months Ended and at June 30,	
	1996	1997	1998	1999	2000	2000	2001
	(in millions of Canadian dollars)						
Income Statement Data(1):							
Net sales	$ 424.0	$ 823.3	$1,085.1	$1,052.7	$1,085.1	$ 547.4	$ 577.5
Cost of goods sold	298.4	678.3	864.2	914.0	910.6	467.2	452.2
Selling, general and administrative expenses	21.4	25.4	37.9	37.8	31.7	16.8	18.0
Depreciation, amortization and depletion	22.2	60.8	87.3	89.4	78.7	39.7	46.3
Amortization of the deferred gain	—	—	—	—	(34.4)	(15.0)	(19.4)
Operating income	82.0	58.8	95.7	11.5	98.5	38.7	80.4
Earnings (loss) before unusual items and income taxes	80.5	38.2	35.5	(24.2)	87.1	33.4	67.7
Unusual items	—	—	—	—	(51.8)	(51.8)	8.3
Net earnings (loss)	56.0	26.5	25.9	(16.2)	(21.3)	(10.2)	44.5
Balance Sheet Data:							
Fixed assets	365.6	1,346.7	1,369.7	1,367.1	1,257.5	1,142.7	1,311.2
Total assets	552.8	1,688.9	1,771.8	1,734.4	1,627.9	1,530.0	1,661.8
Long-term debt(2)	41.7	501.7	556.4	484.8	330.4	249.6	378.8
Total debt(3)	77.3	530.9	567.9	537.7	347.5	259.1	423.6
Shareholders' equity	350.6	936.0	957.8	892.4	803.6	771.2	849.9
Other Financial Data:							
Cash flow from operating activities	$ 75.4	$ 78.0	$ 130.1	$ 122.8	$ 85.5	$ 43.0	$ 84.4
Acquisition of fixed assets	(157.1)	(214.1)	(114.4)	(120.6)	(225.0)	(101.2)	(174.7)
EBITDA(4)	104.2	119.6	183.0	100.9	142.8	63.4	107.3

(1) Alliance's financial statements are prepared using Canadian GAAP.

(2) Includes long-term debt and current portion of the long-term debt.

(3) Includes long-term debt, current portion of the long-term debt and bank indebtedness.

(4) EBITDA represents operating income plus depreciation, amortization and depletion. EBITDA is presented because it is a widely accepted financial indicator of a company's ability to service indebtedness. However, EBITDA should not be considered as an alternative to income from operations or to cash flows from operating activities (as determined in accordance with generally accepted accounting principles) and should not be construed as

an indication of Alliance's operating performance or as a measure of liquidity. EBITDA as presented by Alliance is not necessarily comparable with similarly-titled measures presented by other companies.

Selected Unaudited Pro Forma Combined Financial Data

The following table sets forth selected unaudited pro forma combined financial data for Bowater for the year ended December 31, 2000, and as of and for the six-month period ended June 30, 2001, which give effect to Bowater's acquisition of Alliance, which will be accounted for using the purchase method of accounting, whereby the total cost of the transaction will be allocated to the tangible and intangible assets acquired and liabilities assumed based upon their respective fair values at the effective date of the transaction. Accordingly, the allocations of the purchase price included in the unaudited pro forma combined financial statements are preliminary. Independent appraisals and actuarial valuations will be conducted and final allocations will be made after closing. The income statement data assume that the acquisition had been consummated on January 1, 2000, and the balance sheet data assume that the acquisition had been consummated on June 30, 2001. The unaudited pro forma combined financial data do not purport to represent what the results of operations or financial position of Bowater would actually have been if the acquisition had in fact occurred on the assumed dates and they do not project the results of operations or financial position of Bowater for any future date or period. The selected unaudited pro forma combined financial data do not reflect the cost savings and operating synergies Bowater expects to realize in connection with the acquisition. You should read the following table in conjunction with Bowater's unaudited pro forma combined financial statements incorporated by reference into this offering circular.

	Year Ended December 31, 2000			Six Months Ended June 30, 2001		
	Bowater	Alliance	Pro Forma	Bowater	Alliance	Pro Forma
	(in millions of dollars)					
Income Statement Data:						
Sales	$2,500.3	$ 799.6	$3,299.9	$1,190.1	$ 409.1	$1,599.2
Cost of sales	1,549.9	613.9	2,163.8	761.2	295.3	1,056.5
Depreciation, amortization and cost of timber harvested	295.2	29.8	346.9	151.6	17.6	187.9
Distribution costs	166.6	68.7	235.3	81.2	31.9	113.1
Selling and administrative expense	132.6	21.5	154.1	46.0	11.8	57.8
Impairment of assets	—	42.3	42.3	—	—	—
Net gain on sale of assets	7.3	7.4	14.7	79.2	5.4	84.6
Operating income	363.3	30.8	372.2	229.3	57.9	268.5
Income before income taxes and minority interests	239.2	17.4	225.3	161.0	50.1	187.7
Net income	159.4	9.5	149.8	56.3	29.6	71.6
Balance Sheet Data:						
Cash and cash equivalents				19.7	—	19.7
Timber and timberlands				256.2	5.2	261.4
Fixed assets, net				2,968.0	858.8	3,800.4
Total assets				4,789.9	1,087.0	5,821.3
Total debt(1)				1,821.8	279.1	2,377.2
Total long-term obligations				1,453.1	240.4	1,760.3

(1) Includes long-term debt, current portion of long-term debt and bank indebtedness.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Organization

Bowater is organized into five divisions: the Newsprint Division, the Coated and Specialty Papers Division, the Pulp Division, the Forest Products Division and the Canadian Forest Products Division. Each division, with the exception of the Pulp Division, is responsible for the sales and marketing of distinct product lines and the operation of certain manufacturing sites. The Pulp Division is primarily a marketing and distribution division. Therefore, Bowater's financial results are collected, analyzed and reported through the Newsprint, Coated and Specialty Papers, Forest Products and Canadian Forest Products Divisions.

The following discussion reflects the organization of Bowater before the closing of the Alliance acquisition on September 24, 2001 and does not include a discussion of Alliance's financial condition and results of operations. During the periods discussed below, Bowater was organized into four divisions: the Newsprint Division, the Coated Paper Division, the Pulp Division and the Forest Products Division.

Results of Operations — Six Months Ended June 30, 2001 Compared to June 30, 2000

Overview. For the first six months of 2001, Bowater had operating income of $229.3 million, compared to $145.7 million for the first six months of 2000. Operating income for the first half of 2001 includes a net gain on sale of assets of $79.2 million compared to a net gain on sale of assets of $3.3 million for the first half of 2000. Excluding these asset sales, operating income increased $7.7 million. Higher transaction prices for newsprint ($102.8 million) and uncoated groundwood specialties ($4.8 million) partially offset by lower prices for market pulp ($47.6 million) and coated groundwood ($2.4 million) and lower shipments ($6.2 million, primarily pulp) account for the majority of this increase. Higher operating costs as a result of maintenance and market-related downtime ($43.5 million), higher fuel ($7.4 million) and chemicals ($10.4 million) costs, and a charge for beetle damage ($5.5 million) were partially offset by lower prices for recovered paper ($7.6 million), a favorable Canadian dollar exchange rate ($21.7 million), and lower selling, general and administrative expenses ($8.3 million) primarily due to Bowater's stock-based compensation programs.

Net income for the first six months of 2001 was $56.3 million, or $1.08 per diluted share, compared with net income of $50.9 million, or $0.95 per diluted share, for the first six months of 2000. Sales for the first half of 2001 were $1,190.1 million compared with $1,170.5 million for the first half of 2000.

Presented below is a discussion of each significant product line followed by a discussion of the results of each of the reported divisions.

Product Line Information

	Six Months Ended June 30, 2001	Six Months Ended June 30, 2000
	(Unaudited, in millions)	
Sales by Product		
Sales:		
Newsprint	$ 746.2	$ 634.7
Market pulp	206.4	283.4
Coated groundwood	153.2	157.6
Uncoated groundwood specialties	61.2	46.2
Lumber, timber and other wood products	180.3	220.4
Elimination of intersegment sales	(157.2)	(171.8)
Total sales	$1,190.1	$1,170.5

Newsprint. For the first six months of 2001, Bowater's average transaction price for newsprint increased 16% compared to the first six months of 2000. On May 1, and July 1, 2001, Bowater adjusted its domestic prices downward by $25 per metric ton, thereby rescinding the $50 per metric ton increase announced March 1, 2001. Bowater implemented price increases for its export newsprint markets during the first half of 2001. Bowater's shipments of newsprint were slightly higher compared to shipments for the first six months of 2000, due primarily to the acquisition of the Grenada operations in August 2000. Total United States demand and consumption of newsprint decreased in the first six months of 2001 compared to the first six months of 2000. Both North American mill inventories and United States customer inventories increased, comparing the end of June 2001 levels to the end of June 2000. North American offshore exports and U.S. imports of newsprint decreased for the first half of 2001 compared to the first half of 2000.

Market Pulp. The average transaction price for Bowater's market pulp for the first six months of 2001 decreased 19% compared to the first six months of 2000. Bowater's shipments of market pulp decreased 12% over the year ago period. NORSCAN (United States, Canada, Finland, Norway and Sweden) market pulp shipments for the first six months of 2001 decreased compared to the first six months of 2000. NORSCAN producer pulp inventories ended the second quarter at 1.8 million metric tons, or 32 day supply, 60% higher than at the end of June 2000.

Coated Groundwood. Bowater's average transaction price for coated groundwood paper decreased 2% in the first six months of 2001 compared to the first six months of 2000. Bowater's shipments of coated groundwood paper were 1% lower compared to shipments for the six months of 2000. For the industry, United States coated groundwood paper shipments were 2% lower compared to the first half of 2000. Coated groundwood paper inventory held by the United States mills at the end of June 2001 decreased 10% compared to the end of June 2000. Magazine advertising pages and catalog mailings (measured by standard A mail weight) decreased compared to the first six months of 2000.

Lumber. For the first six months of 2001, Bowater's average transaction price for lumber decreased 8% compared to the first six months of 2000. Shipments of lumber were down 28% compared to the first six months of 2000. Market-related curtailments and downtime for capital improvements resulted in lower shipments for the period.

Timber. Bowater's shipments of timber products were down 25% in the first six months of 2001 compared to the first six months of 2000. Bowater plans to sell approximately 250,000 acres of its United States timberlands and expects to complete the sale before the end of 2001. Bowater has adjusted harvest activities in preparation for this sale. Continued weak markets have also adversely affected timber sales in the U.S. South. The average transaction price for timber decreased 9% from the year-ago period, primarily the result of weak timber markets in the South.

Divisional Performance

	Six Months Ended June 30, 2001	Six Months Ended June 30, 2000
	(In millions)	
Sales by Division (1)		
Newsprint Division	$ 911.9	$ 835.7
Coated Paper Division	255.1	286.1
Forest Products Division	180.3	220.6
Corporate & eliminations	(157.2)	(171.9)
Total sales	$1,190.1	$1,170.5

	Six Months Ended June 30, 2001	Six Months Ended June 30, 2000
	(In millions)	
Operating Income (Loss) by Division(1)		
Newsprint Division	$151.6	$102.2
Coated Paper Division	22.8	62.3
Forest Products Division	(2.3)	17.8
Other items	79.2	3.3
Corporate & eliminations	(22.0)	(39.9)
Total operating income	$229.3	$145.7

(1) Financial results for the production and sale of market pulp are included in the Newsprint Division or the Coated Paper Division, depending upon which site manufactures the product. The Pulp Division is responsible for the marketing and distribution of the product, and its administrative expenses are included in "Corporate & eliminations."

Newsprint Division. Sales for the Division increased $76.2 million for the first six months of 2001 compared to the first six months of 2000. This increase is primarily the result of higher average transaction prices for newsprint ($96.8 million) and uncoated groundwood specialties ($4.6 million) and higher newsprint shipments ($21.8 million, which includes the acquisition of the Grenada operations with the other sites having lower shipments). This increase was partially offset by lower pulp average transaction prices ($33.6 million) and shipments ($19.2 million). See the previous discussion of product line results.

Operating income for the first six months of 2001 increased $49.4 million compared with operating income of $102.2 million for the first six months of 2000. Higher prices for newsprint ($96.8 million) and uncoated groundwood specialties ($3.4 million) partially offset by lower prices for market pulp ($33.6 million) account for the majority of this increase. Operating costs for the division increased in the first six months of 2001 due to maintenance and market-related downtime ($28.9 million) and higher prices for fuel ($6.9 million) and chemicals ($4.4 million). This increase was partially offset by lower recovered paper prices ($7.6 million) and a favorable Canadian dollar exchange rate ($21.7 million).

