Ainsworth®

INTERIM REPORT TO SHAREHOLDERS
FOR THE THREE AND SIX MONTH PERIODS ENDED
JUNE 30, 2011

LETTER TO SHAREHOLDERS

August 5, 2011

Dear Fellow Shareholders:

Our second quarter was challenging. North American OSB prices declined as housing starts and related activity remained at historically low levels. Further, we faced an unfavourable foreign exchange rate and rising input costs for resin and wax. To counter these adverse conditions we pursued with considerable success a marked increase in overseas sales volumes, continuing growth in market share of our value-added product lines and significant improvements in operational efficiency at our three operating OSB mills. In the second quarter of 2011 our Barwick, Ontario mill recorded the highest OSB production volume since its purchase in 2004.

Q2 2011 Financial Highlights

Adjusted EBITDA from continuing operations for the quarter ended June 30, 2011 was positive $2.7 million compared to $35 million for the same period in 2010. In the second quarter of 2011, the Company recorded a net loss from continuing operations of $12.9 million compared to a net loss of $17.3 million recorded in the second quarter of 2010.

These results were influenced by relatively low North American OSB prices for the period. In the second quarter of 2011, the average published benchmark North Central price for 7/16" oriented strand board ("OSB") was U.S. $174 per msf. That is compared to an average price of U.S. $294 per msf in the second quarter of 2010, a period that saw a short term spike in North American OSB prices. For perspective, Q2 2010 OSB prices were roughly 100% higher than OSB prices in the same period a year earlier.

Recognizing the Benefits of Improving Operational Efficiency

In the fourth quarter of 2010, we took the opportunity to complete a number of upgrades to our OSB mills while markets were weak. We completed the installation of a new dryer at our mill in 100 Mile House to enhance the mill's ability to process logs infected by the Mountain Pine Beetle; we rebuilt the press at our mill in Grand Prairie, Alberta, and worked through an extensive list of maintenance and improvement items at our Barwick mill. This downtime came with a low opportunity cost but added significant strength to our operations.

The value of this initiative was particularly evident in the second quarter of 2011. Our Barwick mill, for example, saw the highest quarterly production totals since its purchase in 2004. Barwick recorded a 10% increase in net production relative to the second quarter of 2010.

At our 100 Mile House mill, the implementation of a comprehensive new operational and maintenance system resulted in a reduction in downtime of more than 33% in the second quarter. This has also resulted in an increase in dryer throughput and a corresponding 3.5% increase in total production.

Generating Increased Value from Overseas Markets

Japan is recovering from the devastating earthquake and tsunami that struck in March of this year. Ainsworth for many years has retained the largest market share of OSB building products to Japan. Our mills in both Grande Prairie and 100 Mile House both maintain Japanese Agricultural Standard (“JAS”) certification, which qualifies them to sell OSB in the Japanese market. We remain committed to providing our customers in Japan with the OSB products they require during their rebuilding process.

We continue to see significant growth potential in China for engineered wood products. We will continue working to identify the right opportunities to pursue further expansion in this emerging market for wood products, but we will continue to take a disciplined approach in doing so.

Introduction of a New Safety Program

Improving operational performance means nothing without a commitment to operating safety across the organization. In the first six months of 2011, we introduced a new Occupational Health and Safety policy to clarify safe work practices and individual responsibilities, a change that I believe significantly strengthens the overall safety program at Ainsworth. We have set ambitious goals for this program and I expect that it will not only result in improved safety performance, but improved operational and financial results as well.

Outlook

U.S. housing starts remained at historically low levels for the first six months of 2011, and we do not anticipate much improvement through the remainder of the year. In June, however, for the first time in several years the rate of home foreclosures in the U.S. decreased on a year over year basis and, by extension, the rate at which distressed properties entered the market slowed marginally. We will continue to take a conservative approach to managing our cash position and monitor any changes in U.S. macro-economic conditions closely.

In all, our continued focus on the execution of our strategic plan has helped us withstand these challenging market conditions and enabled us to identify and capitalize on new sources of value creation. As always, we are grateful for the support we receive from our shareholders, our customers and our employees.

Sincerely,

/s/ Rick Huff
President and CEO

MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS For the Three and Six Month Periods Ended June 30, 2011

This management's discussion and analysis is presented as at August 5, 2011. Financial references are in Canadian dollars unless otherwise indicated. Additional information relating to Ainsworth (also referred to as the Company, or we, or our), including our annual information form, is available on SEDAR at www.sedar.com. Our financial statements are prepared in accordance with International Financial Reporting Standards (“IFRS”) in Canadian dollars. Comparative balances presented for 2010 have been restated under IFRS, while comparative balances presented for 2009 were prepared in accordance with previous Canadian generally accepted accounting principles (“CGAAP”) and have been reclassified to reflect the results of discontinued operations.

Overview

Ainsworth is a leading manufacturer and marketer of oriented strand board (“OSB”) with a focus on value-added specialty products for markets in North America and Asia.

Our strategy is to be sustainable and profitable throughout the business cycle by diversifying sales geographically, expanding our value-added product offerings and leveraging a proven track record of operational excellence, innovation and technical product development. Financially, we remain focused on prudent balance sheet management.

The Company has a production capacity of 2.5 billion square feet per year (3/8-inch basis) and has four wholly-owned OSB manufacturing facilities located in Grande Prairie, Alberta, High Level, Alberta, 100 Mile House, British Columbia, and Barwick, Ontario. All four mills are strategically located in terms of wood fibre and access to markets in North America and Asia. The Company’s active facilities have a current production capacity of 1.6 billion square feet.

The table below summarizes the estimated annual production capacity for each of our mills (in millions of square feet “mmsf”, 3/8-inch basis):

100 Mile House, BC	440
Grande Prairie, AB	690
Barwick, ON	480
High Level, AB (currently curtailed) [1]	860
Total capacity	2,470
Current operating capacity	1,610

(1) The High Level mill was curtailed in December of 2007 and remains currently curtailed pending improved market conditions.

To meet potential future increases in demand, incremental capacity would come from restarting High Level. In addition, the Company would have additional incremental capacity on the completion of the second production line at Grande Prairie. The Company continues to assess the remaining costs to complete the second production line, which would further increase capacity by approximately 620 mmsf, 3/8-inch basis to 3 billion square feet per year (3/8-inch basis).

All of our facilities utilize flexible mill technology and can manufacture products for domestic and overseas markets. Our facilities have excellent access to low cost, secure fibre sources, are energy efficient and have low sustaining capital requirements. Ainsworth employs an experienced, reliable workforce of approximately 600 workers. Safety and environmental responsibility is emphasized as a key value at all levels.

Capital Expenditures
At this time, the Company holds all ownership interests in a curtailed OSB facility located in High Level, Alberta as a result of the acquisition of the remaining 50% interest from Grant Forest Products Inc. ("High Level acquisition") for $20 million. The acquisition was completed on February 17, 2011.

Advisory Regarding Forward-Looking Statements

This document contains forward looking statements concerning future events or expectations of Ainsworth's future performance, OSB demand and pricing, and other expectations, intentions and plans that are not historical fact. These forward-looking statements appear under the heading "Outlook" and in a number of other places in this report and can be identified by words such as "may", "estimates", "projects", "expects", "intends", "believes", "plans", "anticipates", "continue", "growing", "expanding", or their negatives or other comparable words. Investors are cautioned that such forward-looking statements are not promises or guarantees of future performance but are only predictions that relate to future events, conditions or circumstances or our future results, performance, achievements or developments and are subject to substantial known and unknown risks, assumptions, uncertainties and other factors that could cause our actual results, performance or developments in our business or in our industry to differ materially from those expressed, anticipated or implied by such forward-looking statements. Factors that could cause actual results to differ materially from those expressed or implied by such forward looking statements include, without limitation, the future demand for, and sales volumes of, Ainsworth's products, future production volumes, efficiencies and operating costs, increases or decreases in the prices of Ainsworth's products, Ainsworth's future stability and growth prospects, Ainsworth's future profitability and capital needs, including capital expenditures, and the outlook for and other future developments in Ainsworth's affairs or in the industries in which Ainsworth participates and factors detailed from time to time in Ainsworth's periodic reports filed with the Canadian Securities Administrators and other regulatory authorities. These periodic reports are available to the public at www.sedar.com. Many of these factors are beyond Ainsworth's control.

Ainsworth believes that the expectations reflected in its forward-looking information are reasonable but no assurance can be given that these expectations will prove to be correct and therefore any forward-looking statements included in this report should not be unduly relied upon. These statements speak only as of the date of this report. Ainsworth has no intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as may be required under applicable securities laws. The forward-looking statements contained in this document are expressly qualified by this cautionary statement.

Non-IFRS Measures

In addition to IFRS measures, Ainsworth uses the non-IFRS measures "adjusted EBITDA", "adjusted EBITDA margin" "adjusted working capital" and "gross profit" to make strategic decisions and to provide investors with a basis to evaluate operating performance and ability to incur and service debt. Non-IFRS measures do not have a standardized meaning prescribed by IFRS and may not be comparable to similar measures used by other companies. Included in this report are tables calculating adjusted EBITDA, adjusted EBITDA margin, adjusted working capital, and narrative disclosures defining gross profit.

Outlook

Liquidity
We believe we have the necessary working capital to manage the Company effectively through all phases of our business cycle. We continue to take a disciplined approach to managing our cash and we are confident in our ability to fund any shortfall from operations, interest payments, debt principal repayments and essential capital expenditures.

Going forward, our strategic approach remains focused on leveraging Ainsworth's operational expertise, superior products and customer relationships to ensure the Company is well positioned to capitalize on a recovery in U.S. home construction and increased demand from Asia.

Debt Maturities

Our debt principal repayments are scheduled to total $23.7 million in the second half of 2011, of which $15.6 million relates to our equipment loan. The Company is exploring the refinancing of this equipment loan, and we currently have $6 million set aside in restricted cash for this repayment. Also included is $7.1 million related to our finance lease on the aircraft, which will largely be funded by proceeds from the sale of the aircraft. Our U.S. dollar Senior Secured Term Loan is scheduled to mature in 2014 and our U.S. dollar Senior Unsecured Notes mature in 2015. Ainsworth is permitted, under the terms of the Company's indenture, to borrow an additional U.S.$125 million of senior secured debt and U.S.$75 million of senior unsecured debt. The availability of this funding is dependent on credit markets.

Summary of Operating and Financial Results from Continuing Operations

	IFRS						CGAAP	
	Q2-11	Q1-11	Q4-10	Q3-10	Q2-10	Q1-10	Q4-09	Q3-09
(in millions, except volume, unless otherwise noted)								
Sales and EBITDA								
Sales	**$ 80.5**	$ 71.5	$ 55.0	$ 81.1	$ 106.4	$ 87.0	$ 67.1	$ 78.8
Adjusted EBITDA (1)	**2.7**	6.4	(1.8)	15.0	35.1	16.2	2.4	2.6
Adjusted EBITDA margin (2)	**3.4%**	9.0%	-3.3%	18.5%	33.0%	18.6%	3.6%	3.3%
Shipment volume (mmsf 3/8")	**422.0**	356.0	285.9	392.0	379.0	400.0	285.9	392.5
Production volume (mmsf 3/8")	**388.9**	388.9	282.5	386.9	394.5	397.0	282.5	386.9

(1) Adjusted EBITDA, a non-IFRS financial measure, is defined as net (loss) income from continuing operations before amortization, gain on disposal of property, plant and equipment, costs of curtailed operations, stock option expense, finance expense, foreign exchange loss (gain) on long-term debt, other foreign exchange (gain) loss, income tax expense (recovery) and non-recurring items. Adjusted EBITDA has been recalculated for current and comparative periods to account for the costs of curtailed operations. See the detailed calculation of adjusted EBITDA by quarter on page 11.

(2) Adjusted EBITDA margin, a non-IFRS financial measure, is defined as adjusted EBITDA divided by sales.

