REPORT TO SHAREHOLDERS
FOR THE THREE MONTHS AND YEAR ENDED
DECEMBER 31, 2011

LETTER TO SHAREHOLDERS

March 1, 2012

Dear Fellow Shareholders:

2011 was clearly another challenging year for our industry. However, despite the prolonged United States ("U.S.") housing slump, I am pleased to report that Ainsworth posted positive adjusted EBITDA and net income results for the year ending December 31, 2011. Although we are not satisfied with these results, we take some measure of pride in achieving positive results in a year that hit an all-time low of 420,000 single-family housing starts in the U.S.

While single-family starts were significantly down in 2011, overall demand for OSB was marginally better than the previous year, with most of the increase coming from lower-panel consuming, multi-family construction. However, underpinned by flat U.S. orders and sub-optimal demand/capacity rates, North American OSB prices were substantially below 2010 levels. Furthermore, demand/capacity imbalances in the Western North American market drove prices even lower relative to other regions. The pricing disparity in the Western market, combined with an unfavourable foreign exchange rate, had a significant impact on our 2011 operating results as a large portion of our North American volume is sold in the West.

However, despite the continued housing slump and the pricing challenges of the Western market, our business fundamentals remain solid:

- we manufacture high-quality products and have a trusted brand,
- we have long-term, strategic customer relationships,
- we hold leadership positions in key growing export OSB markets,
- our value-add mix continues to grow, and
- our mills are top-quartile margin operations.

In 2011, we changed the way we do business to become a more focused, analytical and agile competitor. A new inventory management system was implemented to optimize the use of our working capital while enabling us to more proactively meet customer demand, particularly in our regional market; corporate overheads were brought more in line with our operating volume; a new 'leading indicator' safety system was implemented that helps identify potential hazards before they become accidents. We remain focused on our overall operations and strategic initiatives.

Throughout the year, our three operating mills consistently improved product quality while reducing the cost per unit, despite rising raw material costs. Our curtailed mill at High Level, Alberta is also an outstanding asset that will give us a competitive advantage when the housing market recovers. The High Level mill is a state-of-the-art, highly-flexible, continuous-press facility that can produce commodity and value-add products for both domestic and export OSB markets. It also benefits from an abundant, low cost wood supply.

For many, 2011 will be remembered for the devastating earthquake and tsunami in Japan. Ainsworth was quick to respond to the needs of our Japanese customers by reallocating our mills' second quarter production to meet the surge of demand required to support temporary housing construction. Our efforts not only helped mitigate some of the effects of the weak North American market but also strengthened our relationship with existing Japanese customers and, more importantly, introduced Ainsworth's OSB products to new potential customers. Today our relationships in Japan are strong and we remain the leading supplier of OSB to that country.

Financial Highlights

In 2011, the Company recorded net income of $8.3 million compared to a net income of $11.9 million in 2010. Sales decreased 11% in 2011 to $293.3 million due to a significant drop in OSB pricing, most notably in Western Canada. Adjusted EBITDA for 2011 was $12.5 million compared to adjusted EBITDA of $59.3 million in 2010.

During the first quarter, a purchase gain of $72.5 million was recorded on the acquisition of the remaining 50% interest in the High Level, Alberta mill. The purchase price of $20 million was funded from cash.

In 2011, the average annual North Central market price for 7/16" OSB was U.S. $186 per msf, a decrease of 14% from an average annual price of U.S. $216 per msf in 2010. The average annual Western Canadian market price for 7/16" OSB was U.S. $154 per msf in 2011, down 27% from U.S. $210 per msf in 2010. In fact, along with a weak U.S. dollar, the 2011 average annual Western Canada 7/16" print price was the lowest since this data was first recorded in 1997.

This was Ainsworth's first year reporting under International Financial Reporting Standards (IFRS). The change to new accounting standards did not have a material impact on the earnings or cash flow. A full list of the adjustments on conversion to IFRS is provided in the notes of the financial statements.

Looking ahead to our strategic initiatives, in 2012 we will continue to review alternatives to strengthen our balance sheet and enhance our financial liquidity to ensure the Company is positioned to maintain operations and capacity during the continued downturn and to better position us for growth when the markets improve.

Outlook - Well Positioned For the Future

The consensus amongst the experts is that the long-awaited U.S. homebuilding recovery is still, at best, another two years away. 2012 is viewed as another transitional year with U.S. housing starts, OSB demand and prices expected to slowly but steadily improve. Early 2012 indicators appear to support this sentiment, with overall industry inventories being lower than this-time last year. This has translated into a better balanced demand/capacity environment which has the potential to drive slightly higher and more stable pricing in 2012. When demand picks up, Ainsworth should be well positioned to take advantage of a stronger North American market.

In the meantime, we will continue to execute our business strategy of: i) enhancing profitability through value-add product differentiation, ii) producing high-quality products at the lowest possible price, iii) effectively managing our inventories, and iv) being the leading OSB supplier to China and Japan. We believe our strategy to reorient Ainsworth towards growing overseas OSB markets will not only generate substantial cash flow over the next several years but, as the leader in the growing Asian markets, will also mitigate future downturns in North American markets.

I am optimistic about our company's future. While the journey ahead will not be without its challenges, I am confident that Ainsworth has the right leadership, the right strategic roadmap, the right assets and the right people to operate with excellence and to create shareholder value for many years to come. We are a lean and agile organization with increased focus on our customers and our operations. I believe that we are well positioned for the market turnaround and overseas growth opportunities that lie ahead.

As always, I appreciate the continued trust and support of our shareholders, our valued customers and our great employees.

Sincerely,

/s/ Jim Lake
President and Chief Operating Officer

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS For the Three Months and Year Ended December 31, 2011

This management's discussion and analysis is presented as at March 1, 2012. 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"), as issued by the International Accounting Standards Board, 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 ("the Company") 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 supply 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 (3/8-inch basis).

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 curtailed pending improved market conditions.

To meet potential future increases in demand for OSB, incremental capacity would come from restarting High Level. In addition, the Company continues to assess the remaining costs to complete the second production line at the Grande Prairie mill, which would further increase capacity by approximately 620 mmsf, 3/8-inch basis to over 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.

The Company holds a 100% ownership interest 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, 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" "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

At the end of 2011, we had available liquidity, consisting of cash and cash equivalents, restricted cash and short-term investments, of approximately $62.5 million. This compares to available liquidity of $84.2 million at September 30, 2011 and $126.9 million at December 31, 2010. See "Liquidity and Capital Resources" for a more detailed description of working capital, available funds and cash flows.

While we have adequate financial liquidity to manage our business and maintain capacity in the near term, we continue to review various alternatives which could enhance liquidity, which could include the sale of non-core assets, cost reductions, refinancing or repayment of debt and issuance of new debt and equity.

Ainsworth is permitted, under the terms of its Senior Unsecured Notes and Senior Secured Term Loan, to borrow an additional US$125 million of Senior Secured Debt and US$75 million of Senior Unsecured Debt. The availability of additional sources of capital will depend on capital markets at the time and may not be available on acceptable terms.

Our strategic approach remains focused on leveraging Ainsworth's operational expertise, superior products and customer relationships to ensure the Company is well positioned, from both a liquidity and operational

standpoint, to capitalize on a recovery in US home construction and increased demand from Asia.

Debt Maturities

Our debt principal repayments are scheduled to total $4.9 million in 2012. We refinanced the total principal outstanding of U.S. $13.4 million on our equipment loan during 2011. The new loan has a five year amortization, a three year term and accrues interest at LIBOR plus 3.50%. It is scheduled to mature in September, 2014 and will require a balloon payment of U.S. $5.4 million at that time unless the debt is extended for a further two years by mutual agreement of the Company and the lender. Monthly principal payments on the loan have been reduced from U.S. $672 thousand to U.S. $224 thousand. The new loan is secured by certain equipment related to the unfinished second production line at our Grande Prairie mill. Restricted cash of U.S. $6 million, required as collateral on the previous loan, is not required as security for the new loan. As a result, restricted cash was reduced by U.S. $6 million.

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.

Summary of Operating and Financial Results from Continuing Operations

	Q4-11	Q3-11	Q2-11	Q1-11	Q4-10	Q3-10	Q2-10	Q1-10
(in millions, except volume, unless otherwise noted)								
Sales and EBITDA								
Sales	**$ 69.5**	$ 71.8	$ 80.5	$ 71.5	$ 55.0	$ 81.1	$ 106.4	$ 87.0
Adjusted EBITDA (1)	**2.7**	0.7	2.7	6.4	(1.8)	9.8	35.1	16.2
Adjusted EBITDA margin (2)	**3.9%**	1.0%	3.4%	9.0%	-3.3%	12.1%	33.0%	18.6%
Shipment volume (mmsf 3/8")	**374.3**	393.4	422.0	350.8	285.9	392.0	379.0	400.0
Production volume (mmsf 3/8")	**368.3**	394.9	388.9	388.9	282.5	386.9	394.5	397.0

(1) Adjusted EBITDA, a non-IFRS financial measure, is defined as net income from continuing operations before amortization, gain on disposal of property, plant and equipment, cost of curtailed operations, stock option (recovery) expense, finance expense, foreign exchange loss (gain) on long-term debt, other foreign exchange (gain) loss, income tax (recovery) expense and non-recurring items. See the detailed calculation of adjusted EBITDA by quarter and year to date on page 4.

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

Review of Financial Results

	Q4-11	Q4-10	YTD 2011	YTD 2010
(in millions)				
Sales	**$ 69.5**	$ 55.0	**$ 293.3**	$ 329.5
Cost of products sold	**62.7**	54.3	**264.6**	254.0
Net income from continuing operations	**1.7**	2.8	**7.6**	12.7
Net income	**2.8**	2.8	**8.3**	11.9
Adjusted EBITDA	**2.7**	(1.8)	**12.5**	59.3
Adjusted EBITDA margin	**3.9%**	-3.3%	**4.3%**	18.0%

The table below shows the calculation of adjusted EBITDA:

(in millions)	Q4-11	Q4-10	YTD 2011	YTD 2010
Net income from continuing operations	**$ 1.7**	$ 2.8	**$ 7.6**	$ 12.7
Add:				
Amortization of property, plant and equipment	**5.9**	5.2	**23.9**	29.1
Gain on disposal of property, plant and equipment	**(0.2)**	-	**(0.9)**	(0.3)
Write-down of property, plant and equipment	**-**	-	**0.9**	-
Cost of curtailed operations	**1.0**	0.4	**3.3**	2.2
Stock option (recovery) expense	**(0.2)**	0.2	**0.4**	0.7
Net legal proceeds	**-**	-	**-**	(1.1)
Finance expense	**13.1**	12.8	**49.8**	52.6
Income tax (recovery) expense	**(2.4)**	(4.0)	**(16.7)**	0.6
Foreign exchange (gain) loss on long-term debt	**(16.4)**	(18.1)	**11.4**	(30.3)
(Gain) loss on derivative financial asset	**-**	(0.9)	**6.2**	(6.3)
Gain on High Level acquisition	**-**	-	**(72.5)**	-
Other	**0.2**	(0.2)	**(0.9)**	(0.6)
Adjusted EBITDA	**$ 2.7**	$ (1.8)	**$ 12.5**	$ 59.3

Net income from continuing operations was $1.7 million in the fourth quarter of 2011 compared to net income of $2.8 million in the fourth quarter of 2010. Although gross profit increased by $6.1 million, it was offset by a $1.7 million reduction in unrealized foreign exchange gain, a $1.6 million reduction in income tax recovery, a $1.5 million reduction in other income, and a combined $2.3 million increase in selling and administration, amortization expense, cost of curtailed operations, and interest on long-term debt.

On an annual basis, net income from continuing operations decreased from $7.6 million in 2011 to net income of $12.7 million in 2010, due to a $46.9 million decrease in gross profit, combined with a $41.7 million increase in unrealized foreign exchange loss on long-term debt and a $12.5 million increase in loss on a derivative financial instrument related to the call option on our Senior Unsecured Notes. This decrease was partially offset by a $72.5 million gain on the High Level acquisition, a $5.1 million decrease in amortization expense, a $2.8 million decrease in finance expense and a $17.3 million increase in income tax recovery.

Adjusted EBITDA

Adjusted EBITDA was $2.7 million in the fourth quarter of 2011 compared to negative $1.8 million in the fourth quarter of 2010. EBITDA margin on sales was 3.9% compared to negative 3.3% in the same period of 2010. The decrease was primarily the result of a $6.1 million increase in gross profit (sales less cost of products sold (exclusive of amortization)). Foreign exchange rates were not significantly different in the fourth quarter of 2011 compared to the same period in 2010 and did not result in significant variances in adjusted EBITDA.

On an annual basis, adjusted EBITDA decreased from $59.3 million in 2010 to $12.5 million in 2011. EBITDA margin on sales was 4.3% in 2011 compared to 18.0% in 2010. The decrease in adjusted EBITDA is due to a $46.9 million decrease in gross profit (sales less cost of products sold (exclusive of amortization)). The Canadian dollar was an average of four cents stronger than the U.S. dollar in 2011 compared to 2010. The stronger Canadian dollar negatively impacted gross profit. As the majority of sales pricing is determined in U.S. dollars, if foreign exchange rates during 2011 had been consistent with 2010, adjusted EBITDA would have been $7.7 million higher.

Sales

Sales of $69.5 million in the fourth quarter of 2011 were $14.5 million higher than sales of $55.0 million for the same period in 2010. The increase in sales was mainly due to a 30.9% increase in volume as a result of less downtime taken by our three active mills in 2011 compared to 2010 (five weeks in 2011, eleven weeks in 2010). The increase in sales volume was partially offset by a 3.4% decrease in realized pricing. The average benchmark price for the Western Canada region decreased by U.S. $17 in the fourth quarter of 2011 compared to the same period in 2010. The average benchmark price for the North Central region was not substantially different in the fourth quarter of 2011 compared to the same period in 2010.

Sales of $293.3 million for the year ended December 31, 2011 were $36.2 million lower than sales of $329.5 million for the year 2010. The decrease in sales revenue was a result of a 15.8% decrease in realized pricing. The decrease in sales was partially offset by a 5.7% increase in sales volume.

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	Q4-11	Q3-11	Q2-11	Q1-11	Q4-10	Q3-10	Q2-10	Q1-10
North Central (7/16" basis)	**$ 190**	$ 184	$ 174	$ 199	$ 191	$ 180	$ 294	$ 214
Western Canada (7/16" basis)	**149**	137	151	182	166	164	299	226

Costs of Products Sold (Exclusive of Amortization)

In the fourth quarter of 2011, cost of products sold was $62.7 million, an $8.4 million increase over the same period in 2010. For the full year of 2011, cost of products sold was $264.6 million, a $10.6 million increase over costs of $254.0 million for the same period in 2010. The increase in cost of products sold is primarily a result of increased sales volumes as well as increases in resin and wax pricing and freight costs. These increases were partially offset by reductions in labour, repairs and maintenance, and subcontractor expenses as a result of production efficiencies.

Selling and Administration

Selling and administration expense in the fourth quarter of 2011 was $4.1 million, an increase of $0.6 million from the $3.5 million recorded in the fourth quarter of 2010. The increase is primarily due to higher severance costs relating to the elimination of two executive positions during the quarter.