Coated Paper Division. Sales for the Division decreased $31.0 million for the first six months of 2001 compared to the first six months of 2000, due to lower average transaction prices for market pulp ($14.1 million) and coated groundwood paper ($2.2 million) and lower shipments of newsprint ($13.2 million) and pulp ($12.1 million). This decrease was partially offset by higher transaction prices for newsprint ($5.9 million) and uncoated groundwood specialties ($2.2 million). See the previous discussion of product line results.

Operating income decreased $39.5 million for the first six months of 2001 compared to the first six months of 2000. This decrease was primarily the result of lower transaction prices for market pulp ($14.1 million), lower shipments ($3.1 million, primarily newsprint and pulp) and higher operating costs due to a biannual maintenance shut down ($12.5 million), market-related downtime ($3.0 million) and higher prices for chemicals ($6.0 million) and fuel ($0.8 million). This decrease was partially offset by higher transaction prices for newsprint ($5.9 million) and uncoated groundwood specialties ($2.2 million).

Forest Products Division. Sales for the Division decreased $40.3 million for the first six months of 2001 compared to the first six months of 2000. This decrease is primarily the result of lower lumber ($2.1 million) and timber ($6.3 million) transaction prices and lumber ($9.8 million) and timber ($22.6 million) shipments. See the previous discussion of product line results.

Operating income for the Division decreased $20.1 million for the first six months of 2001 compared to the first six months of 2000, due primarily to lower lumber ($2.1 million) and timber ($6.3 million) transaction prices and lower timber shipments ($3.7 million). Operating costs for the Division were higher in the first six months of 2001 compared to the same period last year due to a charge for pine beetle damage ($3.4 million). Operating costs were also negatively impacted by the startup of two recently modernized sawmills.

The continuing drought in the U.S. Southeast is contributing to conditions that allow the southern pine beetle to flourish and expand the range of its infestation. Bowater has incurred charges aggregating approximately $13.0 million over the past four quarters as a result of beetle damage. If there is no change in conditions, Bowater may incur additional beetle damage.

Other Items. In the second quarter of 2001, Bowater recognized a net pre-tax gain on the sale of assets of $85.0 million. This gain is primarily the result of the sale of a note receivable and recognition of deferred income (previously in Other Long-term Liabilities) related to a 1999 installment sale of timberlands. The pre-tax gain on this sale was $84.5 million ($19.2 million after tax and minority interest). In April 2001, Bowater reached a final settlement in connection with the sale of GNP to Inexcon. As a result, Bowater recognized a pre-tax charge of $5.8 million in the first quarter of 2001. In the first six months of 2000, Bowater sold assets and timberlands resulting in a pre-tax gain of $3.3 million.

Corporate & Eliminations. The elimination of intersegment sales decreased $14.7 million, comparing the first half of 2001 to the first half of 2000. Corporate expenses decreased $17.9 million primarily due to credits recognized for stock-based compensation ($12.1 million) in the first six months of 2001 and higher benefit costs ($6.7 million) in the first six months of 2000.

Interest and Other Income and Expenses. Interest expense for the first six months of 2001 increased $6.3 million over the same period in 2000. This increase was attributable to higher borrowings on Bowater's credit facility due to the acquisition of the Grenada operations in August 2000. Comparing the same periods, interest income decreased $1.1 million due to lower average cash balances.

Also in the first half of 2001, Bowater recorded a foreign exchange loss of $6.6 million compared to a loss of $5.3 million during the first half of 2000. The majority of Bowater's exchange gain (loss) amounts is the change in currency exchange rates during the respective quarters.

Bowater's effective tax rate for the first six months of 2001 was 43.7% compared to 40.1% for the first six months of 2000. The higher rate in 2001 was the result of non-deductible foreign currency losses and the partially taxable dividend received as a result of the sale of a note receivable.

Minority interests in the net income of subsidiaries for the first six months of 2001 increased $34.4 million primarily due to the sale of a note receivable and recognition of deferred income (previously in Other Long-term Liabilities) related to a 1999 installment sale of timberlands.

Results of Operations — 2000 Compared with 1999

Overview. Bowater's net income for 2000 was $159.4 million, or $3.02 per diluted share, compared with net income of $78.7 million, or $1.41 per diluted share, in 1999.

Operating income in 2000 was $363.3 million on sales of $2.5 billion, compared with $244.0 million on sales of $2.3 billion in 1999. In 2000, operating income includes a gain on sale of assets of $7.3 million compared to $225.4 million in 1999. Operating income for 1999 also includes a pre-tax impairment charge of $92.0 million. Excluding the impairment charge and the net gain on sale of assets, operating income increased $245.4 million. This increase was due to higher transaction prices for newsprint ($132.1 million), pulp ($125.4 million), coated groundwood paper ($39.0 million) and uncoated groundwood specialties ($8.5 million), and higher shipments of newsprint (due to the acquisition of the Grenada mill) and uncoated groundwood specialties. This increase was partially offset by lower lumber prices ($10.9 million), lower shipments of pulp and coated groundwood paper and higher general and administrative expenses ($33.9 million). Bowater's operating costs were lower in 2000 compared with 1999 primarily due to less market-related downtime ($33.3 million). Costs were also reduced by the sale of Great Northern Paper, Inc. (GNP), which included two high-cost mills, offset by higher prices for recycled paper, fuel and power. Presented below is a discussion of each significant product line, followed by a discussion of the results of each of the divisions.

Product Line Information

Newsprint. The newsprint markets improved during 2000. Bowater's average transaction price for newsprint increased 10% during the year. Bowater's shipments were slightly higher compared with 1999 due to the acquisition of the Grenada mill and less market-related downtime, partially offset by the sale of GNP and the movement of newsprint to higher value-added specialty grades. Bowater's inventory of newsprint at the end of 2000 was lower than at the end of 1999. The United States economy grew approximately 5% in 2000, and Asian demand improved, recovering from the Asian economic crisis of 1997 and 1998. Total United States newsprint demand and consumption increased during 2000 compared with 1999. North American mill inventories, as well as customer inventories, declined from 1999 levels. North American exports of newsprint, constrained by tight domestic supply, grew modestly during the year. North American imports of newsprint declined significantly. The supply/demand picture for newsprint improved as industry capacity declined during the year because producers converted to higher value grades and closed high-cost facilities. As of December 31, 2000, approximately one million tons of annual production capacity were expected to be removed from the North American market over the next two years. Given the strong newsprint market, Bowater increased prices in all of its offshore markets by approximately $50 per metric ton in the first quarter of 2001 and it implemented an additional $50 per metric ton price increase, effective March 1, 2001, in the United States.

Uncoated Groundwood Specialties. Compared with 1999, Bowater's average transaction price of uncoated groundwood specialties increased 9% in 2000. Bowater's shipments also increased 72% as a result of the movement from newsprint to higher value-added specialty grades. Uncoated groundwood specialty grades are used mainly for fliers and newspaper inserts. This market is normally similar to the newsprint market in terms of pricing and demand.

Coated Groundwood. The market for coated groundwood paper was solid throughout 2000. Bowater's 2000 average transaction price for coated groundwood paper was 13% higher than in 1999. Bowater's shipments for 2000 were 7% lower compared with 1999 shipments. This decrease is primarily the result of the sale of GNP in 1999, partially offset with the production from its Nuway operations. United States shipments of coated groundwood paper increased slightly compared to 1999. End-use markets continued to grow with magazine advertising pages and catalog mailings (measured by standard A mail weight) increasing over 1999 levels. Inventories of the United States coated groundwood producers declined significantly in the first half of 2000 and then increased during the second half to end the year 26% higher than year end 1999. Although there was significant weakness in the coated free-sheet markets during the year, the impact on its coated paper grades was minimal.

Market Pulp. 2000 was a strong year for market pulp. Bowater implemented three price increases: $30 per metric ton effective January 1, 2000, $40 per metric ton effective April 1, 2000, and $30 per metric ton effective July 1, 2000. Bowater's average transaction price for market pulp increased 30% compared to 1999. Bowater's shipments were down slightly compared to 1999 due to 25,000 metric tons of market-related downtime taken toward the end of the year. During the first half of the year, NORSCAN (United States, Canada, Finland, Norway and Sweden) shipments increased 2% from the corresponding 1999 level. During the second half of the year, market conditions began to weaken. NORSCAN shipments decreased compared to the second half of 1999 and were also down compared to the first half of 2000. Industry inventories increased to over 33 days supply, or 1.8 million metric tons.

Lumber. Lumber markets were weak throughout 2000. United States housing starts were 1.6 million units in 2000, decreasing 4% from 1999. Bowater's average transaction price for lumber in 2000 was 16% lower than in 1999 with prices declining in each quarter of the year. The industry average price for structural framing lumber was at its lowest level since 1992. Shipments increased at each of Bowater's three sawmills; however, Bowater's overall shipments declined slightly in 2000 compared with 1999 due to the sale of a sawmill in March 1999.

Timber. Bowater's average transaction price for timber declined 6% from 1999 levels. After accounting for the change in mix that resulted from the sale of timberlands in Maine, Bowater's prices for timber were basically flat in 2000 compared to 1999. Softwood sawtimber prices weakened slightly as a result of poor lumber markets; however, the impact on Bowater was minimized through aggressive merchandising and marketing efforts. Bowater's shipments of timber declined 31% in 2000 as a result of the sale of over 2 million acres of timberland in 1999.

Divisional Performance

	2000	1999
	(In millions)	
Sales by Division(1)		
Newsprint	$1,827.2	$1,672.0
Coated Paper	586.9	499.2
Forest Products	427.4	490.0
Corporate & other eliminations	(341.2)	(349.5)
Total sales	$2,500.3	$2,311.7

	2000	1999
	(In millions)	
Segment Income (Loss) by Division(1)		
Newsprint	$ 291.4	$ 53.1
Coated Paper	136.1	72.2
Forest Products	17.9	44.9
Special items	7.3	133.4
Corporate & other eliminations	(89.4)	(59.6)
Total segment income	$ 363.3	$ 244.0

(1) Financial results for the production and sale of market pulp are included in the Newsprint Division or the Coated Paper Division, depending upon which site manufactures the product. The Pulp Division is responsible for the marketing and distribution of the product, and its administrative expenses are included in "Corporate & other eliminations."

The line titled "Total segment income" in the preceding table is equal to "Operating income" as presented in Bowater's Consolidated Statement of Operations.

Newsprint Division. Sales increased during the year, from $1.7 billion to $1.8 billion, primarily as a result of the higher transaction prices for newsprint ($123.5 million), pulp ($98.4 million) and uncoated groundwood specialties ($7.4 million), as well as higher shipments of newsprint ($27.9 million) (due to the acquisition of the Grenada mill), pulp ($8.3 million) and uncoated groundwood specialties ($28.6 million), partially offset by lower shipments of directory paper ($89.3 million due to the sale of GNP in August 1999) and coated paper ($49.4 million). See the previous discussions of the newsprint and market pulp product line results. Segment income in 2000 increased $238.3 million from $53.1 million in 1999 to $291.4 million. This increase was due to the higher transaction prices for newsprint ($123.5 million), pulp ($98.4 million) and uncoated groundwood specialties ($7.4 million). Operating costs for the Division were lower in 2000 due to less market-related downtime ($33.3 million). Costs were also reduced by the sale of GNP's high-cost mills, offset by higher prices for recycled paper, power and fuel.

Coated Paper Division. Sales increased $87.7 million in 2000 compared with 1999, from $499.2 million to $586.9 million, primarily the result of higher transaction prices for newsprint ($8.5 million), coated groundwood paper ($37.4 million) and pulp ($33.8 million), and higher shipments of coated groundwood ($30.4 million) and uncoated groundwood specialties ($19.3 million). This increase was partially offset by lower newsprint ($20.5 million) and market pulp ($21.0 million) shipments. See the previous discussions of the newsprint, coated groundwood and market pulp product line results. Segment income increased $63.9 million, from $72.2 million to $136.1 million, primarily the result of the higher transaction prices for newsprint ($8.5 million), coated groundwood paper ($37.4 million) and pulp ($33.8 million), partially offset by higher operating costs associated with fuel ($1.9 million) and chemicals ($7.1 million).

