Ainsworth®

REPORT TO SHAREHOLDERS
FOR THE THREE AND SIX MONTH PERIODS ENDED
JUNE 30, 2013

LETTER TO SHAREHOLDERS

August 13, 2013

Dear Fellow Shareholders,

The second quarter of 2013 was another strong period for Ainsworth. The Company generated adjusted EBITDA of $50.7 million, which represented a $33.8 million improvement versus the second quarter of 2012. We continued to benefit from the early stages of the U.S. housing market recovery, generating adjusted EBITDA of $113.2 million in the first half of 2013 compared to $26.5 million in the same period in 2012.

While benchmark OSB prices decreased in the early part of the second quarter, average benchmark prices were still strong at U.S.$347 and U.S.$328 per msf (7/16" basis) for North Central and Western Canada, respectively. There were a number of factors that may have contributed to the approximately 20% decrease in benchmark prices during the quarter, including weather-related and other construction delays in a number of regions following the building of inventory levels in the supply chain. Notwithstanding the recent price volatility, U.S. housing indicators remain positive and housing starts and permits continue to show strong increases versus last year. As a result, we feel confident that the market will require additional supply in the months and years ahead and we are preparing to meet that demand with the restart of our High Level mill.

Our markets outside of North America saw increased activity during the quarter. Japan continues to be a key export market for us, especially during times of volatility in the North American markets. Year-to-date our shipment volumes to Japan increased 29% over last year, driven by ongoing economic and housing growth and made possible by our long-standing relationships with our customers. Total housing starts in Japan increased 9% in the first six months of 2013 over last year and wooden home starts increased 11%. The growth in housing activity, combined with our commitment to growing our share of the overall panel market in Japan, should continue to add to demand for our products going forward.

From an operating perspective, we produced lower volumes this quarter due to maintenance downtime and trial production runs for new products, but our year-to-date production was still strong at 806.8 million square feet (3/8" basis), which represented a 96% operating rate. We experienced some cost increases compared to 2012, as a result of increased raw material input costs such as resin and wax, as well as maintenance costs associated with a shutdown of approximately two weeks at our 100 Mile House mill. I am pleased to announce that we reached a new four-year agreement with the union at our Barwick facility, which was ratified on July 17, 2013.

We generated $41.9 million in cash from operations during the quarter, further improving our liquidity and balance sheet. In light of this strengthened liquidity position, in July we capitalized on our option to redeem U.S.$35 million of our senior secured notes, which represented 10% of the outstanding principal balance. This transaction, which closes on August 14, 2013, will further deleverage the balance sheet and reduce interest costs going forward.

During the quarter we continued work to restart our High Level mill, and we are pleased with both the progress and the safety record as we have ramped up activity in the mill. In addition to providing volume that will enable us to meet the growing requirements of our existing customer base, we expect that restarting this mill will allow us to further diversify our customer base and value added product offering as we continue to develop new market segments, both in terms of geography and technical innovation.

As always, I value and appreciate the contribution of all of our employees and the support of our shareholders and customers.

Sincerely,
/s/ Jim Lake
President and Chief Executive Officer

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS For the Three and Six Months Ended June 30, 2013

This management's discussion and analysis is presented as at August 13, 2013. Financial references are in Canadian dollars unless otherwise indicated. Additional information relating to Ainsworth Lumber Co. Ltd. (also referred to as Ainsworth, 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").

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. We remain focused on prudent balance sheet management and maximizing shareholder value.

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 supply and access to markets in North America and Asia.

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	730
Barwick, ON	510
High Level, AB (previously curtailed; planned restart in Q3 2013)	860
Total capacity	2,540

To meet increases in customer demand for OSB from both North American and export markets, incremental capacity will come from restarting the High Level mill. This mill has been on care and maintenance since December 2007 and has the capability of manufacturing products for Ainsworth's markets in both North America and Asia. Ainsworth has implemented plans to restart the High Level mill in the third quarter of 2013.

In addition, the Company continues to assess the timing and the remaining costs to complete the second production line at the Grande Prairie mill, which would further increase capacity by approximately 600 mmsf (3/8-inch basis) to over 3.1 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 access to low cost fibre sources, are energy efficient and have low sustaining capital requirements. Ainsworth employs an experienced, reliable workforce of approximately 710 workers. Safety and environmental responsibility is emphasized as a key value at all levels.

On July 17, 2013, we announced the ratification of a new four-year labour agreement with the Communications, Energy and Paperworkers Union of Canada, which represents approximately 130 employees at our Barwick mill. Key provisions of the agreement include: a four year term expiring on July 31, 2017, with annual wage increases of 2.5% per year. The previous contract was set to expire on July 31, 2013.

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, financial conditions, and other expectations, beliefs, 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", 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, and narrative disclosures defining gross profit.

Outlook

U.S. housing market indicators remain positive, with U.S. home sales reaching their highest levels in five years in June 2013. Foreclosures and existing home inventories continue to trend downwards, and activity levels for the U.S. single-family housing market, the largest driver of OSB demand, remain on a growth track. Year-to-date single-family starts and permits increased 20% and 24% over last year, respectively, and in our primary North American market, the Western U.S., year-to-date single-family housing starts were 30% higher than last year. As a result, we feel confident that the market will require additional supply in the months and years ahead and we are preparing to meet that demand with the restart of our High Level mill.

Summary of Operating and Financial Results from Continuing Operations

(in millions, except volume, unless otherwise noted)	Q2-13	Q1-13	Q4-12	Q3-12	Q2-12	Q1-12	Q4-11	Q3-11
Sales	**$ 127.5**	$ 141.8	$ 117.9	$ 115.6	$ 90.5	$ 85.1	$ 69.5	$ 71.8
Adjusted EBITDA (1)	**50.7**	62.5	42.0	37.0	16.9	9.6	2.5	0.5
Adjusted EBITDA margin (2)	**39.8%**	44.1%	35.6%	32.0%	18.7%	11.3%	3.6%	0.7%
Shipment volume (mmsf 3/8")	**380.4**	397.0	398.2	422.9	393.8	405.1	374.3	393.4
Production volume (mmsf 3/8")	**398.7**	408.1	406.4	419.1	398.0	400.8	368.3	394.9

(1) Adjusted EBITDA, a non-IFRS financial measure, is defined as net income (loss) from continuing operations before amortization, gain on disposal of property, plant and equipment, cost of curtailed operations, stock option expense (recovery), finance expense, foreign exchange (gain) loss on long-term debt, other foreign exchange loss (gain), interest income earned on investments, income tax (recovery) expense and non-recurring items. See the detailed calculation of adjusted EBITDA by quarter on page 14. As a result of adopting the amendment to *IAS19 – Employee Benefits* (see "Changes in Accounting Standards"), adjusted EBITDA for each quarter of 2012 has been restated to reflect the increase in pension expense. Adjusted EBITDA for all quarters presented has also been restated to exclude interest income earned on investments.

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

Review of Financial Results

(in millions)	Q2-13	Q2-12	YTD 2013	YTD 2012
Sales	**$ 127.5**	$ 90.5	**$ 269.3**	$ 175.6
Costs of products sold	**72.7**	69.6	**148.1**	141.1
Net income (loss) from continuing operations	**2.8**	(11.4)	**39.3**	(10.8)
Net income (loss)	**2.6**	(11.5)	**38.9**	(11.0)
Adjusted EBITDA	**50.7**	16.9	**113.2**	26.5
Adjusted EBITDA margin	**39.8%**	18.7%	**42.0%**	15.1%
Shipment volume (mmsf 3/8")	**380.4**	393.8	**777.4**	798.9

The table below shows the calculation of adjusted EBITDA:

(in millions)	Q2-13	Q2-12	YTD 2013	YTD 2012
Net income (loss) from continuing operations	**$ 2.8**	$ (11.4)	**$ 39.3**	$ (10.8)
Add (deduct):				
Amortization of property, plant and equipment	**6.2**	6.1	**12.6**	12.3
Write-down of property, plant and equipment	**3.8**	-	**3.8**	-
Cost of curtailed operations	**3.5**	0.7	**5.1**	1.8
Stock-based compensation expense	**1.0**	-	**1.1**	0.2
Finance expense	**7.4**	13.1	**14.3**	26.2
Income tax expense (recovery)	**6.6**	(2.0)	**20.1**	(3.7)
Foreign exchange loss on long-term debt	**13.1**	10.5	**20.7**	0.5
Loss (gain) on derivative financial instrument	**7.5**	(0.2)	**(0.6)**	(0.2)
Other	**(1.2)**	0.1	**(3.2)**	0.2
Adjusted EBITDA	**$ 50.7**	$ 16.9	**$ 113.2**	$ 26.5

Net income from continuing operations in the second quarter of 2013 was $2.8 million compared to a net loss of $11.4 million in the second quarter of 2012. The $14.2 million increase in net income included a $33.9 million increase in gross profit (sales less cost of products sold (exclusive of amortization)), and a $5.7 million reduction in finance expense. These increases in net income were partially offset by an $8.6 million variation in income tax expense/recovery, a $7.7 million variation in the gain/loss on derivative financial instrument, a $3.8 million write-down of property, plant and equipment, a $2.8 million increase in costs of curtailed operations related to the start-up of our High Level operation, and a $2.6 million increase in foreign exchange loss on long-term debt related to weakening of the Canadian dollar (relative to the U.S. dollar) in the second quarter of 2013.