Selling and administration expense for the full twelve months of 2011 was $17.4 million, down $1.4 million from the $18.8 million in 2010. This decrease was primarily due to a reduction in salaries and benefits, professional fees and insurance expenses compared to 2010.

Amortization of Property, Plant and Equipment and Intangible Assets

Amortization expense in the fourth quarter of 2011 of $5.9 million was not significantly different from $5.2 million in the fourth quarter of 2010. Amortization expense for the full year in 2011 was $24.0 million, a decrease of 17.5% from $29.1 million in 2010. The year to date decrease in 2011 is mainly the result of an 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 the fourth quarter of 2011 was $13.1 million, an increase of $0.2 million from $12.9 million in the fourth quarter of 2010. The increase is a result of a weaker Canadian dollar in the fourth quarter of 2011 compared with the fourth quarter of 2010.

Finance expense for 2011 was $49.8 million, a reduction of $2.8 million from the $52.6 million in 2010. This reduction in our overall finance expense for 2011 is due to the refinancing of our equipment loan in the third quarter of 2011 combined with the effect of a stronger Canadian dollar compared to the U.S. dollar in 2011.

Foreign Exchange Loss on Long-Term Debt

The unrealized foreign exchange gain on long-term debt in the fourth quarter of 2011 was $16.4 million compared with a gain of $18.1 million in the fourth quarter of 2010. On annual basis, the unrealized foreign exchange loss on long-term debt was $11.4 million in 2011 compared with a gain of $30.4 million in 2010. The Canadian dollar was weaker than the U.S. dollar in the fourth quarter of 2011 compared to the same period in 2010. During the full year of 2011, the Canadian dollar weakened relative to the U.S. dollar, whereas during 2010 the Canadian dollar followed a strengthening trend. Management estimates that a one cent weakening/strengthening of the Canadian dollar results in a $3.9 million increase/decrease in foreign exchange loss/gain on our U.S. dollar debt. However, while a weaker Canadian dollar results in an unrealized foreign exchange loss on our U.S. dollar debt, operational results benefit from the change in the Canadian dollar.

Loss on Derivative Financial Instrument

There was no change in the value of the derivative financial instrument related to the call options embedded in the Senior Unsecured Notes during the fourth quarter of 2011 ($6.2 million loss for the year). A gain of $0.9 million was recorded for the same period in 2010 ($6.2 million gain for the year). The Company engaged an independent third party expert to perform the valuation of the call options as at December 31, 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 increase in costs of curtailed operations during 2011 compared to 2010 is due to maintenance costs incurred on our idled mill primarily as a result of our increased ownership in the mill.

Gain on Acquisition of High Level

The Company holds all ownership interest in a curtailed OSB facility located in High Level, Alberta ("High Level") as a result of the acquisition of the remaining 50% interest from Grant Forest Products Inc. for $20 million. The acquisition was completed with regulatory approval granted by the Court in respect of Grant Forest Products' proceedings under the Companies' Creditors Arrangement Act (CCAA) on February 17, 2011. We recognized a bargain purchase gain of $49.7 million, resulting from the excess fair value of the net assets acquired over the cash consideration paid. Following this transaction, we revalued our existing 50% interest in the assets and liabilities of High Level held prior to this transaction to their fair values, recognizing a gain of $22.8 million. The total $72.5 million gain net of tax is presented on the consolidated statement of operations.

Other Items

Other income in the fourth quarter of 2011 was $0.4 million, a decrease of $1.5 million from the $1.9 million recorded in the fourth quarter of 2010. Other income for the year 2011 was $1.5 million, a decrease of $2.2 million from the $3.7 million in 2010. The decrease in the fourth quarter and year to date of 2011 is primarily due to lower cash and short-term investment balances resulting in lower interest income earned compared to the same periods in 2010.

Income Taxes

The income tax recovery in the fourth quarter of 2011 was $2.4 million on a loss before income taxes of $0.6 million compared with an income tax recovery of $4.0 million on a loss before income taxes of $1.2 million in the fourth quarter of 2010. Income tax recovery was $16.7 for the year 2011, compared with an income tax expense of $0.6 million for the year 2010. In the fourth quarter of 2011, certain permanent differences, such as the non-taxable portion of the foreign exchange loss 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 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.

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 Income (Loss) from Discontinued Operations

Net income (loss) from discontinued operations includes residual income net of expenses 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.

Liquidity and Capital Resources

As of December 31, 2011, our adjusted working capital was $90.1 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:

		2011		2010
(in millions)				
Current assets	**$**	**123.8**	$	188.5
Restricted cash not related to current liabilities		**(4.9)**		(4.8)
Current liabilities		**(28.8)**		(49.2)
Adjusted working capital	**$**	**90.1**	$	134.5
Adjusted working capital (deficiency), discontinued operations		**(0.2)**		(0.8)
Adjusted working capital, continuing operations	**$**	**90.3**	$	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 cash interest payments of $30.6 million.

The table below presents the total funds available:

		2011		2010
(in millions)				
Cash and cash equivalents	**$**	**12.1**	$	56.7
Restricted cash		**4.9**		10.8
Short-term investments		**45.5**		59.4
Total available funds	**$**	**62.5**	$	126.9

Our cash flows for the fourth quarter and twelve months of 2011 and 2010 were as follows:

		Q4-11		Q4-10		YTD 2011		YTD 2010
(in millions)								
Cash (used in) provided by operating activities before interest and working capital	**$**	**(1.9)**	$	(6.3)	**$**	**6.2**	$	48.7
Cash used for interest		**(14.1)**		(13.6)		**(30.6)**		(31.2)
Cash used by working capital		**(3.0)**		(2.9)		**(2.7)**		(5.2)
Cash (used in) provided by operating activities		**(19.0)**		(22.8)		**(27.1)**		12.3
Cash used in financing activities		**(1.6)**		(12.2)		**(11.3)**		(23.3)
Cash provided by (used in) investing activities		**4.1**		(6.7)		**(12.2)**		(12.9)

In the fourth quarter of 2011 we used cash of $1.9 million from operating activities before interest paid and working capital requirements compared to cash used of $6.3 million in the fourth quarter of 2010. The decrease in cash used is primarily the result of lower pricing of residential OSB. For the year 2011, our operating activities did not generate positive cash flows since interest paid and working capital requirements were greater than cash generated from sales as compared with positive cash flows in 2010.

Cash used in financing activities for all periods presented represents the repayment of equipment financing loans and capital lease obligations. Cash used in financing activities for 2011 is lower than 2010 (on a quarterly basis and year to date) due the sale of our aircraft (net of related financing) and refinancing our equipment loan in the third quarter of 2011, resulting in lower interest charges in the fourth quarter and year to date.

The increase in cash provided by investing activities in the fourth quarter of 2011 compared to the same period in 2010 is due primarily to an increase in the redemption of short-term investments to fund operations. Year to

date, the change in cash used in investing activities from 2010 to 2011 was not significant. Additions to property, plant and equipment during the fourth quarter and twelve months of 2011 and 2010 were primarily limited to essential projects or those with a quick payback.

Contractual Obligations

The following table summarizes the timing of payments for which we have contractual obligations as at December 31, 2011. Payments of Senior Unsecured Notes, Senior Secured Term Loans and equipment loans include cash interest and principal repayments at the time of maturity.

	2012	2013 to 2014	2015 to 2016	Thereafter	Total
(In millions)					
Senior Unsecured Notes [1]	$ 24.7	$ 53.2	$ 502.0	$ -	**$ 579.9**
Senior Secured Term Loan [2]	5.8	113.0	-	-	**118.8**
Equipment loan [3]	3.2	10.8	-	-	**14.0**
Deutsche Bank equipment loan [4]	1.8	3.5	2.5	-	**7.8**
Capital lease obligations [5]	0.6	0.8	-	-	**1.4**
Operating lease obligations	0.8	1.7	0.4	-	**2.9**
Purchase commitments [6]	1.2	2.4	2.4	4.3	**10.3**
	$ 38.1	**$ 185.4**	**$ 507.3**	**$ 4.3**	**$ 735.1**

(1) Under the indentures governing our outstanding Senior Notes, we are required to make cash interest payments at 6% and payment-in-kind interest payments at 5% on June 30 and December 30 per annum. Our Senior Notes mature on July 29, 2015.
(2) Under the Senior Secured term loan agreement, we can elect to pay interest quarterly at a base rate or over an interest period of one to three months at LIBOR plus 5.0% per annum. For the purpose of the above table, we have calculated the interest rate at the December 31, 2011 month-end LIBOR rate of 0.58%. The Senior Secured term loan matures on June 26, 2014.
(3) Under the equipment loan agreement, we are required to pay interest at a rate per annum, reset monthly, equal to LIBOR plus 3.50%, payable monthly. For the purpose of the above table we have calculated the interest rate at the December 31, 2011 month-end LIBOR rate of 0.58%. Principal payments are made monthly.
(4) Under the Deutsche Bank equipment loan agreement, we are required to pay interest at a rate per annum, reset semi-annually, equal to EURIBOR plus 0.65% payable semi-annually each March and September. For the purpose of the above table we have calculated the interest rate at the December 31, 2011 month-end EURIBOR rate of 1.356%. The loan is repayable in semi-annual installments of €630,855 on June 20 and December 20.
(5) Capital lease obligations are payable monthly.
(6) Purchase commitments include long-term purchase contracts with annual minimum fixed payments and agreements to purchase certain machinery, equipment, engineering and management support services.
(7) Contractual obligations denominated in $U.S. are converted to Canadian dollars at the December 31, 2011 exchange rate posted by the Bank of Canada of $1.00 = U.S. $1.017.
(8) Contractual obligations denominated in € are converted to Canadian dollars at the December 31, 2011 exchange rate posted by the Bank of Canada of $1.00 = €1.3193.

Outstanding Share Data

The issued share capital of the Company at December 31, 2011 is as follows:

	Shares	Warrants	Value (in millions)
Common shares	**100,768,888**	**-**	**$ 412**
Shareholder warrants	**-**	**8,695,634**	**-**
	100,768,888	**8,695,634**	**$ 412**

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 December 31, 2011:

Grant Date	Number of Options Outstanding	Exercise Price	Expiry Date
November 14, 2008 (1)	400,000	1.74	November 14, 2018
November 2, 2009	100,000	1.56	November 2, 2019
March 5, 2010	375,000	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	375,000	3.28	March 4, 2021
May 20, 2011	25,000	3.13	May 20, 2021
September 9, 2011	200,000	1.93	September 9, 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 not have been substantially different. At December 31, 2011, the derivative financial asset had a value of $6 thousand (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 $4.9 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 year, legal fees were paid to a law firm of which one of the Company's directors is also a partner and the Company purchased insurance services from an entity related to Brookfield Special Situations II (OSB) L.P. ("BSS"). 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. These amounts are shown in the table below:

		Q4-11		Q4-10		YTD 2011		YTD 2010
(in thousands)								
Legal fees	**$**	**76**	$	87	**$**	**100**	$	122
Insurance		**5**		76		**174**		76
	$	**81**	$	163	**$**	**274**	$	198

BSS beneficially owns or exercises control or direction over approximately 55.0% of the issued and outstanding common shares. The Company made interest payments with respect to Senior Unsecured Notes held by BSS.

The Company also periodically sells goods to BSS affiliates. During the three months ended December 31, 2011, these sales were approximately $0.8 million. In 2011, these sales were approximately $3.2 million (three and twelve months ended December 31, 2010: nil). On October 1, 2011, the Company sold equipment to a BSS affiliate for a total of U.S. $1.0 million ($1.0 million). 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.

Selected Quarterly Financial Information (Unaudited)

	IFRS										CGAAP
	2011	**Q4-11**	**Q3-11**	**Q2-11**	**Q1-11**	**2010**	**Q4-10**	**Q3-10**	**Q2-10**	**Q1-10**	**2009**
(in millions, except per share data, unless otherwise noted)											
Sales and earnings (loss)											
Sales	$ 293.3	$ 69.5	$ 71.8	$ 80.5	$ 71.5	329.5	$ 55.0	$ 81.1	$ 106.4	$ 87.0	$ 285.9
Operating (loss) income	(12.8)	(3.3)	(6.0)	(3.8)	0.3	27.6	(8.0)	3.4	25.0	7.2	(32.6)
Foreign exchange gain (loss) on long-term debt	(11.4)	16.4	(42.8)	2.5	12.5	30.4	18.2	17.7	(24.8)	19.3	87.1
Net income (loss) from continuing operations	7.6	1.7	(58.9)	(12.9)	77.7	12.7	2.8	10.5	(17.3)	16.7	15.9
Net income (loss) from discontinued operations	0.7	1.1	(0.3)	(0.1)	-	(0.9)	-	(0.1)	(0.5)	(0.3)	(37.5)
Net income (loss)	8.3	2.8	(59.2)	(13.0)	77.7	11.9	2.8	10.4	(17.8)	16.4	(21.6)
Adjusted EBITDA	12.5	2.7	0.7	2.7	6.4	59.3	(1.8)	9.8	35.1	16.2	5.2
Basic and diluted earnings (loss) per common share											
Net income (loss) from continuing operations [1]	0.07	0.02	(0.59)	(0.13)	0.77	0.13	0.03	0.10	(0.17)	0.17	0.16
Net income (loss) [1]	0.08	0.03	(0.59)	(0.13)	0.77	0.12	0.03	0.10	(0.18)	0.16	(0.22)
Balance sheet											
Total assets	786.3	786.3	809.9	833.4	863.1	762.2	762.2	795.3	804.9	797.0	846.2
Total long-term debt [2]	523.2	523.2	535.8	497.1	498.6	507.9	507.9	534.1	553.1	526.8	561.3

(1) Basic and diluted net (loss) income per share. As at December 31, 2011, the Company had 100,768,888 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.

OSB demand and product pricing were the main factors causing fluctuations in our sales over the past eight quarters. OSB prices were low for most of 2009 and increased in the first two quarters of 2010 but dropped in the second half of 2010, remaining low in 2011. In the first quarter of 2011, the acquisition of the remaining

50% in the curtailed High Level OSB facility resulted in a $72.5 million gain, net of tax. The earthquake and tsunami in Japan in March 2011 resulted in higher overseas sales due to an increase in demand. Net income (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:

	Q4	Q3	Q2	Q1	YTD
(in millions)					
2011					
North America	**$ 59.5**	**$ 60.2**	**$ 59.1**	**$ 60.3**	**$ 239.1**
Overseas	**10.0**	**11.6**	**21.4**	**11.2**	**54.2**
	$ 69.5	**$ 71.8**	**$ 80.5**	**$ 71.5**	**$ 293.3**
2010					
North America	$ 48.8	$ 67.4	$ 99.3	$ 79.3	$ 294.8
Overseas	6.1	13.7	7.1	7.7	34.6
	$ 54.9	$ 81.1	$ 106.4	$ 87.0	$ 329.4

Sales overseas as a percentage of total sales revenue net of recoverable freight were:

	Q4	Q3	Q2	Q1	YTD
2011	**16%**	**20%**	**32%**	**19%**	**22%**
2010	18%	19%	10%	11%	19%

The increased overseas sales in the second quarter of 2011 compared with the third quarter were due to increased demand from our Japanese customers as a result of the March 2011 earthquake and tsunami.