Forest Products Division. Sales in 2000 decreased $62.6 million compared with 1999, from $490.0 million to $427.4 million. This decrease was due primarily to lower shipments of timber ($53.8 million) and lumber ($2.4 million) and lower transaction prices for lumber ($10.7 million), partially offset by higher prices for timber ($2.3 million). See the previous discussions of the lumber and timber product line results. Segment income decreased $27.0 million, from $44.9 million to $17.9 million, due to lower transaction prices for lumber ($10.7 million) and lower timber shipments ($7.2 million) due to the sale of over 2 million acres during 1999. These decreases were partially offset by higher transaction prices for timber ($2.3 million). Operating costs for the Division increased compared with 1999, primarily as a result of higher prices for timber cut from third party landowners ($4.3 million) and a charge of $7.8 million for pine beetle damage to Bowater's southern United States timberlands. The risk of additional pine beetle damage continues to exist. The Division is unable to determine, at this time, if this will have a material impact on its future operating results.

Special Items. During 2000, Bowater sold fixed assets and timberlands resulting in a pre-tax gain of $7.3 million. During 1999, Bowater sold over 2 million acres resulting in a pre-tax gain of $272.5 million. Bowater also recorded a pre-tax impairment charge of $92.0 million, reducing the book value of Bowater's assets at GNP. In August 1999, Bowater completed the sale of GNP, resulting in a pre-tax loss of $47.1 million.

Corporate & Other Eliminations. The elimination of intersegment sales decreased $8.3 million in 2000 compared to 1999. Decreased sales volume between the divisions accounts for the majority of this decrease. General and administrative expenses for 2000 increased $29.8 million compared with 1999, primarily due to higher stock-based compensation charges ($16.8 million), benefit costs ($11.8 million) and professional fees ($2.5 million).

Interest and Other Income and Expenses

Interest expense increased $8.5 million in 2000, from $126.7 million to $135.2 million, due to borrowings on Bowater's credit facility to fund the acquisition of the Grenada mill. Interest income increased $7.9 million, from $7.7 million in 1999 to $15.6 million in 2000, due to interest on notes receivable from a sale of timberland.

Other expense in 2000 was $4.5 million versus other income of $30.8 million in 1999. During 2000, Bowater incurred foreign exchange losses of $3.9 million compared with $33.4 million of foreign exchange gains in 1999. These gains and losses primarily relate to the effect of changes in Canadian dollar exchange rates on Bowater's Canadian dollar hedging program during the respective periods.

Provision for Income Taxes

Bowater's effective tax rate in 2000 was 29% compared to 46% in 1999. The rate is lower in 2000 due to Canadian investment tax credits and tax saving initiatives generated and recorded in 2000. In addition, as the level of pre-tax income increases, the impact of non-deductible items on Bowater's effective tax rate, such as goodwill amortization, lessens.

Results of Operations — 1999 compared with 1998

Overview. Operating income in 1999 was $244.0 million on sales of $2.3 billion, compared with $162.1 million on sales of $2.1 billion in 1998. The increase in 1999 operating income compared to 1998 was due to higher net gains on the sale of timberlands in 1999 of $225.4 million compared to $21.1 million in 1998, a pre-tax impairment charge of $92.0 million in 1999 compared to $119.6 million in 1998, higher transaction prices for market pulp ($24.7 million) and higher shipments of newsprint and pulp, partially offset by lower transaction prices for newsprint ($178.9 million) and coated groundwood paper products ($36.1 million) and lower coated groundwood paper shipments. Bowater's operating costs were also lower in 1999 compared with 1998 due to the benefit of having the higher cost GNP mills out of its mix for a portion of the year and realizing certain acquisition-related synergies.

Presented below is a discussion of each significant product line followed by a discussion of the results of each of the reported Divisions.

Product Line Information

Newsprint. For most of 1999 and 1998, the newsprint market was affected by an imbalance in supply and demand, caused in part by the financial and economic problems in Asia, which lowered demand from this region. North American shipments to this region decreased while, at the same time, Asian imports increased, creating an oversupply of newsprint in North America. As a result, Bowater's newsprint prices declined precipitously through the third quarter of 1999. Bowater also reduced newsprint production by approximately 200,000 metric tons to correct an order book imbalance and to lower inventories. Later in the year, Asian demand increased, and North American exports of newsprint for 1999 improved 8% above 1998 levels. In addition, total United States demand and consumption of newsprint improved in 1999 compared with 1998. As a result of more favorable market conditions, effective October 1999, Bowater implemented a United States price increase and announced an additional increase of $50 per metric ton, effective April 1, 2000. Bowater also increased export prices for newsprint in certain regions, effective January 1, 2000. Bowater's shipments were 32% higher in 1999 versus 1998 as a result of the acquisitions in July 1998 of Avenor Inc. and a newsprint mill in South Korea. Bowater's inventory of newsprint at the end of 1999 was lower than at the end of 1998.

Coated Groundwood. During the first half of 1999, the market for coated groundwood paper was negatively impacted by an increased supply of competing printing and writing papers. Bowater's 1999 average transaction price for coated groundwood paper was 10% lower than in 1998. United States coated groundwood shipments increased during the second half of 1999 and were up strongly in the fourth quarter when compared with the fourth quarter of 1998. End-use markets continued to show strength with magazine advertising pages and catalog mailings (measured by standard A mail weight) increasing over 1998 levels. Inventories of the United States coated groundwood producers declined significantly in the second half of 1999. With improving market conditions, Bowater implemented price increases in the third quarter and an additional price increase of $60 per short ton effective October 1, 1999. Bowater's shipments for 1999 were 11% lower compared with 1998 shipments, primarily as a result of the sale of GNP in August 1999. Bowater's inventory of coated groundwood paper was slightly lower than 1998 levels.

Directory Paper. Directory paper prices generally change similarly to newsprint pricing, but with a lag due to the contract nature of the directory business. Bowater's average transaction price for directory paper decreased 7% in 1999 compared with 1998. Shipments of Bowater's directory paper decreased 45% as a result of the sale of GNP in August 1999. Subsequent to the sale of GNP, Bowater no longer produces or markets directory paper.

Market Pulp. World pulp markets continued to improve throughout the year, reflecting tight supply conditions and improved demand. NORSCAN (United States, Canada, Finland, Norway and Sweden) shipments of market pulp for 1999 increased 7% compared with 1998, and inventories declined to 1.1 million metric tons, or a 17-day supply. As a result of these strong market conditions, Bowater implemented several market pulp price increases throughout 1999 and announced additional price increases of $30 per metric ton effective January 1, 2000, and $40 per metric ton effective April 1, 2000. The average transaction price for Bowater's market pulp increased 6% compared with 1998. Bowater's shipments increased 51% in 1999 compared with last year, primarily due to the acquisition of Avenor in July 1998. Bowater's market pulp inventories declined significantly at the end of 1999 compared with the end of 1998.

Lumber. United States demand for lumber was robust in 1999. Lumber pricing peaked at midyear, supported by 1999 housing starts of approximately 1.7 million units, the highest level since 1986. Prices stabilized in the fourth quarter, returning to beginning-of-year levels by the end of 1999. Bowater's average transaction price for lumber in 1999 was 4% higher than in 1998. Bowater's shipments of lumber declined slightly due primarily to the sale of a sawmill in March 1999. This decrease was partially offset by higher production rates at Bowater's sawmills and the inclusion of production from the Avenor sawmill acquired in July 1998.

Timber. Demand was mixed across Bowater's timber operations. Despite an increase in higher-value sawtimber, average transaction prices declined 8% compared with 1998 prices due to lower demand in the southeast United States timber markets and Bowater's sale of timberlands in the state of Maine. Shipments of Bowater's timber products increased 10% in 1999 compared with 1998 due to benefits from an increased focus on external sales and productivity gains through more intensive forest management practices.

Divisional Performance

	1999	1998
	(In millions)	
Sales by Division(1)		
Newsprint	$1,672.0	$1,473.8
Coated Paper	499.2	502.5
Forest Products	490.0	517.5
Corporate & other eliminations	(349.5)	(351.1)
Total sales	$2,311.7	$2,142.7

	1999	1998
	(In millions)	
Segment Income (Loss) by Division(1)		
Newsprint	$ 53.1	$157.5
Coated Paper	72.2	107.4
Forest Products	44.9	44.1
Special items	133.4	(98.5)
Corporate & other eliminations	(59.6)	(48.4)
Total segment income	$244.0	$162.1

(1) Financial results for the production and sale of market pulp are included in the Newsprint Division or the Coated Paper Division, depending upon which site manufactures the product. The Pulp Division is responsible for the marketing and distribution of the product, and its administrative expenses are included in "Corporate & other eliminations."

The line titled "Total segment income" in the preceding table is equal to "Operating income" as presented in Bowater's Consolidated Statement of Operations.

Newsprint Division. Sales for the Division increased during the year, from $1.5 billion to $1.7 billion, primarily as a result of higher transaction prices for market pulp ($30.5 million) and higher newsprint ($347.8 million) and pulp ($113.3 million) shipments due to the acquisition of Avenor and a South Korean newsprint mill in July 1998, partially offset by the sale of GNP in August 1999. This increase was mostly offset by lower transaction prices for newsprint ($163.2 million) and lower coated ($67.7 million) and directory ($77.7 million) shipments. Since the sale of GNP in August 1999, the division no longer sells coated and directory paper. See the previous discussions of the newsprint, directory paper and market pulp product line results. Segment income in 1999 decreased $104.4 million, from $157.5 million in 1998 to $53.1 million. This decrease was due to lower transaction prices for newsprint ($163.2 million) and directory paper ($6.6 million). These decreases were offset by higher transaction prices for market pulp ($30.5 million), the sale of GNP in August 1999, which included two high-cost mills and the realization of acquisition synergies.

Coated Paper Division. Sales decreased $3.3 million in 1999 compared with 1998, from $502.5 million to $499.2 million, primarily the result of lower transaction prices for newsprint ($18.6 million) and coated groundwood paper ($34.4 million). This decrease was partially offset by higher average prices for market pulp ($5.9 million) and increased shipments of market pulp ($20.1 million) and coated groundwood paper ($19.7 million, partially due to the acquisition of the Benton Harbor coating facility). See the previous discussions of the newsprint, coated groundwood and market pulp product line results. Segment income for the Division decreased $35.2 million, from $107.4 million to $72.2 million, primarily the result of lower transaction prices for newsprint ($18.6 million) and coated groundwood ($34.4 million), partially offset by higher average transaction prices for market pulp ($5.9 million) and increased sales volume.

Forest Products Division. Sales for the Division in 1999 decreased $27.5 million compared with 1998, from $517.5 million to $490.0 million. This decrease was due primarily to lower transaction prices for timber ($25.3 million) and lower shipments of timber ($13.4 million) and lumber. The decrease in lumber and timber shipments was primarily a result of the sale of a sawmill and timberlands in the states of Maine, North Carolina and South Carolina. These decreases were partially offset by higher lumber prices ($1.9 million) and increased sales of other wood products ($6.5 million). See the previous discussions of the lumber and timber product line results. Comparing the same periods, segment income increased $0.8 million. This increase was primarily the result of lower operating costs due to lower prices for timber cut from third party land ($27.3 million) and higher transaction prices for lumber ($1.9 million), partially offset by lower transaction prices for timber ($25.3 million) and higher fertilization expenses.

Special Items. During 1999, Bowater recorded a pre-tax gain on sale of timberlands of $272.5 million, a pre-tax impairment charge of $92.0 million and a pre-tax loss of $47.1 million on the sale of GNP. Included in the 1998 results was a pre-tax impairment charge of $119.6 million and a pre-tax gain on sale of timberlands of $21.1 million.

Corporate & Other Eliminations. Included in this category are general and administrative expenses, as well as limited market pulp sales from the Gold River pulp mill, which was permanently closed in February 1999. General and administrative expenses for 1999 increased $11.2 million compared with 1998, primarily due to the inclusion of the Pulp Division and other administration expenses resulting from the purchase of Avenor in July 1998.

Interest and Other Income Expenses

Interest expense increased 29% in 1999, from $98.4 million to $126.7 million, due to the increase in debt related to the Avenor acquisition. Interest income decreased from $17.5 million in 1998 to $7.7 million in 1999, due to lower average investment balances in 1999.

During 1999, Bowater incurred pre-tax foreign exchange gains of $33.4 million compared with $29.7 million of foreign exchange losses in 1998. These gains primarily relate to marking to market foreign exchange contracts in Bowater's Canadian dollar hedging program during 1999 as the Canadian dollar strengthened against the United States dollar. In 1998, Bowater recorded a net pre-tax charge of $20.1 million related to currency options and forward contracts on the Canadian dollar and Korean won and recorded a charge of $15.0 million for a reserve against a long-term note receivable. All of these amounts are included on the line titled "Other, net" in the Consolidated Statement of Operations.