Review of Financial Results

	Q2-11	Q2-10	YTD 2011	YTD 2010
(in millions)				
Sales	**$ 80.5**	$ 106.4	**$ 151.9**	$ 193.4
Cost of products sold	**73.9**	66.7	**134.8**	132.8
Net income (loss) from continuing operations	**(12.9)**	(17.3)	**64.8**	(0.6)
Net income (loss)	**(13.0)**	(17.8)	**64.7**	(1.4)
Adjusted EBITDA	**2.7**	35.1	**9.0**	51.3
Adjusted EBITDA margin	**3.4%**	33.0%	**5.9%**	26.5%

The table below shows the calculation of adjusted EBITDA:

	Q2-11	Q2-10	YTD 2011	YTD 2010
(in millions)				
Net income (loss) from continuing operations	**$ (12.9)**	$ (17.3)	**$ 64.8**	$ (0.6)
Add:				
Amortization of property, plant and equipment	**6.3**	9.3	**12.0**	18.0
Loss on disposal of property, plant and equipment	**(0.5)**	-	**(0.2)**	0.2
Write-down of property, plant and equipment	**-**	-	**0.9**	-
Cost of curtailed operations	**0.9**	0.5	**1.4**	1.9
Stock option expense	**0.2**	0.2	**0.4**	0.2
Net legal proceeds	**-**	-	**-**	(1.3)
Finance expense	**11.8**	12.9	**24.2**	26.2
Income tax expense	**(3.8)**	7.0	**(6.0)**	7.2
Foreign exchange gain on long-term debt	**(2.5)**	24.8	**(15.0)**	5.5
Gain on derivative financial asset	**3.7**	(0.6)	**(0.8)**	(5.7)
Gain on High Level acquisition	**-**	-	**(72.5)**	-
Other	**(0.5)**	(1.7)	**(0.2)**	(0.3)
Adjusted EBITDA	**$ 2.7**	$ 35.1	**$ 9.0**	$ 51.3

Net loss from continuing operations was $12.9 million in the second quarter of 2011 compared to a loss of $17.3 million in the second quarter of 2010. This decrease is primarily due to a $27.2 million increase in the unrealized foreign exchange gain on long-term debt, a $3.0 million decrease in amortization expense, a $1.1 million decrease in finance expense and a $10.9 million increase in income tax recovery, partially offset by a $33.1 million decrease in gross profit.

In the first six months of 2011, net income from continuing operations was $64.8 million compared to a loss of $0.6 million in the first six months of 2010 despite a $43.5 million decrease in gross profit. This increase is primarily due to a $72.5 million gain on the High Level acquisition, a $6.1 million decrease in amortization expense, a $2.1 million decrease in finance expense, a $20.5 million increase in the unrealized foreign exchange gain on long-term debt, and a $13.2 million increase in income tax recovery.

Adjusted EBITDA

Adjusted EBITDA was $2.7 million in the second quarter of 2011 compared to $35.1 million in the same period of 2010. EBITDA margin on sales was 3.4% compared to 33.0% in the second quarter of 2010. The decrease was primarily the result of a $33.1 million decrease in gross profit (sales less cost of products sold (exclusive of amortization)), offset partially by a $1.4 million decrease in selling and administrative expenses. The Canadian dollar was an average of six cents stronger than the U.S. dollar in the second quarter of 2011 compared to the same period in 2010 which had a negative impact on gross profit. If foreign exchange rates had been consistent with the second quarter of 2010, adjusted EBITDA would have been $2.1 million higher.

Adjusted EBITDA was $9.0 million in the first six months of 2011 compared to $51.3 million in the first six months of 2010. EBITDA margin on sales decreased to 5.9% from 26.5% for the same period. The decrease was primarily the result of a $43.5 million decrease in gross profit, offset partially by a $1.7 million decrease in selling and administrative expenses. The Canadian dollar was an average of six cents stronger than the U.S. dollar in the first six months of 2011 compared to the same period in 2010 which had a negative impact on gross profit. If foreign exchange rates had been consistent with the first six months of 2010, adjusted EBITDA would have been $4.4 million higher.

Sales

Sales of $80.5 million in the second quarter of 2011 were $25.9 million lower than sales of $106.4 million for the same period in 2010. The decrease in sales was due to a 32.1% decrease in our realized price offset by a 11.4% increase in volume. The average benchmark price in the second quarter of 2011 compared to the same period in 2010 for both the North Central region and Western Canada decreased by U.S. $120 and U.S. $148 respectively

Sales of $151.9 million for the six months ended June 30, 2011 were $41.5 million lower than sales of $193.4 million for the same period in 2010. The decrease in sales revenue was a result of a 21.8% decrease in realized pricing. Sale volume did not change significantly compared to 2010.

The average benchmark F.O.B. mill prices reported by Random Lengths for the last eight quarters are shown in the table below:

U.S. dollars	**Q2-11**	**Q1-11**	**Q4-10**	**Q3-10**	**Q2-10**	**Q1-10**	**Q4-09**	**Q3-09**
North Central (7/16" basis)	**$ 174**	$ 199	$ 191	$ 180	$ 294	$ 214	$ 171	$ 178
Western Canada (7/16" basis)	**151**	182	166	164	299	226	169	158

Costs of Products Sold (Exclusive of Amortization)

For the second quarter of 2011, cost of products sold totaled $73.9 million, representing a 10.8% increase over costs of $66.7 million in the second quarter of 2010. Cost of products sold increased primarily as a result of the increase in sales volume and increased sales of value-added products. These cost increases were partially offset by a stronger Canadian dollar and reductions in labour, repairs and maintenance, and subcontractor expenses.

For the six months ended June 30, 2011, cost of products sold totaled $134.8 million, a 1.5% increase over costs of $132.8 million over the same period in 2010. The increase in cost of products sold was a result of the small increase in sales volume, higher freight costs due to increased sales overseas, increased resin and wax pricing partially offset by a strengthened Canadian dollar and reductions in labour, repairs and maintenance, and subcontractor expenses.

Selling and Administration

Selling and administration expenses in the second quarter of 2011 were $4.1 million, down $1.3 million from the $5.4 million recorded in the second quarter a year earlier. Selling and administration expense for the first six months of 2011 was $8.6 million, down $1.8 million from the $10.4 million recorded in the first six months of 2010. These decreases were a predominantly due to lower salaries and benefits, lower professional fees and a reduction in insurance expenses.

Amortization of Property, Plant and Equipment and Intangible Assets

Amortization expense in the second quarter of 2011 was $6.3 million, a decrease of 32.0% from $9.3 million in the second quarter of 2010. Amortization expense in the first six months of 2011 was $12.0 million, a decrease of 33.9% from $18.1 million in the first six months of 2010. The quarter and year to date decreases in 2011 are primarily due to the increase in the estimate of the remaining expected useful lives of the OSB facilities that took effect July 1, 2010.

Finance Expense

Finance expense for all interest paid in cash in the second quarter of 2011 was $6.6 million, a decrease of $0.8 million from $7.4 million in the second quarter of 2010. Finance expense including cash and PIK interest for the second quarter of 2011 was $11.8 million, down $1.1 million from $12.9 million in the second quarter of 2010.

Finance expense for all interest paid in cash for the first six months of 2011 was $13.4 million, a decrease of $1.6 million from $15.1 million for the first six months of 2010. Finance expense including cash and PIK interest for the first six months of 2011 was $24.2 million, down $2.1 million from the $26.3 million recorded in the first six months of 2010.

These decreases were attributable to the foreign exchange effects of a stronger Canadian dollar during 2011 as compared to 2010.

Foreign Exchange Gain on Long-Term Debt

The unrealized foreign exchange gain on long-term debt in the second quarter of 2011 was $2.5 million compared with a loss of $24.8 million in the second quarter of 2010. The unrealized foreign exchange gain on long-term debt in the first six months of 2011 was $15.0 million compared with a loss of $5.5 million for the same period in 2010. The Canadian dollar strengthened against the U.S. dollar during the second quarter and in the first six months of 2011 but weakened against the U.S. dollar for the same periods in 2010.

Loss on Derivative Financial Instrument

During the second quarter of 2011, the Company recorded a loss of $3.7 million (year to date $0.8 million gain) compared with a gain of $0.6 million (year to date $5.7 million) during the same period in 2010 related to the value of the derivative financial instrument related to the call options embedded in the Senior Unsecured Notes. The Company engaged an independent third party expert to perform the valuation of the call options as at June 30, 2011. Changes in the value of this derivative financial asset are reflected in operations.

Costs of Curtailed Operations

Costs of curtailed operations are comprised of costs directly attributable to the partially completed second production line at our Grande Prairie, Alberta mill and our idled High Level, Alberta mill. The decrease in costs of curtailed operations in the first six months of 2011 compared to the same period in 2010 is due to a write-down of $648 thousand relating to long-term wood deposits deemed unrecoverable taken in the first six months of 2010.

Other Items

Other income of $643 thousand in the second quarter of 2011 was not significantly greater than the $572 thousand recorded in the second quarter of 2010. For the first six months of 2011, other income was $792 thousand compared to $729 thousand recorded in the first six months of 2010.

Income Taxes

The income tax recovery in the second quarter of 2011 was $3.8 million on loss before income taxes of $16.7 million compared with an income tax expense of $7.0 million on loss before income taxes of $10.3 million in the second quarter of 2010. In the second quarter of 2011, certain permanent differences, such as the non-taxable portion of the foreign exchange gain on our debt, and the expected reversal of certain deferred income tax assets and liabilities at lower effective tax rates also impacted the resulting income tax recovery.

As a result of our discontinuation of U.S. OSB operations, U.S. tax losses and the resulting valuation allowance are excluded from the temporary timing differences disclosed in the financial statements.

Tax filings resulting from the reorganization are subject to the review, audit and assessment of applicable taxation authorities in Canada and the United States. Tax laws and regulations are subject to interpretation and inherent uncertainty; therefore, our assessments involve judgments, estimates and assumptions about current and future events. Although we believe these estimates and assumptions are reasonable and appropriate, the final determination could be materially different than that which is reflected in our provision for income taxes and recorded tax assets and liabilities.

Net Loss from Discontinued Operations

Net loss from discontinued operations includes residual income net of expenses associated with the OSB mills in Minnesota as well as the plywood and veneer operations in Lillooet and Savona that were disposed during the fourth quarter of 2009.

Liquidity and Capital Resources

As of June 30, 2011, our adjusted working capital was $103.7 million, compared to $134.5 million as at December 31, 2010. We have presented adjusted working capital as we believe that it provides investors with a basis to evaluate our ability to fund operations and capital expenditures. Adjusted working capital, a non-IFRS measure, is calculated as follows:

		June 30 2011		December 31 2010
(in millions)				
Current assets	**$**	**150.5**	$	188.5
Restricted cash not related to current liabilities		**(4.1)**		(4.8)
Current liabilities		**(42.7)**		(49.2)
Adjusted working capital	**$**	**103.7**	$	134.5
Adjusted working capital (deficiency), discontinued operations		**(1.0)**		(0.8)
Adjusted working capital, continuing operations	**$**	**104.7**	$	135.3

Our working capital requirements in the short term are to fund any potential future shortfalls from operations, interest payments, debt principal repayments and essential capital expenditures. Most discretionary capital expenditures, including the expansion of the Grande Prairie facility, have been put on hold until market conditions improve. The decrease in adjusted working capital from December 31, 2010 was primarily due to cash used in our High Level acquisition of $20 million and interest payments on our Senior Debt of $11.8 million.

The table below presents the total funds available:

		June 30 2011		December 31 2010
(in millions)				
Cash and cash equivalents	**$**	**18.4**	$	56.7
Restricted cash		**10.1**		10.8
Short-term investments		**50.3**		59.4
Total available funds	**$**	**78.8**	$	126.9

Our cash flows for the second quarter and six months of 2011 and 2010 were as follows:

		Q2-11		Q2-10		YTD 2011		YTD 2010
(in millions)								
Cash provided by operating activities before interest and w orking capital	**$**	**(3.7)**	$	27.7	**$**	**(4.9)**	$	35.3
Cash used for interest		**(13.3)**		(14.0)		**(15.0)**		(15.8)
Cash (used in) provided by w orking capital		**14.5**		15.7		**2.5**		0.9
Cash used in operating activities		**(2.5)**		29.4		**(17.4)**		20.4
Cash used in financing activities		**(4.2)**		(3.8)		**(6.1)**		(5.9)
Cash provided by (used in) investing activities		**0.5**		(13.8)		**(15.0)**		(18.5)

In the second quarter of 2011 we used cash of $3.7 million from operating activities before interest paid and working capital requirements compared to $27.7 million generated in the second quarter of 2010. The decrease in cash provided is primarily the result of lower pricing of residential OSB. Overall, our operating activities did not generate positive cash flows in the first six months of 2011 since interest paid and working capital requirements were greater than cash generated from sales compared to positive cash generated from operating activities in the first six months of 2010.