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

Risks and Uncertainties

Liquidity. As global debt and equity markets can be volatile, we continue to monitor discretionary capital expenditures carefully. Our refinanced equipment loan and U.S. dollar Senior Secured Term Loan mature in 2014 and our U.S. dollar Senior Unsecured Notes mature in 2015. Under the terms of the Company's Senior Term Loan agreement and Senior Note 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, or other sources of capital is dependent on capital markets at the time and may not be available on acceptable terms. In the event that debt or equity capital is not available on acceptable terms in the future, the Company may need to explore other strategic alternatives.

Economic Uncertainty. Our core OSB business relies heavily on new home and renovation construction in North America which, have yet to show signs of a sustained recovery. Attempts to stabilize the financial and credit markets have been undertaken and economic activity in North America and elsewhere appears stabilized. Global financial and credit markets remain volatile. Increases in such volatility and its impact on economic growth would have an adverse effect on our business.

Competition. The wood-based panels industry is a highly competitive business environment in which companies compete, to a large degree, on the basis of price. Our ability to compete in these and other markets is dependent on a variety of factors such as manufacturing costs, availability of key production inputs, access to markets, customer service, product quality, financial resources and currency exchange rates. Should our competitors open new mills or reopen curtailed mills, this could increase market supply causing downward pressure on product prices and could result in an erosion of our profit margins.

Product Prices. Our financial performance is dependent on the selling prices of our products. The markets for most structural panel products are cyclical and are influenced by a variety of factors. These factors include periods of excess product supply due to industry capacity additions, periods of decreased demand due to weak general economic activity and inventory de-stocking by customers. During periods of low prices, our operations are subject to reduced revenues and margins, resulting in substantial declines in profitability and possible net losses. Prices are also impacted by seasonal factors such as weather and building activity. Market demand varies seasonally, as homebuilding activity and repair and renovation work, the principal end use for panel products, is generally stronger in the spring and summer months. Management estimates the annualized impact of a U.S. $10 per msf (3/8-inch basis) change in the North American OSB price on adjusted EBITDA when operating at current capacity is approximately U.S. $16 million. Our strategy is to mitigate price volatility by maintaining low cost, high-quality flexible production facilities; establishing and developing long-term relationships with customers; geographic diversification through overseas sales, and developing specialty niche products where possible.

Foreign Exchange. The sales for all of our products, including those sold in Canada and overseas, are denominated in U.S. dollars. As a result, any decrease in the value of the U.S. dollar relative to the Canadian dollar reduces the amount of revenues realized. The impact of the foreign exchange sensitivity on sales is partially offset by our U.S. dollar denominated debt as well as U.S. dollar purchases of raw materials, supplies and services such as resin, waxes and transportation. At December 31, 2010 and December 31, 2009, we did not hold any foreign exchange contracts.

Wood Fibre. Wood fibre represents the major raw material in the production of panels. In Canada, wood fibre is sourced primarily by agreements with provincial governments. The agreements are granted for various terms from five to twenty-five years and are generally subject to regular renewals every five years. As the agreements come due, we rely on the assumption that we will be able to renew the agreements. The agreements incorporate commitments with respect to sustainable forest management, silvicultural work, forest and soil renewal, and cooperation with other forest users. The government reserves the right to revoke a forest management license for any mills that are not operating for greater than twelve months, as is the case with our mill at High Level, Alberta. We have not received any notice to this effect from the government at this time. Aboriginal groups have claimed substantial portions of land in various provinces over which they claim aboriginal title or in which they have a traditional interest and for which they are seeking compensation from various levels of government. The results of these claims may adversely affect the supply of wood fibre and the commercial terms of supply agreements with provincial governments.

Other Input Costs. Rising petroleum prices can reduce our profitability indirectly by increasing the delivered cost of our domestic and offshore shipments through increased raw material input costs and directly by increased domestic and international freight charges.

Customer Dependence and Concentration. The Company sells its products primarily to major distributors, contractor supply yards, and wholesale distributors and faces strong competition for the business of significant customers. A significant change in our customer base could negatively affect sales and earnings. In the event that these customers declare bankruptcy or cease to do business with the Company, a material adverse effect on our business, financial condition and results of operations and cash flows may result. Our sales are also dependent on purchasers of our products having access to adequate levels of credit.

Product Concentration. We manufacture a single product, OSB, and, as such, fluctuations in demand or prices for OSB will have an impact on our revenues and profitability. This product concentration increases our exposure to variability in demand for and/or prices of OSB, and a decline in demand for and/or prices of OSB may have a material adverse effect on our business, financial condition and results of operations.

International Sales. A significant portion of our sales are made to customers outside of Canada and the United States. Our international sales present us with a number of risks and challenges, including but not limited to the effective marketing of our products in other countries, collectability of accounts receivable, tariffs and other barriers to trade and recessionary environments in foreign economies. Insurance from Export Development Canada is used to mitigate collection risk on certain foreign accounts receivable.

Labour Relations. The Grande Prairie mill employees are non-unionized, while the Barwick and 100 Mile House mills are unionized. During 2010, new union contracts were negotiated for 100 Mile House, due to

expire on June 30, 2013, and Barwick, due to expire on July 31, 2013.

Human Resources. The Company's success depends, to a significant extent, upon its ability to attract and retain key senior management, and operations personnel, and to have sufficient skilled labour available. The Company's failure to recruit and maintain key personnel, and market conditions which cause shortages of skilled labour could have an adverse impact on the operation and management of the Company's facilities.

Energy Costs. The Company is a significant consumer of electrical power. In recent years, BC Hydro and Power Authority has sought, and to some extent received, rate increases above historical levels. BC Hydro rates may increase significantly in response to a new B.C. energy policy mandating self-sufficiency by 2016 and reflecting the higher cost of marginal resources. In Alberta, energy markets are deregulated which may result in greater price volatility.

Regulatory. Government regulations relating to forest management practices may adversely affect us and could increase our costs of doing business. Legislation in British Columbia, Alberta and Ontario empowers provincial regulatory agencies to develop regulations, set policies and establish and maintain all aspects of sustainable forest management. Changes to these regulations and policies could adversely affect our access to wood fiber for our OSB operations or could increase the cost of our wood fibre. Changes to these laws or regulations, or the implementation of new laws or regulations, could result in additional expenses, capital expenditures or impediments to our operations, which could impair our competitive position and have a material adverse effect on our business.

We are also subject to a wide range of general and industry specific product, environmental, health and safety laws, regulations and standards imposed by federal, provincial, and local authorities in Canada and other countries where we market our products. Changes to these laws, regulations, and standards could adversely affect our ability to sell products to certain jurisdictions or operate within certain jurisdictions. Such changes could have a material adverse effect on our business, financial condition, results of operations and cash flows.

Environmental. Our operations are subject to a range of general and industry-specific environmental laws and regulations relating to air emissions, wastewater discharges, solid and hazardous waste management, plant and wildlife protection, and site remediation. Failure to comply with applicable environmental laws and regulations could result in fines, penalties or other enforcement actions that could impact production capacity or increase production costs. No assurance can be given that changes to these laws and regulations or their application will not have a material adverse effect on the Company's business, operations, financial condition and operational results. Additionally, the Company may discover currently unknown environmental issues, contamination or conditions in relation to past or present operations in or at its current or former facilities, or may be faced with unforeseen environmental liabilities in the future. This may require site or other remediation costs to maintain compliance or correct violations or result in government or private claims for damage to persons, property or the environment.

Capital Intensity. The production of wood-based panels is capital intensive and it is likely that key pieces of equipment will need to be repaired or replaced. In certain circumstances, the costs of repairing or replacing equipment and the associated downtime of the affected production line may not be an insurable event.

Periodic Litigation. The Company may from time to time become party to claims and litigation proceedings that arise in the ordinary course of business. Such matters are subject to many uncertainties and the Company cannot predict with assurances the outcomes and ultimate financial impacts of them. There can be no guarantees that actions that may be brought against the Company in the future will be resolved in its favour or that the insurance the Company carries will be available or paid to cover any litigation exposure. Any losses from settlements or adverse judgments arising out of these claims could be materially adverse to the Company.

Barwick Facility. The Barwick facility was acquired through a share transaction in 2004. As a result, there is a potential that we may have acquired undisclosed or unknown liabilities or other undisclosed detrimental issues concerning the Barwick facility. The existence of such undisclosed liabilities or other detrimental issues related to the Barwick facility could have a material adverse effect on our business, financial condition, results of operations and cash flows.

Tax Exposures. As a normal course of business the Company takes various tax filing positions without the assurance that tax authorities will not challenge such filing positions. In addition, the Company is subject to further uncertainties concerning the interpretation and application of tax laws in various operating jurisdictions. Ainsworth maintains reserves for known estimated tax exposures in all jurisdictions. These exposures are settled primarily through the closure of audits with the jurisdictional taxing authorities.

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 below.

Significant Accounting Estimates and Judgments

Valuation of Inventory. We closely monitor conditions that could impact valuation of inventories or otherwise impair our assets. Inventories of logs and panel products are valued at the lower of average cost and net realizable value. The net realizable value of logs is determined based on estimated OSB selling prices less estimated costs of conversion. We base our estimate of selling price on sales orders that exist at balance sheet reporting dates and management's estimate for forecasted sales prices based on supply, demand and industry trends. Prices fluctuate over time and it is probable that market values at the time of eventual sale will differ from our estimates.

Loss Contingencies. Our estimates of loss contingencies for legal proceedings and product warranty claims are based on various judgments and assumptions regarding the potential resolution or disposition of the underlying claims and associated costs.

Determination of Fair Value on Purchased Business Combinations. Fair value on purchased business combinations is determined based on valuations performed by independent third party specialists. Details related to forecast cash flows, discount rates, capital expenditures and other assumptions used in developing these valuations require considerable use of judgments, assumptions and estimates by management. As a result, we may be required to record impairment charges should the markets for our products deteriorate to levels significantly below current forecasts or should capital not be available to fund operations or expenditures.

Valuation of Long-Lived Assets. Where changes, events or circumstances indicate that the assets may be impaired, we review the long-lived assets held and used by us (primarily property, plant and equipment, construction in progress, intangible assets and timber and logging roads) for impairment. Assessing the valuation of the affected assets requires us to make judgments, assumptions and estimates. In general, write-downs for impairment are recognized when the book values exceed our estimate of the discounted future net cash flows associated with the related assets.

Management currently believes we have adequate support for the carrying value of our long-lived assets based on the anticipated cash flows that result from our estimates of future demand, pricing and production costs, and assuming certain levels of planned capital expenditures. However, should the markets for our products deteriorate to levels significantly below current forecasts or should capital not be available to fund operations or expenditures, it is possible that we will be required to record further impairment charges. From time to time we also review possible dispositions of various capital assets in light of current and anticipated economic and industry conditions, our financing and strategic plan and other relevant factors. As a result, we may be required to record further impairment charges in connection with any decision to close or dispose of such assets.

Amortization. Amortization of property, plant and equipment is principally based on the units of production method where the cost of equipment is amortized over the estimated units that will be produced during a conservative estimate of its useful life. Effective July 1, 2010, the Company increased the remaining useful lives of the OSB facilities from 15 to 25 years based on a revised estimate of the expected units of production. The impact of this change has been applied prospectively as a change in an estimate and resulted in a reduction in depreciation for 2010.

Employee Benefit Plans. Many of our B.C. salaried and 100 Mile house hourly employees participate in

defined benefit pension plans sponsored by the Company. We account for the consequences of our sponsorship of these plans in accordance with IFRS, which require us to make actuarial assumptions that are used to calculate the related assets, liabilities and expenses recorded in our financial statements. While we believe we have a reasonable basis for these assumptions, which include assumptions regarding long-term rates of return on plan assets, life expectancies, rates of increase in salary levels, rates at which future values should be discounted to determine present values and other matters, the amounts of our pension related assets, liabilities and expenses recorded in our financial statements would differ if we used other assumptions.

Reforestation Obligation. Timber is harvested under various licenses issued by the Provinces of British Columbia and Alberta, which include future requirements for reforestation. The future estimated reforestation obligation is accrued and charged to earnings on the basis of the volume of timber cut. The estimates of reforestation obligation are based upon various judgments, assumptions. Both the precision and reliability of such estimates are subject to uncertainties and, as additional information becomes known, these estimates are subject to change.

Valuation of Derivative Financial Instruments. Derivative financial instruments are measured at their fair value upon initial recognition and on each subsequent reporting date. If a market value is not available, the fair value is calculated using standard financial valuation models, such as discounted cash flow or option pricing models. Derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative. Embedded derivatives are separated from the host contract when the analysis shows that the economic characteristics and risks of embedded derivatives are not closely related to those of the host contract.

Deferred Income Tax Assets and Liabilities. We record future income tax assets including the potential tax benefit of operating loss carry-forwards and future income tax liabilities. The amounts that we record for these assets and liabilities are based upon various judgments, assumptions and estimates, including judgments regarding the tax rates that will be applicable to the future income tax amounts, the likelihood that we will generate sufficient taxable income or gain to utilize future income tax assets. Due to the numerous variables associated with our judgments, assumptions and estimates relating to the valuation of our future income tax assets and liabilities, and the effects of changes in circumstances affecting these valuations, both the precision and reliability of the resulting estimates are subject to uncertainties and, as additional information becomes known, we may change our estimates.

Share-Based Payments. We account for stock options using the fair value method. Under this method, compensation expense for options is measured at the grant date using the Black-Scholes option pricing model based on certain estimates and assumptions and is recognized over the vesting period. If estimates or assumptions change in the future, we could be required to reduce or increase contributed surplus, resulting in compensation expense or recovery.

Transition to International Financial Reporting Standards

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 fair value as 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 equity settled 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).

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.