Provision for Income Taxes

The effective tax rate in 1999 was 46%. This rate is lower compared with 1998 due to the lower level of profits in 1998. In 1999 and 1998, the effective tax rates were higher compared with prior years due to adjustments made to the tax provisions to reflect the non-deductibility of certain charges and allowances for tax benefits not expected to be realized.

Liquidity and Capital Resources

Bowater's cash and cash equivalents decreased $0.3 million to $19.7 million at June 30, 2001, from $20.0 million at December 31, 2000. Bowater generated cash from operations of $180.3 million, generated $7.6 million of cash from investing activities, and used $188.2 million of cash for financing activities. Cash flow from operations, capital expenditures, the sale of a note receivable, dividends and payments of long-term debt account for most of Bowater's significant cash transactions during the first six months of 2001.

Cash from Operating Activities. During the first six months of 2001, Bowater's operations generated $180.3 million of cash compared to $128.2 million of cash during the first six months of 2000, an increase of $52.1 million. Higher operating income and lower working capital needs accounted for the increase in 2001.

Bowater generated cash of $416.6 million from operating activities in 2000, compared with $147.0 million in 1999. The increase of $269.6 million was primarily the result of higher operating income in 2000 due to higher average transaction prices for Bowater's newsprint, coated groundwood and market pulp products, and higher coated groundwood shipments. The 2000 operating cash flows include the activity of the Grenada mill for the period August 1, 2000 to December 31, 2000. Working capital needs were also lower in 2000 by $23.6 million.

Bowater generated cash of $147.0 million from operating activities in 1999, compared with $274.1 million in 1998. The decrease of $127.1 million in 1999 reflects lower operating income (excluding the gains from the sale of timberlands) in 1999 due to lower transaction prices for Bowater's newsprint and coated groundwood paper products. Working capital needs were also higher in 1999 by $46.9 million.

Cash from Investing Activities. Cash generated by investing activities in the first half of 2001 totaled $7.6 million, compared with a use of $142.1 million during the six months of 2000. During the first six months of 2001, Bowater received $122.6 million from the sale of a note receivable. Capital expenditures were $3.0 million higher than the previous year due primarily to the construction of a new fiber line at Bowater's Catawba location. In the first six months of 2000, Bowater paid cash of $12.9 million on the maturity of Canadian dollar hedging contracts. For the first six months of 2001, the cash paid for the maturity of Canadian dollar hedging contracts is included under Cash from Operating Activities. Bowater had no marketable securities transactions in the first six months of 2001 compared with net proceeds of $1.8 million in the first six months of 2000.

Cash used for investing activities in 2000 was $716.3 million versus a cash inflow of $258.7 million in 1999. In 2000, Bowater acquired the Grenada mill for $382.2 million, purchased the Ignace sawmill for $4.7 million and invested $3.1 million in PaperExchange.com.

Capital expenditures in 2000 totaled $283.2 million, $84.7 million higher than 1999 capital expenditures of $198.5 million, due to the construction of a recovery boiler at Bowater's Thunder Bay operations. Also in 2000, Bowater refinanced assets previously leased at Bowater's Gatineau operations for $24.2 million. In July 2000, the Board of Directors approved a project to replace the entire fiber line at Bowater's Catawba, South Carolina facility. This new fiber line will enable the mill to comply with new environmental rules (see "Environmental Items"), as well as improve overall operating efficiencies. Capital spending for the fiber line project will be approximately $175 million during the period 2001 to 2003. In November 2000, Bowater announced plans to convert the newsprint production at its Catawba operations to coated groundwood papers and to construct two additional Nuway sites, which will coat groundwood base sheets produced on Bowater machines that previously produced newsprint. As a result, as of December 31, 2000 Bowater expected its capital expenditure levels in 2001 to be approximately $300 million, still below projected levels of depreciation and amortization in 2001.

Cash paid on the maturity of hedging contracts in Bowater's Canadian dollar hedging program totaled $27.7 million in 2000 versus $37.4 million in 1999. Cash invested in marketable securities in 2000 was $50.7 million compared with $10.6 million in 1999, while cash from the maturity of marketable securities in 2000 was $52.5 million compared with $9.7 million in 1999.

During 1999, Bowater completed the sale of 1.6 million acres of Maine timberlands resulting in net cash proceeds of $356.0 million. Also in 1999, Calhoun Newsprint Company ("CNC") sold approximately 140,000 acres of timberlands in North Carolina and South Carolina for $173.2 million (before expenses of $1.1 million). Bowater received $26.2 million in cash and $145.9 million in notes. Bowater plans to sell approximately 250,000 acres of its United States timberlands and expects to complete the sale before the end of 2001.

During 1999, Bowater also completed the sale of GNP. Bowater received net cash proceeds of $108.0 million and a note receivable of $10.0 million, and Bowater assumed the GNP workers compensation and pension liabilities existing as of the closing date of the transaction. In addition to the note receivable, Bowater guaranteed payment for certain operating costs to one of GNP's suppliers. At the request of the buyer and other creditors, the note payment of $10.0 million was deferred from August to December 2000. Subsequently, Bowater consented to a revised payment schedule. Principal payments totaling $1.2 million were received through February 2001.

Cash from investing activities in 1999 was $258.7 million versus a cash outflow of $408.0 million in 1998. Bowater had significantly different investing activities in 1999 versus 1998. In 1998, Bowater acquired Avenor and a South Korean newsprint mill for a total cash outflow of $876.0 million and sold the Dryden white paper mill for proceeds of $532.5 million shortly after the Avenor acquisition. In 1999, Bowater sold GNP, resulting in cash proceeds of $108.0 million, and 1.6 million acres of timberlands in the state of Maine for net proceeds of $356.0 million. An additional 140,000 acres of timberlands were sold in North Carolina and South Carolina for $173.2 million (before expenses of $1.1 million). Bowater received cash of $26.2 million and recorded notes receivable of $145.9 million. In 1998, Bowater sold 26,000 acres of timberlands resulting in proceeds of $30.9 million. Capital expenditures in 1999 totaled $198.5 million, $24.7 million lower than 1998 capital expenditures of $223.2 million. Capital expenditures were higher in 1998 due to the modernization of the Calhoun, Tennessee, newsprint facility. The total cost of the modernization was $150.0 million. Cash paid on the maturity of hedging contracts in Bowater Canadian dollar hedging program totaled $37.4 million in 1999 versus $27.9 million in 1998. Also in 1998, Bowater purchased Canadian dollar option contracts for the pending acquisition of Avenor for $22.7 million. Cash invested in marketable securities in 1999 was $10.6 million compared with $41.9 million in 1998, while cash from the maturity of marketable securities in 1999 was $9.7 million compared with $217.4 million in 1998.

Several years ago, Bowater undertook an initiative to eliminate non-strategic assets, including non-strategic timberland tracts. Since 1996, Bowater have sold approximately 2.3 million acres of timberlands throughout the United States and Canada, with cash proceeds totaling approximately $420.0 million. Bowater's Forest Products Division periodically reviews timberland holdings and sells timberlands considered to be non-strategic tracts.

Cash from Financing Activities. Cash used for financing activities was $188.2 million for the first six months of 2001 compared with $5.2 million generated during the first six months of 2000. During the first six months of 2001, Bowater received $4.6 million (net of payments of $454.6 million) from its short-term credit facilities. In June 2001, Bowater reduced the amount of its 364-day credit facility from $750 million to $450 million, while retaining its $350 million, five-year facility. In the first six months of 2000, Bowater had net proceeds from its short-term credit facilities of $153.1 million. Also in the first six months of 2001, Bowater made payments on long-term borrowings amounting to $107.4 million. During the first six months of the prior year, Bowater repurchased a portion of its 9.25% Debentures due 2002 for $20.8 million. Other payments on its long-term borrowings during the first quarter of 2000 were $10.1 million for a total of $30.9 million.

Cash flow from financing activities was $295.0 million in 2000 compared with cash used for financing activities of $439.3 million in 1999. During 2000, Bowater had net borrowings of $470.0 million on its short-term credit facilities (primarily for the acquisition of the Grenada mill), while in 1999, Bowater had net payments of $195.0 million. Also in 2000, Bowater reduced its long-term borrowings by $30.9 million, which included the repurchase of an additional

$19.8 million of Bowater's 9.25% Debentures. In 1999, Bowater reduced its long-term borrowings by $27.6 million, which included a payment of $8.0 million on its 8.25% notes and a repurchase of $13.9 million of its 9.25% Debentures. Also in 1999, Bowater received cash proceeds of $32.8 million from revenue bonds issued by the Industrial Development Board of the County of McMinn, Tennessee, in conjunction with the modernization of Bowater's Calhoun, Tennessee, newsprint facility.

In 2000, Bowater increased the amount of its 364-day credit facility from $150.0 million to $750.0 million (subsequently decreased to $450 million), while retaining its $350.0 million, five-year facility.

Cash flow used for financing activities was $439.3 million in 1999, $402.8 million higher than the amount spent in 1998. During 1999, Bowater made net payments of $195.0 million on its short-term credit facility while, in 1998, Bowater had net borrowings of $206.3 million, which were used to partially fund the Avenor and South Korean newsprint mill acquisitions. In 1999, Bowater also reduced its long-term borrowings by $27.6 million, which included a payment of $8.0 million on its 8.25% notes and a repurchase of $13.9 million (including premium and accrued interest) of its 9.25% Debentures. In January 2000, Bowater repurchased an additional $19.8 million of its 9.25% Debentures. In 1998, Bowater repaid $91.1 million of its long-term borrowings, which included $75.9 million on its 10.25% Debentures. During 1999, Bowater received cash proceeds of $32.8 million from revenue bonds issued by the Industrial Development Board of the County of McMinn, Tennessee, in conjunction with the modernization of Calhoun, Tennessee, newsprint facility. A portion of the modernization costs qualified for tax exempt financing under Internal Revenue Service regulations. As a result Bowater was able to obtain low cost, tax exempt financing to fund a portion of the $150.0 million modernization costs. Cash dividends in 1999 of $60.6 million were slightly lower than 1998.

Cash dividends paid in the first six months of 2001 increased $57.9 million from the prior year period primarily due to dividend payments to the minority shareholder of Calhoun Newsprint Company.

Cash dividends in 2000 of $48.3 million were lower than those paid in 1999 by $12.3 million due to lower dividend payments to the minority shareholder of CNC.

During 1999, Bowater's Board of Directors authorized a new stock repurchase program allowing it to buy back up to 5.5 million shares of its outstanding common stock. Bowater made no purchases under this program during the first six months of 2001. During the first six months of 2000, Bowater purchased 1.9 million shares at a cost of $92.1 million. Since the beginning of the program, Bowater purchased 3.2 million shares at a total cost of $155.5 million. In 2000, Bowater purchased 2.1 million shares at a cost of $103.7 million. In 1999, Bowater purchased 2.4 million shares of its common stock at a cost of $109.2 million under this program and a previously announced program, which was completed in 1999. In 1998, Bowater purchased 2.4 million shares of its common stock at a total cost of $98.1 million under a previous stock repurchase program.

In February 1999, Bowater redeemed for $26.4 million in cash all of the remaining outstanding shares (and related 1.06 million depositary shares) of its 8.40% Series C Cumulative Preferred Stock, par value $1 per share. The Series C Stock was redeemed for cash of $100.56 per share of Series C Stock ($25.14 per depositary share), which is equal to $100 per share of Series C Stock ($25.00 per depositary share) plus accrued and unpaid dividends to, but not including, the redemption date.

Also in February 1999, Bowater Pulp and Paper Canada Inc. ("BPPCI") redeemed for cash all of its outstanding 7.50% Convertible Unsecured Subordinated Debentures, due February 8, 2004. Prior to redemption and at the option of each holder, each Cdn $100 principal amount of the Debentures was convertible into either (1) 2.191 exchangeable shares of Bowater Canada

Inc. ("Bowater Canada") (an indirect wholly owned subsidiary of Bowater) or (2) Cdn $79.54 together with 1.0955 of the exchangeable shares. As a result of the redemption and conversions immediately prior to the redemption, BPPCI paid $65.9 million in cash, and Bowater Canada issued 1.4 million exchangeable shares.

Bowater continually considers various options for the use of its cash, including internal capital investments, share repurchases, investments to grow its businesses and additional debt reductions.