Cash used in financing activities for all periods presented represents the repayment of equipment financing loans and capital lease obligations. There were no debt maturities in the second quarter of 2011 or 2010.

The decrease in cash used in investing activities in the second quarter of 2011 compared to the same period in 2010 is due to lower property, plant and equipment additions as well as the maturity of certain short-term investments compared to investments in short-term investments in the second quarter of 2010. The decrease in cash used in the first six months of 2011 compared to the same period in 2010 is primarily due to lower additions to property, plant and equipment as well as the maturity of short-term investments, partially offset by the High Level acquisition. Additions to property, plant and equipment during the second quarter and first six months of 2011 and 2010 were primarily limited to essential projects.

Outstanding Share Data

The issued share capital of the Company at June 30, 2011 is as follows:

	Shares	Warrants		Value (in millions)
Common shares	**100,602,222**	**-**	**$**	**411**
Shareholder warrants	**-**	**8,695,634**		**-**
	100,602,222	**8,695,634**	**$**	**411**

The shareholder warrants shall be deemed to be exercised and shall be converted without additional consideration into an equal number of new Common Shares if the Company's equity market capitalization exceeds U.S.$1.2 billion on or before July 29, 2013. For accounting purposes, nominal value has been allocated to these warrants as the fair value is not reliably determinable due to their contingent nature.

The following table presents the exercise prices and expiry dates for the stock options outstanding at June 30, 2011:

Grant Date	Number of Options Outstanding	Exercise Price	Expiry Date
November 14, 2008 (1)	400,000	1.74	November 14, 2018
January 6, 2009 (1)	250,000	0.90	January 6, 2019
November 2, 2009	100,000	1.56	November 2, 2019
March 5, 2010	833,333	2.30	March 5, 2020
March 15, 2010	25,000	2.45	March 15, 2020
May 13, 2010	72,376	4.48	May 13, 2020
May 21, 2010	50,000	4.14	May 21, 2020
June 14, 2010	100,000	3.28	June 14, 2020
August 5, 2010	6,300	2.89	August 5, 2020
August 13, 2010	25,000	2.71	August 13, 2020
March 4, 2011	575,000	3.28	March 4, 2021
May 20, 2011	25,000	3.13	May 20, 2021

(1) These stock options were deemed to be granted on May 13, 2009 when the stock option plan was approved by the shareholders.

Financial Instruments

Ainsworth does not use derivatives or participate in hedging activities. However, our Senior Unsecured Notes include a call option which has been identified as an embedded derivative whereby we have the right to repurchase the Notes. The embedded call option derivative was recorded at fair value at issuance of the Senior Unsecured Notes and is revalued at each reporting period based on current interest rates and the credit spread. The Company engaged an independent third party expert to perform a valuation of the call options, using an Option-Adjusted-Spread ("OAS") model, specifically the Hull and White single factor interest rate term structure model. As the risk-free interest rate and the credit spread increase, the value of the derivative financial asset decreases. Conversely, a decrease in the risk-free interest rate and the credit spread increases the value of the derivative financial asset. Changes in the value of this derivative financial asset are reflected in operations as "Loss on derivative financial instrument". Management estimates that had interest rates been 1% higher and all other variables were constant, the value of the derivative financial asset would have been $11 thousand lower. At June 30, 2011, the derivative financial asset had a value of $7.0 million (December 31, 2010: $6.2 million).

Off-Balance Sheet Arrangements

The Company does not have any significant off-balance sheet arrangements other than letters of credit in the amount of $10.1 million ($10.8 million at December 31, 2010). Further, there are no off-balance sheet arrangements that have, or are reasonably likely to have, a current or future material effect on the Company's financial condition, results of operations, liquidity, capital expenditures or resources.

Related Party Transactions

During the three months and six months ended June 30, 2011, legal fees were paid to a law firm of which one of the Company's directors is also a partner. These transactions were measured and recorded at the exchange amount which is equivalent to fair value. Fair value is defined as the transaction amount with unrelated parties under similar terms and conditions.

The key management personnel of the Company consist of the members of the Board of Directors and its executive management team. No such person had any material interest during the period in a contract of significance (except as disclosed above with respect to a service contract for legal services rendered) with the Company or any subsidiary company.

	Q2-11	Q2-10	YTD 2011	YTD 2010
(in thousands)				
Legal fees	**$ 10**	$ 23	**$ 74**	$ 23
Key management compensation	**913**	854	**1,760**	1,625
	$ 923	$ 877	**$ 1,834**	$ 1,648

On May 11, 2010, Brookfield Special Situations II (OSB) L.P. ("BSS") completed the acquisition of 14,905,712 common shares and warrants to acquire 10,094,288 common shares of the Company. BSS exercised all of the purchased warrants on closing of the transaction and now beneficially owns or exercises control or direction over approximately 54.3% of the issued and outstanding common shares. The result for the Company is a change of control for Canadian tax purposes. In the normal course of operations, the Company made interest payments on its Senior Unsecured Notes to BSS which were previously entered on market terms and measured at exchange value. Repayment of the principal balance is due July 29, 2015.

Selected Quarterly Financial Information (Unaudited)

	IFRS						CGAAP	
	Q2-11	Q1-11	Q4-10	Q3-10	Q2-10	Q1-10	Q4-09	Q3-09
(in millions, except per share data, unless otherwise noted)								
Sales and earnings (loss)								
Sales	$ 80.5	$ 71.5	$ 55.0	$ 81.1	$ 106.4	$ 87.0	$ 67.1	$ 78.8
Operating income (loss)	(3.8)	71.2	(8.0)	3.4	25.0	7.2	(9.4)	(7.9)
Foreign exchange gain (loss) on long-term debt	2.5	12.5	18.2	17.7	(24.8)	19.3	10.6	47.8
Net income (loss) from continuing operations	(12.9)	77.7	2.8	10.5	(17.3)	16.7	(2.2)	22.3
Net loss from discontinued operations	(0.1)	-	-	(0.1)	(0.5)	(0.3)	(10.2)	(2.0)
Net income (loss)	(13.0)	77.7	2.8	10.4	(17.8)	16.4	(12.4)	20.3
Adjusted EBITDA	2.7	6.4	(1.8)	14.9	35.1	16.2	2.4	2.6
Basic and diluted earnings (loss) per common share								
Net income (loss) from continuing operations (1)	(0.13)	0.77	0.03	0.10	(0.17)	0.17	(0.02)	0.22
Net income (loss) (1)	(0.13)	0.77	0.03	0.10	(0.18)	0.16	(0.12)	0.20
Balance sheet								
Total assets	833.4	863.1	762.2	795.3	804.9	797.0	846.2	879.1
Total long-term debt (2)	497.1	498.6	507.9	534.1	553.1	526.8	561.3	570.6

(1) Basic and diluted net (loss) income per share. As at June 30, 2011, the Company had 100,602,222 issued common shares. For all periods presented the Company has not paid or declared any cash dividends.
(2) Total long-term debt includes the current portion of long-term debt.

OSB demand and product pricing were the main factors causing fluctuations in our sales over the past eight quarters. Sales prices remained low throughout most of 2009, causing a decline in operating earnings and net income from continuing operations. OSB prices increased in the first two quarters of 2010 but dropped in the last half of 2010, remaining low in the first two quarters of 2011. Net loss also fluctuated as a result of unrealized foreign exchange gain (loss) on long-term debt caused by fluctuations in the strength of the Canadian dollar relative to the U.S. dollar. OSB shipment volumes have varied in the past eight quarters depending on production disruptions, maintenance requirements and product mix.

Segmented Information

Our geographic distribution of sales was as follows:

		Q2-11		Q2-10		YTD 2011		YTD 2010
(in millions)								
North America	**$**	**50.2**	$	99.3	**$**	**110.4**	$	178.6
Overseas		**30.3**		7.1		**41.5**		14.8
	$	**80.5**	$	106.4	**$**	**151.9**	$	193.4

Sales overseas increased in the second quarter and first six months of 2011 compared to the same periods in 2010 as a result of our focus on selling more of our product outside of North America.

Property, plant and equipment are located within Canada.

Risks and Uncertainties

The Company is subject to a number of risks and uncertainties, including those described in the 2010 Annual Report which can be found on SEDAR at www.sedar.com. Any of the risks and uncertainties described in the above-mentioned document could have a material adverse effect on our results and financial position and cash flows and, accordingly, should be carefully considered when evaluating the Company's results.

Significant Accounting Estimates and Judgments

Management has made certain judgments and estimates that affect the reported amounts and other disclosures in our financial statements. These judgments and estimates are described in the 2010 Annual Report, which can be found on SEDAR at www.sedar.com.

Disclosure Controls and Procedures and Internal Control over Financial Reporting

The Chief Executive Officer and the Chief Financial Officer, together with other members of management, have designed the Company's disclosure controls and procedures in order to provide reasonable assurance that material information relating to the Company and its consolidated subsidiaries would have been known to them, and by others, within those entities.

Management have also designed internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with Canadian generally accepted accounting principles. There has been no material change in the design of the Company's internal control over financial reporting during the quarter ended June 30, 2011 that would materially affect, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

While the officers of the Company have designed the Company's disclosure controls and procedures and internal control over financial reporting, they expect that these controls and procedures may not prevent all errors and fraud. A control system, no matter how well conceived or operated, can only provide reasonable, not absolute, assurance that the objectives of the control system are met.

AINSWORTH LUMBER CO. LTD.

Other Information

Unaudited

	June 30, 2011	December 31, 2010
Selected Financial Data ($000's)		
Cash, cash equivalents and restricted cash	**$ 28,511**	$ 67,577
Short-term investments	**50,341**	59,413
Adjusted w orking capital (Note 1)	**103,682**	134,411
Total assets	**833,441**	762,217
Total long-term debt	**497,115**	507,895
Shareholders' equity	**251,211**	185,955

	Three months ended June 30		Six months ended June 30	
	2011	2010	**2011**	2010
Geographic Sales Distribution ($000's)				
North America	**$ 50,177**	$ 99,327	**$ 110,419**	$ 178,623
Overseas	**30,310**	7,120	**41,528**	14,820
	$ 80,487	$ 106,447	**$ 151,947**	$ 193,443
Shipment Volumes (msf - 3/8 inch)	**421,963**	378,826	**777,939**	778,654

	IFRS						CGAAP	
	Q2-11	Q1-11	Q4-10	Q3 - 10	Q2-10	Q1-10	Q4-09	Q3-09
Reconciliation of Net Income (Loss) to Adjusted EBITDA (in millions)								
Net Income (Loss) from Continuing Operations	**$ (12.9)**	$ 77.7	$ 2.8	$ 10.5	$ (17.3)	$ 16.7	$ (2.2)	$ 22.3
Add:								
Amortization of capital assets	**6.3**	5.6	5.2	5.8	9.3	8.8	7.9	9.8
Loss (Gain) on disposal of capital assets	**(0.5)**	0.3	-	(0.4)	-	-	-	-
Write-down of property, plant and equipment	**-**	0.9	-	-	-	-	2.2	-
Cost of curtailed operations	**0.9**	0.5	0.4	-	0.5	13	14	0.4
Stock option expense	**0.2**	0.2	0.2	0.2	0.2	0.1	0.1	0.1
(Net proceeds) cost of lawsuits	**-**	-	-	-	-	(1.1)	-	-
Cost related to potential acquisition	**-**	-	-	-	-	-	-	0.4
Finance expense	**11.8**	12.4	12.8	13.4	13.0	13.4	12.3	12.8
Income tax expense (recovery)	**(3.8)**	(2.2)	(4.0)	2.6	7.0	0.2	(9.0)	0.1
Foreign exchange (gain) loss on long-term debt	**(2.5)**	(12.5)	(18.1)	(17.7)	24.8	(19.3)	(10.6)	(47.8)
(Gain) Loss on derivative financial asset	**3.7**	(4.5)	(0.9)	0.3	(0.7)	(5.0)	-	-
Gain on High Level acquisition	**-**	(72.5)	-	-	-	-		
Other	**(0.5)**	0.5	(0.2)	0.2	(17)	11	0.3	4.5
Adjusted EBITDA (Note 2)	**$ 2.7**	$ 6.4	$ (18)	$ 14.9	$ 35.1	$ 16.2	$ 2.4	$ 2.6

Note 1: Adjusted working capital is a non-GAAP financial measure defined as working capital excluding future income taxes and restricted cash.