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.

d) Reconciliations

IFRS 1 requires an entity to reconcile equity, total 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. Reconciliations of the financial statements previously presented under CGAAP to the amended condensed financial statements prepared under IFRS are presented on the following pages:

Ainsworth Lumber Co. Ltd.
Reconciliation of Consolidated Statement of Financial Position
As at January 1, 2010

		CGAAP	Effects of transition to IFRS	IFRS
ASSETS				
Current Assets		213,447	-	213,447
Property, Plant and Equipment	(iii)	547,474	6,541	554,015
Intangible Assets	(iv)	66,915	(59,668)	7,247
Other Assets		11,276	-	11,276
Assets Held for Disposal		7,133	-	7,133
		$ 846,245	**$ (53,127)**	**$ 793,118**
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current Liabilities		46,876	(7,317)	39,559
Accrued Pension Benefit Liability	(ii)	2,484	867	3,351
Reforestation Obligation		2,072	-	2,072
Long-term Debt	(i)	550,582	(18,787)	531,795
Deferred Income Tax Liabilities	(vi)	35,209	(1,093)	34,116
Liabilities Related to Assets Held for Disposal	(ii)	885	509	1,394
		638,108	(25,821)	612,287
SHAREHOLDERS' EQUITY				
Capital Stock		409,880	-	409,880
Contributed Surplus	(v)	876	82	958
Deficit		(202,619)	(27,388)	(230,007)
		208,137	(27,306)	180,831
		$ 846,245	**$ (53,127)**	**$ 793,118**

Ainsworth Lumber Co. Ltd.
Reconciliation of Consolidated Statement of Financial Position
As at December 31, 2010

		CGAAP	Effects of transition to IFRS	IFRS
ASSETS				
Current Assets		188,484	-	188,484
Property, Plant and Equipment	(iii)	533,667	9,485	543,152
Intangible Assets	(iv)	70,559	(57,080)	13,479
Other Assets		11,371	(1,318)	10,053
Assets Held for Disposal		7,042	-	7,042
		$ 811,123	**$ (48,913)**	**$ 762,210**
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current Liabilities		54,393	(5,161)	49,232
Accrued Pension Benefit Liability	(ii)	-	10,445	10,445
Reforestation Obligation		2,076	-	2,076
Long-term Debt	(i)	501,434	(15,809)	485,625
Deferred Income Tax Liabilities	(vi)	33,400	(6,192)	27,208
Liabilities Related to Assets Held for Disposal	(ii)	1,036	633	1,669
		592,339	(16,084)	576,255
SHAREHOLDERS' EQUITY				
Capital Stock		410,950	-	410,950
Contributed Surplus	(v)	1,013	337	1,350
Deficit		(193,179)	(33,166)	(226,345)
		218,784	(32,829)	185,955
		$ 811,123	**$ (48,913)**	**$ 762,210**

Ainsworth Lumber Co. Ltd.
Reconciliation of Consolidated Net Income and Comprehensive Income
For the year ending December 31, 2010

		CGAAP	Effects of transition to IFRS	IFRS
Revenues [1]		$ 329,486	$ -	$ 329,486
Costs of products sold (exclusive of amortization)	(iii)	259,555	(5,590)	253,965
Selling and administration	(v)	18,590	254	18,844
Amortization of property, plant and equipment and intangible assets	(iii, iv)	29,302	(194)	29,108
Income before other items		**22,039**	**5,530**	**27,569**
Finance expense	(i)	(49,502)	(3,061)	(52,563)
Foreign exchange gain		28,965	-	28,965
Gain on derivative financial instrument		6,234	-	6,234
Costs of curtailed operations		(2,108)	-	(2,108)
Other items		5,275	-	5,275
Income before income taxes		**10,903**	**2,469**	**13,372**
Income tax expense	(vi)	(597)	17	(580)
Income from continuing operations		10,306	2,486	12,792
Loss from discontinued operations		(866)	-	(866)
Net income		**$ 9,440**	**$ 2,486**	**$ 11,926**
Other comprehensive income:				
Actuarial gains, net of tax		-	(8,264)	(8,264)
Total comprehensive income		**$ 9,440**	**$ (5,778)**	**$ 3,662**

[1] Revenues for the year ended December 31, 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 net income and comprehensive 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.

Accounting Standards Developments

Effective January 1, 2011, the Company adopted International Financial Reporting Standards. Full disclosure of all new IFRS policies is disclosed in the Company's annual financial statements. Upcoming changes to the policies are described below:

Financial instruments – IFRS 7, Financial Instruments: Disclosures was amended by the ISAB in October 2010 to require additional disclosure for financial assets that have been transferred but not derecognized in accordance with IAS 39, Financial Instruments: Recognition and Measurement ("IAS 39). The amendments are effective for annual periods beginning on or after July 1, 2011. The Company does not expect this amendment to have a significant impact on its results and financial position.

Financial instruments – IFRS 9, Financial Instruments ("IFRS 9") was issued by the International Accounting Standards Board ("IASB") in November 2009 and will replace IAS 39, Financial Instruments: Recognition and Measurement ("IAS 39") in three main phases.

In November 2009 and October 2010, phase 1 of IFRS 9 was issued and amended, respectively, which addressed the classification and measurement of financial assets and financial liabilities. IFRS 9 requires that all financial assets be classified as subsequently measured at amortized cost or at fair value based on the Company's business model for managing financial assets and the contractual cash flow characteristics of the financial assets. Financial liabilities are classified as subsequently measured at amortized cost except for financial liabilities classified at fair value through profit or loss ("FVTPL"), financial guarantees and certain other exceptions. 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, 2015. The Company does not expect this pronouncement to have a significant impact on its results and financial position.

Consolidation – In May 2011, the ISAB issued the following new standards:

- *IFRS 10, Consolidated Financial Statements* ("IFRS 10") which will replace parts of IAS 27, Consolidated and Separate Financial Statements ("IAS 27"), and SIC-12, Consolidation – Special Purpose Entities ("SIC-12"),
- *IFRS 11, Joint Ventures ("IFRS 11")* which will replace IAS 31, Interests in Joint Ventures, and SIC-13, Jointly Controlled Entities – Non-monetary Contributions by Venturers, and
- *IFRS 12, Disclosures of Involvement with Other Entities*

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. IFRS 11 classifies joint arrangements as either joint operations or joint ventures based on the rights and obligations of the parties to the joint arrangements. IFRS 11 requires a joint operator to recognize its portion of assets, liabilities, revenues and expenses of a joint arrangement, while a joint venture recognizes its investment in a joint arrangement using the equity method.

The above 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.

Fair value measurements and disclosure – IFRS 13, Fair Value Measurements and Disclosure ("IFRS 13") was issued by the IASB in May 2011. This standard substantially converges how fair values are measured and disclosures on fair value measurements with Accounting Standards Update ("ASU") 2011-04 issued by the Financial Accounting Standards Board ("FASB") under U.S. GAAP. IFRS 13 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.

Employee benefits – Amendments to *IAS 19, Employee Benefits* ("IAS 19") was issued by the IASB in June 2011. The amendments require all changes in defined benefit obligations and plan assets be recognized in other comprehensive income in the period they occur, eliminating the ability to defer and amortize such changes under the corridor method. These amendments are effective for annual periods beginning on or after January 1, 2013. The Company does not expect these amendments to have a significant impact on its results and financial position.

Financial statement presentation – IAS 1, Presentation of Financial Statements ("IAS 1") was issued by the IASB in June 2011. This standard requires an entity to group items presented on the Statement of Comprehensive Income on the basis of whether they may be reclassified to earnings subsequent to initial recognition. Taxes related to the two separate groups are also required to be presented separately. These amendments are effective for annual periods beginning on or after July 1, 2011. The Company does not expect this pronouncement to have a significant impact on its results and financial position.

Disclosure Controls and Procedures and Internal Control over Financial Reporting

As required by National Instrument 52-109 Certification of Disclosure in Issuer's Annual and Interim Filings, the Company's management, including the President, and Chief Financial Officer ("CFO"), has evaluated the effectiveness of disclosure controls and procedures as at December 31, 2011. Disclosure controls and procedures are designed to provide reasonable assurance that all necessary information is reported to the President and CFO on a timely basis to ensure that the necessary decisions can be made regarding annual

and interim financial statement disclosure.

The certifying officers have evaluated the effectiveness of our disclosure controls and procedures as at December 31, 2011, and have concluded that such controls and procedures are adequate and effective to ensure accurate and complete disclosures in the annual filings.

Management has 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 IFRS. There has been no material change in the design of the Company's internal control over financial reporting for the quarter and year ended December 31, 2011 that would materially affect, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Management of the Company, including the President, and Chief Financial Officer, has performed an assessment of the effectiveness of the Company's internal control over financial reporting as at December 31, 2011 based on the provisions of Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based on this assessment, management has concluded that its internal controls over financial reporting are operating effectively as at December 31, 2011. Management determined that there were no material weaknesses in the Company's internal control over financial reporting as at December 31, 2011.

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

Selected Financial Data ($000's)	December 31, 2011	December 31, 2010
Cash, cash equivalents and restricted cash	**$ 17,029**	$ 67,577
Short-term investments	**45,528**	59,413
Adjusted working capital (Note 1)	**90,147**	134,411
Total assets	**786,267**	762,210
Total long-term debt	**523,166**	507,895
Shareholders' equity	**190,060**	185,955

	Three months ended December 31		Twelve months ended December 31	
	2011	2010	**2011**	2010
Geographic Sales Distribution ($000's)				
North America	**$ 59,555**	$ 48,841	**$ 239,124**	$ 294,856
Overseas	**9,958**	6,133	**54,142**	34,630
	$ 69,513	$ 54,974	**$ 293,266**	$ 329,486
Shipment Volumes (msf - 3/8 inch)	**374,253**	285,881	**1,540,396**	1,456,986

Certain amounts have been reclassified between North America and Overseas sales.

	IFRS										CGAAP
	2011	Q4-11	Q3-11	Q2-11	Q1-11	2010	Q4-10	Q3 - 10	Q2-10	Q1-10	2009
Reconciliation of Net Income (Loss) to Adjusted EBITDA (in millions)											
Net Income (Loss) from Continuing Operations	$ 7.6	$ 1.7	$ (58.9)	$ (12.9)	$ 77.7	$ 12.7	$ 2.8	$ 10.5	$ (17.3)	$ 16.7	$ 15.9
Add:											
Amortization of property, plant and equipment	23.9	5.9	6.1	6.3	5.6	29.1	5.2	5.8	9.3	8.8	36.2
(Gain) Loss on disposal of property, plant and equipment	(0.9)	(0.2)	(0.5)	(0.5)	0.3	(0.3)	-	(0.3)	-	-	(0.8)
Write-down of property, plant and equipment	0.9	-	-	-	0.9	-	-	-	-	-	2.2
Cost of curtailed operations	3.3	1.0	0.9	0.9	0.5	2.2	0.4	-	0.5	1.3	2.6
Stock option expense	0.4	(0.2)	0.2	0.2	0.2	0.7	0.2	0.2	0.2	0.1	0.9
Net proceeds of lawsuits	-	-	-	-	-	(1.1)	-	-	-	(1.1)	(4.5)
Finance expense	49.8	13.1	12.5	11.8	12.4	52.6	12.8	13.4	13.0	13.4	53.0
Income tax (recovery) expense	(16.7)	(2.4)	(8.3)	(3.8)	(2.2)	0.6	(4.0)	(2.6)	7.0	0.2	(20.4)
Foreign exchange loss (gain) on long-term debt	11.4	(16.4)	42.8	(2.5)	(12.5)	(30.3)	(18.1)	(17.7)	24.8	(19.3)	(87.1)
Loss (Gain) on derivative financial asset	6.2	-	7.0	3.7	(4.5)	(6.3)	(0.9)	0.3	(0.7)	(5.0)	-
Gain on High Level acquisition	(72.5)	-	-	-	(72.5)	-	-	-	-	-	
Other	(0.9)	0.2	(1.1)	(0.5)	0.5	(0.6)	(0.2)	0.2	(1.7)	1.1	6.7
Adjusted EBITDA (Note 2)	$ 12.5	$ 2.7	$ 0.7	$ 2.7	$ 6.4	$ 59.3	$ (1.8)	$ 9.8	$ 35.1	$ 16.2	$ 5.2

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.

Auditors' Report and Consolidated Financial Statements of

AINSWORTH LUMBER CO. LTD.

December 31, 2011 and December 31, 2010

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Ainsworth Lumber Co. Ltd.

We have audited the accompanying consolidated financial statements of Ainsworth Lumber Co. Ltd., which comprise the consolidated statements of financial position as at December 31, 2011, December 31, 2010 and January 1, 2010, and the consolidated statements of operations and comprehensive income, changes in shareholders' equity and cash flows for the years ended December 31, 2011 and December 31, 2010, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Ainsworth Lumber Co. Ltd. as at December 31, 2011, December 31, 2010 and January 1, 2010, and its financial performance and its cash flows for the years ended December 31, 2011 and December 31, 2010 in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Emphasis of matter

As discussed in note 26 to the financial statements, the Company has certain loans maturing in 2014 and 2015, the repayment of which will be subject to funding availability on acceptable terms. Our opinion is not modified in respect to this matter.

/s/ Deloitte & Touche LLP

Chartered Accountants
March 1, 2012
Vancouver, British Columbia

AINSWORTH LUMBER CO. LTD.

Consolidated Statements of Financial Position

(In thousands of Canadian dollars)

	December 31 2011	December 31 2010	January 1 2010
ASSETS			
Current Assets			
Cash and cash equivalents	**$ 17,029**	$ 67,577	$ 92,075
Short-term investments	**45,528**	59,413	61,654
Trade and other receivables (Note 5)	**17,802**	15,537	13,730
Income taxes receivable	**-**	-	509
Inventories (Note 6)	**36,408**	39,400	39,182
Prepaid expenses	**6,553**	6,557	4,429
Assets held for disposal (Note 7)	**509**	-	1,868
	123,829	188,484	213,447
Property, Plant and Equipment (Note 8)	**648,766**	543,152	554,015
Intangible Assets (Note 9)	**11,678**	13,479	7,247
Other Assets	**1,990**	10,053	11,276
Assets Held for Disposal (Note 7)	**-**	7,042	7,133
	$ 786,263	$ 762,210	$ 793,118
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current Liabilities			
Trade and other payables (Note 10)	**$ 21,686**	$ 24,833	$ 23,475
Income taxes payable	**1,521**	1,302	-
Current portion of long-term debt (Note 13)	**4,895**	22,270	11,075
Liabilities related to discontinued operations (Note 7)	**719**	827	5,009
	28,821	49,232	39,559
Accrued Pension Benefit Liability (Note 11)	**13,103**	10,445	3,351
Reforestation Obligation (Note 12)	**2,936**	2,076	2,072
Long-term Debt (Note 13)	**518,271**	485,625	531,795
Deferred Income Tax Liabilities (Note 23)	**31,194**	27,208	34,116
Liabilities Related to Discontinued Operations (Note 7)	**1,878**	1,669	1,394
	596,203	576,255	612,287
Commitments and Guarantees (Note 14)			
Contingencies (Note 15)			
SHAREHOLDERS' EQUITY			
Capital Stock (Note 16)	**411,509**	410,950	409,880
Contributed Surplus	**1,484**	1,350	958
Deficit	**(222,933)**	(226,345)	(230,007)
	190,060	185,955	180,831
	$ 786,263	$ 762,210	$ 793,118

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

Approved by the Board on March 1, 2012:

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

AINSWORTH LUMBER CO. LTD.

Consolidated Statements of Operations and Comprehensive Income

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

		Year Ended December 31 2011		Year Ended December 31 2010 (Note 28)
Sales	**$**	**293,266**	$	329,486
Costs and Expenses				
Costs of products sold		**264,619**		253,965
Selling and administration		**17,441**		18,844
Amortization of property, plant and equipment and intangible assets		**23,987**		29,108
		306,047		301,917
(Loss) Income before Other Items		**(12,781)**		27,569
Finance Expense (Note 18)		**(49,776)**		(52,563)
Foreign Exchange (Loss) Gain (Note 19)		**(11,122)**		28,965
(Loss) Gain on Derivative Financial Instrument (Note 20)		**(6,227)**		6,234
Costs of Curtailed Operations (Note 21)		**(3,313)**		(2,108)
Gain on Acquisition of High Level (Note 4)		**72,544**		-
Other Items (Note 22)		**1,563**		5,275
(Loss) Income Before Income Taxes		**(9,112)**		13,372
Income Tax Recovery (Expense) (Note 23)		**16,739**		(580)
Income from Continuing Operations		**7,627**		12,792
Net Income (Loss) from Discontinued Operations (Note 7)		**666**		(866)
Net Income		**8,293**		11,926
Other Comprehensive Income (Loss)				
Actuarial losses, net of tax (Note 11)		**(4,881)**		(8,264)
Total Comprehensive Income	**$**	**3,412**	$	3,662
Basic and diluted net income per common share				
Continuing operations	**$**	**0.07**	$	0.13
Discontinued operations		**0.01**		(0.01)
Basic and diluted net income per common share	**$**	**0.08**	$	0.12
Weighted average number of common shares outstanding - basic		**100,646,514**		100,252,341
Effect of dilutive stock options on continuing operations		**260,580**		443,474
Weighted average number of common shares outstanding - diluted		**100,907,094**		100,695,815

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

AINSWORTH LUMBER CO. LTD.