In the first six months of 2013, net income from operations was $39.3 million, compared to a net loss of $10.8 million for the same period in 2012, representing an increase of $50.1 million. The increase included an $86.8 million increase in gross profit, an $11.9 million decrease in finance expense, and a $2.9 million variation in foreign exchange gain/loss on operations. These increases in net income were partially offset by a $23.8 million variation in income tax expense/recovery, a $20.2 million increase in foreign exchange loss on long-term debt, a $3.8 million write-down of property, plant and equipment, and a $3.3 million increase in costs of curtailed operations.

Adjusted EBITDA

In the second quarter of 2013, adjusted EBITDA was $50.7 million compared to $16.9 million in the second quarter of 2012. Adjusted EBITDA margin on sales was 39.8% compared to 18.7% in the second quarter of 2012. The increase was largely related to the $33.9 million increase in gross profit.

Adjusted EBITDA in the first half of 2013 was $113.2 million compared to $26.5 million in the first half of 2012. Adjusted EBITDA margin on sales was 42.0% compared to 15.1% in the same period of 2012. The increase was primarily related to the $86.8 million increase in gross profit.

Sales

Sales of $127.5 million in the second quarter of 2013 were $37.0 million higher than sales of $90.5 million for the same period in 2012. The increase in sales was due to a 45.9% increase in realized pricing. During the second quarter of 2013, the average benchmark price for the North Central region was U.S.$347 per msf (7/16-inch basis), an increase of U.S.$112 per msf (7/16-inch basis) compared to the same period in 2012. The average benchmark price for the Western Canada region increased by U.S.$96 per msf (7/16-inch basis) in the second quarter of 2013 compared to the same period in 2012. Sales volumes were 3.4% lower during the second quarter of 2013, compared to the second quarter of 2012, due to a two-week maintenance shut-down at our 100 Mile House facility and higher finished goods inventory.

Sales in the first half of 2013 were $269.3 million, representing a $93.7 million increase over the same period in 2012. This increase was related to a 57.7% increase in realized pricing. The six month average benchmark price for the North Central region was U.S.$163 per msf (7/16-inch basis) higher in 2013 than in 2012. The Western Canadian region realized a $157 msf (7/16-inch basis) increase in the six month benchmark price compared to the same period in 2012. Partially offsetting the price increases, there was a 2.7% decline in sales volumes related to maintenance projects undertaken at our 100 Mile House and Grande Prairie facilities and higher finished goods inventory.

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	**Q2-13**	**Q1-13**	**Q4-12**	**Q3-12**	**Q2-12**	**Q1-12**	**Q4-11**	**Q3-11**
North Central (7/16" basis)	**$ 347**	$ 417	$ 332	$ 313	$ 235	$ 203	$ 190	$ 184
Western Canada (7/16" basis)	**328**	419	331	310	232	201	149	137

Costs of Products Sold (Exclusive of Amortization)

In the second quarter of 2013, costs of products sold were $72.7 million, a $3.1 million increase over the same period in 2012. The increase in costs of products sold was partially attributable to higher resin and wood pricing, combined with product mix changes that required increased use of key input materials. Additional costs were also incurred with respect to the maintenance down-time taken at our 100 Mile House mill during the quarter.

Costs of products sold were $148.1 million in the first half of 2013 compared to $141.1 in the first half of 2012. The $7.0 million increase related to higher raw material costs and product mix changes, combined with maintenance projects undertaken at our 100 Mile House and Grande Prairie facilities in 2013.

Selling and Administration

Selling and administration expense increased by $1.1 million in the second quarter and the first half of 2013 compared to the same periods in 2012. The increase for both periods is primarily related to higher share-based compensation and salaries and benefits.

Amortization of Property, Plant and Equipment and Intangible Assets

Amortization expense for the second quarter and first half of 2013 includes a $3.8 million write-down of property, plant and equipment. Excluding the write-down, amortization expense quarter over quarter and year to date was not significantly different in 2013 compared to 2012.

Costs of Curtailed Operations

Costs of curtailed operations are comprised of costs directly attributable to our High Level, Alberta mill. The $2.8 million and $3.3 million increases in the second quarter and year to date of 2013 compared to the same periods in 2012 reflects increased activities associated with the Company's plan to restart operations in the third quarter of 2013. Once the mill resumes production, all costs will be classified as cost of products sold on a prospective basis.

Finance Expense

Finance expense decreased significantly from $13.1 million in the second quarter of 2012 to $7.4 million in the second quarter of 2013. This reduction was due to a lower principal balance and interest rate on long-term debt following the refinancing transactions that closed in the fourth quarter of 2012. The reduction was partially offset by the foreign exchange effect of a weaker Canadian dollar, on average, relative to the U.S. dollar.

In the first six months of 2013, finance expense was $14.3 million compared to $26.2 million in the same period of 2012. The $11.8 million decrease was due to a combination of a lower principal balance and interest rate on our refinanced debt, partially offset by the effect of foreign exchange.

Foreign Exchange Loss on Long-Term Debt

The unrealized foreign exchange loss on long-term debt in the second quarter of 2013 was $13.1 million compared to $10.5 million in the second quarter of 2012. Year to date, the foreign exchange loss on long-term debt was $20.7 million in 2013 and $0.5 million in 2012. The majority of our debt is denominated in U.S. currency and is therefore subject to fluctuations in the exchange rate. The foreign exchange loss resulted from a weakening of the Canadian dollar, relative to the U.S. dollar.

Management estimates that a one cent change of the Canadian dollar results in an after tax increase/decrease in foreign exchange loss/gain on our U.S. dollar debt of $2.9 million on an annual basis.

(Loss) Gain on Derivative Financial Instrument

The derivative financial asset is revalued quarterly based on the market value of our 7.5% Senior Secured Notes (the "Notes"), the risk-free rate, current interest rates and the credit spread (see "Financial Instruments"), and changes in the value of this derivative financial asset are reflected in operations.

The derivative financial asset embedded in the Notes was revalued at June 30, 2013, resulting in a loss of $7.5 million in the second quarter of 2013, compared to a gain of $0.2 million in the second quarter of 2012. For the year to date, the revaluation resulted in gains of $0.6 million in 2013 and $0.2 million in 2012.

Other Items

Other expenses for the second quarter and first half of 2013 included: gains on disposal of property, plant and equipment and other income.

Income Taxes

Income tax expense in the second quarter of 2013 was $6.6 million on income before income taxes of $9.5 million, compared with an income tax recovery of $2.0 million on a loss before income taxes of $13.4 million in the second quarter of 2012. For the first six months of 2013, income tax expense was $20.1 million on income before income taxes of $59.4 million, compared with an income tax recovery of $3.7 million on a loss before taxes of $14.5 million. The majority of the income tax expense was related to temporary differences that increased the deferred income tax liability on the statement of financial position. Certain permanent differences, such as the non-taxable portion of the foreign exchange loss on our debt and expenses not deductible for tax purposes, impacted the resulting income tax expense.

As a result of the discontinuation of our 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.

The Company has benefited Canadian non-capital tax loss carry-forwards of approximately $234 million for financial statement purposes at December 31, 2012. The Company also has U.S. net operating tax loss carry-forwards that are not benefited for financial statement purposes because the 2008 recapitalization resulted in a restriction of these loss carry-forwards.

