# Stock Sale Option Election and Withholding Tax Letter

November 5, 2010

**Subject: Share distributions on employee and former employee claims**

If the restructuring plans are approved, you may receive one or more stock distributions in satisfaction of your claim, if any, and once and as allowed (such claim, an "Employee Claim"). This letter provides you with (i) information on your stock distribution, if applicable (ii) an option to have your stock monetized quickly by directing the sale of your stock distribution and (iii) if you are a Canadian employee or a former Canadian employee, an election to request the Company to make certain withholdings on account of income tax.

## I. Satisfaction of your Employee Claim

Your Employee Claim may be satisfied by the distribution of new AbitibiBowater Inc. shares ("New AbiBow Common Stock"). If you do not direct the sale pursuant to Section II below, further information will be provided by AbitibiBowater's transfer agent following such distribution of shares on how to sell your shares or transfer them to your broker.

## II. Options Regarding Share Distributions

As an accommodation to you, you are being offered the option to direct the sale of all of your stock distributions. We refer to this method of receiving distributions as the "Stock Sale Option". The Stock Sale Option gives you the ability to direct the sale, on the open market, of the shares distributed to you on account of your Employee Claim. This means that you will receive cash for the amount of the consideration obtained by the actual sale of your shares, minus any applicable transaction costs.

If you are a U.S. employee or a former U.S. employee, you will receive the actual proceeds of the sale of the shares distributed, based on the weighted average transaction price obtained for the sale of the U.S. Withheld Shares (as defined below), along with shares of U.S. employees and former U.S. employees sold pursuant to the Stock Sale Option (the "U.S. Monetized Shares"), on each distribution date (the "Distribution Date"), minus any applicable transaction costs.

If you are a Canadian employee or a former Canadian employee, you will receive the actual proceeds of the sale of the shares distributed, based on the weighted average transaction price obtained for the sale of the Canadian Withheld Shares (as defined below), along with shares of Canadian employees and former Canadian employees sold pursuant to the Stock Sale Option (the "Canadian Monetized Shares"), sold over a period not to exceed 10-business days following each Distribution Date, minus any applicable transaction costs. The 10-business day methodology for the sale of the shares distributed (and the determination of the underlying taxable benefit) applies only for the distributions on an Employee Claim made within 135 days following the date upon which the Company emerges from creditor protection (the "Emergence Date"). Beyond that date, you will receive the actual proceeds of the sale of the shares distributed, based on the weighted average transaction price obtained for the sale of the Canadian Withheld Shares and Canadian Monetized Shares, on each Distribution Date, minus any applicable transaction costs.

The Stock Sale Option will be facilitated by AbitibiBowater's transfer agent, ComputerShare Inc. The Company will distribute cash proceeds from the sale of shares through its payroll system.

**The Stock Sale Option is a one-time, irrevocable option. If you elect to direct the sale of the shares distributed as provided herein, your election is binding on all distributions of shares which you may receive under the restructuring plans.** As we have previously communicated, if the restructuring plans are approved, there will be a delay between the Emergence Date and the Distribution Date for the satisfaction of a significant number of Employee Claims. In addition, due to reserves required to be maintained under the restructuring plans, you may receive incremental distributions over time on account of your Employee Claim as claims continue to get resolved in the months following the Emergence Date. The restructuring plans provide, in general, that interim distributions on account of Employee Claims are made on a sixty-day cycle following the initial Distribution Date. Because the restructuring plans fix the timing of interim distributions on Employee Claims, AbitibiBowater does not control the timing of stock sales. If you elect the Stock Sale Option, the direction to sell your shares applies to each and every stock distribution you will receive on account of your Employee Claim. **This means that you will not have any control over the price at which your shares will be sold and you will bear the risk of share price fluctuation between the date you elect the Stock Sale Option and the actual sale of shares distributed**.

The Stock Sale Option is voluntary. If you do not elect the Stock Sale Option pursuant to the procedures set forth below, you will receive shares. Electing the Stock Sale Option does not affect the allowance of your Employee Claim or the timing of any distributions you may receive.

## III. Determination of the taxable benefit

You will be taxed on the value of the shares distributed to you as income and as described below.

For U.S. employees and former U.S. employees, the taxable benefit attributable to the satisfaction of your Employee Claim and the cost basis of the New AbiBow Common Stock distributed to you will be based on the weighted average transaction price obtained for the sale of all U.S.Withheld Shares and U.S. Monetized Shares, on the relevant Distribution Date, minus any applicable transaction costs, whether or not you elect for the Stock Sale Option.