Consolidated Statements of Changes in Shareholders' Equity

(In thousands of Canadian dollars)

	Capital Stock	Contributed Surplus	Deficit	Total Shareholders' Equity
Balance, January 1, 2010	$ 409,880	$ 958	$ (230,007)	$ 180,831
Total comprehensive income	-	-	3,662	3,662
Fair value of share-based payments (Note 17)	-	762	-	762
Stock options exercised (Note 17)	1,070	(370)	-	700
Balance, December 31, 2010	**$ 410,950**	**$ 1,350**	**$ (226,345)**	**$ 185,955**

	Capital Stock	Contributed Surplus	Deficit	Total Shareholders' Equity
Balance, January 1, 2011	$ 410,950	$ 1,350	$ (226,345)	$ 185,955
Total comprehensive income	-	-	3,412	3,412
Fair value of share-based payments (Note 17)	-	369	-	369
Stock options exercised (Note 17)	559	(235)	-	324
Balance, December 31, 2011	**$ 411,509**	**$ 1,484**	**$ (222,933)**	**$ 190,060**

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

AINSWORTH LUMBER CO. LTD.

Consolidated Statements of Cash Flows

(In thousands of Canadian dollars)

		Year Ended December 31 2011		Year Ended December 31 2010
CASH FLOWS FROM OPERATING ACTIVITIES				
Net Income	**$**	**8,293**	$	11,926
Items not affecting cash				
Amortization of property, plant and equipment and intangible assets		**23,987**		29,108
Finance expense (Note 18)		**49,776**		52,563
Non-cash share based compensation (Note 17)		**416**		762
Foreign exchange loss (gain) on long-term debt (Note 19)		**11,353**		(30,368)
Loss (gain) on derivative financial insturment (Note 20)		**6,227**		(6,234)
Gain on disposal of property, plant and equipment (Note 22)		**(1,509)**		(470)
Write-down of property, plant and equipment (Note 22)		**1,614**		-
Write-down of long-term wood deposits		**-**		648
Change in non-current reforestation obligation		**(513)**		4
Deferred taxes		**(20,195)**		(6,908)
Adjustment to net accrued pension benefit liability		**(2,014)**		(895)
Gain on acquisition of High Level (Note 4)		**(72,544)**		-
Other		**1,329**		(1,372)
		6,220		48,764
Change in non-cash operating working capital (Note 25)		**(2,575)**		(5,246)
Interest paid		**(30,648)**		(31,218)
Income taxes paid		**-**		(23)
Cash (used in) from operating activities		**(27,003)**		12,277
CASH FLOWS FROM FINANCING ACTIVITIES				
Repayment of long-term debt (Note 13)		**(23,335)**		(23,503)
Issue of long-term debt (Note 13)		**14,089**		-
Exercise of stock options (Note 17)		**324**		700
Reduction in finance lease obligations (Note 13)		**(2,337)**		(532)
Cash used in financing activities		**(11,259)**		(23,335)
CASH FLOWS FROM INVESTING ACTIVITIES				
Redemption (purchase) of short-term investments		**13,885**		2,241
Acquisition of High Level (Note 4)		**(20,000)**		-
Additions to property, plant and equipment		**(7,847)**		(15,520)
Proceeds on disposal of property, plant and equipment		**2,028**		612
Increase in other assets		**(315)**		(243)
Cash used in investing activities		**(12,249)**		(12,910)
Effect of foreign exchange rate changes on cash and cash equivalents		**(37)**		(530)
NET CASH OUTFLOW		**(50,548)**		(24,498)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR		**67,577**		92,075
CASH AND CASH EQUIVALENTS, END OF YEAR	**$**	**17,029**	$	67,577
Cash and cash equivalents		**12,168**		56,736
Restricted cash (Note 2(f))		**4,861**		10,841
	$	**17,029**	$	67,577

The accompanying Notes to the 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. 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.

2. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared under the historical cost convention. Certain financial instruments, assets, and liabilities that were acquired through business combinations were accounted for using the acquisition method and were revalued on the date of acquisition.

a) *Statement of compliance*

These consolidated financial statements were prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). 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 28 to these 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 28.

These consolidated financial statements were authorized for issuance by the Board of Directors of the Company on March 1, 2012.

b) *Basis of consolidation*

The consolidated financial statements of the Company for the year ended December 31, 2011 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, revenues, and expenses between subsidiaries are eliminated upon consolidation.

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

Certain other prior period balances have been reclassified to conform with current period presentation.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

c) Business combination

The acquisition of businesses is accounted for using the acquisition method. The consideration of each acquisition is measured at the aggregate of the fair values, at the date of acquisition, of assets obtained, liabilities incurred or assumed, and equity instruments issued by the Company in exchange for control of the acquired business. The acquired business' identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3, *Business Combinations* ("IFRS 3") are recognized at their fair values at the acquisition date, except for non-current assets that are classified as held-for-sale in accordance with IFRS 5, *Non-Current Assets Held for Sale and Discontinued Operations* which are recognized and measured at fair value, less costs to sell. The non-controlling interest in the acquiree is initially measured at the non-controlling interest's proportion of the net fair value of the identifiable assets, liabilities and contingent liabilities recognized.

To the extent the fair value of consideration paid exceeds the fair value of the net identifiable assets, goodwill is recognized. To the extent the fair value of consideration paid is less than the fair value of net identifiable assets, the excess is recognized in income immediately.

Where a business combination is achieved in stages with the Company holding a pre-existing equity interest in the acquired entity, its previously held interests in the acquired entity are re-measured to fair value at the acquisition date, which is the date control is obtained, and the resulting gain or loss, if any, is recognized in income or loss. Once control is obtained, as long as control is not lost, all changes to ownership interests are treated as equity transactions and reported within equity.

d) Functional and presentational currency

These consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency. All financial information presented in Canadian dollars has been rounded to the nearest thousand.

Transactions in currencies other than the functional currency are recorded at the rates of exchange prevailing on dates of transactions. At each financial position reporting date, monetary assets and liabilities that are denominated in foreign currencies are translated using rate at the end of the reporting period. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction and are not retranslated.

The individual financial statements of each of the Company's subsidiaries are presented in the currency of the primary economic environment in which the entity operates. In preparing the financial statements of the individual subsidiaries, transactions in currencies other than the subsidiary's functional currency are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items that are denominated in currencies other than the functional currency are translated at the period end exchange rates. Non-monetary assets and liabilities are translated using the historical rate on the date of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities not denominated in the functional currency of an entity are recognized in profit or loss in the period.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

e) Use of estimates and judgment

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions at the financial position date that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses.

The most significant estimates relate to the determination of the useful life and value in use of its property, plant and equipment and intangible assets; units-of-production for amortization of the oriented strand board ("OSB") facilities; accounting for business combinations; measurement of deferred income tax assets and liabilities; valuation of inventory; loss contingencies; other assets; reforestation obligations; measurement of future employee benefits; and management's estimates of capital requirements and liquidity.

Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis and are based on historical experiences and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

The most significant judgments relate to timing of revenue recognition; determination of functional currency; purchase price allocation under the acquisition method; lease classification; and classification of financial instruments.

f) Cash and cash equivalents

Cash and cash equivalents generally consist of cash balances with banks and investments with original maturities of three months or less at the time of purchase. Also included is restricted cash of $4.9 million (December 31, 2010: $10.8 million; January 1, 2010: $10.4 million). Restricted cash is held in a separate account as collateral for the $4.9 million (December 31, 2010: $10.8 million; January 1, 2010: $10.4 million) outstanding letters of credit to support the Company's ongoing business operations.

The Company had an unutilized U.S. $2.5 million future foreign exchange contract credit facility at December 31, 2011 which, if utilized, would be secured by cash collateral.

g) Short-term investments

Short-term investments consist of redeemable investments with market values closely approximating carrying values and maturities greater than three months at the time of purchase.

h) Inventories

Inventory is valued at the lower of cost and net realizable value. Inventory cost is determined using the three month weighted average cost of production. Cost of panel products is defined as all costs that relate to bringing the inventory to its present location and condition under normal operating conditions and includes manufacturing costs, such as raw materials, labour and production overhead and amortization costs. Cost of logs is defined as all costs that relate to purchasing, harvesting and delivery of the logs to their present location, including labour, overhead and amortization.

Materials, supplies and consumable spares are valued at the lower of cost and replacement cost, which approximates net realizable value, and are expensed when introduced into the production process.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventory write-downs may be reversed (to the extent of the original write-down) if circumstances change in subsequent periods.

i) Property, plant and equipment

Items of property, plant and equipment are measured at cost less accumulated amortization and accumulated impairment losses. Cost includes expenditures that are directly attributable to acquiring and bringing the assets to a working condition for their intended use. The Company also capitalizes borrowing costs which are directly attributable to the acquisition, construction or production of qualifying assets, unless development activities on these qualifying assets are suspended, in which case borrowing costs are expensed.

The cost of replacing significant parts of an item of property, plant and equipment is recognized in the carrying amount of the asset if it is probable that the future economic benefits embodied within the part will flow to the Company, and its costs can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of property, plant and equipment are recognized in the Statement of Operations and Comprehensive Income as incurred.

When significant parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

OSB facilities are amortized on the units-of-production method based on the estimated useful life of the assets at normal production levels over 25 years. Other assets are amortized on the declining balance basis at annual rates based on the estimated useful lives of the assets as follows:

Assets	Rates
Building	5%
Machinery and equipment	15-20%
Office equipment	15%

Assets under finance leases are amortized on a straight line basis over the term of the lease (one to four years). Logging roads are stated at cost and are amortized on the basis of the volume of timber cut. Assets under construction are not depreciated until they are ready for their intended use. Land is not depreciated.

Depreciation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate. Property, plant and equipment are reviewed for impairment and accounted for as discussed in Note 2(k).

j) Intangible assets

Intangible assets consist of timber rights. The assets are measured at cost less accumulated amortization. Non-renewable pulpwood agreements and wood deposits are amortized over the life of the agreement, and the remaining assets are amortized on the basis of the volume of timber cut. Amortization methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate. If the Company identifies events or changes in circumstances which may indicate that their carrying amount may not be recoverable, the intangible assets would be reviewed for impairment and accounted as discussed in Note 2(k).

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

k) Asset impairment

The carrying amounts of property, plant and equipment and intangible assets are reviewed for impairment at each reporting period and whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable.

An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows ("cash generating units" or "CGUs"). The recoverable amount is the higher of an asset's fair value less cost to sell or its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the CGUs (as defined above) to which the asset belongs.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

l) Other assets

Other assets consist primarily of long-term advances and deposits which are recorded at cost.

m) Derivative financial instruments

Derivative financial instruments are measured at their fair value upon initial recognition and on each subsequent reporting date. If a market value is not available, the fair value is calculated using standard financial valuation models, such as discounted cash flow or option pricing models. Derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative. Changes in their fair values are recognized within finance cost in the Statement of Operations and Comprehensive Income.

n) Disposal of assets and discontinued operations

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through sale rather than continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale and it should be expected to be completed within one year from the date of classification. Non-current assets (and disposal groups) classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell.

o) Reforestation obligations

Timber is harvested under various licenses issued by the Provinces of British Columbia and Alberta, which include future requirements for reforestation. The fair value of the future estimated reforestation obligation is accrued and charged to operations in cost of products sold on the basis of the volume of timber cut, fair value being the present value of estimated future cash flows using

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

a credit adjusted risk free rate. Subsequent changes to fair value resulting from the passage of time and revisions to fair value calculations are recognized into income as they occur.

p) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, excluding any intercompany sales which have been eliminated upon consolidation. Revenue from the sale of goods and services is recognized when the risks and rewards of ownership, including managerial involvement, have transferred to the buyer; the amount of revenue can be measured reliably; the receipt of economic benefits is probable; and costs incurred or to be incurred can be measured reliably. Freight costs are included in cost of products sold.

q) Finance expense

The Company's long-term debt is recorded net of discounts and consent fees, which are deferred at inception and subsequently amortized over the term of the debt. Interest expense is calculated using the effective interest rate method.

The Company accounts for transaction costs that are directly attributable to the issuance of long-term debt by deducting such costs from the carrying value of the long-term debt. The capitalized transaction costs are amortized to earnings over the term of the related long-term debt.

r) Taxation

Tax expense is comprised of current and deferred tax components. Tax is recognized in the statement of operations except to the extent that it relates to items recognized directly in equity or other comprehensive income, in which case the related tax is recognized in equity or other comprehensive income.

Current tax expense is based on the results for the period as adjusted for items that are not taxable or not deductible for tax purposes. Current tax is calculated using tax rates and laws that were enacted or substantively enacted at the financial position date.

Deferred tax is recorded using the asset and liability method. Under this method, the Company calculates all temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the period end date. Deferred tax is calculated based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates that are expected to apply to the year of realization or settlement based on tax rates and laws enacted or substantively enacted at the period end date.

Deferred tax assets are recognized to the extent it is probable that taxable profits will be available against which the deductible temporary differences and unused tax losses and tax credits can be utilized. The carrying amount of deferred tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

In a business combination, temporary differences arise as a result of differences in the fair values of identifiable assets and liabilities acquired and their respective tax bases. Deferred income tax assets and liabilities are recognized for the tax effects of these differences. Deferred income tax

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

assets and liabilities are not recognized for temporary differences arising from goodwill or from the initial recognition of assets and liabilities acquired in a transaction other than a business combination which do not affect either accounting or taxable income or loss.

s) Earnings (loss) per share

Basic earnings (loss) per share is calculated by dividing net income (loss) by the weighted average number of voting common shares outstanding during the period. Diluted earnings (loss) per share is based on the weighted average number of voting common shares and exchangeable shares and stock options outstanding at the beginning of or granted during the period, calculated using the treasury stock method. Under this method, the proceeds from the exercise of the options are assumed to be used to repurchase the Company's shares on the open market. The difference between the number of shares assumed purchased and the number of options assumed exercised is added to the actual number of shares outstanding to determine diluted shares outstanding for purposes of calculating diluted earnings per share. Therefore, the number of shares in the diluted earnings per share calculation will increase as the average share price increases.

t) Employee benefits

The costs of retirement benefits for defined benefit plans are recognized as the benefits are earned by employees. The Projected Unit Credit Method is used along with management's best estimate assumptions to value pension and other post-retirement benefits. Pension assets are valued at fair value for the purpose of calculating the expected return on plan assets. The Company recognizes all actuarial gains and losses arising from defined benefit plans in other comprehensive income, and reports them in retained earnings (deficit). Any asset resulting from this calculation is limited to unrecognized actuarial losses and past service cost, plus the present value of available refunds and reductions in future contributions to the plan. Payments to the defined contribution pension plan are expensed as incurred, when the related employee service is rendered.

u) 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. For equity-settled share-based payments that vest over more than a single period, each tranche of the award is considered to be a separate grant and the fair value of each is calculated on the grant date. Management estimates a forfeiture rate for the purpose of determining the compensation expense 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 share-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.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

v) Financial instruments

All financial instruments are initially recorded at fair value including transaction costs except for transaction costs related to financial instruments classified as fair value through profit or loss ("FVTPL") which are expensed as incurred. Subsequent measurement of financial instruments is determined based on its classification.