Tax filings 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 expenses, such as pension and actuarial costs, associated with the OSB mills in Minnesota, as well as from the plywood and veneer operations in Lillooet and Savona that were disposed in 2009.

Capital Resources and Liquidity

As of June 30, 2013, our working capital was $221.4 million, compared to $142.2 million as at December 31, 2012. 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.

At June 30, 2013, Ainsworth's available liquidity, consisting of cash and cash equivalents, was $170.8 million, an improvement of $64.0 million since December 31, 2012 resulting from our stronger operating results. Ainsworth is also permitted under the terms of the Notes to borrow at least an additional U.S.$170 million of senior secured and unsecured debt subject to the limitations set forth in the indenture.

Our cash flows for the quarter ended June 30, 2013 were as follows:

		Q2-13		Q2-12		YTD 2013		YTD 2012
(in millions)								
Cash provided by operating activities before interest and working capital	**$**	**47.1**	$	14.6	**$**	**108.0**	$	23.8
Cash used for interest payments		**(14.8)**		(13.6)		**(15.0)**		(15.4)
Cash provided by (used in) working capital		**9.6**		7.4		**(15.9)**		(7.1)
Cash provided by operating activities	**$**	**41.9**	$	8.4	**$**	**77.1**	$	1.3
Cash used in financing activities	**$**	**(2.4)**	$	(1.6)	**$**	**(3.2)**	$	(2.4)
Cash used in investing activities	**$**	**(10.1)**	$	(1.7)	**$**	**(11.5)**	$	(2.4)

In the second quarter of 2013 we had a cash inflow of $47.1 million from operating activities before interest paid and working capital requirements compared to $14.6 million in the second quarter of 2012. Increases in OSB pricing resulted in higher cash generated by operations quarter over quarter, offset partly by a reduction in volume and by cost increases. The increase in cash provided by working capital in the second quarter of 2013 compared to the same period in 2012 was due to the timing of accounts receivable, partially offset by property insurance.

In the first six months of 2013, cash generated by operating activities was $108.0 million (before interest paid and working capital requirements), which was significantly higher than 2012 due to OSB price increases. The increase in cash used in working capital in the first half of 2013 compared to 2012 was primarily related to higher inventories of logs and finished goods in 2013, partially offset by accounts receivable. Cash used for interest payments for all periods includes the semi-annual interest payment on our senior notes and our equipment financing loans.

Cash used in financing activities for all periods presented includes repayment of equipment financing loans and capital lease obligations. Our debt principal repayments are scheduled to total $3.3 million in the last half of 2013.

Cash used by investing activities increased in the second quarter and first half of 2013 compared with the same periods in 2012, due to an increase in capital spending. The year to date increase was partially offset by $1.0 million of proceeds received on the sale of non-core property located in Savona, British Columbia, and a net $1.5 million reduction in restricted cash primarily attributable to the release of certain letters of credit.

Capital spending of $10.3 million in the second quarter and $14.0 million in the first six months of 2013 included expenditures associated with the planned restart of our High Level mill, as well as maintenance capital at our operating mills.

Outstanding Share Data

The issued share capital of the Company at June 30, 2013 is as follows:

	Shares	Warrants		Value (in millions)
Common shares	**240,861,888**	**-**	**$**	**583**
Shareholder warrants	**-**	**8,695,634**		**-**
	240,861,888	**8,695,634**	**$**	**583**

The Company issued 8,695,634 warrants on July 28, 2008 pursuant to the Company's recapitalization. The number of shares that may be issued to warrant holders was dependent on the market price of the Company's common shares. If the Company's common share price exceeded a barrier price of U.S. $7.89 per share on or before July 29, 2013, each warrant would be converted into 1.52 common shares; otherwise, each warrant would be converted into 0.0035 common shares. These warrants had nominal value for accounting purposes since the Company's share price did not exceed the barrier price at June 30, 2013.

On July 29, 2013, the shareholder warrants were deemed to be exercised without additional consideration. Since the Company's share price did not exceed the barrier price of U.S.$7.89 per common share, each warrant was converted into 0.0035 common shares, resulting in the issuance of 30,421 common shares.

Outstanding Stock Options

The following table presents the exercise prices and expiry dates for the 2,060,676 stock options outstanding at June 30, 2013:

Grant Date	Number of Options Outstanding	Exercise Price	Expiry Date
November 14, 2008 [(1)]	400,000	1.16	November 14, 2018
March 5, 2010	175,000	1.53	March 5, 2020
March 15, 2010	25,000	1.63	March 15, 2020
May 13, 2010	72,376	2.99	May 13, 2020
May 21, 2010	50,000	2.76	May 21, 2020
June 14, 2010	100,000	2.19	June 14, 2020
August 5, 2010	6,300	1.93	August 5, 2020
August 13, 2010	25,000	1.81	August 13, 2020
March 4, 2011	275,000	2.19	March 4, 2021
September 9, 2011	200,000	1.29	September 9, 2021
March 9, 2012	100,000	1.03	March 9, 2022
March 13, 2012	132,000	1.03	March 13, 2022
March 15, 2013	500,000	3.73	March 15, 2023

(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 Notes include call options which have been identified as embedded derivatives whereby we have the right to repurchase the Notes. A derivative financial asset was recorded at fair value at issuance of the Notes and is revalued at each reporting period based on the market value of the Notes, the current interest rates, and the credit spread. Changes in the value of this derivative financial asset are reflected in operations as "Gain (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 increased by $2.5 million. At June 30, 2013, the derivative financial asset had a value of $14.0 million (December 31, 2012: $13.4 million).

Subsequent to the end of the quarter, the Company exercised an option to repurchase 10% of the principal of the Notes. The value of this option was $1.9 million at June 30, 2013.

Off-Balance Sheet Arrangements

The Company does not have any significant off-balance sheet arrangements other than letters of credit in the amount of $4.1 million ($5.6 million at December 31, 2012), for which restricted cash is held as collateral. 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

The Company is controlled by Brookfield Capital Partners Ltd. ("BCP"), which beneficially owns or exercises control or direction over approximately 54.5% of the issued and outstanding common shares.

The Company also periodically sells goods to BCP affiliates. During the three months ended June 30, 2013, these sales were approximately $0.2 million (three months ended June 30, 2012: $1.1 million). During the six months ended June 30, 2013, these sales were approximately $2.5 million (six months ended June 30, 2012: $2.4 million).

The following table includes amounts that were paid to other related parties:

(in thousands)	Q2-13	Q2-12	YTD 2013	YTD 2012
Legal fees (1)	**$ 36**	$ -	**$ 96**	$ 8
Other services (2)	**222**	133	**305**	133
Key management compensation (3)	**898**	704	**1,766**	1,497

(1) Legal fees were paid to a law firm of which one of the Company's directors is also a partner.

(2) Includes amounts paid to BCP and its affiliates for services provided to the Company.

(3) Key management compensation includes total compensation for the Board of Directors and the executive management team. No person on the Board of Directors or the executive management team 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.

Sales to overseas markets are handled by Interex Forest Products Ltd. ("Interex"), a cooperative sales company over which Ainsworth, as a shareholder, has significant influence. At June 30, 2013, $4.4 million was included in trade receivables with respect to Interex (December 31, 2012: $2.8 million).

All transactions with related parties 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.

Selected Quarterly Financial Information

	Q2-13	Q1-13	Q4-12	Q3-12	Q2-12	Q1-12	Q4-11	Q3-11
(in millions, except per share data, unless otherwise noted)								
Sales and earnings (loss)								
Sales	**$ 127.5**	$ 141.8	$ 117.9	$ 115.6	$ 90.5	$ 85.1	$ 69.5	$ 71.8
Operating income (loss)	**36.2**	54.4	33.6	29.7	10.2	2.1	(3.3)	(6.0)
Foreign exchange (loss) gain on long-term debt	**(13.1)**	(7.6)	(7.6)	18.4	(10.5)	10.0	16.4	(42.8)
Net income (loss) from continuing operations	**2.8**	36.5	6.7	32.5	(11.4)	0.6	1.7	(58.9)
Net (loss) income from discontinued operations	**(0.2)**	(0.2)	-	-	(0.2)	(0.1)	1.1	(0.3)
Net income (loss)	**2.6**	36.3	6.7	32.5	(11.5)	0.5	2.8	(59.2)
Adjusted EBITDA (3)	**50.7**	62.5	42.0	37.0	16.9	9.6	2.5	0.5
Basic and diluted earnings (loss) per common share								
Net income (loss) continuing operations (1)	**0.01**	0.15	0.06	0.32	(0.11)	0.01	0.02	(0.59)
Net income (loss) (1)	**0.01**	0.15	0.06	0.32	(0.11)	0.01	0.03	(0.59)
Balance sheet								
Total assets	**911.0**	898.8	835.2	812.7	781.1	790.1	786.3	809.9
Total long-term debt (2)	**379.1**	368.3	361.4	519.0	532.3	517.9	523.2	535.8

(1) Basic and diluted net income (loss) per share. As at June 30, 2013, the Company had 240,861,888 issued common shares outstanding. 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.