Note 2: Adjusted EBITDA, a non-GAAP financial measure, is defined as sales less costs of products sold (exclusive of amortization) and selling and administrative expense plus other income.

About Ainsworth

Ainsworth Lumber Co. Ltd. is a leading Canadian forest products company, with a 50-year reputation for quality products and unsurpassed customer service. In Alberta, the Company's facilities include an oriented strand board (OSB) plant at Grande Prairie and High Level. In British Columbia, the Company's facilities include an OSB plant at 100 Mile House. In Ontario, the Company's facilities include an OSB plant at Barwick. The Company's facilities have a total annual capacity of 2.5 billion square feet (3/8-inch basis) of OSB.

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Common shares of
Ainsworth Lumber Co. Ltd.
are traded on the
Toronto Stock Exchange
under the symbol: ANS

Visit our web-site: www.ainsworthengineered.com

AINSWORTH LUMBER CO. LTD.

Condensed Interim Consolidated Statements of Financial Position

(In thousands of Canadian dollars)
(Unaudited)

	June 30 2011	December 31 2010
ASSETS		
Current Assets		
Cash and cash equivalents	$ **28,511**	$ 67,577
Short-term investments	**50,341**	59,413
Trade and other receivables	**24,805**	15,537
Inventories (Note 5)	**40,144**	39,400
Prepaid expenses	**6,656**	6,557
	150,457	188,484
Property, Plant and Equipment (Note 7)	**648,212**	535,192
Intangible Assets (Note 8)	**20,211**	21,439
Other Assets	**9,015**	10,053
Assets Held for Disposal (Note 6)	**5,546**	7,042
	$ **833,441**	$ 762,210
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Trade and other payables	$ **22,473**	$ 24,833
Income taxes payable	**1,310**	1,302
Current portion of long-term debt (Note 9)	**17,922**	22,270
Liabilities related to assets held for disposal (Note 6)	**968**	827
	42,673	49,232
Accrued Pension Benefit Liability (Note 10)	**10,335**	10,445
Reforestation Obligation	**2,974**	2,076
Long-term Debt (Note 9)	**479,193**	485,625
Deferred Income Tax Liabilities	**45,354**	27,208
Liabilities Related to Assets Held for Disposal (Note 6)	**1,701**	1,669
	582,230	576,255
Commitments and Guarantees (Note 11)		
Contingencies (Note 12)		
SHAREHOLDERS' EQUITY		
Capital Stock	**411,161**	410,950
Contributed Surplus	**1,733**	1,349
Accumulated Other Comprehensive Loss	**(9,414)**	(9,414)
Deficit	**(152,269)**	(216,930)
	251,211	185,955
	$ **833,441**	$ 762,210

The accompanying Notes to the Condensed Interim Consolidated Financial Statements are an integral part of these statements.

Approved by the Board:

/s/ Peter Gordon	/s/ Gordon Lancaster
DIRECTOR	**DIRECTOR**

AINSWORTH LUMBER CO. LTD.

Condensed Interim Consolidated Statements of Operations and Comprehensive Income

(In thousands of Canadian dollars, except share and per share data)
(Unaudited)

	Three months ended June 30		Six months ended June 30	
	2011	2010 (Note 26)	**2011**	2010 (Note 26)
Sales	**$ 80,487**	$ 106,447	**$ 151,947**	$ 193,443
Costs and Expenses				
Costs of products sold (exclusive of amortization)	**73,861**	66,681	**134,809**	132,809
Selling and administration	**4,080**	5,437	**8,639**	10,350
Amortization of property, plant and equipment and intangible assets	**6,337**	9,318	**11,984**	18,120
	84,278	81,436	**155,432**	161,279
(Loss) Income before Other Items	**(3,791)**	25,011	**(3,485)**	32,164
Finance Expense (Note 13)	**(11,830)**	(12,944)	**(24,210)**	(26,331)
Foreign Exchange Gain (Loss) (Note 14)	**2,364**	(23,117)	**14,420**	(4,942)
(Loss) Gain on Derivative Financial Instrument (Note 15)	**(3,724)**	649	**804**	5,679
Costs of Curtailed Operations (Note 16)	**(899)**	(458)	**(1,389)**	(1,787)
Gain on Acquisition of High Level (Note 4)	**-**	-	**72,544**	-
Other Items (Note 17)	**1,161**	605	**95**	1,907
(Loss) Income Before Income Taxes	**(16,719)**	(10,254)	**58,779**	6,690
Income Tax (Recovery) Expense (Note 20)	**(3,832)**	7,026	**(6,024)**	7,258
(Loss) Income from Continuing Operations	**(12,887)**	(17,280)	**64,803**	(568)
Net Loss from Discontinued Operations (Note 6)	**(143)**	(491)	**(142)**	(748)
Net (Loss) Income, being Total Comprehensive (Loss) Income	**$ (13,030)**	$ (17,771)	**$ 64,661**	$ (1,316)
Basic and diluted net (loss) income per common share (Note 21):				
Continuing operations	**$ (0.13)**	$ (0.17)	**$ 0.64**	$ (0.01)
Discontinued operations	**0.00**	(0.01)	**0.00**	(0.01)
Basic and diluted net (loss) income per common share	**$ (0.13)**	$ (0.18)	**$ 0.64**	$ (0.02)
Weighted average number of common shares outstanding	100,602,222	100,100,000	100,591,172	100,100,000
Effect of dilutive stock options on continuing operations	-	-	550,556	-
	100,602,222	100,100,000	101,141,728	100,100,000

The accompanying Notes to the Condensed Interim Consolidated Financial Statements are an integral part of these statements.

AINSWORTH LUMBER CO. LTD.

Condensed Interim Consolidated Statements of Changes in Shareholders' Equity

(In thousands of Canadian dollars)
(Unaudited)

	Capital Stock	Contributed Surplus	Accumulated Other Comprehensive Loss	Deficit	Total Shareholders' Equity
Balance, January 1, 2010	$ 409,880	$ 958	$ (1,150)	$ (228,856)	$ 180,832
Total comprehensive loss	-	-	-	(1,316)	(1,316)
Fair value of share-based payments (Note 18)	-	299	-	-	299
Balance, June 30, 2010	**$ 409,880**	**$ 1,257**	**$ (1,150)**	**$ (230,172)**	**$ 179,815**

	Capital Stock	Contributed Surplus	Accumulated Other Comprehensive Loss	Deficit	Total Shareholders' Equity
Balance, January 1, 2011	$ 410,950	$ 1,349	$ (9,414)	$ (216,930)	$ 185,955
Total comprehensive income	-	-	-	64,661	64,661
Fair value of share-based payments (Note 18)	-	421	-	-	421
Stock options exercised (Note 18)	211	(37)	-	-	174
Balance, June 30, 2011	**$ 411,161**	**$ 1,733**	**$ (9,414)**	**$ (152,269)**	**$ 251,211**

The accompanying Notes to the Condensed Interim Consolidated Financial Statements are an integral part of these statements.

AINSWORTH LUMBER CO. LTD.

Condensed Interim Consolidated Statements of Cash Flows

(In thousands of Canadian dollars)

(Unaudited)

	Three months ended June 30		Six months ended June 30	
	2011	2010	**2011**	2010
CASH FLOWS FROM OPERATING ACTIVITIES				
Net Income (Loss)	**$ (13,030)**	$ (17,771)	**$ 64,661**	$ (1,316)
Items not affecting cash				
Amortization of property, plant and equipment and intangibles	**6,337**	9,318	**11,984**	18,120
Non-cash portion of interest expense	**5,092**	5,300	**10,436**	10,670
Non-cash stock based compensation (Note 18)	**223**	211	**444**	299
Foreign exchange (gain) loss on long-term debt (Note 14)	**(2,468)**	24,772	**(14,984)**	5,484
Gain on derivative financial instrument (Note 15)	**3,724**	(649)	**(804)**	(5,679)
Loss (Gain) on disposal of property, plant equipment (Note 17)	**(5)**	(82)	**268**	(114)
Write-down of property, plant and equipment (Note 17)	**571**	-	**1,614**	-
Write-down of long-term wood deposits	**-**	-	**-**	648
Change in non-current reforestation obligation	**(499)**	(105)	**(475)**	5
Deferred taxes	**(3,833)**	7,163	**(6,035)**	7,370
Adjustment to net accrued pension benefit liability	**(9)**	41	**(78)**	12
Gain on acquisition of High Level (Note 4)	**-**	-	**(72,544)**	-
Other	**244**	(514)	**564**	(188)
	(3,653)	27,684	**(4,949)**	35,311
Change in non-cash operating working capital (Note 22)	**14,541**	15,667	**2,484**	941
Interest paid	**(13,332)**	(13,958)	**(14,995)**	(15,757)
Income taxes paid	**(1)**	-	**(3)**	(23)
Cash (used in) from operating activities	**(2,445)**	29,393	**(17,463)**	20,472
CASH FLOWS FROM FINANCING ACTIVITIES				
Reduction in long-term debt	**(2,824)**	(3,576)	**(5,015)**	(5,685)
Exercise of stock-options (Note 18)	**-**	-	**174**	-
Reduction in finance lease obligations	**(1,330)**	(176)	**(1,219)**	(192)
Cash used in financing activities	**(4,154)**	(3,752)	**(6,060)**	(5,877)
CASH FLOWS FROM INVESTING ACTIVITIES				
Redemption (Purchase) of short-term investments	**2,089**	(9,471)	**9,072**	(9,566)
Acquisition of High Level (Note 4)	**-**	-	**(20,000)**	-
Additions to property, plant and equipment	**(1,513)**	(4,430)	**(3,845)**	(8,961)
Proceeds on disposal of property, plant and equipment	**40**	90	**103**	153
Increase in other assets	**(75)**	36	**(309)**	(163)
Cash used in investing activities	**541**	(13,775)	**(14,979)**	(18,537)
Effect of foreign exchange rate changes on cash and cash equivalents	**(244)**	514	**(564)**	188
NET CASH OUTFLOW	**(6,302)**	12,380	**(39,066)**	(3,754)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	**34,813**	75,941	**67,577**	92,075
CASH AND CASH EQUIVALENTS, END OF PERIOD	**$ 28,511**	$ 88,321	**$ 28,511**	$ 88,321
Cash and cash equivalents	**18,409**	76,369	**18,409**	76,369
Restricted cash	**10,102**	11,952	**10,102**	11,952
	$ 28,511	$ 88,321	**$ 28,511**	$ 88,321

The accompanying Notes to the Condensed Interim Consolidated Financial Statements are an integral part of these statements.

1. CORPORATE INFORMATION

Ainsworth Lumber Co. Ltd ("the Company") is a manufacturer and marketer of oriented strand board ("OSB") with a focus on value-added specialty products for markets in North America and Asia. The Company owns four wholly-owned Canadian OSB manufacturing facilities in Alberta, British Columbia, and Ontario. The Company's OSB facility located in High Level, Alberta has been curtailed since December of 2007. The Company's registered address is 1055 Dunsmuir Street, Suite 3194, Bentall 4, P.O. Box 49307, Vancouver, British Columbia, Canada, V7X 1L3.

Ainsworth Lumber Co. Ltd. is a publicly listed company incorporated in British Columbia, Canada. The Company's shares are listed on the Toronto Stock Exchange.

2. SIGNIFICANT ACCOUNTING POLICIES

These condensed interim consolidated financial statements have been prepared under the historical cost convention, except for the revaluation of certain financial instruments and assets and liabilities acquired through business combinations and that were accounted for using the acquisition method. There have been no changes to the Company's principal accounting policies disclosed in our condensed interim consolidated financial statements for the quarter ended March 31, 2011.

a) Statement of compliance

The Company's condensed interim consolidated financial statements have been prepared in accordance with IAS 34 *Interim Financial Reporting* as issued by the International Accounting Standards Board ("IASB") and using the accounting policies the Company expects to adopt in its consolidated financial statements as at and for the year ending December 31, 2011. Those accounting policies are based on individual International Financial Reporting Standards ("IFRS"), International Accounting Standards ("IAS"), and interpretations made by the International Financial Reporting Interpretations Committee ("IFRIC") and the Standing Interpretations Committee ("SIC") that the Company expects to be applicable at that time. The Company is a first-time adopter of IFRS and has followed the requirements of IFRS 1 *First-time Adoption of IFRS* ("IFRS 1") in its initial application of IFRS as disclosed more fully in Note 26 to these condensed interim consolidated financial statements. Previously, the Company prepared its consolidated annual and consolidated interim financial statements in accordance with Canadian Generally Accepted Accounting Principles ("CGAAP").