The Company classifies its cash and cash equivalents, and short-term investments as FVTPL which are measured at fair value with gains and losses included in net income in the period in which they arise. Trade and other receivables are classified as loans and receivables which are accounted for at amortized cost. Trade and other payables, income taxes payable, and long-term debt are measured at amortized cost. The Company measures derivatives and embedded derivatives at fair value with changes in fair value recognized in net income and has not elected to use hedge accounting.

The Company has not designated any financial instruments as held to maturity.

Financial instruments recognized at fair value are classified in fair value hierarchy levels as follows:

- Level 1 – valuation based on quoted prices (unadjusted) in active market for identical assets or liabilities;
- Level 2 – valuation techniques based on inputs that are other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (prices) or indirectly (derived from prices);
- Level 3 – valuation techniques with unobservable market inputs (involves assumptions and estimates by management of how market participants would price the assets or liabilities.)

w) Provisions

Provisions represent liabilities of the Company for which the amount or timing is uncertain. A provision is recognized when, as a result of a past event, the Company has a present obligation (legal or constructive) that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Where appropriate, the future cash flow estimates are adjusted to reflect risks specific to the liability.

3. ACCOUNTING STANDARDS DEVELOPMENTS

Financial instruments – IFRS 7, Financial Instruments: Disclosures was amended by the IASB in October 2010 to require additional disclosure for financial assets that have been transferred but not derecognized in accordance with IAS 39, Financial Instruments: Recognition and Measurement ("IAS 39). The amendments are effective for annual periods beginning on or after July 1, 2011. The Company does not expect this amendment to have a significant impact on its results and financial position.

Financial instruments – IFRS 9, Financial Instruments ("IFRS 9") was issued by the IASB in November 2009 and will replace IAS 39 in three main phases.

In November 2009 and October 2010, phase 1 of IFRS 9 was issued and amended, respectively, which addressed the classification and measurement of financial assets and financial liabilities. IFRS 9 requires that all financial assets be classified as subsequently measured at amortized cost or at fair value based on the Company's business model for managing financial assets and the contractual cash flow

3. ACCOUNTING STANDARDS DEVELOPMENTS (Continued)

characteristics of the financial assets. Financial liabilities are classified as subsequently measured at amortized cost except for financial liabilities classified at fair value through profit or loss ("FVTPL"), financial guarantees and certain other exceptions. 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, 2015. The Company does not expect this pronouncement to have a significant impact on its results and financial position.

Consolidation – In May 2011, the ISAB issued the following new standards:

- *IFRS 10, Consolidated Financial Statements* ("IFRS 10") which will replace parts of IAS 27, Consolidated and Separate Financial Statements ("IAS 27"), and SIC-12, Consolidation – Special Purpose Entities ("SIC-12"),
- *IFRS 11, Joint Ventures ("IFRS 11")* which will replace IAS 31, Interests in Joint Ventures, and SIC-13, Jointly Controlled Entities – Non-monetary Contributions by Venturers, and
- *IFRS 12, Disclosures of Involvement with Other Entities*

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. IFRS 11 classifies joint arrangements as either joint operations or joint ventures based on the rights and obligations of the parties to the joint arrangements. IFRS 11 requires a joint operator to recognize its portion of assets, liabilities, revenues and expenses of a joint arrangement, while a joint venture is recognized as an investment in a joint arrangement using the equity method.

The above 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.

Fair value measurements and disclosure – IFRS 13, Fair Value Measurements and Disclosure ("IFRS 13") was issued by the IASB in May 2011. This standard substantially converges how fair values are measured and disclosures on fair value measurements with Accounting Standards Update 2011-04 issued by the Financial Accounting Standards Board under U.S. GAAP. IFRS 13 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.

Employee benefits – Amendments to *IAS 19, Employee Benefits* ("IAS 19") was issued by the IASB in June 2011. The amendments require all changes in defined benefit obligations and plan assets be recognized in other comprehensive income in the period they occur, eliminating the ability to defer and amortize such changes under the corridor method. These amendments are effective for annual periods beginning on or after January 1, 2013. The Company does not expect these amendments to have a significant impact on its results and financial position.

Financial statement presentation – IAS 1, Presentation of Financial Statements ("IAS 1") was issued by the IASB in June 2011. This standard requires an entity to group items presented on the Statement of Comprehensive Income on the basis of whether they may be reclassified to earnings subsequent to initial recognition. Taxes related to the two separate groups are also required to be presented separately. These amendments are effective for annual periods beginning on or after July 1, 2011. The Company does not expect this pronouncement to have a significant impact on its results and financial position.

4. ACQUISITION

Effective February 17, 2011, the Company acquired the remaining 50% interest in Footner Forest Products Inc. ("High Level") from Grant Forest Products Inc. for $20 million, thereby increasing the Company's interest to 100%. The High Level investment was previously accounted for using the proportionate consolidation method. The transaction resulted in the acquisition of an additional 430 million square feet of production capacity and full management control of the mill. The excess fair value

4. AQUISITION (Continued)

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 its fair value 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.

The cash consideration for the acquisition of High Level was as follows:

Business and net assets acquired	$	20,000

The acquisition was accounted for using the acquisition method and the net assets of the acquired business are included in the consolidated financial statements from the dates of acquisition. Final valuations are complete and there has been no change to the purchase price allocations. . The details of the 50% of net assets acquired were as follows:

ASSETS		
Current assets		
Cash and cash equivalents	$	17
Trade and other receivables		155
Inventory		2,150
Prepaid expenses		178
		2,500
Property, plant and equipment		84,513
Intangible assets		850
Total assets	$	87,863
LIABILITIES		
Current liabilities		
Trade and other payables	$	963
Reforestation obligation		650
Deferred income tax liabilities		16,563
Total liabilities	$	18,176

The High Level mill has been indefinitely curtailed since December of 2007. Included in income for the year are costs of $3.4 million attributable to High Level. There were no sales generated by High Level. Had this business combination been effected at January 1, 2011, revenue of the Company would have been the same, and the income for the year from continuing operations would have been $224 lower.

5. TRADE AND OTHER RECEIVABLES

Trade and other receivables are comprised of the following:

		December 31 2011		December 31 2010		January 1 2010
Trade receivables	**$**	**13,978**	$	11,115	$	10,884
Other receivables		**3,924**		4,522		3,020
		17,902		15,637		13,904
Less: allowance for doubtful accounts		**(100)**		(100)		(174)
	$	**17,802**	$	15,537	$	13,730

5. TRADE AND OTHER RECEIVABLES (Continued)

Changes in the allowance for doubtful accounts are as follows:

		2011		2010
Balance, January 1	$	100	$	174
Receivables written off during the year		-		(74)
Balance, December 31	$	100	$	100

The aging of trade receivables is as follows:

		December 31 2011		December 31 2010		January 1 2010
Aging of past due but not impaired:						
< 30 days	$	13,748	$	10,770	$	10,534
30 - 60 days		225		310		253
> 60 days		5		35		97
	$	13,978	$	11,115	$	10,884

The Company did not have any impaired trade receivables for the year ended December 31, 2011 (December 31, 2010: $nil).

6. INVENTORIES

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

		December 31 2011		December 31 2010		January 1 2010
Logs	$	8,734	$	11,429	$	12,046
Panel products		10,627		10,740		9,786
Materials, supplies and spares		17,047		17,231		17,350
	$	36,408	$	39,400	$	39,182

Inventory recovery (write-down) to reflect inventories at the lower of cost and net realizable value was recorded as follows:

		2011		2010
Log inventory	$	123	$	(123)
Panel inventory		288		(288)
	$	411	$	(411)

All inventories are pledged as security for loans.

7. 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.

On August 5, 2011, the Company sold its aircraft for proceeds of U.S. $5.75 million ($5.5 million). Concurrent with the sale, the Company repaid the related financing lease of $7.1 million.

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

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

		December 31 2011		December 31 2010		January 1 2010
ASSETS						
Current Assets of Discontinued Operations						
Trade and other receivables	**$**	**509**	$	-	$	819
Inventories		**-**		-		262
Income taxes receivable		**-**		-		557
Prepaid expenses		**-**		-		230
		509		-		1,868
Property, Plant and Equipment		**-**		-		91
Property, Plant and Equipment Under Lease and Held for Sale				7,042		7,042
Total Assets Held for Disposal	**$**	**509**	$	7,042	$	9,001
LIABILITIES						
Current Liabilities of Discontinued Operations						
Trade and other payables	**$**	**719**	$	827	$	5,009
Accrued Pension Benefit Liability (1)		**1,878**		1,669		1,394
Total Liabilities Held for Disposal	**$**	**2,597**	$	2,496	$	6,403

(1) During 2010, the Company issued a letter of credit in the amount of U.S. $1.1 million to in respect of its potential obligations related to the Minnesota defined benefit 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.

		2011		2010
Revenue	**$**	**-**	$	426
Impairment of Other Assets		**(112)**		(10)
Gain on Disposal of Property, Plant and Equipment		**1,030**		85
Income (Loss) Before Income Taxes		**632**		(918)
Income Tax Recovery		**34**		52
Income (Loss) from Discontinued Operations	**$**	**666**	$	(866)

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

8. PROPERTY, PLANT AND EQUIPMENT

Deemed Cost	Land	Building	Machinery and Equipment [1]	Assets under Finance Lease	Other Assets [2]	Construction in Progress [3]	Total
Cost, January 1, 2010	$ 3,849	$ 179,692	$ 346,430	$ 624	$ 6,573	$ 58,849	$ 596,017
Additions	-	404	15,970	(195)	849	(2,995)	14,033
Disposals	-	-	-	-	(82)	(91)	(173)
Cost, December 31, 2010	$ 3,849	$ 180,096	$ 362,400	$ 429	$ 7,340	$ 55,763	$ 609,877
Additions	173	2,918	1,625	1,389	91	1,701	7,897
Acquisitions through business combinations[4]	312	40,104	79,239	-	839	382	120,876
Disposals	-	-	(427)	-	(213)	-	(640)
Transfers	-	-	(585)	-	-	(2,333)	(2,918)
Cost, December 31, 2011	$ 4,334	$ 223,118	$ 442,252	$ 1,818	$ 8,057	$ 55,513	$ 735,092

Amortization	Land	Building	Machinery and Equipment	Assets under Finance Lease	Other Assets	Construction in Progress	Total
Accumulated amortization, January 1, 2010	$ -	$ (9,360)	$ (31,630)	$ -	$ (1,012)	$ -	$ (42,002)
Amortization for the year	-	(2,743)	(21,230)	-	(781)	-	(24,754)
Disposals	-	-	-	-	31	-	31
Accumulated amortization, December 31, 2010	$ -	$ (12,103)	$ (52,860)	$ -	$ (1,762)	$ -	$ (66,725)
Amortization for the year	-	(7,390)	(11,616)	(449)	(301)	-	(19,756)
Disposals	-	-	87	-	68	-	155
Accumulated amortization, December 31, 2011	$ -	$ (19,493)	$ (64,389)	$ (449)	$ (1,995)	$ -	$ (86,326)
Carrying amount							
Balance, Jan. 1, 2010	$ 3,849	$ 170,332	$ 314,800	$ 624	$ 5,561	$ 58,849	$ 554,015
Balance, Dec. 31, 2010	3,849	167,993	309,540	429	5,578	55,763	543,152
Balance, Dec. 31, 2011	4,334	203,625	377,863	1,369	6,062	55,513	648,766

(1) Certain property, plant and equipment have been secured as collateral against equipment financing of $14.2 million. In addition, there is a security charge against an OSB facility, to the maximum of U.S. $50 million.

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

(3) No interest has been capitalized in construction in progress for the periods presented. Included in construction in progress is $52,337 related to our second production line at Grande Prairie, which is currently curtailed. This amount has been secured as collateral.

(4) Includes the acquisition of the remaining 50% interest in High Level property, plant and equipment, plus a fair value adjustment on the existing 50% interest held prior to the transaction.

9. INTANGIBLE ASSETS

Intangible assets consist of timber rights.

	December 31 2011	December 31 2010	January 1 2010
Cost	**$ 25,104**	$ 24,057	$ 17,032
Accumulated amortization	**(13,426)**	(10,578)	(9,785)
Net intangible assets	**$ 11,678**	$ 13,479	$ 7,247

Cost	
Cost at January 1, 2010	$ 17,032
Additions	7,025
Cost at December 31, 2010	24,057
Acquisitions through business combination[1]	1,082
Disposals	(35)
Cost at December 31, 2011	$ 25,104

Accumulated Amortization	
Accumulated amortization at January 1, 2010	$ (9,785)
Amortization for the year	(793)
Write-downs	-
Accumulated amortization at December 31, 2010	(10,578)
Amortization for the year	(2,848)
Accumulated amortization at December 31, 2011	$ (13,426)

[1] Includes the acquisition of the remaining 50% interest in High Level intangible assets, plus a fair value adjustment on the existing 50% interest held prior to the transaction.

10. TRADE AND OTHER PAYABLES

	December 31 2011	December 31 2010	January 1 2010
Trade payables	**$ 8,759**	$ 10,648	$ 7,954
Other payables and accruals [1]	**12,927**	14,185	15,521
	$ 21,686	$ 24,833	$ 23,475

[1] Other payables and accruals include wages and benefits, severance payable, sundry payable, current reforestation liabilities and accrued interest.

11. 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 7).

Defined benefit plans:

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

11. ACCRUED PENSION BENEFIT LIABILITY (Continued)

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.

Information about the Company's defined benefit pension plan is as follows:

	2011	2010
PLAN ASSETS		
Fair value at beginning of year	**$ 39,222**	$ 37,353
Expected return on plan assets	**2,708**	2,596
Employer contributions	**5,236**	5,145
Benefits paid	**(3,449)**	(5,666)
Actuarial loss	**(2,230)**	(206)
Fair value at end of year	**$ 41,487**	$ 39,222
ACCRUED BENEFIT OBLIGATION		
Balance at beginning of year	**49,667**	40,704
Current service cost	**1,778**	1,387
Interest cost	**2,735**	2,552
Benefits paid	**(3,449)**	(5,666)
Actuarial loss	**3,859**	10,690
Balance at end of year [1]	**54,590**	49,667
NET DEFICIT, END OF YEAR	**$ (13,103)**	$ (10,445)
Fair value of plan assets at end of year, discontinued operations	**$ 4,433**	$ 4,970
Accrued benefit obligation at end of year, discontinued operations	**$ 6,311**	$ 6,006
Net deficit at end of year, discontinued operations	**$ (1,878)**	$ (1,036)
PENSION EXPENSE		
Accrual for current services	**$ 1,778**	$ 1,387
Interest on accrued benefits	**2,735**	2,552
Expected return on pension fund assets	**(2,708)**	(2,596)
	$ 1,805	$ 1,343
Pension expense, discontinued operations	**$ 181**	$ 293

(1) Accrued benefit obligation includes liabilities of $2.1 million (December 31, 2010: $1.9 million) related to the Lillooet and Savona discontinued operations.