Acquisitions and Dispositions

In August 2000, Bowater completed the acquisition of the Grenada mill for cash of $382.2 million (net of cash acquired and including fees and expenses) and the assumption of $8.8 million in debt. The mill has an annual production capacity of approximately 250,000 metric tons of newsprint. Bowater accounted for the acquisition under the purchase method of accounting. In November 2000, Bowater acquired the Ignace sawmill, located in northern Ontario, for $4.7 million. Environmental due diligence was conducted on both these facilities and the aggregate potential liabilities assumed were not expected to exceed $250,000.

In October 2000, Bowater announced that it signed a preliminary Letter of Intent and began negotiations with Sepoong Corporation and its major creditor, Chohung Bank, to acquire the Sepoong paper mill located in Kunsan, South Korea. Negotiations continued during the balance of the year; however, in January 2001, Bowater announced its decision to terminate these negotiations.

In March 1999, Bowater completed the sale of 981,000 acres of timberlands in the state of Maine and a sawmill for $216.5 million. In April 1999, Bowater completed the sale of 650,000 acres of timberland in the state of Maine for $150.0 million. Bowater recorded a pre-tax gain on these transactions of $253.7 million, or $2.81 per diluted share after tax.

In August 1999, Bowater completed the sale of GNP for $250.0 million, consisting of cash ($108.0 million, net of expenses), a note ($10.0 million) and the assumption of the GNP workers compensation and pension liabilities existing as of the closing date of the transaction ($130.0 million). Bowater recorded a pre-tax loss of $47.1 million, or $0.58 per diluted share, after tax, on the sale.

In November 1999, CNC sold 140,000 acres of timberlands in North Carolina and South Carolina for $173.2 million (before expenses of $1.1 million). Bowater received $26.2 million in cash and $145.9 million in notes. Bowater recorded the transaction as an installment sale and as of December 31, 1999, recorded a pre-tax gain of $17.4 million, or $0.09 per diluted share, after tax and minority interest.

Environmental Items

Bowater is subject to a variety of federal, state, provincial and local environmental laws and regulations in the jurisdictions in which it operates. Bowater believes its operations are in substantial compliance with current applicable environmental laws and regulations.

In April 1998, the United States Environmental Protection Agency ("EPA") promulgated new air and water quality regulations for the paper industry. These regulations, known as the "Cluster Rule," are aimed at further reductions of certain environmental emissions. Projects necessary for the Calhoun, Tennessee, facility to comply with this rule, have been completed. Bowater's Board of Directors approved a $175 million project to replace the fiber line at the Catawba, South Carolina facility. This new fiber line will enable the mill to improve overall operating efficiencies, as well as comply with the Cluster Rule by meeting the more stringent parameters of Tier I of the EPA's Voluntary Advanced Technology Incentive Program, with a compliance date of April 16, 2004.

The new $88 million kraft recovery boiler at the Thunder Bay, Ontario, facility was scheduled to be completed in the summer of 2001. This project will decrease the facility's rate of discharge for both air and particulate emissions, as well as improve mill operating efficiencies.

In addition to the projects mentioned above, Bowater currently anticipates spending less than $30-$40 million of capital per year for all of its facilities for the foreseeable future to maintain compliance with existing environmental regulations. Environmental regulations promulgated in the future could require substantial expenditures for compliance and could have a material impact on Bowater, in particular, and the industry in general.

As of December 31, 2000, Bowater recorded $16.1 million for environmental liabilities. These liabilities are recorded at undiscounted amounts and are included in other long-term liabilities on the consolidated balance sheet. The $16.1 million represents management's estimate based on an assessment of relevant factors and assumptions of the ultimate settlement amounts for these liabilities. The amount of these liabilities could be affected by changes in fact or assumptions not currently known to Bowater's management. Approximately $14.0 million of the $16.1 million relates to two Canadian mills for costs primarily for soil remediation, air compliance and landfill closure.

As of December 31, 2000, Bowater has been notified that it is a "potentially responsible party" under the Comprehensive Environmental Response, Compensation, and Liability Act ("CERCLA") of 1980, as amended, with respect to three sites in South Carolina. One site contained a small landfill on a timber tract sold to Bowater by a third party. The third party has remediated the site and continues to monitor the groundwater. Bowater has not been requested to contribute to the remediation costs. One site is a timber tract owned by CNC in which unknown third parties discarded several hundred steel drums containing small amounts of textile residue. This site has not yet been scheduled for remediation. The remaining site is a Superfund site where several parties, including Bowater, have been named as potentially responsible parties. The EPA has remediated the remaining Superfund site for a total cost of approximately $3.0 million and is currently determining how to allocate responsibility among the 120 potentially responsible parties. Bowater does not believe it will be liable for any significant amounts at these three sites.

Adoption of Accounting Standards

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended. This Standard requires a public company to recognize all derivatives as either assets or liabilities in the Statement of Financial Position and measure those instruments at fair value. Bowater adopted this Standard on January 1, 2001. There were no transition amounts recorded relating to the adoption of the Standard; however, the Standard will allow Bowater to utilize hedge accounting treatment on the portion of its Canadian dollar forward contracts deemed to be effective under the Standard. This change should reduce the amount of exchange rate volatility in Bowater's Statement of Operations in future periods compared with its accounting treatment of these contracts prior to the adoption of the Standard. During the fourth quarter of 2000, Bowater completed documentation related to the adoption of the Standard for the Canadian dollar forward contracts in place as of December 31, 2000.

In September 2000, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." Bowater adopted this Standard on April 1, 2001, and accounts for transactions relating to the Standard in accordance with its provisions.

In October 2000, Bowater adopted the Securities and Exchange Commission's Staff Accounting Bulletin No. 101 (the "SAB") regarding revenue recognition. Upon adoption of the SAB, there was no impact on Bowater's results of operations or financial condition.

In July 2001, the FASB issued Statement No. 141, "Business Combinations," and Statement No. 142, "Goodwill and Other Intangible Assets." Statement 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001, as well as all purchase method business combinations completed after June 30, 2001. The Alliance acquisition is being accounted for under Statement 141. Under Statement 142, goodwill and intangible assets with indefinite useful lives will no longer be amortized, but will be tested for impairment at least on an annual basis in accordance with the provisions of Statement 142. Goodwill and intangible assets acquired in business combinations completed before July 1, 2001 will continue to be amortized prior to the adoption of Statement 142. Bowater is required to adopt the provisions of Statement 141 immediately. Bowater is required to adopt Statement 142 on January 1, 2002, except with regard to business combinations initiated prior to July 1, 2001. As of June 30, 2001, Bowater has unamortized goodwill in the amount of $854.9 million. Amortization expense for the three and six months ended June 30, 2001 was $6.0 million and $11.9 million, respectively. Because of the extensive effort needed to comply with adopting Statement 142, it is not practicable to reasonably estimate the impact of adopting this Statement on Bowater's financial statements at the date of this report, including whether any transitional impairment losses will be required to be recognized as the cumulative effect of a change in accounting principle.

In July 2001, the FASB issued Statement No. 143, "Accounting for Asset Retirement Obligation." This Statement requires entities to record the fair value of a liability for an asset retirement obligation in the period in which it is incurred. Statement 143 is effective for fiscal years beginning after June 15, 2002. Bowater will adopt the Statement effective January 1, 2003 and is currently assessing the impact on its operations.

On October 3, 2001, the FASB issued Statement No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* that is applicable to financial statements issued for fiscal years beginning after December 15, 2001 (January 2002 for Bowater). The FASB's new rules on asset impairment supersede FASB Statement No. 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of*, and provide a single accounting model for long-lived assets to be disposed of. Bowater will adopt the Statement effective January 1, 2002 and is currently assessing the impact on its operations.

CANADA

PROVINCE OF QUÉBEC
DISTRICT OF MONTRÉAL

No. : 500-11-036133-094

SUPERIOR COURT

Commercial Division
(Sitting as a court designated pursuant to the *Companies' Creditors Arrangement Act,* R.S.C., c. C-36, as amended)

IN THE MATTER OF THE PLAN OF COMPROMISE OR ARRANGEMENT OF:

ABITIBIBOWATER INC.,

and

ABITIBI-CONSOLIDATED INC.,

and

BOWATER CANADIAN HOLDINGS INC.,

and

the other Petitioners listed herein

Petitioners

and

ERNST & YOUNG INC.

Monitor

and

AURELIUS CAPITAL MANAGEMENT, LP

Noteholder

CONTESTATION OF THE MOTION FOR THE ISSUANCE OF AN ORDER TO PROVIDE THE FINANCIAL INFORMATION ON CERTAIN PETITIONERS

TO THE HONOURABLE CLÉMENT GASCON J.S.C. OR ONE OF THE HONOURABLE JUDGES OF THE SUPERIOR COURT, SITTING IN COMMERCIAL DIVISION, IN AND FOR THE JUDICIAL DISTRICT OF MONTRÉAL, THE DEBTORS RESPECTFULLY SUBMIT THE FOLLOWING:

*Unless otherwise indicated, all capitalized terms herein shall have the meaning attributed to them in the Motion for the Issuance of an Order to Provide the Financial Information on Certain Petitioners (the "**Aurelius Motion**") filed by Aurelius Capital Management, LP ("**Aurelius**") or in the Initial Order issued by this Court on April 17, 2009, as amended (the "**Initial Order**").*

I. OVERVIEW

1. The Bowater Petitioners are proceeding in good faith and with due diligence in the context of the present CCAA proceedings (the "**CCAA Proceedings**"), enjoy a good liquidity position and are working to develop a restructuring plan in conjunction with the other Bowater corporate entities which have filed proceedings under Chapter 11 of the U.S. *Bankruptcy Code* before the U.S. Bankruptcy Court for the District of Delaware (the "**U.S. Proceedings**").

2. On the basis of a series of self-serving allegations with respect to alleged conflicts of interests between certain of the Bowater Petitioners and certain false allegations that information requests went unanswered, Aurelius is seeking to launch a "fishing expedition" into all intercompany transactions over the last three years.

3. Granting the Aurelius Motion at this stage is premature and will unnecessarily distract the Bowater Petitioners' resources from their ongoing restructuring efforts and is likely to prejudice the Bowater Petitioners' ability to develop a restructuring plan in a timely fashion.

4. Aurelius is not being prejudiced by waiting for a plan to be proposed in due course in the context of the CCAA Proceedings and the US Bankruptcy Proceedings. Aurelius and the other holders of the Notes (the "Noteholders") are general unsecured creditors of the Bowater Petitioners and, along with all other general unsecured creditors, directly benefit from the Bowater Petitioners' efforts to expeditiously reorganize.~~BCFC's only assets, notably preferred shares in BCHI the indirect parent of BCFPI, the Canadian operating entity of the Bowater Group, are unlikely to be of any material practical value given the magnitude of the secured and unsecured indebtedness of BCHI and BCFPI.~~

II. GROUNDS OF CONTESTATION

1. Petitioners' Good Faith

5. The U.S. Proceedings and the CCAA Proceedings are ongoing. Since filing for insolvency protection, the Petitioners have worked diligently to stabilize their operations and have acted in good faith and with due diligence.

2. Nature of Aurelius' Claim

6. Aurelius allegedly holds 7.95% senior unsecured notes due 2011 (the "**Notes**") issued by BCFC. Aurelius has provided no evidence of this allegation and no indication as the amount of Notes which it currently holds.

7. In addition to being a Petitioner in the CCAA Proceedings, BCFC is also a U.S. Debtor in the U.S. Proceedings.

8. BCFC is not an operating company and carries on no trade. It is a special purpose financing entity.

9. BCFC's sole material liability consists of the outstanding Notes. BCFC's sole material assets consist of preferred shares of BCHI, an indirect wholly-owned subsidiaries of BI. BCHI holds an indirect equity interest in BCFPI the Canadian operating entity of the Bowater Group. BCFPI has substantial amounts of secured and unsecured debt owing as stated in paragraphs 204 and following of the Petition and is clearly insolvent. BCFC's equity interest in intermediate holding entities of an insolvent operating company can only be considered at best as being a speculative value at this juncture.

10. The payment of the Notes is guaranteed by BI. ~~BI is not a CCAA petitioner but is a U.S. Debtor in the U.S. Proceedings.~~ BCFC may also have a claim for contribution in respect of its obligations under the Notes from its shareholder BI pursuant to s.135 of the Nova Scotia *Companies* Act. ~~Such contribution claim against BI, to the extent considered as separate from the guarantee claims, would also be a matter to be assessed in the U.S. Proceedings involving BI. As a result, the only realistic mean of recovery for the holders of Notes (the "**Noteholders**") will be in the context of BI's U.S. Proceedings~~The question of any recovery for the Noteholders from such claims is not before the Court at this time.~~.~~

3. Noteholders Are Represented and May Access Information

11. The interests of the holders of the Notes are already represented in the U.S. Proceedings. Specifically, Wilmington Trust Company ~~the Bank of New York~~ acts as the indenture trustee for the Notes (the "**Indenture Trustee**").