For Canadian employees and former Canadian employees, by agreements with the Canada Revenue Agency and Revenue Quebec, the taxable benefit attributable to the satisfaction of your Employee Claim by the shares distributed on any particular Distribution Date and the cost basis of the New AbiBow Common Stock distributed to you will be based on the weighted average transaction price obtained for the sale of all Canadian Withheld Shares and Canadian Monetized Shares distributed on that particular Distribution Date, which sale will occur over a period not to exceed 10-business days following such Distribution Date, minus any applicable transaction costs. The 10-business day methodology for the determination of the taxable benefit applies only for the distributions on an Employee Claim made within 135 days following the Emergence Date. For distributions made after that date, the Canada Revenue Agency and Revenue Quebec agree that the taxable benefit and the cost basis of the New AbiBow Common Stock you may receive in satisfaction of your Employee Claim will be based on the weighted average transaction price obtained for the sale of all Canadian Withheld Shares and Monetized Shares, on each Distribution Date, minus any applicable transaction costs. These tax treatments will apply to you whether or not you elect for the Stock Sale Option and/or the Canadian Withholding Tax Election.

## IV. Withholding tax for U.S. employees and former U.S. employees

As we have previously communicated, AbitibiBowater has an obligation to withhold income tax, various other governmental withholdings and certain social security at source in connection with share distributions. In order to satisfy such withholding obligations applicable to distributions made to U.S. employees and former U.S. employees, AbitibiBowater will withhold shares from employee and former employee distributions in amounts sufficient to satisfy the withholding obligations (the "US Withheld Shares"). Arrangements will be made on behalf of employees and former employees for the sale, on the open market, of all the U.S. Withheld Shares, along with the U.S. Monetized Shares. A portion of the aggregate cash proceeds of such sale will be used to fund the withholding requirements. Accordingly, in satisfaction of your Employee Claim, the shares of New AbiBow Common Stock to be delivered to you will correspond to the amount of New AbiBow Common Stock to which you are entitled *after* the applicable withholdings.

## V. Withholding tax for Canadian Employees and Former Canadian Employees

Canada Revenue Agency and Revenue Quebec have acknowledged that the distributions are not subject to any Canadian withholding tax nor any Quebec withholding tax for the Canadian employees and former Canadian employees. However, in order to mitigate the tax due by the Canadian employees and former Canadian employees to the tax authorities, you can request the Company to make a withholding on account of income tax on the stock distributions made to you (the "Canadian Withholding Tax Election"). The importance of the withholding will vary depending on whether (i) the Canadian employee or former Canadian employee resides in the province of Quebec at the time of a particular Distribution, and (ii) you have elected for the Stock Sale Option. The agreements with the Canada Revenue Agency and Revenue Quebec provide for specific rates to use to make the withholding tax, which are detailed in Schedule 1 hereinafter.

Therefore, depending on your own circumstances, even if you elect under the Canadian Withholding Tax Election, the withholding on account of income tax made by the Company may be lower or higher than the taxes otherwise payable on the taxable benefit and you may still have an amount due to, or be entitled to a refund or credit from, the tax authorities for the taxation year in which you will receive a distribution.

In order to satisfy the Canadian Withholding Tax Elections, a certain number of New AbiBow Common Stock, as determined in accordance with Schedule 1, will be withheld by the Company (the "Canadian Withheld Shares") and sold on the open market, along with the Canadian Monetized Shares. Should you elect under the Stock Sale Option, as described above in Section II, a portion of the cash proceeds from the disposition of the shares, as determined in accordance with Schedule 1, will be withheld by the Company to fund the withholding.

**The Canadian Withholding Tax Election is voluntary and is a one-time, irrevocable election. If you elect to request the Company to make a withholding on account of income tax, your election will be binding on all distributions you may receive under the restructuring plans.**

## VI. Canadian Employment Insurance Payments

If you have received Employment Insurance in the past years, your distribution may be delayed due to legal requirements. Moreover, in certain circumstances, the Employment Insurance payments you previously have received **may be** subject to a claw back by Employment Insurance. Should that be the case, information related to any such claw back will be reflected on your payment stub.

## VII. Former Employee Banking Information

If you are a former employee and your banking information has changed since you terminated your employment with the Company, please complete and return the relevant attached form at your earliest convenience.