11. ACCRUED PENSION BENEFIT LIABILITY (Continued)

The amounts that have been charged to the statement of operations for the periods are set out below:

		2011		2010
Amount charged to operating profit:				
Accrual for current services	**$**	**1,778**	$	1,387
Amount charged to finance income:				
Interest on accrued benefit liabilities		**2,735**		2,552
Expected return on pension fund assets		**(2,708)**		(2,596)
Net pension finance income (expense)		**27**		(44)
Total charged to the statement of operations, continuing operations	**$**	**1,805**	$	1,343
Total charged to the statement of operations, discontinued operations	**$**	**181**	$	293

Actuarial losses have been charged to other comprehensive income (loss) as follows:

		2011		2010
Actuarial loss on plan assets, continuing operations	**$**	**2,230**	$	206
Actuarial loss on plan liabilities, continuing operations		**3,859**		10,690
Net actuarial loss, discontinued operations		**315**		127
Income tax recovery on actuarial loss		**(1,523)**		(2,759)
Actuarial loss, net of tax, recognized in other comprehensive income	**$**	**4,881**	$	8,264

The significant weighted-average actuarial assumptions adopted in measuring the Company's accrued benefit obligations and benefit costs included the following:

	2011	2010
Discount rate on accrued benefit obligation at end of year	**5.00%**	5.50%
Discount rate on benefit costs	**5.50%**	6.50%
Expected long-term rate of return on plan assets	**6.75%**	7.00%
Actual return on plan assets	**1.76%**	7.27%
Rate of compensation increase	**3.00%**	3.00%

Expected rates of return are determined taking into account the current level of expected returns on risk-free investments, the historical level of risk premium associated with other invested assets, and the expectations for future returns on such assets.

11. ACCRUED PENSION BENEFIT LIABILITY (Continued)

The plan assets in the defined benefit pension plans, which fall within the allowable range of the corresponding assets category as set out in Ainsworth's Statement of Investment Policies are as follows:

PLAN ASSETS	**December 31 2011**	December 31 2010	January 1 2010
Cash	**0.1%**	0.1%	0.1%
Canadian short-term investments	**3.5%**	1.4%	4.3%
Canadian bonds and debentures	**36.8%**	36.2%	37.9%
Canadian common shares	**25.9%**	28.3%	28.8%
Canadian pooled equity funds	**2.1%**	2.8%	2.0%
Global bonds and debentures	**0.7%**	0.4%	0.5%
Global pooled equity funds	**14.4%**	14.9%	11.6%
U.S. bonds and debentures	**0.0%**	0.3%	0.0%
U.S. common shares	**16.5%**	15.6%	14.8%
	100.0%	100.0%	100.0%

Plan Investment Strategies and Policies

The Company's primary goal for the defined benefit plans is the preservation and enhancement of the value of the assets through the prudent diversification of high quality investments and asset classes. A secondary goal of the Company is to maximize the long-term rate of return of the defined benefit plans' assets within a level of risk acceptable to the Company.

Risk management: The Company considers absolute risk (the risk of contribution increases, inadequate plan surplus and unfunded obligations) to be more important than relative return risk. Accordingly, the defined benefit plans' design, the nature and maturity of defined benefit obligations and characteristics of the plans' memberships significantly influence investment strategies and policies. The Company manages risk through specifying allowable and prohibited investment types, setting diversification strategies and determining target asset allocations. For example, the minimum quality rating of any holding in the bond section shall be BBB and the aggregate holding of BBB grade bonds shall never exceed 10% of the total bond section. In addition, no equity holding shall exceed 5% of that company's total outstanding voting shares. Investment of cash reserves in short term paper shall be confined to Governments, chartered banks, major trust companies, or top quality corporate credits with a rating of R1-low or better.

Allowable and prohibited investment types: Allowable and prohibited investments types, along with associated guidelines and limits, are set out in each fund's Statement of Investment Policies which is reviewed and approved annually by the designated governing fiduciary.

Diversification: The Company's strategy for equity security investments is to be broadly diversified across individual securities, industry sectors and geographical regions. A meaningful portion (no more than 55% of the total plans' assets) of the investment in equity securities is allocated to foreign equity securities with the intent of further increasing the diversification of the plans' assets. The remaining Canadian equities may be as high as 50% of the total portfolio but can never fall below 15%. No more than 10% of Canadian, U.S. or International equities shall be invested in any one company, respectively. Fixed income can comprise up to 50% of the portfolio but never less than 30% at one time. All fixed incomes are invested in corporate issues and no more than 20% of the total market value of the bond section shall be invested in any one generally recognized industry group, except utilities (40%) and finance (40%). The portfolio may contain from 0% - 20% of cash and cash equivalents.

11. ACCRUED PENSION BENEFIT LIABILITY (Continued)

Asset allocations: Information concerning the Company's defined benefit plans' target asset allocation and actual asset allocation is as follows:

	Allowable Range	Actual
Canadian equities	15% - 50%	28%
US equities	5% - 35%	16%
International equities	0% - 30%	14%
Bonds	30% - 50%	38%
Short-term and cash	0% - 20%	4%

At December 31, 2011, there were no shares of the Company held in the pension and other benefit trusts administered by the Company.

Defined contribution plan and other plans:

Beginning in the second quarter of 2010, new salaried employees in British Columbia were enrolled into a new Canadian defined contribution pension plan. The plan is funded by payments from the employees and the Company. Payments are charged to the statement of operations for the period as incurred.

The Company also sponsors a Group Registered Retirement Savings Plan (RRSP) at three of its Canadian operations, including the curtailed High Level operation.

Contributions to these plans were as follows:

		2011		2010
Group RRSP	**$**	**1,401**	$	1,500
Defined contribution pension plan		**185**		38
401(k) savings plans		**18**		3

12. REFORESTATION OBLIGATION

Reforestation obligations relate to timber that is harvested under various licenses issued by the Provinces of British Columbia and Alberta. The future estimated reforestation obligation is accrued and charged to operations in cost of products sold on the basis of the volume of timber cut.

		2011		2010
Balance, January 1	**$**	**2,502**	$	2,369
Expense		**620**		405
Paid during the year		**(477)**		(284)
High Level purchase price adjustment[1]		**1,201**		-
Unwinding of discount		**(441)**		12
Balance, December 31	**$**	**3,405**	$	2,502
Current portion, included in trade and other payables	**$**	**469**	$	426
Non-current portion		**2,936**		2,076
	$	**3,405**	$	2,502

[1] Includes the acquisition of the remaining 50% interest in High Level reforestation obligation, plus a fair value adjustment on the existing 50% interest held prior to the transaction.

13. LONG-TERM DEBT

	Note	Par Value	Maturity	**December 31 2011**	December 31 2010	January 1 2010
Bank and other loans						
Senior unsecured notes	(a)	US $398,252	July 29, 2015	**$ 405,022**	$ 377,212	$ 394,578
Senior secured term loan	(b)	US $102,637	June 26, 2014	**104,382**	102,083	107,872
Equipment financing loan	(c)	US $20,162	Oct. 1, 2011	**-**	20,053	29,667
Equipment financing loan	(d)	US $12,769	Sept. 30, 2014	**12,987**	-	-
Equipment financing loan	(e)	Euro 5,678	Dec. 20, 2016	**7,491**	9,243	12,339
Finance leases			2012 - 2015	**1,231**	9,304	10,341
				531,113	517,895	554,797
Consent fees				**(691)**	(860)	(1,007)
Transaction costs				**(12,955)**	(16,207)	(19,161)
Unamortized deferred debt premium				**5,699**	7,067	8,241
				$ 523,166	$ 507,895	$ 542,870

	December 31 2011	December 31 2010	January 1 2010
Current	**$ 4,895**	$ 22,270	$ 11,075
Non-current	**518,271**	485,625	531,795
	$ 523,166	$ 507,895	$ 542,870

a) Cash interest payable semi-annually at 6.0% per annum and 5.0% payment-in-kind interest per annum due at maturity.
b) The loan is secured by inventory, accounts receivable, and up to $50,000 of assets relating to an OSB manufacturing facility. The Company can elect to pay interest at a base rate plus 4.0% or at LIBOR plus 5.0%. Interest at the base rate plus 4.0%, which is derived from the prime rate and the federal funds effective rate, is payable quarterly. Interest at LIBOR plus 5.0% is payable on a monthly, bi-monthly, quarterly or semi-annual basis, depending on the interest period election made by the Company. The interest rate and interest period are elected by the Company at the end of the previous interest period. As at December 31, 2011 the Company elected to pay monthly interest at LIBOR plus 5.0%. There are no scheduled principal payments until maturity on June 26, 2014.
c) Principal and interest payable monthly at LIBOR plus 2.9%. Effective September 30, 2011, the company refinanced this equipment loan (see (d)).
d) The equipment loan is secured by certain property, plant and equipment, and requires maintenance of working capital of not less than $50,000. Principal and interest payable monthly at LIBOR plus 3.5% per annum.
e) Interest payable semi-annually at EURIBOR plus 0.65% per annum.

Anticipated requirements to meet long-term debt principal repayments, including finance lease obligations, during each of the five years ending December 31 are as follows:

2012	$ 4,895
2013	4,822
2014	113,848
2015	487,141
2016	832
And thereafter	-
	$ 611,538

14. 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 follows:

	Operating Leases	Finance Leases
No later than one year	$ 839	$ 608
Later than one year, but no later than five years	2,098	806
Later than five years	-	-
	2,937	1,414
Less: future finance charges	-	(183)
Present value of minimum lease payments	$ 2,937	$ 1,231

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 not entered into any agreement to purchase property, plant and equipment at December 31, 2011 (December 31, 2010: $868). The Company 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.

15. 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 December 31, 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.

16. CAPITAL STOCK AND WARRANTS

a. The authorized capital of the Company consists of an unlimited number of common shares without par value and an unlimited number of Preferred Shares issuable in series, 5,000,000 of which are designated as Series 1 Preferred Shares.

The Company's issued share capital is as follows:

	2011			2010		
	Shares	**Warrants**	**Amount**	**Shares**	**Warrants**	**Amount**
Outstanding, January 1	**100,502,222**	**8,695,634**	**$410,950**	90,005,712	18,789,922	$409,880
Stock options exercised (Note 16)	**266,666**	**-**	**559**	402,222	-	1,070
Shareholder warrants exercised	**-**	**-**	**-**	10,094,288	(10,094,288)	-
Balance, December 31	**100,768,888**	**8,695,634**	**$411,509**	100,502,222	8,695,634	$410,950

16. CAPITAL STOCK AND WARRANTS (Continued)

The shareholder warrants shall be deemed to be exercised and shall be converted without additional consideration into equal number of 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.

On May 11, 2010, Brookfield Special Situations II (OSB) L.P. ("BSS") acquired 14,905,712 common shares and warrants to acquire 10,094,288 common shares of Ainsworth in a privately negotiated transaction. These warrants were subsequently converted into common shares. BSS holds approximately 55.0% of the issued and outstanding common shares of Ainsworth on a fully diluted basis.

b. Earnings per share

The shareholder warrants 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 because the Company' s equity market capitalization does not exceed U.S. $1.2 billion.

At December 31, 2011 there were 1,493,096 (December 31, 2010: 1,535,202) 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.

17. 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:

	2011	2010
Weighted average assumptions:		
Risk-free interest rate	**1.93%**	3.06%
Expected volatility[1]	**50.77%**	51.00%
Dividend yield	**0%**	0%
Expected option life (years)	**4.00**	4.00
Share price	**2.96**	2.69

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

17. SHARE-BASED PAYMENTS (Continued)

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

	2011		2010	
	Number of Share Options	**Weighted Average Exercise Price**	Number of Share Options	Weighted Average Exercise Price
Outstanding at January 1	**1,978,676**	**$ 2.13**	1,252,222	$ 1.56
Granted during the year	**800,000**	**2.94**	1,231,234	2.69
Exercised during the year [1]	**(266,666)**	**1.22**	(402,222)	1.74
Forfeited during the year [2]	**(758,334)**	**2.40**	(102,558)	3.42
Expired during the year	**-**		-	
Outstanding at December 31	**1,753,676**	**$ 2.52**	1,978,676	$ 2.13
Options exercisable at December 31	**703,672**		583,333	
Weighted average fair value per option granted during the year	**$ 1.22**		$ 1.03	

(1) During the year ended December 31, 2011, $559 was credited to capital stock with respect to stock options that were exercised. This includes $324 consideration received on exercise, plus $235 representing the vested fair value of the stock options. During the year ended December 31, 2010, $1.1 million was credited to capital stock with respect stock options that were exercised. This includes $700 consideration received on exercise, plus $370 representing the vested fair value of the stock options. The weighted average share price of options exercised during the year ended December 31, 2011 was $2.41.

(2) During the year ended December 31, 2011, $413 (year ended December 31, 2010: $14) 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 December 31, 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 - 1.99	700,000	7.82	$ 1.77	433,333	$ 1.73
2 - 3.99	931,300	8.66	2.84	181,297	2.53
4 - 5.99	122,376	8.38	4.34	89,042	4.42
	1,753,676	8.31	$ 2.52	703,672	$ 2.28

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

	2011	2010
Share-based compensation expense	**$ 369**	$ 762

17. SHARE-BASED PAYMENTS (Continued)

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 as at December 31, 2011 to estimate the fair value of DSUs:

Weighted average assumptions:	
Risk-free interest rate	**1.13%**
Expected volatility	**54.00%**
Dividend yield	**0%**
Expected life (years)	**4.00**
Share price	**0.95**

The table below outlines the status of the Company's DSU plan for the year ended December 31, 2011:

	Number of DSUs		**Fair Value**
Outstanding at beginning of year	**-**	**$**	**-**
Granted during the year	**114,264**		**94**
Change in value			**(47)**
Outstanding at end of year	**114,264**	**$**	**47**

18. FINANCE EXPENSE

		2011		2010
Cash interest	**$**	**(28,634)**	$	(31,151)
Payment-in-kind interest		**(18,990)**		(19,403)
Interest on finance leases		**(99)**		(86)
Amortization of bond discount, transaction costs and consent fees		**(2,053)**		(1,923)
	$	**(49,776)**	$	(52,563)

19. FOREIGN EXCHANGE (LOSS) GAIN

		2011		2010
Foreign exchange (loss) gain on long-term debt	**$**	**(11,353)**	$	30,368
Other foreign exchange gain (loss)		**231**		(1,403)
	$	**(11,122)**	$	28,965

20. (LOSS) GAIN 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, which in the Company's judgment are not traded in an active market, 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 year ended December 31, 2011 of $6.2 million (year ended December 31, 2010: $6.2 million gain).

The table below outlines the significant assumptions used during the year to estimate the fair value of the derivative financial instrument:

		2011
Hull-White model assumptions:		
Short-rate volatility		**1.000%**
Mean reversion constant		**30.000%**
Indicative market price	**$**	**0.62**
Implied credit spread		**19.68%**

21. 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).

22. OTHER ITEMS

		2011		2010
Gain on disposal of property, plant and equipment	**$**	**972**	$	409
Write-down of property, plant and equipment		**(942)**		-
Net legal proceeds		**-**		1,149
Other income		**1,533**		3,717
	$	**1,563**	$	5,275

23. TAXATION

During the second quarter of 2010, as a result of a change in shareholdings, a change of control occurred for tax purposes, resulting in the expiry of certain previously recognized tax assets and certain unrecognized net capital losses. Certain permanent differences, such as the non-taxable portion of the foreign exchange (loss) gain on debt and the expected reversal of certain deferred income tax assets and liabilities at lower effected tax rates also impacted the resulting income tax expense or 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, management's assessments involve judgments, estimates and assumptions about current and future events. Although management believe 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.