The policies set out below were consistently applied to all the periods presented unless otherwise required under IFRS 1 and as described in Note 26.

These condensed interim consolidated financial statements were authorized for issuance by the Board of Directors of the Company on August 5, 2011.

b) Basis of consolidation

The condensed interim consolidated financial statements include the accounts of the Company and its consolidated subsidiaries, which are the entities over which the Company has control. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The condensed interim consolidated financial statements of the Company as at and for the three and six month periods ended June 30, 2011 include the accounts of the Company and all of its wholly-owned subsidiaries and partnerships. The Company's principal subsidiaries include Ainsworth Corp. and Ainsworth Engineered Canada Limited Partnership. Intercompany transactions between subsidiaries are eliminated upon consolidation.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

The accounting policies of its subsidiaries are consistent with the policies adopted by the Company.

Certain prior period balances have been reclassified to conform with current period presentation. Sales for the three and six month periods ended June 30, 2010 has been increased by $10,300 and $16,257, respectively, with a corresponding increase in Costs of Products Sold, to reflect a change in presentation for inventory held at certain customer sites from a net to gross basis.

c) *Share-based payments*

The Company offers both equity-settled and cash-settled share-based payment plans for eligible directors, officers and employees. Both plans are accounted for using the fair value method. Under the fair value method, compensation expense for these share-based payments is determined based on the fair value at the grant date using the Black-Scholes option-pricing model and is charged to income over the vesting period.

Equity-settled awards relate to stock options. When stock options are exercised, any consideration paid by employees, as well as the related stock-based compensation are credited to capital stock. Equity-settled awards are not re-measured subsequent to the initial grant date.

Cash-settled awards relate to deferred share units (“DSUs”). The awards are initially measured at fair value at the grant date, and subsequently re-measured to fair value at each reporting date until settlement. The related cost of a cash-settled award is credited to liabilities until settled.

3. ACCOUNTING STANDARDS DEVELOPMENTS

Financial instruments – IFRS 9, Financial Instruments (“IFRS 9”) was issued by the International Accounting Standards Board (“IASB”) on November 12, 2009 and will replace IAS 39, Financial Instruments: Recognition and Measurement (“IAS 39”). IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2013. The Company does not expect this pronouncement to have a significant impact on its results and financial position.

Consolidation – IFRS 10, Consolidated Financial Statements (“IFRS 10”) was issued by the IASB on May 12, 2011 and will replace IAS 27, Consolidated and Separate Financial Statements (“IAS 27”), and SIC-12, Consolidation – Special Purpose Entities (“SIC-12”). Concurrent with IFRS 10, the IASB issued *IFRS 11, Joint Ventures*; *IFRS 12, Disclosures of Involvement with Other Entities; IAS 27, Separate Financial Statements,* which has been amended for the issuance of IFRS 10 but retains the current guidance for separate financial statements; *IAS 28, Investments in Associates and Joint Ventures*, which has been amended for conforming changes based on the issuance of IFRS 10 and IFRS 11.

IFRS 10 uses control as the single basis for consolidation, irrespective of the nature of the investee, eliminating the risks and rewards approach included in SIC-12, and requires continuous assessment of control over an investee. The above consolidation standards are effective for annual periods beginning on or after January 1, 2013. The Company does not expect these pronouncements to have a significant impact on its results and financial position.

(Figures are in thousands of Canadian dollars unless indicated otherwise – Unaudited)

4. ACQUISITION

The Company entered into an agreement with Grant Forest Products Inc. on December 20, 2010 to acquire the remaining 50% interest in Footner Forest Products Inc. ("High Level") for $20 million, thereby increasing the Company's interest to 100%. The transaction resulted in the acquisition of an additional 430 million square feet of production capacity and full management control of the mill, and was completed on February 17, 2011. The excess fair value of the net assets acquired over the cash consideration paid of $20 million resulted in a bargain purchase gain of $49,687. The existing 50% interest in the assets and liabilities of High Level held prior to this transaction was revalued to their fair values of $74,160, resulting in a gain of $22,857. The total gain of $72,544 is recorded in the consolidated statement of operations and comprehensive income. Purchase price allocations related to the acquisition may be subject to adjustment pending completion of final valuations.

5. INVENTORIES

The carrying value of logs and panel products, valued at net realizable value, and materials, supplies and consumable spares valued at lower of cost and replacement cost, is set out in the following table:

		June 30, 2011		December 31, 2010
Logs	$	**12,222**	$	11,429
Panel products		**11,151**		10,740
Materials, supplies and spares		**16,771**		17,231
	$	**40,144**	$	39,400

Inventory (write-downs) recoveries of carrying value were recorded as follows:

	Three months ended June 30				Six months ended June 30			
		2011		2010		**2011**		2010
Log inventory	$	**(448)**	$	-	$	**(405)**	$	-
Panel inventory		**45**		-		**22**		29
	$	**(403)**	$	-	$	**(383)**	$	29

All inventories are pledged as security for loans.

6. LONG-LIVED ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

During 2009, the Company completed sales of its Minnesota OSB mills and its specialty plywood business. Liabilities relate to costs associated with terminating the Minnesota defined benefit pension plan and settling outstanding employee claims.

The Company also has an aircraft held for sale. Effective August 5, 2011, the Company sold its aircraft for proceeds of U.S. $5.75 million. Concurrent with the sale, the Company repaid the related financing lease of $7.1 million.

(Figures are in thousands of Canadian dollars unless indicated otherwise – Unaudited)

6. LONG-LIVED ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS (Continued)

The following table presents selected financial information related to discontinued operations:

		June 30 2011		**December 31 2010**
ASSET				
Property, Plant and Equipment Under Lease and Held for Sale		**5,546**		7,042
Total Assets Held for Disposal	**$**	**5,546**	$	7,042
LIABILITIES				
Current Liabilities of Discontinued Operations				
Trade and other payables	**$**	**968**	$	827
Accrued Pension Benefit Liability [(1)]		**1,701**		1,669

(1) During 2010, the Company issued a letter of credit in the amount of U.S. $1.1 million to mitigate possible future liabilities to the members of the Minnesota plan upon termination of the defined benefit pension plan. The Company intends to wind up the Minnesota plan with an expected termination date in 2013.

	Three months ended June 30				**Six months ended June 30**			
		2011		2010		**2011**		2010
Sales	**$**	**-**	$	28	**$**	**-**	$	403
Gain on Disposal of Property, Plant and Equipment		**-**		61		**-**		85
Loss Before Income Taxes		**(143)**		(359)		**(177)**		(637)
Income Tax Expense (Recovery)		**-**		132		**(35)**		111
Loss from Discontinued Operations	**$**	**(143)**	$	(491)	**$**	**(142)**	$	(748)

There has been no significant investing or financing activities related to the discontinued operations since fiscal 2010. The net cash outflows from discontinued operations relate primarily to the U.S. pension plan and settlement of miscellaneous general accounts.

(Figures are in thousands of Canadian dollars unless indicated otherwise – Unaudited)

7. PROPERTY, PLANT AND EQUIPMENT

Deemed Cost	Land	Building	Machinery and Equipment (2)	Assets under Finance Lease	Other Assets	Construction in Progress (1)	Total
Cost, December 31, 2010	$3,849	$180,096	$ 365,531	$ 854	$ 7,340	$ 47,803	$605,473
Additions	-	-	1,979	628	185	545	3,337
Acquisitions through business combinations	312	40,104	79,239	-	839	382	120,876
Disposals	-	-	(422)	-	-	-	(422)
Transfers	-	-	1,520	-	-	(1,520)	-
Write-downs	-	-	(101)	(17)	-	-	(118)
Cost, June 30, 2011	$4,161	$220,200	$ 447,746	$ 1,465	$ 8,364	$ 47,210	$729,146
Amortization							
Accumulated amortization, December 31, 2010	$ -	$ (12,103)	$ (55,991)	$ (425)	$ (1,762)	$ -	$ (70,281)
Amortization for the period	-	(3,404)	(6,816)	(167)	(352)	-	(10,739)
Disposals	-	-	86	-	-	-	86
Accumulated amortization, June 30, 2011	$ -	$ (15,507)	$ (62,721)	$ (592)	$ (2,114)	$ -	$ (80,934)
Net carrying amount							
Balance, December 31, 2010	3,849	167,993	309,540	429	5,578	47,803	535,192
Balance, June 30, 2011	4,161	204,693	385,025	873	6,250	47,210	648,212

(1) No interest has been capitalized in construction in progress for the periods presented. Included in construction in progress is $44,966 related to our second production line at Grande Prairie, which is currently curtailed. This amount has been secured as collateral.

(2) Certain property, plant and equipment has been secured as collateral against equipment financing of $24.4million. In addition, there is a security charge against an OSB facility, to the maximum of U.S. $50 million.

(Figures are in thousands of Canadian dollars unless indicated otherwise – Unaudited)

8. INTANGIBLE ASSETS

Intangible assets consist of timber rights.

	June 30, 2011	December 31, 2010
Cost	$ 34,811	$ 33,764
Accumulated amortization	(14,600)	(12,325)
Net intangible assets	$ 20,211	$ 21,439

Cost	
Cost at December 31, 2010	33,764
Additions	872
Acquisitions through business combination	210
Disposals	(35)
Cost at June 30, 2011	$ 34,811

Amortization	
Accumulated amortization at December 31, 2010	(12,325)
Amortization for the period	(2,275)
Accumulated amortization at June 30, 2011	$ (14,600)

9. LONG-TERM DEBT

	June 30, 2011	December 31, 2010
Balance, beginning of period	**$ 507,895**	$ 531,795
Repayments	**(6,234)**	(23,696)
Payment-in-kind interest	**9,260**	19,403
Amortization of bond discount, transaction costs and consent fees	**1,178**	10,760
Foreign exchange gain on long-term debt	**(14,984)**	(30,367)
Balance, end of period	**$ 497,115**	$ 507,895
Current portion	**(17,922)**	(22,270)
Long-term portion	**$ 479,193**	$ 485,625

10. ACCRUED PENSION BENEFIT LIABILITY

The Company maintains two defined benefit pension plans for certain salaried and certain hourly employees in British Columbia and Minnesota. The pension liability of the Minnesota plan was reclassified to discontinued operations (Note 6).

The Company measures its accrued pension benefit obligations and the fair value of plan assets of its defined benefit pension plans for accounting purposes as at December 31 of each year. The most recent actuarial valuation of the British Columbia pension plan for funding purposes was as of December 31, 2009. The most recent actuarial valuation of the Minnesota pension plan was as of January 1, 2010. The net accrued benefit liability related to the Company's U.S. operations has been classified separately as a result of the decision to discontinue these operations. Actuarial gains and losses are recognized in other comprehensive income in the period within which they occur.

(Figures are in thousands of Canadian dollars unless indicated otherwise – Unaudited)

11. COMMITMENTS AND GUARANTEES

The Company is committed to operating lease payments in respect of premises and finance lease payments in respect of machinery and equipment as well as an aircraft classified as held for sale (Note 6) as follows:

	Operating Leases	Finance Leases
No later than one year	$ 829	$ 7,464
Later than one year, but no later than five years	2,488	396
Later than five years	-	-
	3,317	7,860
Less: future finance charges	-	(101)
Present value of minimum lease payments	$ 3,317	$ 7,759

The Company's obligations under finance leases are secured by the lessors' title to the leased assets. The fair value of the finance lease obligations approximate their carrying value.

The Company has entered into an agreement to purchase certain property, plant and equipment for $0.6 million (December 31, 2010: $0.9 million). The Company also has certain long-term purchase contracts with minimum fixed payment commitments. All contracts are at market prices and on normal business terms.

The Company provides a limited product warranty to purchasers of its products. The Company cannot estimate the amount of future payments, if any, under its product warranties unless and until events arise that could result in a claim.