(3) As a result of adopting the amendment to *IAS19 – Employee Benefits* (see “Accounting Policy Adoption”), adjusted EBITDA for each quarter of 2012 has been restated to reflect the increase in pension expense. Adjusted EBITDA for all quarters presented has also been restated to exclude interest income earned on investments.

OSB demand and product pricing were the main factors causing fluctuations in our sales and adjusted EBITDA over the past eight quarters. North American OSB prices began to recover in the third quarter of 2011 and this trend accelerated in late 2012 and into 2013, falling slightly in the second quarter of 2013 as demand for OSB lagged supply. OSB shipment volumes have varied in the past eight quarters depending on production disruptions, maintenance requirements and product mix.

Net income (loss) fluctuated as a result of changes in operating income and was also impacted by items such as unrealized foreign exchange gain (loss) on long-term debt caused by changes in the strength of the Canadian dollar relative to the U.S. dollar, gain (loss) on derivative financial asset related to changes in the value of the call option embedded in our Senior Notes, and changes in capital structure and related costs.

Segmented Information

Our geographic distribution of sales revenue was as follows:

		Q2		Q1		YTD
(in millions)						
2013						
United States	$	**96.6**	$	**109.5**	$	**206.1**
Canada		**12.6**		**20.8**		**33.4**
Japan		**15.3**		**11.1**		**26.4**
Overseas - other		**3.0**		**0.4**		**3.4**
	$	**127.5**	$	**141.8**	$	**269.3**
2012						
United States	$	65.9	$	61.4	$	127.3
Canada		12.9		13.3		26.2
Japan		10.5		8.7		19.2
Overseas - other		1.2		1.7		2.9
	$	90.5	$	85.1	$	175.6

Our geographic distribution of sales volume was as follows:

	Q2	Q1	YTD
(mmsf 3/8")			
2013			
United States	**264.8**	**289.4**	**554.2**
Canada	**40.3**	**58.5**	**98.8**
Japan	**63.9**	**47.6**	**111.5**
Overseas - other	**11.4**	**1.5**	**12.9**
	380.4	**397.0**	**777.4**
2012			
United States	282.7	290.5	573.2
Canada	56.9	67.2	124.1
Japan	48.5	38.1	86.6
Overseas - other	5.7	9.3	15.0
	393.8	405.1	798.9

Property, plant and equipment, intangible assets and other assets are located within Canada.

Risks and Uncertainties

The Company is subject to a number of risks and uncertainties, including those described in the 2012 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 estimates and judgments that affect the reported amounts and other disclosures in our financial statements. These estimates and judgments are described in our 2012 Annual Report, which can be found on SEDAR at www.sedar.com.

Disclosure Controls and Procedures and Internal Control over Financial Reporting

The President and Chief Executive Officer and the Vice President, Finance and 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 has also designed internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the financial statements in accordance with IFRS. There has been no material change in the design of the Company's internal control over financial reporting, for the quarter ended June 30, 2013 that would materially affect, or is reasonably like to materially affect, the Company's internal control over financial reporting and Management has determined that there were no material weaknesses in the Company's internal control over financial reporting for the period in which the interim filings are being prepared. Management's evaluation of the effectiveness of internal control over financial reporting is based on the provisions of the 1992 Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

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 produce reasonable, not absolute, assurance that the objectives of the control system are met.

AINSWORTH LUMBER CO. LTD.
Other Information

Selected Financial Data ($000's)		June 30, 2013		December 31, 2012
Cash and cash equivalents	$	**170,750**	$	106,777
Restricted cash		**4,081**		5,560
Working capital		**221,394**		142,211
Total assets		**911,003**		835,183
Total long-term debt		**379,054**		361,436
Shareholders' equity		**424,292**		385,274

Reconciliation of Net Income (Loss) to Adjusted EBITDA

(in millions)	Q2-13	Q1-13	Q4-12	Q3-12	Q2-12	Q1-12	Q4-11	Q3-11
Net Income (Loss) from Continuing Operations	**$ 2.8**	$ 36.5	$ 6.7	$ 32.5	$ (11.4)	$ 0.6	$ 1.7	$ (58.9)
Add (deduct):								
Amortization of property, plant and equipment	**6.2**	6.4	6.9	6.4	6.1	6.2	5.9	6.1
Loss (gain) on disposal of property, plant and equipment	**-**	-	0.2	(0.1)	-	-	(0.2)	(0.5)
Write-down of property, plant and equipment, intangibles and other	**3.8**	-	1.5	-	-	-	-	-
Costs of curtailed operations	**3.5**	1.6	1.1	0.9	0.7	1.1	1.0	0.9
Stock-based compensation expense (recovery)	**1.0**	0.1	0.5	0.1	-	0.2	(0.2)	0.2
Finance expense	**7.4**	6.9	11.3	13.3	13.1	13.1	13.1	12.5
Loss on early repayment of long-term debt	**-**	-	22.9	-	-	-	-	-
Income tax expense (recovery)	**6.6**	13.5	2.5	7.0	(2.0)	(1.7)	(2.4)	(8.3)
Foreign exchange loss (gain) on long-term debt	**13.1**	7.6	7.6	(18.4)	10.5	(10.0)	(16.4)	42.8
Loss (gain) on derivative financial instrument	**7.5**	(8.1)	(18.3)	(5.4)	(0.2)	-	-	7.0
Other	**(1.2)**	(2.0)	(0.9)	0.7	0.1	0.1	-	(1.3)
Adjusted EBITDA (Note 1)	**$ 50.7**	$ 62.5	$ 42.0	$ 37.0	$ 16.9	$ 9.6	$ 2.5	$ 0.5

Note 1: Adjusted EBITDA, a non-IFRS financial measure, is defined as sales less costs of products sold (exclusive of amortization) and selling and administrative expense (exclusive of share-based compensation) plus other income (exclusive of interest income). As a result of adopting IAS19R, adjusted EBITDA for each quarter of 2012 has been restated to reflect the increase in pension expense that is included in cost of products sold, and selling and administrative expense. Adjusted EBITDA for all quarters presented has also been restated to exclude interest income earned on investments.

About Ainsworth

Ainsworth Lumber Co. Ltd. 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. Ainsworth's four OSB manufacturing facilities, located in Alberta, British Columbia and Ontario, have a combined annual capacity of 2.5 billion square feet (3/8-inch basis) of OSB. Ainsworth is a publicly traded company listed on the Toronto Stock Exchange under the symbol ANS.

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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 2013		December 31 2012
ASSETS				
Current Assets				
Cash and cash equivalents	$	170,750	$	106,777
Restricted cash		4,081		5,560
Trade and other receivables		26,288		25,608
Inventories (Note 3)		50,468		38,140
Prepaid expenses		8,647		5,312
Total Current Assets		260,234		181,397
Property, Plant and Equipment (Note 4)		626,363		628,694
Intangible Assets		8,633		9,905
Other Assets		15,773		15,187
Total Assets	$	911,003	$	835,183
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current Liabilities				
Trade and other payables	$	30,710	$	30,257
Income taxes payable		1,091		2,140
Current portion of long-term debt (Note 5)		6,598		6,313
Liabilities related to discontinued operations		441		476
Total Current Liabilities		38,840		39,186
Accrued Pension Benefit Liability		17,006		17,006
Reforestation Obligation		4,063		3,781
Long-term Debt (Note 5)		372,456		355,123
Deferred Income Tax Liabilities		51,735		32,344
Liabilities Related to Discontinued Operations		2,611		2,469
Total Liabilities		486,711		449,909
SHAREHOLDERS' EQUITY				
Capital Stock		582,696		582,626
Contributed Surplus		1,816		1,808
Deficit		(160,220)		(199,160)
Total Shareholders' Equity		424,292		385,274
Total Liabilities and Shareholders' Equity	$	911,003	$	835,183

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

Commitments (Note 6)
Contingencies (Note 7)

Approved by the Board on August 12, 2013

/s/ Peter Gordon — **DIRECTOR**

/s/ Gordon Lancaster — **DIRECTOR**

AINSWORTH LUMBER CO. LTD.