12. Aurelius and ~~T~~the Indenture Trustee are ~~is~~ represented in the U.S. Proceedings by the statutory committee of unsecured creditors (the "**UCC**") and the Indenture Trustee is a member of the UCC.~~. [NTD: Alice/Jake: is the Trustee on the UCC?]~~

13. Pursuant to the Trust Indenture filed as part of Exhibit D-2 (the Note Agreements), the Indenture Trustee has the ability to pursue any available remedy to collect on the Notes, subject to the direction of a majority of Noteholders, including by filing proofs of claim.

14. Aurelius has not demonstrated compliance with the requirements of the Trust Indenture in bringing the present motion.

15. There is no evidence on the record that the Indenture Trustee, acting on behalf of all Noteholders, has been denied any requested information from BCFC or the other Bowater Petitioners or that any of its rights as a member of the UCC have not been respected.

16. Furthermore, contrary to the impression sought to be created by the Aurelius Motion, the Monitor's counsel has always responded to information requests received from Aurelius.

17. On October 6, Monitor's counsel forwarded to Aurelius' counsel a letter sent the previous day to Aurelius' Managing Director containing a response to allegations that the Monitor was burdened by "*irreconcilable duties to CCAA filers that may have adverse interests*" and stating that, in light of the Monitor's role and duties, the latter did not "*have any unusual conflict in this CCAA proceeding*", the whole as appears from a copy of said letter communicated herewith as **Exhibit D-1**.

18. On November 12, 2009, Monitor's counsel replied to Aurelius' information requests of September 15 and October 29, 2009, stating that it had been advised that none of the information requested in respect of the Bowater Petitioners would be disclosed publically, but that Aurelius remained free to execute a non-disclosure agreement in order to access, through the electronic data room, the information which is not publically available, the whole as appears from a copy of said letter communicated herewith as **Exhibit D-2**.

4. The Noteholders Assumed Structural Subordination Risk

19. The Notes were issued to qualified investors under an Offering Circular, a copy of which is attached as **Exhibit D-3.**

20. As appears from the Offering Circular, investors in the Notes were specifically advised of the intentions of BCFC to utilize the proceeds thereof to make equity investments in subsidiaries and that BCFC would thus be dependent on the resources of such subsidiaries or upon BI (who guaranteed the Notes) to make payments upon the Notes.

5. No Evidence of Presumed Conflict

21. Apart from a series of self-serving statements in the Aurelius Motion about the beliefs of Aurelius that information requests went unanswered (addressed above), Aurelius does not submit any evidence that the Monitor or BCFC's directors have actually failed to take BCFC's interests into account during the pendency of these CCAA Proceedings.

22. In large CCAA proceedings involving corporate groups, intercompany claims or equity holdings almost always exist. Those proceedings are not conducted on the basis of presumed conflicts of interest resulting from those claims and the Petitioner's differing creditor pools. Rather, as described below, it is the Court's prerogative to consider the efforts of the group as a whole to reorganize its business and maximize the value of its estate.

23. To that end, pursuant to section 11.7 of the CCAA the Initial Order, the Monitor was appointed as an officer of the Court to, amongst other things, advise the Bowater Petitioners in the development of a plan of arrangement, assist with the holding and administering of creditors' meetings for voting on said plan, and consider and, if deemed advisable, prepare a report and assessment of the proposed plan of arrangement.

24. At this stage, there is simply no basis to allege that the Monitor, BCFC's directors and the other Petitioners are trying to do anything other than maximize the value of the Bowater Group as a whole. By contrast, there is ample evidence that the Petitioners are taking positive steps in furtherance of their restructuring, including by analyzing and repudiating contracts and disposing of non-core assets and pursuing the development of a restructuring plan.

25. In the absence of concrete evidence that activities have resulted from bias, this Court should not infer a conflict or breach of duty in a cross-border insolvency on the basis that the various estates are being jointly administered.

26. Similarly, a CCAA court should not order the removal of directors based solely on a risk of anticipated bias or misconduct.

27. In any event, as described above and in more detail below, the nature of the interest that BCFC holds in the Bowater Petitioners are speculative equity interests that have no practical value when compared to the debt claims the Petitioners are charged with resolving in this process. Accordingly, it is quite clear that BCFC's interests are actually incapable of coming into conflict with those of the other Bowater Petitioners.

6. <u>Prejudice to the Noteholders Is Speculative</u>

28. As a special purpose entity, BCFC's only assets are the preferred share of BCHI, described above. BCFC's equity interest in BCHI has been preserved and to date, no steps have been taken in these CCAA Proceedings or in the U.S. Proceedings to cancel or otherwise affect these shares.

29. Aurelius presumes prejudice, arguing that the Monitor and the officers and directors of BCFC cannot possibly represent the interests of both BCFC and the other Bowater Petitioners. However, as described above, Aurelius has provided no actual evidence or foundation to assert that the Monitor,

BCFC's directors or even the other Bowater Petitioners are not working to develop a restructuring plan to maximize the value of the Bowater Group.

30. There is no evidence that BCFC's rights are being eroded or that they are being severely prejudiced by the continuation of the CCAA stay while a plan of arrangement is being developed.

7. Potential Prejudice to the Bowater Petitioners

31. The orders sought in the Motion clearly demonstrate that Aurelius is seeking to conduct a fishing expedition into all intercompany transactions over the past several years. There is no foundation for such an open-ended and baseless request which could only divert time, attention and resources from the task of restructuring for the private purpose of one creditor seeking leverage to advance its own interests to the detriment of the restructuring process and all other general unsecured creditors. ~~claim a second or third avenue of recovery (a so-called "double dip") over and above the guarantee claims against BI which are well protected in the U.S. Proceedings.~~

III. CONCLUSION

32. The Petitioners hereby seek the dismissal of the Motion with costs, the whole as set forth in the conclusions of this contestation.

33. The Petitioners respectfully submit that the Motion should be dismissed with costs.

34. The present contestation is well founded in fact and in law.

WHEREFORE, MAY THIS COURT:

[1] **DISMISS** the *Motion for the Issuance of an Order to Provide the Financial Information on Certain Petitioners* by Aurelius Capital Management, LP.

THE WHOLE WITH COSTS.

Montréal, December 18, 2009

Stikeman Elliott LLP
Attorneys for the Petitioners

AFFIDAVIT

I, the undersigned, William Harvey, having my principal place of business at Suite 800, 1155 Metcalfe Street, Montréal, Quebec, H3B 5H2 solemnly declare the following:

1. I am the Senior Vice President and Chief Financial Officer of AbitibiBowater Inc. and Abitibi-Consolidated Inc.;

2. All the facts alleged in the *Contestation of the Motion for the Issuance of an Order to Provide the Financial Information on Certain Petitioners* are true.

AND I HAVE SIGNED

____

WILLIAM HARVEY

Solemnly declared before me at Montréal, on the 18th day of December, 2009

____

Commissioner for oaths

DESCRIPTION OF NOTES

General

We will issue the notes under an indenture, which is a contract among us, Bowater, as guarantor, and The Bank of New York, as trustee. The trustee's main role is to enforce your rights against us if we default. We describe some limitations on the extent to which the trustee acts on your behalf under "— Events of Default — Remedies if an Event of Default Occurs." The trustee will also act as registrar, paying agent and authenticating agent, and perform administrative duties for us, such as sending out interest payments and notices under the indenture.

The following description of the provisions of the indenture is only a summary. This summary is not complete. We recommend that you read the entire indenture carefully before investing in the notes. In the summary below, we have included references to some sections of the indenture so that you can easily locate these provisions. You can obtain a copy of the indenture by following the directions under the caption "Where You Can Find More Information about Bowater Incorporated" on page 59 of this offering circular.

After the completion of the exchange offer (see "— Registration and Exchange Offer"), the Trust Indenture Act of 1939 will apply to the indenture. We refer you to the Trust Indenture Act for additional terms and definitions that will apply to the indenture at that time.

Some of the terms used in this section are defined in "— Definitions for Restrictive Covenants" below.

Principal, Maturity and Interest

The notes will be a series of debt securities under the indenture. The amount of debt securities we can issue under the indenture is unlimited. We will issue the notes in an initial aggregate principal amount of $600,000,000. However, we may issue additional notes from the series of notes offered by this offering circular without your consent and without notifying you. Any such additional notes will have the same ranking, interest rate, maturity date, redemption rights and other terms as the notes offered by this offering circular. Any such additional notes, together with the notes offered by this offering circular, will constitute a single series of debt securities under the indenture. The notes will be issued in principal amounts of $1,000 and any integral multiple thereof.

The notes will mature on November 15, 2011. Interest will accrue from the issue date of the notes at a rate equal to 7.95% per year. We will pay interest on the notes on May 15 and November 15 of each year, beginning on May 15, 2002. The notes will not be entitled to any sinking fund.

Ranking

The notes are not secured by any of Bowater's property or assets. The notes will be senior unsecured obligations and will rank equally with Bowater's existing and future senior unsecured debt and effectively will be junior to its existing and future senior secured debt. Upon completion of this offering, we will not have any senior secured or unsecured debt outstanding other than the notes.

Bowater's Guarantees

Bowater will unconditionally and irrevocably guarantee the payment of all principal and interest on the notes. Bowater's guarantees of the notes will not be secured by any of its property or assets. Bowater's guarantees of the notes will be a senior unsecured obligation of Bowater and will rank equally with all its existing and future senior unsecured debt and effectively junior to its entire existing and future senior secured debt. As of September 30, 2001, Bowater had no senior secured debt and senior unsecured debt totaling $1,843.8 million (which includes $62.8 million of guarantees).

In general, the guarantees provide that if we fail to pay any interest payment or the principal of the notes when due and payable, Bowater will, without any action by the trustee or any holder of the notes, pay the amount of the interest payment or the principal then due. The guarantees will not require you to take any action or institute any proceeding against us in order to demand or receive payments under the guarantees. Although upon making any such payment, Bowater will be subrogated to your rights against us for any payment of interest or principal we fail to make, Bowater will not be entitled to make a claim against us with respect to those rights until the notes have been paid in full.

Optional Redemption

We may redeem some or all of the notes at any time. If we choose to redeem any notes prior to maturity, we will pay a redemption price equal to the greater of the following amounts, plus, in each case, accrued and unpaid interest to the redemption date:

- 100% of the principal amount of the notes being redeemed; or
- the sum of the present values of the remaining scheduled payments of the principal of and interest on the notes being redeemed, discounted to the redemption date in accordance with standard market practice (on a semiannual compounding basis and assuming a 360-day year consisting of twelve 30-day months) at the treasury rate referred to below plus 45 basis points.

If we choose to redeem any notes, we will mail a notice of redemption to you not less than 30 days and not more than 60 days before the redemption date. If we are redeeming less than all the notes, the trustee will select the particular notes to be redeemed by lot or pro rata or by another method the trustee deems fair and appropriate. Unless we default in payment of the redemption price, on and after the redemption date, interest will cease to accrue on the notes or portions of the notes called for redemption.

For purposes of calculating the redemption price in connection with the redemption of the notes on any redemption date, the following terms have the meanings set forth below:

"Treasury rate" means the semiannual equivalent yield to maturity of the treasury security, referred to below, that corresponds to the treasury price referred to below, calculated in accordance with standard market practice and computed as of the second trading day preceding the redemption date.

"Treasury security" means the United States Treasury security that the treasury dealer, referred to below, determines would be appropriate to use, at the time of determination and in accordance with standard market practice, in pricing the notes being redeemed in a tender offer based on a spread to United States Treasury yields.

"Treasury price" means the bid-side price for the treasury security as of the third trading day preceding the redemption date, as set forth in the daily statistical release (or any successor release) published by the Federal Reserve Bank of New York on that trading day and designated "Composite 3:30 p.m. Quotations for U.S. Government Securities," except that:

- if that release (or any successor release) is not published or does not contain that price information on that trading day; or
- if the treasury dealer determines that price information is not reasonably reflective of the actual bid-side price for the treasury security prevailing at 3:30 p.m., New York City time, on that trading day,

then treasury price will instead mean the bid-side price for the treasury security at or around 3:30 p.m., New York City time, on that trading day (expressed on a next trading day settlement basis) as determined by the treasury dealer through such alternative means as the treasury dealer considers to be appropriate under the circumstances.