12. CONTINGENCIES

In the normal course of its business activities, the Company is subject to claims and legal actions that may be made against its customers, suppliers and others. While the final outcome with respect to actions outstanding or pending as at June 30, 2011 cannot be predicted with certainty, the Company believes the resolution will not have a material effect on the Company's financial position, results of operations or cash flows.

13. FINANCE EXPENSE

	Three months ended June 30		Six months ended June 30	
	2011	**2010**	**2011**	**2010**
Cash interest	$ (6,573)	$ (7,353)	$ (13,441)	$ (15,090)
Payment-in-kind interest	(4,585)	(4,823)	(9,260)	(9,708)
Interest on finance leases	(163)	(24)	(331)	(45)
Amortization of bond discount, transaction costs and consent fees	(509)	(744)	(1,178)	(1,488)
	$ (11,830)	$ (12,944)	$ (24,210)	$ (26,331)

14. FOREIGN EXCHANGE GAIN (LOSS)

	Three months ended June 30		Six months ended June 30	
	2011	**2010**	**2011**	**2010**
Foreign exchange gain (loss) on long-term debt	$ 2,468	$ (24,772)	$ 14,984	$ (5,484)
Other foreign exchange (loss) gain	(104)	1,655	(564)	542
	$ 2,364	$ (23,117)	$ 14,420	$ (4,942)

(Figures are in thousands of Canadian dollars unless indicated otherwise – Unaudited)

15. LOSS ON DERIVATIVE FINANCIAL INSTRUMENTS

The Company has a derivative financial instrument related to the call option embedded in the Senior Unsecured Notes, whereby the Company has the right to repurchase the Notes. Changes in the value of this derivative financial asset are reflected in operations and within other assets on the statement of financial position. The Company engaged an independent third party expert to perform a valuation of the call options, using an Option-Adjusted-Spread ("OAS") model, specifically the Hull and White single factor interest rate term structure model. Changes in the risk-free rate, the credit spread and cash interest rate resulted in a loss on the derivative financial asset for the three months ended June 30, 2011 of $3.7 million (three months ended June 30, 2010: $0.6 million gain) and a gain for the six months ended June 30, 2011 of $0.8 million (six months ended June 30, 2010: $5.7 million gain).

16. COSTS OF CURTAILED OPERATIONS

Costs of curtailed operations include costs associated with the High Level OSB facility as well as costs associated with the Grande Prairie expansion. The High Level OSB facility was acquired by the Company and accounted for as a business combination effective February 17, 2011 (Note 4).

17. OTHER ITEMS

	Three months ended June 30		Six months ended June 30	
	2011	2010	**2011**	2010
Gain on disposal of property, plant and equipment	**$ 518**	$ 21	**$ 245**	$ 29
Write-down of property, plant and equipment	**-**	-	**(942)**	-
Net legal proceeds	**-**	12	**-**	1,149
Other income	**643**	572	**792**	729
	$ 1,161	$ 605	**$ 95**	$ 1,907

18. SHARE-BASED PAYMENTS

The Company has a single stock option plan designed to provide equity-based compensation to directors, executives and key senior management. The stock options granted vest evenly over a three-to-five year period. The plan provides for the issuance of options to acquire a maximum of 9,000,000 common shares with terms of up to 10 years. The fair value of options granted is calculated using the Black-Scholes model on the date of grant. Adoption of the plan was approved by the Company's shareholders on May 13, 2009.

The table below outlines the significant assumptions used during the period to estimate the fair value of options:

	Three months ended June 30		Six months ended June 30	
	2011	2010	**2011**	2010
Weighted average assumptions:				
Risk-free interest rate	**2.28%**	1.82%	**2.20%**	3.09%
Expected volatility	**54.00%**	51.00%	**50.00%**	51.00%
Dividend yield	**0%**	0%	**0%**	0%
Expected option life (years)	**4.00**	3.26	**4.00**	3.79
Share price	**2.95**	3.55	**3.36**	2.69

Expected volatility is based on the historical share price volatility over the past four years.

(Figures are in thousands of Canadian dollars unless indicated otherwise – Unaudited)

18. SHARE-BASED PAYMENTS (Continued)

The table below outlines the status of the Company's stock option plan:

	Three months ended June 30				
	2011			2010	
	Number of Share Options	**Weighted Average Exercise Price**		Number of Share Options	Weighted Average Exercise Price
Outstanding at beginning of period	**2,453,676**	**$**	**2.41**	2,177,222	$ 1.87
Granted during the period	**25,000**		**3.13**	274,934	3.98
Forfeited during the period (2)	**(16,667)**		**2.30**	-	
Outstanding at end of period	**2,462,009**	**$**	**2.42**	2,452,156	$ 2.11
Options exercisable at period end	**1,014,043**			1,038,113	
Weighted average fair value per option granted during the period	**$ 1.24**			$ 1.10	

	Six months ended June 30				
	2011			2010	
	Number of Share Options	**Weighted Average Exercise Price**		Number of Share Options	Weighted Average Exercise Price
Outstanding at beginning of period	**1,978,676**	**$**	**2.13**	1,252,222	$ 1.56
Granted during the period	**600,000**		**3.27**	1,199,934	2.69
Exercised during the period (1)	**(100,000)**		**1.74**	-	
Forfeited during the period (2)	**(16,667)**		**2.30**	-	
Outstanding at end of period	**2,462,009**	**$**	**2.42**	2,452,156	$ 2.11
Options exercisable at period end	**1,014,043**			1,038,113	
Weighted average fair value per option granted during the period	**$ 1.40**			$ 1.05	

(1) No stock options were exercised during the three months ended June 30, 2011 and June 30, 2010.

During the six months ended June 30, 2011, $211 was credited to capital stock with respect to stock options that were exercised. This includes $174 consideration received on exercise, plus $37 representing the vested fair value of the stock options. No stock options were exercised during the six months ended June 30, 2010.

(2) During the three and six months ended June 30, 2011, $8 (three and six months ended June 30, 2010: $nil) was reversed from contributed surplus with respect to unvested options forfeited.

(Figures are in thousands of Canadian dollars unless indicated otherwise – Unaudited)

18. SHARE-BASED PAYMENTS (Continued)

The following table summarizes the weighted average exercise prices and weighted average remaining contractual life of the stock options outstanding at June 30, 2011:

Options Outstanding				Options Exercisable	
Range of Exercise Prices	Number of Options	Weighted Average Remaining Contractual Life (yrs)	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
$0 - 2	750,000	7.56	$ 1.44	600,000	$ 1.50
2 - 4	1,589,633	9.09	2.74	325,000	2.40
4 - 6	122,376	8.89	4.34	89,043	4.42
	2,462,009	8.61	$ 2.42	1,014,043	$ 2.04

The table below outlines the Company's stock based compensation expense:

	Three months ended June 30		Six months ended June 30	
	2011	2010	**2011**	2010
Stock-based compensation expense	**$ 198**	$ 211	**$ 421**	$ 299

Effective May 13, 2011, the Company implemented a Deferred Share Units ("DSU") plan for directors. Under the DSU plan, directors may elect to receive up to 100% of their fees in the form of DSUs. The number of DSUs awarded is determined by dividing the dollar portion of the fees by the weighted average price of the Company's common shares for the five business days prior to the grant date. DSUs must be retained until the director leaves the Board, at which time the cash value of the DSUs is paid out.

The initial fair value of the liability is calculated as of the grant date using the Black-Scholes option-pricing model and is recognized immediately. The liability is subsequently re-measured to fair value at each reporting period until settlement. The initial fair value of amounts granted and any subsequent changes in fair value are recorded within compensation expense in the period.

The table below outlines the significant assumptions used during the three and six months ended June 30, 2011 to estimate the fair value of DSUs:

Weighted average assumptions:	
Risk-free interest rate	**2.28%**
Expected volatility	**54.00%**
Dividend yield	**0%**
Expected life (years)	**4.00**
Share price	**2.95**

(Figures are in thousands of Canadian dollars unless indicated otherwise – Unaudited)

18. SHARE-BASED PAYMENTS (Continued)

The table below outlines the status of the Company's DSU plan for the three and six months ended June 30, 2011:

	Number of DSUs		Fair Value
Outstanding at beginning of period	-	$	-
Granted during the period	**22,468**		**28**
Change in value	-		**(3)**
Outstanding at end of period	**22,468**	$	**25**

19. PENSION EXPENSE

Pension expense and contributions related to the Company's defined benefit plans was as follows:

	Three months ending June 30				Six months ending June 30			
		2011		2010		**2011**		2010
Continuing Operations:								
Pension expense	**$**	**331**	$	496	**$**	**733**	$	918
Contributions		**1,342**		1,258		**2,650**		2,081
Discontinued Operations:								
Pension expense		**48**		80		**122**		156
Contributions		**38**		-		**38**		-

The table below outlines the Company's total defined contribution plan cost:

	Three months ended June 30				Six months ended June 30			
		2011		2010		**2011**		2010
Defined contribution plan cost	**$**	**50**	$	2	**$**	**92**	$	2

20. TAXATION

During the first six months of 2011, certain permanent differences, such as the non-taxable portion of the foreign exchange gain on our debt, and the expected reversal of certain deferred income tax assets and liabilities at lower effective tax rates also impacted the resulting income tax recovery.

Tax filings resulting from the change in control are subject to the review, audit and assessment of applicable taxation authorities in Canada and the United States. Tax laws and regulations are subject to interpretation and inherent uncertainty; therefore, our assessments involve judgments, estimates and assumptions about current and future events. Although we believe these estimates and assumptions are reasonable and appropriate, the final determination could be materially different than that which is reflected in our provision for income taxes and recorded current and deferred income tax assets and liabilities.

(Figures are in thousands of Canadian dollars unless indicated otherwise – Unaudited)

21. EARNINGS PER SHARE

	Three months ended June 30		Six months ended June 30	
	2011	2010	**2011**	2010
Net (loss) income from continuing operations	**$ (12,887)**	$ (17,280)	**$ 64,803**	$ (568)
Net loss from discontinued operations	**(143)**	(491)	**(142)**	(748)
Net (loss) income	**$ (13,030)**	$ (17,771)	**$ 64,661**	$ (1,316)
Weighted average common shares outstanding	**100,602,222**	100,100,000	**100,591,172**	100,100,000
Dilutive effect of stock options	**-**	-	**550,556**	-
	100,602,222	100,100,000	**101,141,728**	100,100,000
Basic and diluted (loss) earnings per share:				
Continuing operations	**$ (0.13)**	$ (0.17)	**$ 0.64**	$ (0.01)
Discontinued operations	**-**	(0.01)	**-**	(0.01)
Net (loss) income per share	**$ (0.13)**	**$ (0.18)**	**$ 0.64**	**$ (0.02)**

At June 30, 2011 there were 479,292 (June 30, 2010: 803,987) stock options which were not taken into account in the calculation of diluted earnings per share for each period presented because their effect was anti-dilutive.

In addition, 8,695,652 shareholder warrants issued on July 29, 2008 pursuant to the Company's recapitalization were not included in the computation of diluted earnings (loss) per share because to do so would have been anti-dilutive for the periods presented. Each shareholder warrant entitles the holder thereof to one common share of the Company if, on or prior to July 29, 2013, the then current market price of common shares equals or exceeds a barrier price equal to U.S. $1.20 billion divided by the number of common shares outstanding on a fully diluted basis on July 29, 2008.

22. CHANGES IN NON-CASH OPERATING WORKING CAPITAL

	Three months ended June 30		Six months ended June 30	
	2011	2010	**2011**	2010
Trade and other receivables	**$ (5,263)**	$ 127	**$ (9,106)**	$ (6,361)
Inventories	**17,890**	9,439	**(1,252)**	(4,302)
Income taxes receivable / payable	**(6)**	826	**11**	1,461
Prepaid expenses	**(473)**	(333)	**99**	(342)
Trade and other payables	**2,393**	5,608	**12,732**	10,485
	$ 14,541	$ 15,667	**$ 2,484**	$ 941

(Figures are in thousands of Canadian dollars unless indicated otherwise – Unaudited)

23. SEGMENTED REPORTING

The Company operates principally in Canada and the United States in one business segment, oriented strand board. Sales from continuing operations attributed to geographic areas based on location of customer are as follows:

	Three months ended June 30		Six months ended June 30	
	2011	2010	**2011**	2010
North America	**$ 50,177**	$ 99,327	**$ 110,419**	$ 178,623
Overseas	**30,310**	7,120	**41,528**	14,820
	$ 80,487	$ 106,447	**$ 151,947**	$ 193,443

Property, plant and equipment are located in Canada.