## VIII. Irrevocable Stock Sale Option Election and Canadian Withholding Tax Election

Please use this Election Letter to indicate whether you want to irrevocably elect the Stock Sale Option and thereby direct the sale of the shares distributed to which you are entitled on account of your Employee Claim (if any, and once and as allowed**)** and, for the Canadian Employees and former Canadian employees, to indicate whether you want to irrevocably elect under the Canadian Withholding Tax Election**.**

**Note that if your address has changed since the filing of your Employee Claim, you must provide your new address in your election letter.**

**Note that your original election letter must be actually received by Ernst & Young Inc. or Epiq Bankruptcy Solutions, LLC at the address listed below on or before 5:00 pm prevailing Eastern Time on November 19, 2010, or your election will not be counted.**

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**ITEM 1. ELECTION – FOR ALL EMPLOYEES AND FORMER EMPLOYEES**

**By checking the box below, I hereby irrevocably elect the Stock Sale Option with respect to my Employee Claim as follows:**

☐ I hereby (a) direct the sale, on my behalf, of all the shares distributed to which I am entitled on account of my Employee Claim, and (b) elect to receive cash representing the consideration obtained by the actual sale of the shares distributed, minus applicable transactions costs, that I would have received on account of such claim.

By electing the Stock Sale Option, the undersigned, on behalf of his, her or their heirs, successors and assigns, hereby remises, releases, and forever discharges the Debtors, the Reorganized Debtors, the Chapter 15 Debtors, the CCAA Debtors, their estates, including any estate representative appointed or selected pursuant to section 1123 of the Bankruptcy Code, and their respective officers, directors, employees, agents, professionals (including the transfer agent), successors and assigns, as well as Ernst & Young Inc. and its officers, directors, employees, agents, professionals, successors and assigns of and from any and all claims or causes of action arising out of or relating to or from the sale of the New AbiBow Common Stock, the circumstances that gave rise to the sale of the New AbiBow Common Stock, and any other transactions or dealings with the Debtors based on the Stock Sale Option which the undersigned now has, or hereafter can, shall, or may have, for or by any reason of any cause, matter, or thing whatsoever, prior to and including the date of execution hereof (the "Release").

The foregoing Release shall become effective immediately and automatically upon the Emergence Date.

**If you do not check the box and you are entitled to a stock distribution on account of your Employee Claim, you will receive shares in satisfaction of your claim.**

**ITEM 2. ELECTION – FOR CANADIAN EMPLOYEES AND FORMER CANADIAN EMPLOYEES ONLY**

**By checking the box below, I hereby irrevocably elect under the Canadian Withholding Tax Election with respect to distributions made by the Company as follows:**

☐ I hereby request the Company to withhold on account of income tax, either (i) the number of New AbiBow Common Stock determined in accordance with Subsection A(i) or B(i) of Schedule 1 according to my province of residence, if I have not elected for the Stock Sale Option, the net proceeds of which will be remitted to the tax authorities on account of my taxes or (ii) the amount of cash under the Stock Sale Option, determined in accordance with Subsections A(ii) or B(ii) of Schedule 1, according to my province of residence, if I have elected for the Stock Sale Option, which will be remitted to the tax authorities on account of my taxes. I understand that the amount remitted by the Company could be insufficient to cover all the taxes payable on the taxable benefit attributable to the satisfaction of my Employee Claim.

**If you do not check the box, even if the distributions will be taxable for you, no withholding tax will be made by the Company on your distributions and you will have to pay any amount due to the tax authorities within the prescribed time provided for in the tax laws.**

**ITEM 3. CERTIFICATION. By signing this Election Letter, I certify that:**

1. I am the holder of the Employee Claim to which this Election Letter pertains or am an authorized signatory, and I have full power and authority to direct the sale of the shares distributed on account of such Employee Claim and, for the Canadian employees and former employees, to make the election under the Canadian Withholding Tax Election;

2. I understand that my elections are irrevocable, and that these elections apply to any initial distribution to which I may be entitled and any subsequent, interim and final distribution made under the restructuring plans; and

3. I understand that I have the burden of properly completing this Election Letter, and that the risk of completion is at my option and my risk. If there is any error, inaccuracy or omission regarding

this Election Letter, including, but not limited to, submitting the Election Letter late or providing incorrect or unusable contact information, I will receive the shares and, for the Canadian employees and former employees, no withholding will be made, without any effort on the part of AbitibiBowater to rectify any errors, inaccuracies or omissions I made.