"Treasury dealer" means each of Goldman, Sachs & Co. and J.P. Morgan Securities Inc. (or their respective successors) or, if any of them (or their respective successors) refuses to act as treasury dealer for these purposes or ceases to be a primary government securities dealer, another nationally recognized investment banking firm that is a primary U.S. government securities dealer specified by us for these purposes.

All determinations made by the treasury dealer with respect to determining the redemption price will be final and binding on all parties, absent manifest error.

Restrictive Covenants

We define some of the terms we use in the next two subsections below under "Definitions for Restrictive Covenants."

Limitation on liens. Neither Bowater nor any Restricted Subsidiary may create, incur, assume or suffer to exist any Lien upon any Principal Property, whether owned at the date of the indenture or acquired later, to secure any Indebtedness, without securing the notes (together with, if Bowater so determines, any Indebtedness of Bowater's or any Restricted Subsidiary's that is not subordinate to the notes and any debt securities of any other series then outstanding under the indenture) by that Lien equally and ratably with, or prior to, any and all other Indebtedness secured by it, so long as that Indebtedness is so secured.

The foregoing restriction will not apply to Indebtedness secured solely by:

- Liens existing on the date of the indenture;
- Liens on any property existing at the time Bowater or a Restricted Subsidiary acquires it;
- Liens in favor of Bowater or any wholly-owned Restricted Subsidiary;
- Liens in favor of any governmental body to secure progress, advance or other payments pursuant to any contract or provision of any statute;
- Liens on property to secure all or part of the cost of acquiring, substantially repairing or altering, constructing, developing or substantially improving the property, or to secure all or part of such property, subject to certain limitations;
- Liens securing obligations issued by a State, territory or possession of the United States or the District of Columbia, to finance the acquisition or construction of property, and on which the interest is not, in the opinion of tax counsel or in accordance with an Internal Revenue Service ruling, includible in gross income by reason of Section 103(a) of the Internal Revenue Code of 1986, as amended;
- any extension, renewal or replacement (or successive extensions, renewals or replacements), in whole or in part, of any Lien referred to in the foregoing clauses, subject to certain limitations.

Bowater and its Restricted Subsidiaries may create, incur, assume or suffer to exist Liens securing any Indebtedness without equally and ratably securing the notes and other debt securities issued under the indenture provided that the aggregate amount of such Indebtedness and Attributable Debt with respect to Sale and Lease-Back Transactions does not exceed 10% of Bowater's Consolidated Net Tangible Assets.

Limitation on Sale and Lease-Back Transactions. Neither Bowater nor any Restricted Subsidiary may enter into any Sale and Lease-Back Transactions with respect to any Principal

Property unless the aggregate amount of all Attributable Debt with respect to Sale and Lease-Back Transactions plus the aggregate amount of Indebtedness secured by Liens incurred without equally and ratably securing the notes pursuant to *"Limitation on liens"* above would not exceed 10% of Bowater's Consolidated Net Tangible Assets. The foregoing restriction will not apply to, and there shall be excluded from Attributable Debt in any computation described herein or in *"Limitation on liens"* with respect to Sale and Lease-Back Transactions if:

- the lease in such Sale and Lease-Back Transaction is for a period, including renewal rights, of three years or less;
- Bowater or any Restricted Subsidiary, within 180 days after the Sale and Lease-Back Transaction, applies an amount not less than the greater of the net proceeds of the Sale and Lease-Back Transaction or the fair value of the Principal Property at the time of the Sale and Lease-Back Transaction to (a) the prepayment or retirement of Funded Debt of Bowater or any of its Restricted Subsidiaries or (b) the purchase of other property which will constitute Principal Property, subject to certain limitations;
- the lease in such Sale and Lease-Back Transaction secures or relates to obligations issued by a State, territory or possession of the United States or the District of Columbia, to finance the acquisition or construction of property, and on which the interest is not, in the opinion of tax counsel or in accordance with an Internal Revenue Service, includible in gross income of the holder by reason of Section 103(a) of the Internal Revenue Code of 1986, as amended; or
- such Sale and Lease-Back Transaction is entered into between Bowater and a wholly-owned Subsidiary or between wholly-owned Subsidiaries.

Definitions for Restrictive Covenants

"Attributable Debt" means, at the time any determination thereof is to be made, with respect to any lease under which Bowater or any of its Restricted Subsidiaries is liable, the total net amount of rent Bowater or its Restricted Subsidiary must pay under such lease during its remaining term, using a discount rate equal to the weighted average yield to maturity of the notes, compounded semiannually. By "net" amount of rent we mean the rent payable by the lessee after excluding amounts required to be paid on account of maintenance and repairs, insurance, taxes, assessments, water rates and similar charges. In the case of any lease which is terminable upon the payment of a penalty, such net amount shall also include the amount of such penalty, but no rent shall be considered as required to be paid under such lease subsequent to the first date upon which it may be terminated.

"Consolidated Net Tangible Assets" means, on the date of any determination, the aggregate amount of assets, less applicable reserves and other properly deductible items, after deducting:

- all current liabilities, and
- all goodwill, trade names, trademarks, patents, unamortized debt discount and expense and other like intangibles,

all as set forth on our and our consolidated subsidiaries' most recent quarterly balance sheet and computed in accordance with generally accepted accounting principles.

"Funded Debt" means (1) all Indebtedness for money borrowed having a maturity of more than 12 months from the date as of which the determination is made or having a maturity of 12 months or less but by its terms being renewable or extendible beyond 12 months from such date at the option of the borrower (excluding any amount thereof included in current liabilities) and (2) rental obligations payable more than 12 months from such date under leases which are capitalized in accordance with generally accepted accounting principles (such rental obligations to be included as Funded Debt at the amount so capitalized and to be included for the purposes

of the definition of Consolidated Net Tangible Assets both as an asset and as Funded Debt at the amount so capitalized.).

"Indebtedness" means, at any time, without duplication:

- all obligations for borrowed money,
- all obligations evidenced by bonds, debentures, notes or other similar instruments, and
- all obligations in respect of any letters of credit supporting any Indebtedness of others and guarantees of Indebtedness of others.

"Lien" means any mortgage, pledge, hypothecation, encumbrance, security interest, statutory or other lien, or preference, priority or other security or similar agreement or preferential arrangement of any kind or nature whatsoever, including any conditional sale or other title retention agreement having substantially the same economic effect as any of these.

"Principal Property" means (1) any mill, converting plant, manufacturing plant or other facility owned on the date of the indenture or thereafter acquired by Bowater or any Restricted Subsidiary that is located within the continental United States and the gross book value (including related land and improvements thereon and all machinery and equipment included therein without deduction of any depreciation reserves) of which, on the date as of which the determination is being made, exceeds 1% of Bowater's Consolidated Net Tangible Assets, and (2) Timberlands, in each case other than:

- any property which, in the opinion of Bowater's board of directors as evidenced by a board resolution, is not of material importance to the business conducted by Bowater and its Restricted Subsidiaries as an entirety,
- a portion of any property which, in the opinion of Bowater's board of directors as evidenced by a board resolution, is not of material importance to the use or operation of such property, or
- any oil, gas or other minerals or mineral rights.

"Realty Subsidiary" means a subsidiary engaged primarily in the development and sale or financing of real property.

"Restricted Subsidiary" means a subsidiary of Bowater (1) substantially all the property of which is located, or substantially all the business of which is carried on, within the continental United States and (2) which owns a Principal Property, but does not include a Realty Subsidiary.

"Sale and Lease Back Transaction" means any arrangement whereby Bowater or one of its subsidiaries has sold or transferred, or will sell or transfer, property to a third party and has or will take back a lease pursuant to which the rental payments are calculated to amortize the purchase price of the property substantially over the useful life of such property.

"Timberlands" means any real property of Bowater or any Restricted Subsidiary located within the continental United States which contains (or upon completion of a growth cycle then in process is expected to contain) standing timber of a commercial quantity and of merchantable quality, excluding, however, any such real property which at the time of determination is held primarily for development or sale and not primarily for the production of any lumber or other timber products.

Mergers and Similar Events

Neither we nor Bowater may consolidate with or merge into any other person or convey, transfer or lease our properties and assets substantially as an entirety to any person, unless:

- the successor person is a corporation, partnership or trust organized and validly existing under the laws of the United States, any State or the District of Columbia or, in our case, the Province of Nova Scotia;
- the successor person expressly assumes our obligations on the Notes and under the indenture and registration rights agreement or Bowater's obligations under guarantees, under the Indenture and registration rights agreement, as the case may be;
- after giving effect to the transaction, no Event of Default, and no event which, after notice or lapse of time or both, would become an Event of Default, would occur and be continuing; and
- immediately after giving effect to the transaction, either we or the successor person shall take all necessary steps to bring any secured Indebtedness into compliance with the limitation on liens covenant.

Modification and Waiver

We and the trustee can modify and amend the indenture with the consent of the holders of a majority of the principal amount of the outstanding notes. However, we may not, without the consent of each holder of the notes:

- change the stated maturity of the principal or interest on a note;
- reduce any amounts due on a note;
- reduce the amount of principal payable upon acceleration of the maturity of a note following a default;
- change the place or currency of payment on a note;
- impair your right to sue for payment;
- reduce the percentage of holders of the notes whose consent is needed to modify or amend the indenture;
- reduce the percentage of holders of the notes whose consent is needed to waive compliance with certain provisions of the indenture or to waive certain defaults; and
- modify any other aspect of the provisions dealing with modification and waiver of the indenture.

We and the trustee may also modify and amend the indenture without your consent in limited circumstances such as clarifications and changes that would not adversely affect you.

The holders of a majority of the principal amount of the outstanding notes may waive our and Bowater's compliance with the restrictive covenants in the indenture. The holders of at least a majority of the principal amount of the outstanding notes may, on behalf of all holders of the notes, waive any past default under the indenture, except:

- a default in the payment of principal of, premium, if any, or interest on the notes; and
- a default in respect of a covenant or provision of the indenture that cannot be modified or amended without the consent of the holder of each outstanding note.

We generally will be entitled to set any day as a record date for the purpose of determining the holders of outstanding notes that are entitled to vote or take other action under the indenture in accordance with applicable laws. In limited circumstances, the trustee will be entitled to set a record date for action by you. If we or the trustee set a record date for a vote or other action to be taken by you, that vote or action may be taken only by persons who are holders of outstanding securities of the notes on the record date and must be taken within 180 days following the record date or a shorter period that we may specify (or as the trustee may specify, if it sets the record date). We may shorten or lengthen (but not beyond 180 days) this period from time to time.

You should consult your bank or broker for information on how approval may be granted or denied if we seek to change the indenture or the notes or request a waiver.

Reports

Whether or not we and Bowater are subject to the reporting requirements of Section 13 or 15(d) of the Exchange Act, Bowater will deliver to the trustee within 5 days after Bowater is (or would have been if Bowater were subject to such reporting obligations) required to file with the SEC, annual and quarterly financial statements substantially equivalent to financial statements that would have been included in reports filed with the SEC if Bowater were subject to the requirements of Section 13 or 15(d) of the Exchange Act, including, with respect to annual information only, a report thereon by its certified independent public accountants as such reports would be required in such filings, and, in each case, together with a management's discussion and analysis of financial condition and results of operations which would be so required and, unless the SEC will not accept such reports, file with the SEC the annual, quarterly and other reports which Bowater is or would have been required to file with the SEC.

Defeasance

Full Defeasance. If there is a change in federal tax law, as described below, we can legally release ourselves and Bowater from any payment or other obligations on the notes and the guarantees, which we call full defeasance, if we put in place the following other arrangements for repayment of the notes:

- We must deposit in trust for your benefit a combination of money and U.S. government or U.S. government agency notes or bonds that will generate enough cash to make interest, principal and any other payments on the notes on their various due dates.
- There must be a change in current federal tax law or an Internal Revenue Service ruling that lets us make the above deposit without causing you to be taxed on the notes any differently than if we did not make the deposit and just repaid the notes ourselves. Under current federal tax law, the deposit and our legal release from the notes would be treated as though we took back the notes and gave you your share of the cash and notes or bonds deposited in trust. In that event, you could recognize gain or loss on the notes given back to us.
- We must deliver to the trustee a legal opinion of our counsel confirming the tax law change described above.

If we ever did accomplish full defeasance, as described above, you would have to rely solely on the trust deposit for repayment on the notes. You could not look to us for repayment in the unlikely event of any shortfall. Conversely, the trust deposit would most likely be protected from claims of our lenders and other creditors if we ever became bankrupt or insolvent.