Condensed Interim Consolidated Statements of Income 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	
	2013	2012 Note 2 (c)	**2013**	2012 Note 2 (c)
Sales (Note 19)	**$ 127,512**	$ 90,469	**$ 269,356**	$ 175,582
Costs and Expenses				
Costs of products sold (Note 9)	**72,705**	69,560	**148,070**	141,140
Selling and administration (Note 9)	**5,091**	4,004	**9,221**	8,079
Amortization of property, plant and equipment and intangible assets (Note 4)	**10,004**	6,085	**16,397**	12,335
Costs of curtailed operations (Note 13)	**3,505**	657	**5,097**	1,736
Total Costs and Expenses	**91,305**	80,306	**178,785**	163,290
Income from Operations	**36,207**	10,163	**90,571**	12,292
Finance Expense (Note 10)	**(7,475)**	(13,140)	**(14,376)**	(26,210)
Foreign Exchange Loss (Note 11)	**(12,347)**	(10,682)	**(18,268)**	(1,032)
(Loss) Gain on Derivative Financial Instrument (Note 12)	**(7,475)**	217	**602**	217
Other Items (Note 14)	**554**	70	**912**	250
Income (Loss) Before Income Taxes	**9,464**	(13,372)	**59,441**	(14,483)
Income Tax (Expense) Recovery (Note 16)	**(6,624)**	2,022	**(20,113)**	3,701
Income (Loss) from Continuing Operations	**2,840**	(11,350)	**39,328**	(10,782)
Net Loss from Discontinued Operations	**(196)**	(197)	**(388)**	(258)
Net Income (Loss)	**$ 2,644**	$ (11,547)	**$ 38,940**	$ (11,040)
Other Comprehensive Income				
Actuarial gains, net of tax	**-**	51	**-**	131
Total Comprehensive Income (Loss)	**$ 2,644**	$ (11,496)	**$ 38,940**	$ (10,909)
Basic and diluted net income (loss) per common share (Note 17)				
Continuing operations	**$ 0.01**	$ (0.11)	**$ 0.16**	$ (0.10)
Discontinued operations	**0.00**	0.00	**0.00**	0.00
Basic and diluted net income (loss) per common share	**$ 0.01**	$ (0.11)	**$ 0.16**	$ (0.10)
Weighted average number of common shares outstanding - basic	**240,849,251**	100,768,888	**240,841,761**	100,768,888
Effect of dilutive stock options on continuing operations	**879,210**	-	**822,136**	-
Weighted average number of common shares outstanding - diluted	**241,728,461**	100,768,888	**241,663,897**	100,768,888

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		Deficit		Total Shareholders' Equity
Balance, January 1, 2012	$	411,509	$	1,484	$	(222,933)	$	190,060
Net loss and total comprehensive loss		-		-		(10,909)		(10,909)
Share-based payments (Note 8)		-		77		-		77
Balance, June 30, 2012	**$**	**411,509**	**$**	**1,561**	**$**	**(233,842)**	**$**	**179,228**

		Capital Stock		Contributed Surplus		Deficit		Total Shareholders' Equity
Balance, January 1, 2013	$	582,626	$	1,808	$	(199,160)	$	385,274
Net income and total comprehensive income		-		-		38,940		38,940
Share-based payments (Note 8)		-		36		-		36
Stock options exercised (Note 8)		70		(28)		-		42
Balance, June 30, 2013	**$**	**582,696**	**$**	**1,816**	**$**	**(160,220)**	**$**	**424,292**

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	
	2013	2012	**2013**	2012
CASH FLOWS FROM OPERATING ACTIVITIES				
Net Income (loss)	**$ 2,644**	$ (11,547)	**$ 38,940**	$ (11,040)
Items not affecting cash				
Amortization of property, plant and equipment and intangible assets (Note 4)	**10,004**	6,085	**16,397**	12,335
Finance expense (Note 10)	**7,475**	13,140	**14,376**	26,210
Share-based payments (Note 8)	**971**	47	**1,090**	202
Foreign exchange loss on long-term debt (Note 11)	**13,081**	10,470	**20,646**	498
Loss (gain) on derivative financial instrument (Note 12)	**7,475**	(217)	**(602)**	(217)
(Gain) loss on disposal of property, plant and	**-**			
equipment (Note 14)	**(9)**	30	**(15)**	30
Change in non-current reforestation obligation	**(519)**	(430)	**(147)**	354
Deferred taxes	**6,279**	(3,242)	**19,443**	(4,879)
Other	**(35)**	243	**(1,335)**	346
Cash flows from operating activities before working capital, interest and income taxes	**47,366**	14,579	**108,793**	23,839
Change in non-cash operating working capital (Note 18)	**9,621**	7,357	**(15,897)**	(7,111)
Interest paid	**(14,841)**	(13,553)	**(14,959)**	(15,377)
Income taxes paid	**(248)**	-	**(766)**	(26)
Cash provided by operating activities	**41,898**	8,383	**77,171**	1,325
CASH FLOWS FROM FINANCING ACTIVITIES				
Repayment of long-term debt (Note 5)	**(2,317)**	(1,495)	**(3,000)**	(2,165)
Proceeds from issue of shares (Note 8)	**39**	-	**42**	-
Reduction in finance lease obligations (Note 5)	**(122)**	(151)	**(262)**	(279)
Cash used in financing activities	**(2,400)**	(1,646)	**(3,220)**	(2,444)
CASH FLOWS FROM INVESTING ACTIVITIES				
Decrease (increase) in restricted cash	**290**	(238)	**1,479**	(377)
Additions to property, plant and equipment and intangible assets (Note 4)	**(10,324)**	(1,567)	**(13,960)**	(2,111)
Proceeds on disposal of property, plant and equipment	**-**	30	**1,006**	30
Increase in other assets	**(22)**	41	**16**	48
Cash used in investing activities	**(10,056)**	(1,734)	**(11,459)**	(2,410)
Effect of foreign exchange rate changes on cash and cash equivalents	**128**	69	**1,481**	10
NET CASH INFLOW (OUTFLOW)	**29,570**	5,072	**63,973**	(3,519)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	**141,180**	49,105	**106,777**	57,696
CASH AND CASH EQUIVALENTS, END OF PERIOD	**$ 170,750**	$ 54,177	**$ 170,750**	$ 54,177
Cash	**17,145**	8,264	**17,145**	8,264
Cash equivalents	**153,605**	45,913	**153,605**	45,913
CASH AND CASH EQUIVALENTS, END OF PERIOD	**$ 170,750**	$ 54,177	**$ 170,750**	$ 54,177

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 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; however, the Company has implemented plans to resume production at the High Level mill in 2013. 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 under the laws of Canada. The Company's shares are listed on the Toronto Stock Exchange under the symbol ANS.

2. SIGNIFICANT ACCOUNTING POLICIES

a) *Statement of compliance*

These condensed interim consolidated financial statements have been prepared in accordance with IAS 34 *Interim Financial Reporting.* Accordingly, certain disclosures included in the audited consolidated annual financial statements, prepared in accordance with the International Financial Reporting Standards ("IFRS"), have been condensed or omitted. These condensed interim consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2012.

The accounting policies applied in these condensed interim consolidated financial statements are consistent with those applied and disclosed in the Company's audited consolidated financial statements for the year ended December 31, 2012. The Company's interim results are not necessarily indicative of its results for a full year.

These condensed interim consolidated financial statements were authorized for issuance by the Board of Directors of the Company on August 12, 2013.

b) *Basis of consolidation*

The condensed interim consolidated financial statements of the Company include the accounts of the Company and all of its wholly-owned 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 Company's principal subsidiaries include Ainsworth Corp. and Ainsworth Engineered Canada Limited Partnership. Intercompany balances, transactions, revenues, and expenses between subsidiaries are eliminated upon consolidation.