Name:____________________________________________

(Print or Type)

Signature:_________________________________________

By:______________________________________________

Title:____________________________________________

Date Completed:____________________________________

Complete address, if different from the one appearing in the Employee Claim:

________________________________________________
________________________________________________
________________________________________________

**ITEM 4:** **SUBMISSION**. Please read and follow these instructions carefully:

**CCAA CLAIMS (CANADA)**

**YOUR ELECTION LETTER MUST BE <u>ACTUALLY</u> <u>RECEIVED</u> BY ERNST & YOUNG INC. ON OR BEFORE 5:00 PM PREVAILING EASTERN TIME ON NOVEMBER 19, 2010, OR YOUR ELECTION WILL NOT BE COUNTED. YOU MAY SUBMIT YOUR ELECTION LETTER BY MAIL, FACSIMILE OR ELECTRONIC SUBMISSION AT THE FOLLOWING ADDRESSES AND NUMBERS:**

**By Registered Mail or Courier:**

Ernst & Young Inc.
c/o AbitibiBowater Inc. Stock Election Processing Center
800 Rene-Levesque Blvd. West, Suite 1900
Montréal, Québec
H3B 1X9

**By Fax :** **514-879-3992**

**By E-mail :** **abitibibowater@ca.ey.com**

**CHAPTER 11 CLAIMS (U.S.)**

**YOUR ORIGINAL ELECTION LETTER MUST BE ACTUALLY RECEIVED BY EPIQ BANKRUPTCY SOLUTIONS, LLC ON OR BEFORE 5:00 PM PREVAILING EASTERN TIME ON NOVEMBER 19, 2010, OR YOUR ELECTION WILL NOT BE COUNTED. YOU MAY SUBMIT YOUR ELECTION LETTER BY MAIL, FACSIMILE OR ELECTRONIC SUBMISSION AT THE FOLLOWING ADDRESSES AND NUMBERS:**

**By Regular Mail:**

AbitibiBowater Inc. Stock Election Processing Center
c/o Epiq Bankruptcy Solutions, LLC
FDR Station, P.O. Box 5269
New York, NY 10150-5269

**By Overnight Mail:**

AbitibiBowater Inc. Stock Election Processing Center
c/o Epiq Bankruptcy Solutions, LLC
757 Third Avenue, 3rd Floor
New York, NY 10017

**By Fax :** **877-797-5688**

**By E-mail :** **abitibistockelection@epiqsystems.com**

**IF YOU HAVE ANY QUESTIONS REGARDING THIS ELECTION LETTER OR THE ELECTION PROCESS, OR IF YOU NEED AN ADDITIONAL ELECTION LETTER, PLEASE CONTACT US AT:**

**Toll-free number for Canada and the U.S.: 888-266-9280**
**Telephone number for International Calls: 503-597-7698**

**SCHEDULE 1**

**Withholding tax rates applicable on distributions made to Canadian employees and former Canadian employees**

**A – With respect to shares distributed to an employee or former employee residing in the Province of Québec at the time of Distribution:**

**(i) if the employee has not elected the Stock Sale Option,**

- 15 % of the shares distributed to such employee (rounded up to the next whole number) for the federal withholding tax.

- 20 % of the shares distributed to such employee (rounded up to the next whole number) for the Quebec withholding tax.

**(ii) if the employee has elected the Stock Sale Option:**

- the following percentages will apply for the federal withholding tax:

  - 5 % on an amount of $5,000 or less;
  - 10 % on an amount of $5,000 to $15,000;
  - 15 % on an amount of $15,000 or more.

- the following percentages will apply for the Quebec withholding tax:

  - 16 % on an amount less than $5,000;
  - 20 % on an amount of $5,000 or more.

**B – With respect to shares distributed to an employee or former employee residing in Canada elsewhere than in the Province of Québec at the time of Distribution:**

**(i)** if the employee has not elected the Stock Sale Option, 30 % of the shares distributed to such employee (rounded up to the next whole number) for the federal withholding tax (and provinces other than Quebec).

**(ii)** if the employee has elected the Stock Sale Option, the following percentages will apply for the federal withholding tax (and provinces other than Quebec):

  - 10 % on an amount of less than $5,000;
  - 20 % on an amount of less $5,000 to $15,000;
  - 30 % on an amount of more than $15,000.