The markets for most structural panel products are cyclical in nature and are influenced by weather and building activity. In particular, the Company's financial performance is impacted by seasonality as market demand is driven mainly by homebuilding activity and repair and renovation work.

24. FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS

Management of capital

The Company's objectives for managing capital (defined as working capital, long-term debt and equity excluding accumulated other comprehensive income) are to safeguard its ability to continue as a going concern in order to provide returns to shareholders and benefits for other stakeholders. The Company manages capital by adjusting the amount of dividends paid to shareholders, purchasing shares for cancellation pursuant to normal issuer bids, issuing new shares and warrants, issuing new debt, and/or issuing new debt to replace existing debt with different characteristics. Under its existing debt indentures, the Company is restricted in managing capital and must conform to the indentures' provisions, which govern capital components such as dividends, asset sales and debt incurrence.

Fair value of financial instruments

The fair value of financial instruments, with the exception of the Senior Unsecured Notes and Senior Secured Term Loan, is estimated to approximate their carrying value at June 30, 2011 due to the immediate or short-term maturity of these financial instruments.

The fair value of long-term debt is determined using quoted ask prices for the Company's Senior Unsecured Notes and Senior Secured Term Loan. The estimated fair value may differ from the amount which could be realized in an immediate settlement. The carrying values and fair values of the long- term debt are as follows:

	June 30, 2011		December 31, 2010	
	Carrying Value	**Fair Value**	**Carrying Value**	**Fair Value**
Senior notes	**$ 366,984**	**$ 333,371**	$ 368,529	$ 334,013
Term loan	**97,931**	**98,004**	100,766	97,704
Equipment financing	**24,380**	**24,380**	29,296	29,296
Finance leases	**7,820**	**7,820**	9,304	9,304
	$ 497,115	**$ 463,575**	$ 507,895	$ 470,317

24. FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (Continued)

The term loan is secured by trade receivable and inventory having a carrying value of $64,544. In the event that the trade receivable and inventory security for the term loan is deficient, the term loan holders have an additional security charge (“the floating deficiency charge”) in an OSB facility. The maximum of the floating deficiency charge is U.S. $50 million, which is less than the carrying value of the asset. Equipment financing of $24.4 million is secured by certain capital assets.

The fair value of the call option embedded in the Senior Unsecured Notes as at June 30, 2011 was $7.0 million (December 31, 2010: $6.2 million).

Financial risk factors
The Company’s activities result in exposure to a number of financial risks, including credit risk, liquidity risk and market risk. The Company’s objectives, policies and processes for measuring and managing these risks are described below.

Credit risk
Credit risk is the risk that a contracting entity will not complete its obligations under a financial instrument and cause a financial loss. The Company is exposed to credit risk on trade and other receivables and short-term investments. The Company’s maximum exposure to credit risk related to receivables and short-term investments is the gross carrying amount of these assets net of any allowance for doubtful accounts or impairment loss as reflected in these condensed interim consolidated financial statements. As at June 30, 2011, the amount of accounts receivable past due was nominal.

Credit risk associated with short-term investments is minimized by ensuring that the Company only invests in liquid securities and with counterparties that have a high credit rating. Concentration of credit risk with respect to trade receivables is limited due to the Company’s credit evaluation process and the dispersion of a large number of customers across many geographic areas as well as the use of credit insurance.

Liquidity risk
Liquidity risk is the risk that the Company encounters difficulty in meeting its financial obligations as they come due. Liquidity risk includes the risk that, as a result of operational liquidity requirements, the Company will not have sufficient funds to settle a transaction on the due date; will be forced to sell financial assets at a value which is less than what they are worth; or may be unable to settle or recover a financial asset at all. Liquidity risk arises from trade and other payables, long-term debt, commitments and financial guarantees. Under current market conditions, the Company continues to focus on maintaining adequate liquidity to meet cash interest and principal repayments, operating working capital requirements, including seasonal log inventory builds in the first and fourth quarters, and capital expenditures.

As global debt and equity markets can be volatile, we continue to monitor discretionary capital expenditures carefully. The Company’s equipment loan matures on October 1, 2011, the U.S. dollar Senior Secured Term Loan matures in 2014 and the U.S. dollar Senior Unsecured Notes mature in 2015. Under the terms of the Company’s indenture, the Company is permitted to borrow an additional U.S. $125 million of Senior Secured debt and U.S. $75 million of Senior Unsecured debt. The availability of this funding is dependent on credit markets. In the event that debt or equity capital is not available on acceptable terms, the Company may need to explore other strategic alternatives.

The contractual maturity of the Company’s liabilities, long-term debt and commitments for the next five years are shown in the following table. These amounts represent the future undiscounted principal and interest cash flows and therefore do not equate to the carrying values shown in the statement of financial position.

(Figures are in thousands of Canadian dollars unless indicated otherwise – Unaudited)

24. FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (Continued)

	Less than 1 month	1 to 3 months	Less than 1 year	1 to 5 years	More than 5 years
Senior Unsecured Notes	$ -	$ -	$ 22,816	$ 538,374	$ -
Senior Secured Term Loan	441	868	3,884	109,308	-
Equipment loan	689	1,373	13,648	-	-
Deutsche Bank equipment loan	-	-	1,949	7,407	-
Finance lease obligations (Note 11)	7,159	65	240	396	-
Operating lease obligations	69	138	622	2,488	-
Trade payable and accrued liabilities	22,947	-	-	494	-
Reforestation obligation	-	-	-	2,490	484
Purchase commitments	829	204	917	4,888	5,499
	$ 32,134	$ 2,648	$ 44,076	$ 665,845	$ 5,983

Market risk

Interest rate risk
Interest rate risk refers to the risk that the value of a financial instrument or cash flows associated with the instrument will fluctuate due to changes in market interest rates. The Company is exposed to interest risk on its floating rate debt. Unfavourable changes in the applicable interest rates may result in an increase in interest expense. The Company manages its exposure to interest rate risk by maintaining a combination of floating rate debt and fixed rate debt. The Company does not use derivative instruments to reduce its exposure to interest rate risk.

At June 30, 2011, if interest rates had been 50 basis points higher/lower and all other variables were held constant, the Company’s after-tax net income would decrease/increase by approximately $0.5 million on an annual basis (December 31, 2010: $0.5 million).

The Company is also exposed to interest risk on the derivative financial instrument that arises from the call option embedded in the Senior Unsecured Notes. As the risk-free interest rate and the credit spread increase, the value of the derivative financial asset decreases. Conversely, a decrease in the risk-free interest rate and the credit spread increases the value of the derivative financial asset. Changes in the value of this derivative financial asset are reflected in operations. The value of the derivative financial instrument as at June 30, 2011 was $7.0 million (December 31, 2010: $6.2 million). At June 30, 2011, if interest rates had been 1% higher/lower and all other variables were constant, the value of the derivative financial asset would have been $11 lower/higher.

Currency risk
Currency risk refers to the risk that the value of a financial commitment, recognized asset or liability will fluctuate due to changes in foreign currency rates. The Company’s functional currency is the Canadian dollar, but it is exposed to foreign currency risk primarily arising from U.S. dollar denominated long-term debt, cash, accounts receivable and accounts payable. In addition, the majority of the Company’s sales are transacted in U.S. dollars.

The U.S. dollar is the only foreign currency to which the Company has significant exposure. The Company does not use derivative instruments to reduce its exposure to foreign currency risk.

At June 30, 2011, the impact on the after tax loss for the year of a one cent weakening/strengthening of the Canadian dollar, all other variables remaining constant, on the revaluation of the Company’s monetary assets and liabilities would be would have been $3.7 million higher/lower on an annual basis (December 31, 2010: $3.6 million).

(Figures are in thousands of Canadian dollars unless indicated otherwise – Unaudited)

24. FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (Continued)

Commodity price risk
The Company's financial performance is principally dependent on the demand for and selling prices of its products. Both are subject to significant fluctuations. The markets for panel products are cyclical and are affected by factors such as global economic conditions including the strength of the U.S. and Japanese housing market, changes in industry production capacity, changes in world inventory levels and other factors beyond the Company's control. At this time, the Company has elected not to actively manage its exposure to commodity price risk.

25. RELATED PARTY TRANSACTIONS

Brookfield Special Situations II (OSB) L.P.
On May 11, 2010, Brookfield Special Situations II (OSB) L.P. ("BSS") completed the acquisition of 14,905,712 common shares and warrants to acquire 10,094,288 common shares of Ainsworth. BSS exercised all of the purchased warrants on closing of the transaction and now beneficially owns or exercises control or direction over approximately 54.3% of the issued and outstanding common shares. The result for Ainsworth is a change of control for Canadian tax purposes. In the normal course of operations, the Company made interest payments on its senior unsecured notes to BSS which were previously entered on market terms and measured at exchange value. Repayment of the principal balance is due July 29, 2015.

Subsidiaries
Transactions with subsidiaries (listed in Note 2(b)), which have been eliminated on consolidation, are carried out in the normal course of business on an arm's length basis and are not disclosed in this note. Outstanding balances are placed on inter-company accounts with no specified credit period. Long-term loans owed to the Company by subsidiary undertakings are non-interest bearing in accordance with the inter-company loan agreements.

Compensation of key management personnel
The key management personnel of the Company consist of the members of the Board of Directors of Ainsworth Lumber Co. Ltd and its executive management team. No such person had any material interest during the period in a contract of significance (except as disclosed below with respect to a service contract for legal services rendered) with the Company or any subsidiary company. The total compensation for key management personnel, including directors, is as follows:

	Three months ended June 30		Six months ended June 30	
	2011	2010	**2011**	2010
Wages and salaries	**$ 644**	$ 659	**$ 1,278**	$ 1,335
Pension and retirement benefit costs	**28**	22	**60**	43
Share-based payments	**241**	173	**422**	247
	$ 913	$ 854	**$ 1,760**	$ 1,625

During the three months ended June 30, 2011, the Company paid legal fees of $10 (three months ended June 30, 2010: $23) to a law firm of which a director of the Company is a Partner. During the six months ended June 30, 2011, legal fees of $74 (six months ended June 30, 2010: $23) were paid.

These transactions were measured and recorded at fair value. Fair value is defined as the transaction amount with unrelated parties under similar terms and conditions.

26. TRANSITION TO IFRS

Effective January 1, 2011, the Company adopted IFRS in accordance with IFRS 1. The first date at which IFRS was applied was January 1, 2010 (“Transition Date”). In accordance with IFRS, the Company has:

- Provided comparative financial information;
- Applied the same accounting policies throughout all periods presented;
- Retrospectively applied all effective IFRS standards as of January 1, 2011, as required, and
- Applied certain optional exemptions and certain mandatory exceptions as applicable for first time IFRS adopters.

a) Estimates

Hindsight was not used to create or revise estimates previously made under CGAAP.

b) IFRS 1 optional exemptions

Set forth below are the IFRS 1 optional exemptions that are relevant to the Company at January 1, 2010 (the “Transition Date”):

(i) *Business combinations* - IFRS 1 provides the option to apply IFRS 3, Business Combinations, retrospectively or prospectively – either from the Transition Date or a particular date prior to the Transition Date. The Company has elected to apply IFRS 3 prospectively on business combinations that occurred after transition date. Accordingly, business combinations prior to this date have not been restated.

(ii) *Fair value of property, plant and equipment as deemed cost* - IFRS 1 includes an optional exemption for the Company to record property, plant and equipment at the date of transition at either i) fair value as deemed cost; or ii) its carrying value. This option can be applied separately to each asset or class of assets. The Company has elected to use a measure of deemed cost for all of its major categories of property, plant and equipment.

This exemption is also available for intangible assets that meet the recognition and revaluation criteria.

(iii) *Employee benefits* **-** IFRS 1 provides the option to retrospectively apply International Accounting Standard (IAS) 19: Employee Benefits for the recognition of unamortized actuarial gains and losses, past service costs and transitional obligations and assets or to recognize these balances previously deferred under CGAAP in opening retained earnings at the transition date. The Company has elected to recognize all unamortized cumulative actuarial losses and past service costs at transition date as an adjustment to opening retained earnings for all of its employee benefit plans.