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

c) *Amendment to IAS19 Employee Benefits ("IAS 19R")*

The Company adopted IAS 19R effective January 1, 2013, with retrospective application. The amended standard eliminated the option to defer gains and losses related to defined benefit plans, requiring immediate inclusion in other comprehensive income ("OCI") in the period that they occur. This did not affect the Company since the election was made upon adoption of IFRS to recognize the gains and losses in OCI and report them in retained earnings (deficit).

(Figures are in thousands of Canadian dollars except share and per share amounts - Unaudited)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

The amended standard also eliminated the benefit of expected asset growth with the requirement to calculate interest income (cost) on the net defined benefit asset (liability) by applying the discount rate used to measure the defined benefit obligation. The impact to the Company was an increase in the annual pension expense (in cost of products sold and selling and administration) of approximately $0.6 million in 2013 (2012: $0.5 million) and a corresponding decrease in comprehensive income.

3. INVENTORIES

The carrying value of logs and panel products, valued at lower of cost and net realizable value, and materials, supplies and spares, valued at lower of cost and replacement cost, is summarized below:

		June 30 2013		December 31 2012
Logs	$	13,868	$	8,739
Panel products		18,881		12,502
Materials, supplies and spares		17,719		16,899
	$	50,468	$	38,140

All inventories have been pledged as security for the 7.5% Senior Secured Notes due in 2017 (the "Notes").

During the three months ended June 30, 2013, $58.3 million (three months ended June 30, 2012: $55.2 million) of inventory was charged to costs of products sold. During the six months ended June 30, 2013, $117.9 million (six months ended June 30, 2012 $111.0 million) of inventory was charged to costs of products sold.

(Figures are in thousands of Canadian dollars except share and per share amounts - Unaudited)

4. PROPERTY, PLANT AND EQUIPMENT

Cost	Land	Building	Machinery and Equipment	Assets under Finance Lease	Other Assets (1)	Construction in Progress (2)	Total (3)
Cost, December 31, 2012	$3,135	$223,113	$ 445,781	$ 2,151	$ 8,280	$ 55,311	$ 737,771
Additions	-	10	84	-	134	13,732	13,960
Disposals (4)	(1,000)	-	-	-	34	-	(966)
Investment tax credits on capital expenditures	-	-	(52)	-	-	-	(52)
Transfers	-	-	2,109	-	108	(2,217)	-
Write-downs (5)	-	(879)	(1,972)	-	(5)	(4)	(2,860)
Cost, June 30, 2013	$2,135	$222,244	$ 445,950	$ 2,151	$ 8,551	$ 66,822	$ 747,853
Accumulated Amortization							
Accumulated amortization, December 31, 2012	$ -	$ (26,662)	$ (78,750)	$(1,074)	$(2,591)	$ -	$(109,077)
Amortization for the period	-	(3,555)	(7,235)	(312)	(335)	-	(11,437)
Disposals	-	-	-	-	(26)	-	(26)
Write-downs (5)	-	67	(1,020)	-	3	-	(950)
Accumulated amortization, June 30, 2013	$ -	$ (30,150)	$ (87,005)	$(1,386)	$(2,949)	$ -	$(121,490)
Carrying amount							
Balance, Dec. 31, 2012	$3,135	$196,451	$ 367,031	$ 1,077	$ 5,689	$ 55,311	$ 628,694
Balance, Jun. 30, 2013	2,135	192,094	358,945	765	5,602	66,822	626,363

(1) Other assets includes office equipment, computer hardware, computer software, vehicles, forklifts, loaders and skidders, roads and storage, prepaid roads, leasehold improvements and plantations.

(2) Included in construction in progress is $52,101 related to our second production line at Grande Prairie, which is currently curtailed. No interest has been capitalized in construction in progress for the periods presented as construction has been put on hold pending continued improvement in market conditions.

(3) All items of property, plant and equipment have been pledged as security for the Notes.

(4) In the first quarter, the Company sold certain non-core property located in Savona, British Columbia for cash consideration approximating the carrying value.

(5) During the quarter, the Company recorded a $3.8 million write-down with respect to obsolete equipment and certain equipment that is no longer in use. The write-down was included in amortization of property, plant and equipment and intangible assets on the statement of income and comprehensive income for the three and six months ended June 30, 2013.

(Figures are in thousands of Canadian dollars except share and per share amounts - Unaudited)

5. LONG-TERM DEBT

		June 30 2013		December 31 2012
Balance, beginning of period	**$**	**361,436**	$	523,166
Issuance		**-**		348,145
Repayments		**(3,262)**		(523,121)
Payment-in-kind interest (Note 10)		**-**		18,510
Amortization of bond premium, transaction costs and consent fees (Note 10)		**234**		1,918
Cost of early repayment of long-term debt		**-**		5,519
Bond premium, transaction costs and underwriting fees on Senior Secured Notes		**-**		(2,432)
Unrealized foreign exchange loss (gain) on long-term debt (Note 11)		**20,646**		(10,269)
Balance, end of period	**$**	**379,054**	$	361,436
Current portion		**(6,598)**		(6,313)
Long-term portion	**$**	**372,456**	$	355,123

On July 16, 2013, the Company announced that it has called for the redemption of U.S.$35 million (or 10%) in principal amount of its Notes pursuant to the terms of the indenture governing the Notes. The Notes will be redeemed on August 14, 2013 at a price equal to 103% of the principal amount of the Notes redeemed, plus accrued and unpaid interest to, but excluding the redemption date.

6. COMMITMENTS

The Company has contractual commitments to purchase property, plant and equipment at June 30, 2013 of approximately $2.0 million (December 31, 2012: $3.1 million). Subsequent to the end of the quarter, the Company has committed an additional $4.4 million to purchase property, plant and equipment. The Company has certain long-term purchase contracts with minimum fixed payment commitments. All contracts are at market prices and are on normal business terms.

7. 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, 2013 cannot be predicted with certainty, the Company believes the resolution will not have a material effect on the Company's financial position, financial performance, or cash flows.

8. 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.

(Figures are in thousands of Canadian dollars except share and per share amounts - Unaudited)

8. SHARE-BASED PAYMENTS (Continued)

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

	Three months ended June 30		Six months ended June 30	
	2013	2012	**2013**	2012
Risk-free interest rate	**n/a**	n/a	**1.26%**	1.41%
Expected volatility[1]	**n/a**	n/a	**50.00%**	54.00%
Dividend yield	**n/a**	n/a	**0%**	0%
Expected option life (years)	**n/a**	n/a	**4.00**	4.00
Share price	**n/a**	n/a	**$4.17**	$1.51

(1) Expected volatility is based on the historical share price volatility over the past four years, taking into consideration the volatility of similar entities over a comparable period.

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

	Three months ended June 30				
	2013			2012	
	Number of Share Options		**Weighted Average Exercise Price**	Number of Share Options	Weighted Average Exercise Price
Outstanding at beginning of period	**2,085,676**	**$**	**2.11**	2,028,676	$ 2.37
Exercised during the period [1] [2]	**(25,000)**		**1.53**	-	-
Forfeited during the period [3]	**-**			(213,334)	2.38
Outstanding at end of period	**2,060,676**	**$**	**2.12**	1,815,342	$ 2.37
Options exercisable at end of period	**1,039,342**			995,335	
Weighted average fair value per option granted during the period	**$ -**			$ -	

	Six months ended June 30				
	2013			2012	
	Number of Share Options		**Weighted Average Exercise Price**	Number of Share Options	Weighted Average Exercise Price
Outstanding at beginning of period	**1,588,676**	**$**	**1.60**	1,753,676	$ 2.52
Granted during the period	**500,000**		**3.73**	300,000	1.55
Exercised during the period [1] [2]	**(28,000)**		**1.48**	-	-
Forfeited during the period [3]	**-**			(238,334)	2.46
Outstanding at end of period	**2,060,676**	**$**	**2.12**	1,815,342	$ 2.37
Options exercisable at end of period	**1,039,342**			995,335	
Weighted average fair value per option granted during the period	**$ 1.81**			$ 0.64	

(1) Effective December 27, 2012, the Company reduced the exercise price of all options that were outstanding prior to the rights offering, to reflect the dilutive effect of the 140 million common shares that were issued in connection with the rights offering.