Covenant Defeasance. Under current federal tax law, we can make the same type of deposit described above and be released and have Bowater and its other subsidiaries released from some of the restrictive covenants in the notes. This is called covenant defeasance. In that event, you would lose the protection of those restrictive covenants but would gain the protection of having money and notes set aside in trust to repay the notes. In order to achieve covenant defeasance, we must do the following:

- We must deposit in trust for your benefit a combination of money and U.S. government or U.S. government agency notes or bonds that will generate enough cash to make interest, principal and any other payments on the notes on their various due dates.
- We must deliver to the trustee a legal opinion of our counsel confirming that, under current federal income tax law, we may make the above deposit without causing you to be taxed on the notes any differently than if we did not make the deposit and just repaid the notes ourselves.

If we accomplish covenant defeasance, the following provisions of the indenture and the notes would no longer apply:

- Bowater's promises regarding conduct of its business previously described above under "— Restrictive Covenants;"
- Bowater's obligations previously described above under "— Reports;"
- the conditions that apply when either we or Bowater merge or engage in similar transactions, as previously described above under "— Mergers and Similar Events;"
- the events of default relating to breach of covenants, certain events in bankruptcy, insolvency or reorganization, and acceleration of the maturity of other debt, described below under "— Events of Default".

If we accomplish covenant defeasance, you can still look to us for repayment of the notes (and to Bowater under the guarantees) if there were a shortfall in the trust deposit. In fact, if one of the remaining events of default occurred (such as our or Bowater's bankruptcy) and the notes become immediately due and payable, there may be such a shortfall. Depending on the event causing the default, you may not be able to obtain payment of the shortfall.

Events of Default

The term "event of default" means any of the following:

- we do not pay interest on a note within 30 days of its due date;
- we do not pay the principal or any premium on a note on its due date;
- either we or Bowater fail to perform any restrictive covenant or other term of the indenture for 60 days after receipt of notice of such breach from the trustee or holders of at least 25% of the principal amount of the notes outstanding;
- Bowater repudiates its obligations under its guarantees of the notes or the guarantees become unenforceable or invalid or are no longer in full force and effect; or
- either we or Bowater file for bankruptcy or certain other events in bankruptcy, insolvency or reorganization occur.

Remedies if an Event of Default Occurs. If an event of default has occurred and has not been cured, the trustee or the holders of 25% of the principal amount of the notes outstanding may declare the entire principal amount of all the notes to be due and immediately payable. This is called a declaration of acceleration of maturity. If an event of default occurs because of certain events in bankruptcy, insolvency or reorganization, the principal amount of all notes will be automatically accelerated, without any action by the trustee or any holder. A declaration of acceleration of maturity may be canceled by the holders of at least a majority in principal amount of the notes.

Except in cases of default, where the trustee has some special duties, the trustee is not required to take any action under the indenture at the request of any holders unless the holders offer the trustee protection from expenses and liability satisfactory to the trustee, which is called an indemnity. If reasonable indemnity is provided, the holders of a majority of the principal amount of the outstanding notes may direct the time, method and place of conducting any lawsuit or other formal legal action seeking any remedy available to the trustee. These majority holders may also direct the trustee in performing any other action under the indenture.

Before you may bypass the trustee and bring your own lawsuit or other formal legal action or take other steps to enforce your rights or protect your interests relating to the notes, the following must occur:

- you must give the trustee written notice that an event of default has occurred and remains uncured;
- the holders of 25% in principal amount of all outstanding notes must make a written request that the trustee take action because of the default, and must offer reasonable indemnity to the trustee against the cost and other liabilities of taking that action;
- the holders of a majority in principal amount of all outstanding notes must not have given the trustee any direction inconsistent with that request; and
- the trustee must have not taken action for 60 days after the receipt of the above notice and offer of indemnity.

You are, however, entitled at any time to bring a lawsuit for the payment of money due on your notes on or after its due date.

We will furnish to the trustee every year a written statement regarding our performance of our obligations under the indenture and any default in such performance.

The Trustee

The trustee's current address is 101 Barclay Street, New York, NY 10286, Attn: Corporate Trust Administration.

The indenture provides that, except during the continuance of an event of default, the trustee will perform only such duties as are specifically set forth in the indenture. During the existence of an event of default, the trustee will exercise such rights and powers vested in its exercise as a prudent person would exercise under the circumstances in the conduct of such person's own affairs.

The indenture and provisions of the Trust Indenture Act incorporated by reference therein contain limitations on the rights of the trustee, should it become our creditor, to obtain payment of claims in certain cases or to liquidate certain property received by it in respect of any such claim as security or otherwise. The trustee is permitted to engage in other transactions with us or any of our affiliates. If the trustee acquires any conflicting interest (as defined in the indenture or in the Trust Indenture Act), it must eliminate such conflict or resign.

Governing Law

The indenture, the notes, and the guarantees of the notes will be governed by and construed in accordance with the laws of the State of New York.

Registration and Exchange Offer

As a condition to the initial sale of the notes, we, Bowater and the initial purchasers will enter into an exchange and registration rights agreement. Pursuant to this agreement, we and Bowater will agree to:

- file with the SEC, on or prior to 90 days following the date of issuance of the notes as evidence of our indebtedness, a registration statement under the Securities Act with regard to an offer to exchange the notes for new evidence of the same indebtedness, called "exchange notes," which will have terms substantially identical to the notes; and

- use our reasonable best efforts and act in accordance with applicable laws to cause the registration statement for these exchange notes to become effective as soon as practicable, but not later than 150 days after the sale of the notes.

The exchange offer will be open for a period of at least 20 business days both beginning and ending within 45 days of the registration statement becoming effective. During this period, we will agree to exchange the exchange notes for all notes properly surrendered and not withdrawn before the last day of this period.

Each holder of the notes (other than certain specified holders) who wishes to accept the exchange offer will be required to make certain representations, including representations that:

- any exchange notes to be received by the holder will be acquired in the ordinary course of its business;

- at the time of the commencement of the exchange offer, the holder has no arrangement or understanding with any person to participate in the distribution (with the meaning of the Securities Act) of the exchange notes;

- the holder is not our "affiliate" (as defined in Rule 405 under the Securities Act); and

- the holder is not acting on behalf of any person who could not truly make all of the forgoing representations.

If (1) SEC interpretations are changed before we complete the exchange offer such that the notes received by each holder, except for certain restricted holders, are not or would not be transferable without restriction, (2) the exchange offer has not been completed within 195 days after the sale of the notes, or (3) the exchange offer is not available to any holder of notes, we will file a shelf registration statement for resale of the notes within 30 days of such obligation arising. We will use our reasonable best efforts in accordance with applicable laws to cause the shelf registration statement to become effective no later than 150 days after the obligation to file arises and to keep the registration effective for up to two years. We will provide you copies of the prospectus, notify you when the resale registration for the notes has become effective and take other actions required to permit unrestricted sales of the notes. When you sell the notes pursuant to the resale registration, you generally would be:

- required to be named as a selling securityholder in the related prospectus and to deliver a prospectus to the purchaser,

- subject to certain of the civil liability provisions of the Securities Act in connection with such sales, and

- bound by the provisions of the registration rights agreement that are applicable to you, including certain indemnification obligations.

A registration default will exist if any of the following situations occurs:

- we and Bowater do not file a registration statement with the SEC on or before the date on which we are required to file it pursuant to the exchange and registration rights agreement;
- a registration statement we are required to file under the registration rights agreement has not become effective or been declared effective by the SEC on or before the applicable deadline in the agreement;
- if the registration rights agreement requires us to make the exchange offer, we do not complete the exchange offer within 60 days after the initial effective date of the related registration statement; or
- any registration statement required under the registration rights agreement is filed and declared effective but we later withdraw it or the SEC issues an effective stop order suspending its effectiveness, except as specifically permitted in the agreement, without being succeeded immediately by an additional registration statement filed and declared effective.

During any period of registration default, in addition to the interest we normally pay on the notes, we will pay additional interest on any registrable notes. Additional interest will accrue at an annual rate of 0.25%. As soon as we cure the registration default, the interest rate on the notes will revert to its original level.

This description of the exchange and registration rights agreement is a summary only. The summary is not complete. We recommend that you read the entire exchange and registration rights agreement carefully before investing in the notes. You can obtain a copy of the exchange and registration rights agreement by following the directions under the caption "Where You Can Find More Information About Bowater" on page 59 of this offering circular.

Terms of the Exchange Offer

For each of the notes properly surrendered and not withdrawn before the expiration date of the exchange offer, we will issue an exchange note having a principal amount equal to that of the surrendered note.

The form and terms of the exchange notes will be the same as the form and term of the notes except that:

- the exchange notes will be registered for the exchange offer under the Securities Act and, therefore, the global securities representing the exchange notes will not bear legends restricting the transfer of interests in the exchange notes; and
- holders of the exchange notes will not be entitled to any of the registration rights of the holders of notes under the registration rights agreement, which will terminate upon the consummation of the exchange offer.

The exchange notes will evidence the same indebtedness as the notes they replace, and will be issued under, and be entitled to the benefits of, the same indenture that authorized the issuance of the notes. As a result, the notes and the exchange notes will be treated as a single class of notes under the indenture.

We intend to conduct the exchange offer in accordance with the provisions of the exchange and registration rights agreement and the applicable requirements of the Exchange Act and the related rules and regulations of the SEC.

Under existing SEC interpretations, the exchange notes generally would be freely transferable after the exchange offer without further registration under the Securities Act, except that broker-dealers receiving the exchange notes in the exchange offer will be subject to a prospectus delivery requirement with respect to their resale. We base our view on interpretations by the staff of the SEC in no-action letters issued to other issuers in exchange offers like ours. We have not, however, asked the SEC or other applicable securities regulatory bodies or commissions to consider this particular exchange offer in the context of a no-action letter. Therefore, the SEC might not treat it in the same way it has treated other exchange offers in the past.

A broker-dealer that has bought the notes for market-making or other trading activities must deliver a prospectus in order to resell any exchange notes it receives for its own account in the exchange offer. The prospectus may be used by a broker-dealer to resell any of its exchange notes. We and Bowater have agreed in the registration rights agreement to send a prospectus to any broker-dealer that requests copies in the notice and questionnaire for a period of up to 180 days after the registration statement relating to this exchange offer is declared effective.

Form and Denominations

The Global Notes

We will issue the notes in the form of one or more global debt securities, in fully registered form, without interest coupons.

Notes sold in reliance on Rule 144A initially will be represented by permanent global notes, each of which we refer to as a restricted global note, and will be deposited with DTC or with the trustee as custodian for DTC and registered in the name of Cede & Co., as nominee of DTC.

Notes sold in offshore transactions in reliance on Regulation S will initially be represented by temporary global notes, each of which we refer to as a Regulation S temporary global note, and will be deposited with the trustee, as custodian for DTC, as depositary, and registered in the name of a nominee of DTC for the account of the operator of the Euroclear System or Clearstream Banking société anonyme. Each Regulation S temporary global note will be exchangeable for a single permanent global note, which we refer to as a Regulation S global note, after the expiration of the distribution compliance period (as defined below) and the certification required by Regulation S. Prior to such time, a beneficial interest in the Regulation S temporary global note may be transferred to a person who takes delivery in the form of an interest in the restricted global note only upon receipt by the trustee of a written certification from the transferor to the effect that such transfer is being made to a person whom the transferor reasonably believes is a "qualified institutional buyer", or QIB, in a transaction meeting the requirements of Rule 144A. Beneficial interests in a restricted global note may be transferred to a person who takes delivery in the form of an interest in a Regulation S global note whether before, on or after such time, only upon receipt by the trustee of a written certification to the effect that such transfer is being made in accordance with Regulation S. Investors may hold their security entitlements in the applicable Regulation S global note directly through Euroclear or Clearstream, if they are participants in such systems, or indirectly through organizations that are participants in such systems. Before the 40th day after the later of the commencement of the offering of the notes and the date of the notes issuance (such period through and including such 40th day is referred to as the distribution compliance period), investors may only hold such entitlements through Euroclear or Clearstream. After the expiration of the distribution compliance period, (but not earlier), investors may also hold such entitlements through organizations other than Euroclear or Clearstream that are DTC account holders.

Any beneficial interest in a Regulation S global note or a restricted global note, each of which we refer to as a global note, that is transferred to a person who takes delivery in the form of an interest in a restricted global note or a Regulation S global note, respectively, will, upon transfer, cease to be an interest in the type of global note previously held and become an interest in the other type of global note and, accordingly, will thereafter be subject to all transfer