(iv) *Share-based payment* **-** IFRS 1 provides an optional exemption to the application of IFRS 2: Share-based Payment for those stock options granted subsequent to November 7, 2002 that have fully vested as at January 1, 2010. The Company has elected this exemption and will exclude all such stock options from the application of IFRS 2.

(v) *Borrowing costs* **-** IAS 23: Borrowing Costs requires an entity to capitalize borrowing costs related to all qualifying assets for which the commencement date for capitalization is on or after January 1, 2009. IFRS 1 permits the Company to retain the treatment of borrowing costs under CGAAP and the capitalization methodology for any assets for which the commencement date is before the date of transition to IFRSs (or earlier designated date).

26. TRANSITION TO IFRS (Continued)

c) IFRS accounting policy decisions

While the conceptual framework of IFRS is similar to CGAAP, significant differences exist in certain matters of recognition, measurement and disclosure. The significant IFRS accounting policies the Company adopted upon conversion to IFRS are as follows:

(i) IAS 39 Transaction costs of financial instruments:

Under CGAAP, the Company chose to expense transaction costs in respect of long-term debt at the initial measurement date. IFRS, however, requires transaction costs of all financial instruments to be included in the initial measurement unless they are categorized at fair value through profit or loss. Accordingly, this resulted in a decrease to long-term debt and an increase to shareholders' equity on January 1, 2010 of $19.1 million. The Company expects higher amortization of finance costs in future period subsequent to the date of transition to IFRS since the transaction costs are amortized over the term of the underlying financial instruments.

(ii) IAS 19 Employee benefits:

IAS 19 provides three options for recognizing actuarial gains or losses after the transition date: i) the corridor approach, which amortizes gains or losses outside the corridor over an amortization period; ii) adoption of a more systematic method that would result in faster recognition of the gains or losses in income; or iii) recognition of 100% of gains or losses in the period in which they occur in other comprehensive income. The Company has recorded 100% of the actuarial gains or losses in other comprehensive income, thereby allowing pension assets and liabilities to be reflected at their fair values. The election of IFRS 1 to clear all unamortized actuarial gains and losses against deficit resulted in a decrease of $1.2 million in shareholders' equity on January 1, 2010.

The Company currently makes solvency funding contributions to its pension plans to cover its solvency deficit. Based on the interpretation and application of IFRIC 14: *IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction* ("IFRIC 14"), there were no material adjustments to its pension obligations and deficit arising from the application of IFRIC 14 as at January 1, 2010.

(iii) IAS 16 Property, plant and equipment:

Consistent with CGAAP, IFRS requires separable components of property, plant and equipment to be recognized initially at cost. Under IAS 16, an entity is required to choose to account for each class of property, plant and equipment, using either the cost model or the revaluation model. The cost model is generally consistent with CGAAP where an item of property, plant and equipment is carried at its cost less accumulated depreciation and accumulated impairment losses. Under the revaluation model an item of property, plant and equipment is carried at its revalued amount, being its fair value at the date of the revaluation less any accumulated depreciation and accumulated impairment losses. The Company uses the cost model to account for all classes of property, plant and equipment.

When classifying finance leases under IFRS, more judgment is applied and additional qualitative indicators are used to determine lease classification due to the lack of quantitative threshold indicators as specified in CGAAP. After our review during the detailed assessment phase, the Company identified certain leases with classification differences between CGAAP and IFRS, which resulted in an increase of $651 to the carrying value of property, plant and equipment and lease obligations on January 1, 2010. The classification difference did not result in a material adjustment to the opening deficit.

26. TRANSITION TO IFRS (Continued)

In addition, unlike CGAAP which is silent on these matters, IFRS specifically requires capitalization of major replacement costs, major inspection costs, and borrowing costs of qualifying assets. This resulted in an increase in property, plant and equipment and a decrease to deficit as at January 1, 2010 of $5.9 million.

(iv) IAS 38 Intangible assets:

IFRS 1 includes an optional exemption for the Company to use fair value as the deemed cost when recording intangible assets at the date of transition providing certain requirements are met. However, the Company does not qualify for the IFRS 1 deemed cost election for intangible assets related to forestry licenses for certain operating facilities. The licenses were valued at fair value at July 29, 2008, the date of the Company's recapitalization. The fair value was then used for fresh start accounting. IFRS 1 requires that intangible assets be valued at original cost unless the fair value attributed to them can be verified in an active market. As forestry licenses are not traded in an active market, as defined in IAS 38, the Company recorded a decrease of $59.7 million in the value of intangible assets and a corresponding increase to deficit as at January 1, 2010. This adjustment reduced the value of the intangible assets to their historical cost prior to the Company's recapitalization.

(v) IFRS 2 Share-based payment:

The Company issues stock-based awards in the form of stock options that vest evenly over a three-year period. Under CGAAP, Ainsworth recognizes the fair value of the award, determined at the time of the grant, on a straight-line basis over the vesting period. Under IFRS 2, the fair value of each tranche of the award is considered to be a separate grant based on the vesting period with the fair value of each tranche determined separately and recognized as compensation expense over the term of its respective vesting period. The use of the graded vesting model as required by IFRS resulted in an increase of $82 to contributed surplus and a decrease to deficit as at January 1, 2010. While the application of IFRS 2 resulted in a higher amount of each grant being recognized in operations at a faster rate under IFRS compared to CGAAP, there is no overall impact expected in the stock based compensation expense over the vesting period.

(vi) IAS 12 Income taxes:

The IFRS transitional adjustments as described above have a cumulative income tax impact of $8.7 million to deficit on January 1, 2010. The application of differences in accounting for timber rights and transaction costs accounted for most of the tax impact.

Under CGAAP, an entity is required to present both current and long-term future income taxes on its statement of financial position. Under IFRS, all deferred income taxes are presented as long-term. This presentational difference has no impact on deficit as at January 1, 2010.

(Figures are in thousands of Canadian dollars unless indicated otherwise – Unaudited)

26. TRANSITION TO IFRS (Continued)

d) Restated financial statements

IFRS 1 requires an entity to reconcile equity, comprehensive income and cash flows for prior periods. The Company's first time adoption of IFRS did not have a material impact on the total operating, investing or financing cash flows. The following are reconciliations of the financial statements previously presented under CGAAP to the amended condensed financial statements prepared under IFRS:

Reconciliation of Consolidated Balance Sheet
As at June 30, 2010

	Note 26c	CGAAP	Effects of transition to IFRS	IFRS
ASSETS				
Current Assets				
Cash and cash equivalents		$ 88,321	$ -	$ 88,321
Short-term investments		71,220	-	71,220
Trade and other receivables		20,894	-	20,894
Inventories		43,509	-	43,509
Other financial assets		4,854	-	4,854
Assets held for disposal		321	-	321
		229,119	-	229,119
Property, Plant and Equipment	(iii)	529,212	7,863	537,075
Intangible Assets	(iv)	73,952	(58,788)	15,164
Other Assets		16,472	-	16,472
Assets Held for Disposal		7,042	-	7,042
		$ 855,797	**$ (50,925)**	**$ 804,872**
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current Liabilities				
Trade and other payables		$ 21,727	$ -	$ 21,727
Income taxes payable		379	-	379
Current portion of deferred income tax liabilities	(vi)	7,619	(7,619)	-
Current portion of long-term debt	(i)	10,614	319	10,933
Liabilities related to assets held for disposal		1,487	-	1,487
		41,826	(7,300)	34,526
Accrued Pension Benefit Liability	(ii)	2,484	867	3,351
Reforestation Obligation		2,077	-	2,077
Long-Term Debt	(i)	559,512	(17,301)	542,211
Deferred Income Tax Liabilities	(vi)	43,007	(1,521)	41,486
Liabilities Related to Assets Held for Disposal	(ii)	897	509	1,406
		649,803	(24,746)	625,057
SHAREHOLDERS' EQUITY				
Capital Stock		409,880	-	409,880
Contributed Surplus	(v)	1,075	182	1,257
Accumulated Other Comprehensive Loss	(ii)	-	(1,151)	(1,151)
Deficit		(204,961)	(25,210)	(230,171)
		205,994	(26,179)	179,815
		$ 855,797	**$ (50,925)**	**$ 804,872**

(Figures are in thousands of Canadian dollars unless indicated otherwise – Unaudited)

26. TRANSITION TO IFRS (Continued)

Reconciliation of Consolidated Net Loss and Comprehensive Loss
For the three months ending June 30, 2010

	Note 26c	CGAAP	Effects of transition to IFRS	IFRS
Revenues [1]		$ 106,447	$ -	$ 106,447
Costs of products sold (exclusive of amortization) [1]	(iii)	67,786	(1,105)	66,681
Selling and administration	(v)	5,362	75	5,437
Amortization of property, plant and equipment and intangible assets	(iii, iv)	8,864	454	9,318
Operating income		**24,435**	**576**	**25,011**
Finance expense	(i)	(12,176)	(768)	(12,944)
Foreign exchange loss		(23,117)	-	(23,117)
Gain on derivative financial instrument		649	-	649
Costs of curtailed operations		(458)	-	(458)
Other items		605	-	605
Loss before income taxes		**(10,062)**	**(192)**	**(10,254)**
Income tax expense (recovery)	(vi)	7,225	(199)	7,026
Loss from continuing operations		(17,287)	7	(17,280)
Net loss from discontinued operations		(491)	-	(491)
Net loss, being Total comprehensive loss		**$ (17,778)**	**$ 7**	**$ (17,771)**
Basic and diluted net loss per common share:				
Continuing operations		$ (0.17)		$ (0.17)
Discontinued operations		(0.01)		(0.01)
Basic and diluted net loss per common share:		**$ (0.18)**		**$ (0.18)**
Weighted average number of common shares outstanding		**100,100,000**		**100,100,000**
Effect of dilutive stock options on continuing operations		**-**		**-**
		100,100,000		**100,100,000**

(1) Revenues for the three months ended June 30, 2010 have been increased by $10,300 with a corresponding increase in Costs of Products Sold to reflect a change in presentation for inventory held at certain customer sites from a net to gross basis (Note 2).

(Figures are in thousands of Canadian dollars unless indicated otherwise – Unaudited)

26. TRANSITION TO IFRS (Continued)

Reconciliation of Consolidated Net Loss and Comprehensive Loss
For the six months ending June 30, 2010

	Note 26c	CGAAP	Effects of transition to IFRS	IFRS
Revenues [1]		$ 193,443	$ -	$ 193,443
Costs of products sold (exclusive of amortization) [1]	(iii)	135,300	(2,491)	132,809
Selling and administration	(v)	10,250	100	10,350
Amortization of property, plant and equipment and intangible assets	(iii, iv)	17,890	230	18,120
Operating income		**30,003**	**2,161**	**32,164**
Finance expense	(i)	(24,798)	(1,533)	(26,331)
Foreign exchange loss		(4,942)	-	(4,942)
Gain on derivative financial instrument		5,679	-	5,679
Costs of curtailed operations		(1,787)	-	(1,787)
Other items		1,907	-	1,907
Income before income taxes		**6,062**	**628**	**6,690**
Income tax expense (recovery)	(vi)	7,656	(398)	7,258
Loss from continuing operations		(1,594)	1,026	(568)
Net loss from discontinued operations		(748)	-	(748)
Net loss, being Total comprehensive loss		**$ (2,342)**	**$ 1,026**	**$ (1,316)**
Basic and diluted net loss per common share:				
Continuing operations		$ (0.01)		$ (0.01)
Discontinued operations		(0.02)		(0.01)
Basic and diluted net loss per common share:		**$ (0.03)**		**$ (0.02)**
Weighted average number of common shares outstanding		**100,100,000**		**100,100,000**
Effect of dilutive stock options on continuing operations		**-**		**-**
		100,100,000		**100,100,000**

(1) Revenues for the six months ended June 30, 2010 have been increased by $16,257 with a corresponding increase in Costs of Products Sold to reflect a change in presentation for inventory held at certain customer sites from a net to gross basis (Note 2).

Reconciliation of Consolidated Statement of Cash Flows

The adoption of IFRS has had no impact on the net cash flows of the Company. The changes made to the statements of financial position and statements of consolidated income have resulted in reclassifications of various amounts on the statements of cash flows, however as there have been no changes to the net cash flows, no reconciliations have been presented.