(Figures are in thousands of Canadian dollars except share and per share amounts - Unaudited)

8. SHARE-BASED PAYMENTS (Continued)

(2) During the three months ended June 30, 2013, $65 was credited to capital stock with respect to options that were exercised (six months ended June 30, 2013: $70). This includes $39 consideration received on exercise (six months ended June 30, 2013: $42), plus $26 representing the vested fair value of the stock options (six months ended June 30, 2013: $28). No stock options were exercised during the three and six months ended June 30, 2012.

(3) No stock options were forfeited during the three months ended June 30, 2013. During the three and six months ended June 30, 2012, $116 and $125 respectively was reversed from contributed surplus with respect to unvested options forfeited.

The following table summarizes the weighted average exercise prices and weighted average remaining contractual life of the stock options outstanding at June 30, 2013:

	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	1,063,300	6.93	$ 1.25	706,966	$ 1.29
2.01 - 4	997,376	8.53	3.05	332,376	2.45
	2,060,676	7.71	$ 2.12	1,039,342	$ 1.66

The following table outlines the Company's stock option expense (recovery):

	Three months ended June 30		Six months ended June 30	
	2013	2012	**2013**	2012
Stock option expense (recovery)	**$ 140**	$ (27)	**$ 36**	$ 77

The Company has a Deferred Share Units ("DSU") plan for directors under which 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 volume weighted average price of the Company's common shares ("VWAP") 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 liability is re-measured to fair value using the VWAP for the last five business days of 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.

(Figures are in thousands of Canadian dollars except share and per share amounts - Unaudited)

8. SHARE-BASED PAYMENTS (Continued)

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

	Three months ended June 30					
	2013			2012		
	Number of DSUs		**Fair Value**	Number of DSUs		Fair Value
Outstanding at beginning of period	**434,107**	**$**	**708**	161,160	$	97
Granted during the period	**18,292**		**36**	56,809		28
Change in value			**795**			46
Outstanding at end of period	**452,399**	**$**	**1,539**	217,969	$	171

	Six months ended June 30					
	2013			2012		
	Number of DSUs		**Fair Value**	Number of DSUs		Fair Value
Outstanding at beginning of period	**415,958**	**$**	**485**	114,264	$	47
Granted during the period	**36,441**		**68**	103,705		60
Change in value			**986**			64
Outstanding at end of period	**452,399**	**$**	**1,539**	217,969	$	171

9. EMPLOYEE BENEFITS

The table below summarizes the employee benefits included in cost of products sold, and selling and administration expenses:

	Three months ended June 30				Six months ended June 30			
		2013		2012		**2013**		2012
Short-term employee benefits	**$**	**14,538**	$	12,340	**$**	**27,610**	$	24,054
Long-term employee benefits		**3,243**		2,630		**6,689**		5,447
Share-based payments		**971**		47		**1,090**		202
	$	**18,752**	$	15,017	**$**	**35,389**	$	29,703

10. FINANCE EXPENSE

	Three months ended June 30				Six months ended June 30			
		2013		2012		**2013**		2012
Cash interest	**$**	**(7,336)**	$	(7,561)	**$**	**(14,095)**	$	(15,097)
Payment-in-kind interest		**-**		(5,029)		**-**		(10,013)
Interest on finance leases		**(22)**		(33)		**(47)**		(66)
Amortization of bond premium, transaction costs and consent fees		**(117)**		(517)		**(234)**		(1,034)
	$	**(7,475)**	$	(13,140)	**$**	**(14,376)**	$	(26,210)

11. FOREIGN EXCHANGE LOSS

	Three months ended June 30				Six months ended June 30			
		2013		2012		**2013**		2012
Foreign exchange loss on long-term debt	**$**	**(13,081)**	$	(10,470)	**$**	**(20,646)**	$	(498)
Other foreign exchange gain (loss)		**734**		(212)		**2,378**		(534)
	$	**(12,347)**	$	(10,682)	**$**	**(18,268)**	$	(1,032)

(Figures are in thousands of Canadian dollars except share and per share amounts - Unaudited)

12. (LOSS) GAIN ON DERIVATIVE FINANCIAL INSTRUMENTS

The Notes, issued on November 27, 2012, have embedded call options whereby the Company has the right to repurchase 10% of the original principal of the Notes each year in the first two years, and the right to redeem the Notes after two years. The derivative financial asset was recorded at fair value at issuance of the Notes and is revalued at each reporting period based on the market value of the Notes, the current interest rates, and the credit spread. The fair value of this instrument is included in other assets on the consolidated statement of financial position. Changes in the fair value are reflected in net income. Changes in the market value of the Notes, the risk-free rate, the credit spread and the cash interest rate resulted in an $7.5 million loss on the derivative financial asset for the three months ended June 30, 2013 (three months ended June 30, 2012: $217 gain). The gain on derivative financial asset for the six months ended June 30, 2013 was $602 (six months ended June 30, 2012: $217).

Subsequent to the end of the quarter, the Company exercised an option to repurchase 10% of the principal of the Notes (Note 5). The value of this option was $1.9 million at June 30, 2013.

13. COSTS OF CURTAILED OPERATIONS

Costs of curtailed operations include costs associated with the High Level OSB facility. The Company has implemented plans to resume production at this mill in the third quarter of 2013.

14. OTHER ITEMS

	Three months ended June 30		Six months ended June 30	
	2013	2012	**2013**	2012
Gain (loss) on disposal of property, plant and equipment	**$ 9**	$ (31)	**$ 15**	$ (30)
Other income	**545**	101	**897**	280
	$ 554	$ 70	**$ 912**	$ 250

15. PENSION EXPENSE

The Company maintains two defined benefit pension plans for certain salaried and hourly employees in British Columbia and Minnesota. The Minnesota pension plan is included in discontinued operations. Pension expense and contributions related to the Company's defined benefit pension plans were as follows:

	Three months ended June 30		Six months ended June 30	
	2013	2012	**2013**	2012 Note 3
Continuing Operations:				
Pension expense	**$ 810**	$ 670	**$ 1,651**	$ 1,340
Contributions	**814**	780	**1,528**	2,017
Discontinued Operations:				
Pension expense	**77**	29	**153**	57
Contributions	**62**	69	**141**	110

(Figures are in thousands of Canadian dollars except share and per share amounts - Unaudited)

15. PENSION EXPENSE (Continued)

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

		Three months ended June 30				Six months ended June 30		
		2013		2012		**2013**		2012
Defined contribution plan cost	**$**	**133**	$	62	**$**	**255**	$	130

16. TAXATION

Certain permanent differences, such as the non-taxable portion of the foreign exchange gain on debt and expenses not deductible for tax purposes, impact the resulting income tax (expense) recovery.

The Company has benefited Canadian non-capital tax loss carry-forwards of approximately $234 million for financial statement purposes at December 31, 2012. The Company also has U.S. net operating tax loss carry-forwards that are not benefited for financial statement purposes because the 2008 recapitalization resulted in a restriction of these loss carry-forwards.

Tax filings 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, management's assessments involve judgments, estimates and assumptions about current and future events. Although management believes these estimates and assumptions are reasonable and appropriate, the final determination could be materially different than that which is reflected in the Company's provision for income taxes and recorded current and deferred income tax assets and liabilities.

17. EARNINGS PER SHARE

At June 30, 2013, there were 500,000 stock options (June 30, 2012: 1,815,342) that were not taken into account in the calculation of diluted earnings per share because their effect was anti-dilutive.

The Company issued 8,695,634 shareholder warrants on July 29, 2008 pursuant to the Company's recapitalization. The number of common shares that may be issued to warrant holders was dependent on the market price of the Company's common shares. If the Company's common share price exceeded a barrier price of U.S.$7.89 per share, on or before July 29, 2013, each warrant would be converted into 1.52 common shares; otherwise, each warrant would be converted into 0.0035 common shares.

On July 29, 2013, the shareholder warrants were deemed to be exercised without additional consideration. Since the Company's share price did not exceed the barrier price of U.S.$7.89 per share, each warrant was converted into 0.0035 common shares, representing the issuance of 30,421 common shares, which were included in the computation of diluted earnings per share at June 30, 2013.