23. TAXATION (Continued)

a) Reconciliation of the effective tax rate:

The following table provides a reconciliation of the Canadian statutory corporation tax rate to the effective tax rate of the Company:

	2011		2010	
	Amount	**%**	Amount	%
Income tax recovery (expense) at statutory rate	**$ 2,415**	**27%**	$ (3,795)	28%
Non-taxable foreign exchange (loss) gain on long-term debt	**(1,651)**	**-18%**	4,198	-31%
Gain on acquisition of High Level	**19,224**	**211%**	-	0%
Change in statutory income tax rates	**(748)**	**-8%**	845	-7%
Other	**(2,501)**	**-28%**	(1,828)	14%
Tax recovery (expense)	**$ 16,739**	**184%**	$ (580)	4%
Comprised of:				
Current taxes	**$ (351)**		$ (118)	
Deferred income taxes	**17,090**		(462)	
	$ 16,739		$ (580)	

b) Temporary differences and tax loss carry forwards which give rise to the net deferred income tax liability are as follows:

	December 31 2011	December 31 2010	January 1 2010
Deferred income tax assets:			
Accruals not currently deductible	**$ 1,705**	$ 824	$ 1,060
Deferred pension costs	**2,953**	2,268	657
Eligible capital expenditures	**-**	-	84
Foreign exchange loss on long-term debt	**728**	-	2,285
Investment tax credits	**10,622**	9,038	5,886
Tax loss carryforwards	**63,477**	36,241	39,648
Other tax credits	**918**	918	918
	$ 80,403	$ 49,289	$ 50,538
Deferred income tax liabilities:			
Depreciable capital assets	**(109,580)**	(73,714)	(85,038)
Financing costs	**(1,804)**	(855)	596
Land	**(213)**	(212)	(212)
Foreign exchange gain on long-term debt	**-**	(1,716)	-
	$ (111,597)	$ (76,497)	$ (84,654)
Deferred income tax liability, net	**$ (31,194)**	$ (27,208)	$ (34,116)

c) Unrecognized deferred tax assets:

The Company has U.S. non-capital tax loss carry-forwards of $367,274 that expire between 2026 and 2031.

The movement in deferred income tax assets and liabilities during the year was all charged to the statement of operations, with the exception of $1.5 million charged to other comprehensive income related to the movement in deferred pension costs. (2010: $2.8 million).

24. 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:

		2011		2010
North America	$	**239,123**	$	291,254
Overseas		**54,143**		38,232
	$	**293,266**	$	329,486

Property, plant and equipment, intangible assets and other assets 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. During the second quarter of 2011, overseas sales increased due to increased demand from our Japanese customers as a result of the March 2011 earthquake and tsunami.

25. CHANGES IN NON-CASH OPERATING WORKING CAPITAL

		2011		2010
Trade and other receivables	$	**(2,612)**	$	(988)
Inventories		**2,310**		(234)
Income taxes receivable/payable		**219**		2,361
Prepaid expenses		**202**		(1,898)
Trade and other payables		**(2,694)**		(4,487)
	$	**(2,575)**	$	(5,246)

26. 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.

The Company undertakes transactions in a range of financial instruments including cash and cash equivalents, short-term investments, trade and other receivables, trade and other payables and various forms of borrowings, including Senior Unsecured Notes with an embedded derivative arising from call options, bank loans and finance leases.

26. FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (Continued)

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	**December 31 2011**	December 31 2010	January 1 2010
FINANCIAL ASSETS				
Held for trading				
Cash and cash equivalents	Level 1	**$ 17,029**	$ 67,577	$ 92,075
Short-term investments	Level 1	**45,528**	59,413	61,654
Loans and receivables				
Trade and other receivables	n/a	**17,802**	15,537	13,730
Derivative financial instrument	Level 2	**6**	6,234	-
		$ 80,365	$ 148,761	$ 167,459
FINANCIAL LIABILITIES				
Other financial liabilities				
Trade and other payables	n/a	**$ 21,686**	$ 24,833	$ 23,475
Current portion of long-term debt	n/a	**4,895**	22,270	11,075
Long-term debt	n/a	**518,271**	485,625	531,795
		$ 544,852	$ 532,728	$ 566,345

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, cash and cash equivalents and short-term investments. The Company's maximum exposure to credit risk related to receivables, cash and cash equivalents, 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 consolidated financial statements. As at December 31, 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.

26. FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (Continued)

As global debt and equity markets can be volatile, we continue to monitor discretionary capital expenditures carefully. The Company's refinanced equipment loan matures in 2014, 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 Senior Term Loan and Senior Note 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 or of other sources of capital, is dependent on capital markets at the time and may not be available on acceptable terms. 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.

	Less than 1 month	1 to 3 months	Less than 1 year	1 to 5 years	More than 5 years
Senior Unsecured Notes	$ -	$ -	$ 24,666	$555,193	$ -
Senior Secured Term Loan	495	957	4,372	113,031	-
Equipment loan	272	542	2,399	10,822	-
Deutsche Bank equipment loan	-	-	1,806	6,060	-
Finance lease obligations (Note 14)	58	104	446	806	-
Operating lease obligations	70	140	629	2,098	-
Trade payable and accrued liabilities	20,939	-	1,467	-	-
Reforestation obligation	-	-	-	2,452	484
Purchase commitments	102	204	917	4,888	4,277
	$ 21,936	$ 1,947	$ 36,702	$695,350	$ 4,761

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 December 31, 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 December 31, 2011 was $6 (December 31, 2010: $6.2 million) and was included in other assets. At December 31, 2011, if interest rates had been 1% higher/lower and all other variables were constant, the value of the derivative financial asset would not have changed.

26. FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (Continued)

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.

At December 31, 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 $3.8 million higher/lower (December 31, 2010: $3.6 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.

Valuation of long-lived assets
Where changes, events or circumstances indicate that assets may be impaired, management reviews long-lived assets for impairment. Such indicators might include a decline in market capitalization below the carrying value of assets, prolonged poor market conditions or restricted access to capital. As a result of certain indicators a review was performed on December 31, 2011. Based on the discounted cash flows of the Company's CGU's, which used the best available information on projected sales volumes, sales prices discount rates, and anticipated timing of start-up of curtailed assets, management believes that there is adequate support for the carrying value of long-lived assets at December 31, 2011. Should the markets for the Company's products deteriorate or should capital not be available to fund capital expenditures, it is possible that the value of certain long-lived assets would be impaired.

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 December 31, 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:

	December 31, 2011		December 31, 2010		January 1, 2010	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value	Carrying Value	Fair Value
Senior notes	**$ 398,019**	**$ 232,170**	$ 368,529	$ 334,013	$ 384,450	$ 219,366
Term loan	**103,574**	**87,134**	100,766	97,704	106,073	106,073
Equipment financing	**20,342**	**20,342**	29,296	29,296	42,006	42,006
	$ 521,935	**$ 339,646**	$ 498,591	$ 461,013	$ 532,529	$ 367,445

26. FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (Continued)

The Senior Secured Term Loan is secured by accounts receivable and inventory having a carrying value of $50,386. In the event that the accounts receivable and inventory security for the term loan is deficient, the Senior Secured 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 $14.2 million is secured by certain capital assets.

The fair value of the call option embedded in the Senior Unsecured Notes as at December 31, 2011 was $6 (December 31, 2010: $6.2 million).

27. RELATED PARTY TRANSACTIONS

Brookfield Special Situations II (OSB) L.P.
The Company is controlled by Brookfield Special Situations II (OSB) L.P. ("BSS"), which beneficially owns or exercises control or direction over approximately 55.0%% of the issued and outstanding common shares. The Company made interest payments with respect to Senior Unsecured Notes held by BSS.

The Company also periodically sells goods to BSS affiliates. During the year ended December 31, 2011, these sales were approximately $3.2 million (December 31, 2010: nil). On October 1, 2011, the Company sold equipment to a BSS affiliate for a total of $1.0 million (U.S. $1.0 million). The gain on this sale has been recorded in discontinued operations. 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. At December 31, 2011, all amounts were collected in respect of sales of goods to BSS and its affiliates. Included in accounts receivable at December 31, 2011 is $0.5 million (U.S. $0.5 million) in respect of the sale of equipment.

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 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:

	2011	2010
Short-term employment benefits	**$ 3,739**	$ 2,687
Long-term employment benefits	**125**	85
Share-based payments	**817**	637
	$ 4,681	$ 3,409

Other
During the year ended December 31, 2011, the Company paid legal fees of $100 (year ended December 31, 2010: $122) to a law firm of which a director of the Company is a Partner. The Company also paid $147 (2010: $76) to an entity related to BSS to provide insurance services.

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.

28. 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 December 31, 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) a previous CGAAP revaluation at, or before the transition date to IFRS, as deemed cost. This option can be applied separately to each asset or class of assets. The Company has elected to use option (ii) for all 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 deficit 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 equity settled 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, 2010. 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).

28. TRANSISTION 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:

a) *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 (December 31, 2010: $16.1 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.

b) *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 (December 31, 2010: $12.4 million).

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.

c) *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.

28. TRANSISTION 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 (December 31, 2010: $429).

d) 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 (December 31, 2010: $57.1 million). This adjustment reduced the value of the intangible assets to their historical cost prior to the Company's recapitalization.

e) 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 (December 31, 2010: $336). 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.

f) 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 (December 31, 2010: $11.5 million).

d) Reconciliations

IFRS 1 requires an entity to reconcile equity, total 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. Reconciliations of the financial statements previously presented under CGAAP to the financial statements prepared under IFRS are presented on the following pages:

28. TRANSISTION TO IFRS (Continued)

Reconciliation of Consolidated Statement of Financial Position
As at January 1, 2010

	Note 28c	CGAAP	Effects of transition to IFRS	IFRS
ASSETS				
Current Assets				
Cash and cash equivalents		$ 92,075	$ -	$ 92,075
Short-term investments		61,654	-	61,654
Trade and other receivables		13,730	-	13,730
Inventories		39,182	-	39,182
Income tax receivable		509	-	509
Prepaid expenses		4,429	-	4,429
Assets held for disposal		1,868	-	1,868
		213,447	-	213,447
Property, Plant and Equipment	(iii)	547,474	6,541	554,015
Intangible Assets	(iv)	66,915	(59,668)	7,247
Other Assets		11,276	-	11,276
Assets Held for Disposal		7,133	-	7,133
		$ 846,245	**$ (53,127)**	**$ 793,118**
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current Liabilities				
Trade and other payables		$ 23,475	$ -	$ 23,475
Current portion of deferred income tax liabilities	(vi)	7,649	(7,649)	-
Current portion of long-term debt	(i)	10,743	332	11,075
Liabilities related to assets held for disposal		5,009	-	5,009
		46,876	(7,317)	39,559
Accrued Pension Benefit Liability	(ii)	2,484	867	3,351
Reforestation Obligation		2,072	-	2,072
Long-term Debt	(i)	550,582	(18,787)	531,795
Deferred Income Tax Liabilities	(vi)	35,209	(1,093)	34,116
Liabilities Related to Assets Held for Disposal	(ii)	885	509	1,394
		638,108	(25,821)	612,287
SHAREHOLDERS' EQUITY				
Capital Stock		409,880	-	409,880
Contributed Surplus	(v)	876	82	958
Deficit	(i - iv)	(202,619)	(27,388)	(230,007)
		208,137	(27,306)	180,831
		$ 846,245	**$ (53,127)**	**$ 793,118**

28. TRANSITION TO IFRS (Continued)

Reconciliation of Consolidated Statement of Financial Position
As at December 31, 2010

	Note 28c	CGAAP	Effects of transition to IFRS	IFRS
ASSETS				
Current Assets				
Cash and cash equivalents		$ 67,577	$ -	$ 67,577
Short-term investments		59,413	-	59,413
Trade and other receivables		15,537	-	15,537
Inventories		39,400	-	39,400
Prepaid expenses		6,557	-	6,557
		188,484	-	188,484
Property, Plant and Equipment	(iii)	533,667	9,485	543,152
Intangible Assets	(iv)	70,559	(57,080)	13,479
Other Assets	(ii)	11,371	(1,318)	10,053
Assets Held for Disposal		7,042	-	7,042
		$ 811,123	**$ (48,913)**	**$ 762,210**
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current Liabilities				
Trade and other payables		$ 24,833	$ -	$ 24,833
Income taxes payable		1,302	-	1,302
Current portion of deferred income tax liabilities	(vi)	5,324	(5,324)	-
Current portion of long-term debt	(i)	22,107	163	22,270
Liabilities related to assets held for disposal		827	-	827
		54,393	(5,161)	49,232
Accrued Pension Benefit Liability	(ii)	-	10,445	10,445
Reforestation Obligation		2,076	-	2,076
Long-term Debt	(i)	501,434	(15,809)	485,625
Deferred Income Tax Liabilities	(vi)	33,400	(6,192)	27,208
Liabilities Related to Assets Held for Disposal	(ii)	1,036	633	1,669
		592,339	(16,084)	576,255
SHAREHOLDERS' EQUITY				
Capital Stock		410,950	-	410,950
Contributed Surplus	(v)	1,013	337	1,350
Deficit	(i - vi)	(193,179)	(33,166)	(226,345)
		218,784	(32,829)	185,955
		$ 811,123	**$ (48,913)**	**$ 762,210**

28. TRANSITION TO IFRS (Continued)

Reconciliation of Consolidated Net Income and Comprehensive Income
For the year ending December 31, 2010

	Note 28c	CGAAP	Effects of transition to IFRS	IFRS
Revenues [1]		$ 329,486	$ -	$ 329,486
Costs of products sold (exclusive of amortization)	(iii)	259,555	(5,590)	253,965
Selling and administration	(v)	18,590	254	18,844
Amortization of property, plant and equipment and intangible assets	(iii, iv)	29,302	(194)	29,108
Income before other items		**22,039**	**5,530**	**27,569**
Finance expense	(i)	(49,502)	(3,061)	(52,563)
Foreign exchange gain		28,965	-	28,965
Gain on derivative financial instrument		6,234	-	6,234
Costs of curtailed operations		(2,108)	-	(2,108)
Other items		5,275	-	5,275
Income before income taxes		**10,903**	**2,469**	**13,372**
Income tax expense	(vi)	(597)	17	(580)
Income from continuing operations		10,306	2,486	12,792
Loss from discontinued operations		(866)	-	(866)
Net income		**$ 9,440**	**$ 2,486**	**$ 11,926**
Other comprehensive income:				
Actuarial loss, net of tax		-	(8,264)	(8,264)
Total comprehensive income		**$ 9,440**	**$ (5,778)**	**$ 3,662**
Basic and diluted net loss per common share:				
Continuing operations		$ 0.10		$ 0.13
Discontinued operations		(0.01)		(0.01)
Basic and diluted net income per common share:		**$ 0.09**		**$ 0.12**
Weighted average number of common shares outstanding		100,252,341		100,252,341
Effect of dilutive stock options on continuing operations		412,233		443,474
		100,664,574		**100,695,815**

[1] Revenues for the year ended December 31, 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 significant impact on the net cash flows of the Company, except for the changes made to the statements of financial position and statements of consolidated net income and comprehensive 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.

AINSWORTH LUMBER CO. LTD.

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

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