18. CHANGES IN NON-CASH OPERATING WORKING CAPITAL

		Three months ended June 30				Six months ended June 30		
		2013		2012		**2013**		2012
Trade and other receivables	**$**	**5,741**	$	888	**$**	**(680)**	$	(6,274)
Inventories		**8,618**		9,973		**(12,209)**		(567)
Income taxes payable		**(608)**		7		**(283)**		8
Prepaid expenses		**(4,490)**		(1,337)		**(3,374)**		(1,414)
Trade and other payables		**360**		(2,174)		**649**		1,136
	$	**9,621**	$	7,357	**$**	**(15,897)**	$	(7,111)

(Figures are in thousands of Canadian dollars except share and per share amounts - Unaudited)

19. 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	
	2013	2012	**2013**	2012
United States	**$ 96,646**	$ 65,823	**$ 206,099**	$ 127,268
Canada	**12,608**	12,933	**33,456**	26,214
Japan	**15,279**	10,544	**26,374**	19,226
Overseas - other	**2,979**	1,169	**3,427**	2,874
	$ 127,512	$ 90,469	**$ 269,356**	$ 175,582

Property, plant and equipment, intangible assets and other assets are located in Canada.

20. 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 indenture, the Company is restricted in managing capital and must conform to the indenture's provisions, which govern capital components such as dividends, asset sales and debt incurrence. At June 30, 2013, the Company is in compliance with the provisions of the indenture.

The accounting classification of each category of financial instruments, and the level within the fair value hierarchy in which they have been classified are set out below:

	Fair Value Hierarchy Level	**June 30 2013**	December 31 2012
FINANCIAL ASSETS			
Held for trading			
Cash and cash equivalents	Level 1	**$ 170,750**	$ 106,777
Loans and receivables			
Trade and other receivables [1]	n/a	**26,288**	25,608
Derivative financial asset [2]	Level 2	**13,973**	13,371
		$ 211,011	$ 145,756
FINANCIAL LIABILITIES			
Other financial liabilities			
Trade and other payables [1]	n/a	**$ 30,710**	$ 30,257
Long-term debt, including current portion	n/a	**378,321**	360,441
		$ 409,031	$ 390,698

(1) The carrying value of trade and other receivables and trade and other payables approximates fair value due to the short-term nature of these items.

20. FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (Continued)

(2) The Company applies a Black-Scholes model for the 10% repurchase options and a standard Option-Adjusted Spread model for the remaining call options. The current bid price for the bonds of 105.50 at June 30, 2013 (December 31, 2013: 105) is used as the market value input.

The Company's policy for determining the timing of transfers between levels of the fair value hierarchy is based on the date of the event or change in circumstances that caused the transfer. There were no transfers between level 1 and level 2 for the three or six months ended June 30, 2013. There were no financial instruments classified as level 3 at June 30, 2013 or December 31, 2012.

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 cash and cash equivalents. The Company's maximum exposure to credit risk is the gross carrying amount of these assets net of any allowance for doubtful accounts or impairment loss as reflected in these consolidated financial statements. At June 30, 2013, the amount of accounts receivable past due was nominal and no accounts were impaired.

Credit risk associated with cash equivalents is minimized by ensuring that the Company only invests in liquid securities and with counterparties that have a high credit rating. Credit risk associated with trade receivables is minimized through the use of pre-determined credit limits, continuous monitoring of payments, and credit insurance. The Company uses credit ratings and internal financial evaluations of counterparties to determine credit-worthiness and to set credit limits. Concentration of credit risk with respect to trade receivables is limited due to 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. 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.

We continue to monitor discretionary capital expenditures carefully as global debt and equity markets, as well as operating results, can be volatile. Under the terms of the Company's senior note indenture, we are permitted to borrow at least an additional U.S.$170 million of senior secured and unsecured debt subject to the limitations set forth in the indenture. The availability of this funding, or other sources of capital, is dependent on capital markets at the time and may not be available on acceptable terms.

(Figures are in thousands of Canadian dollars except share and per share amounts - Unaudited)

20. FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (Continued)

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.

	Less than 1 month	1 to 3 months	Less than 1 year	1 to 5 years	More than 5 years
Senior Secured Notes	$ -	$ -	$ 27,610	$464,764	$ -
HSBC Equipment loan	264	526	2,329	6,419	-
Deutsche Bank equipment loan	-	-	3,315	-	-
Finance lease obligations	48	96	432	225	-
Operating lease obligations	69	138	621	1,034	-
Trade payable and accrued liabilities	27,488	193	3,470	-	-
Reforestation obligation	-	-	-	3,031	1,087
Purchase commitments	347	1,907	984	4,888	2,852
	$ 28,216	$ 2,860	$ 38,761	$480,361	$ 3,939

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. Unfavorable 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, 2013, 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 $47 on an annual basis (December 31, 2012: $55).

The Company is also exposed to interest risk on the derivative financial instrument that arises from the call option embedded in the Notes. Changes in the value of this derivative financial asset are reflected in operations. The value of the derivative financial instrument as at June 30, 2013 was $14.0 million (December 31, 2012: $13.4 million) and was included in other assets. At June 30, 2013, if interest rates had been 1% higher and all other variables were constant, the value of the derivative financial asset would increase by approximately $2.5 million.

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, trade and other receivables and trade and other payables. 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.

(Figures are in thousands of Canadian dollars except share and per share amounts - Unaudited)

20. FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (Continued)

At June 30, 2013, the impact on the after tax net income 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 $2.8 million higher/lower on an annual basis (December 31, 2012: $2.3 million).

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. The Company reduces its exposure to commodity price risk through product and geographic diversification.

Fair value of financial instruments
The fair value of financial instruments, with the exception of the Notes, is estimated to approximate their carrying value at June 30, 2013 due to the immediate or short-term maturity of these financial instruments.

The carrying values and fair values of the long- term debt are as follows:

	June 30, 2013		December 31, 2012	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Senior Secured Notes [1]	**$ 365,926**	**$ 380,216**	$ 345,802	$ 356,690
Equipment financing [2]	**12,395**	**12,395**	14,639	14,639
	$ 378,321	**$ 392,611**	$ 360,441	$ 371,329

(1) Fair value is determined using quoted ask prices for the Company's Notes. The estimated fair value may differ from the amount which could be realized in an immediate settlement.

(2) Carrying value approximates fair value as the equipment financing bears floating interest rates that approximate market rates.

The fair value of the call option embedded in the Notes as at June 30, 2013 was $14.0 million (December 31, 2012: $13.4 million).

21. RELATED PARTY TRANSACTIONS

Brookfield Capital Partners ("BCP")
The Company is controlled by BCP, which beneficially owns or exercises control or direction over approximately 54.5% of the issued and outstanding common shares.

The Company also periodically sells goods to BCP affiliates. During the three months ended June 30, 2013, these sales were approximately $0.2 million (three months ended June 30, 2012: $1.1 million). During the six months ended June 30, 2013, these sales were approximately $2.5 million (six months ended June 30, 2012: $2.4 million).

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.

(Figures are in thousands of Canadian dollars except share and per share amounts - Unaudited)

21. RELATED PARTY TRANSACTIONS (Continued)

Compensation of the executive management team and directors

No person on the Board of Directors of Ainsworth Lumber Co. Ltd. or its executive management team 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 the Board of Directors and the executive management team is as follows:

	Three months ended June 30		Six months ended June 30	
	2013	2012	**2013**	2012
Short-term employee benefits	**$ 706**	$ 552	**$ 1,410**	$ 1,157
Long-term employee benefits	**31**	26	**64**	55
Share-based payments	**161**	126	**292**	285
	$ 898	$ 704	**$ 1,766**	$ 1,497

Other

	Three months ended June 30		Six months ended June 30	
	2013	2012	**2013**	2012
Legal fees (1)	**$ 36**	$ -	**$ 96**	$ 8
Other services (2)	**222**	133	**305**	133
	$ 480	$ 133	**$ 401**	$ 141

(1) Legal fees were paid to a law firm of which one of the Company's directors is also a partner.

(2) Includes amounts paid to BCP and its affiliates for services provided to the Company.

Sales to overseas markets are handled by Interex Forest Products Ltd. ("Interex"), a cooperative sales company over which Ainsworth, as a shareholder, has significant influence. At June 30, 2013, $4.4 million was included in trade receivables with respect to Interex (December 31, 2012: $2.8 million).

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