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**REPORT TO SHAREHOLDERS  
FOR THE THREE MONTHS AND YEAR ENDED  
DECEMBER 31, 2014**

## **LETTER TO SHAREHOLDERS**

February 26, 2015

Dear Fellow Shareholders:

2014 was an eventful year for our company – one that culminated with the announcement in December that we will be merging with Norbord to create one of the largest and lowest-cost OSB companies in the world. The transaction is a compelling strategic fit whereby the combined company will be able to better serve customers across North America as well as participate in growing markets in Europe and Asia. We appreciated your overwhelming support in favour of the merger. We and Norbord continue to work proactively with the U.S. Department of Justice to expedite their review of this merger and expect to close the transaction by the end of the first quarter of 2015.

In terms of safety, we experienced a 26% improvement in our medical incident rate in 2014 compared to the previous year, and our Barwick mill reached a milestone of 5 years without a lost time accident in January 2015. While we are encouraged by this progress, we always remain diligently focused on safety.

From an operating perspective, we continued to execute on a number of key growth initiatives in 2014. We progressed in the ongoing ramp up of our High Level mill, including the completion of a number of strategic capital projects that will further position the mill to efficiently manufacture an enhanced range of products for North American and Asian customers. We maintained the strong performance we saw in 2013 in our key export market in Japan and we are also pleased with the progress we made in China as we began commercial shipments of our industrial core stock products.

Turning to our financial performance, 2014 was overall a disappointing year as the pace of North American OSB demand growth did not materialize as expected. We also experienced logistical issues particularly in the first quarter which disrupted our production schedules further. We generated adjusted EBITDA of \$27.5 million in 2014 versus \$148.9 million in the prior year when North American markets were considerably stronger. We did take the opportunity during the difficult market conditions to complete a number of maintenance and other projects at our various mills. This work ultimately positions us to better meet customer needs when demand further improves.

We do remain optimistic that U.S. housing starts will return to more historical levels within the next several years. Various indicators already point towards the recovery gaining better traction in 2015 than it did in 2014. The merger with Norbord will allow the combined company to take full advantage of the ongoing recovery in the U.S. housing market and the continuing developments in our Asian business.

As always, I appreciate the continued trust and support of our shareholders and our valued customers. I would also like to extend a special thank you to all of our employees for your efforts in bringing us to where we are today. We look forward to becoming an integral part of a leading global wood products company.

Sincerely,

/s/ Jim Lake  
President and Chief Executive Officer

## **MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS For the Three Months and Year Ended December 31, 2014**

This management's discussion and analysis is presented as at February 26, 2015. 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](http://www.sedar.com). Our financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS").

### **Overview**

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

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

On December 8, 2014, the Company and Norbord Inc. ("Norbord") announced that they had entered into an arrangement agreement under which the Company and Norbord will merge to create a leading global wood products company focused on OSB across North America, Europe and Asia. Refer to "Overview of the Pending Norbord Transaction" for further details.

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 mills located in Grande Prairie, Alberta; High Level, Alberta; 100 Mile House, British Columbia; and, Barwick, Ontario. All four mills are strategically located in terms of wood supply and access to markets in North America and Asia.

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

100 Mile House, BC	440
Barwick, ON	510
Grande Prairie, AB	730
High Level, AB	860
<b>Total capacity</b>	<b>2,540</b>

The High Level mill was restarted in the latter part of the third quarter of 2013 in order to meet increases in customer demand for OSB from both North American and export markets. This mill had previously been on care and maintenance since being curtailed in December 2007.

In addition, the Company continues to assess the timing and the remaining costs to complete the second production line at the Grande Prairie mill, which would further increase capacity by approximately 600 mmsf (3/8-inch basis) to over 3.1 billion square feet per year (3/8-inch basis).

All of our mills utilize flexible mill technology and can manufacture products for domestic and overseas markets. Our mills have access to low cost fibre sources, are energy efficient and have low sustaining capital requirements. Ainsworth employs over 700 people across its mills and other locations. Safety and environmental responsibility is emphasized as a key value at all levels.

## **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](http://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 earnings", "adjusted earnings per share ("EPS)", "adjusted EBITDA", "adjusted EBITDA margin", and "gross profit" to make strategic decisions and to provide investors with a basis to evaluate operating performance and ability to incur and service debt. Non-IFRS measures do not have a standardized meaning prescribed by IFRS and may not be comparable to similar measures used by other companies. Included in this report are tables calculating adjusted earnings, adjusted EPS, adjusted EBITDA, adjusted EBITDA margin, and narrative disclosures defining gross profit.

## **Overview of the Pending Norbord Transaction**

On December 8, 2014, the Company and Norbord announced that they had entered into an arrangement agreement under which Norbord will acquire all of the outstanding common shares of the Company in an all-share transaction. Ainsworth shareholders will receive 0.1321 of a share of Norbord for each Ainsworth share.

On January 27, 2015, the transaction was approved by the required majorities of shareholders of each of Norbord and the Company. On January 30, 2015, the Supreme Court of British Columbia granted a final order approving the combination of Norbord and the Company by way of a plan of arrangement under the Business Corporations Act (British Columbia). In addition, the Company and Norbord continue to work proactively with the U.S. Department of Justice to ensure an expedited review process. Subject to the satisfaction or waiver of all closing conditions, the transaction is expected to close by the end of the first quarter of 2015.

Further information about the transaction is set out in the joint management information circular and other filings which are available under Ainsworth's profile on [www.sedar.com](http://www.sedar.com).

## **Termination of the LP Transaction**

On May 14, 2014, Louisiana-Pacific Corporation ("LP") and the Company announced the termination of the previously announced agreement dated September 4, 2013 in which LP was to acquire all of the outstanding common shares of Ainsworth.

# Ainsworth® Fourth Quarter 2014

## Outlook

While the pace of improvement in U.S. housing starts in 2014 was more gradual than anticipated, we expect that the U.S. housing recovery will gain further traction in 2015. We remain optimistic that U.S. housing starts will return to more historical levels within the next several years. The restart of the High Level mill will allow us to meet the growing requirements of our existing customer base in North America and Asia as well as service new market segments. We expect the merger with Norbord will allow the combined company to capitalize on the ongoing recovery in the U.S. housing market and growth opportunities in our traditional and emerging markets in Asia.

## Summary of Operating and Financial Results from Continuing Operations

	2014	Q4-14	Q3-14	Q2-14	Q1-14	2013	Q4-13	Q3-13	Q2-13	Q1-13	2012
<i>(in millions, except volume, unless otherwise noted)</i>											
Sales	\$ 444.0	\$ 102.5	\$ 116.3	\$ 117.4	\$ 107.8	\$ 488.0	\$ 104.4	\$ 114.3	\$ 127.5	\$ 141.8	\$ 409.1
Adjusted EBITDA <sup>(1)</sup>	27.5	(0.5)	4.7	13.1	10.2	148.9	11.3	24.4	50.7	62.5	105.5
Adjusted EBITDA margin <sup>(2)</sup>	6.2%	-0.5%	4.0%	11.2%	9.5%	30.5%	10.8%	21.3%	39.8%	44.1%	25.8%
Shipment volume (mmsf 3/8")	1,754.8	417.1	472.3	461.2	404.2	1,608.9	409.2	422.3	380.4	397.0	1,620.0
Production volume (mmsf 3/8")	1,750.6	424.6	433.1	484.8	408.1	1,623.9	420.2	396.9	398.7	408.1	1,624.3

(1) Adjusted EBITDA, a non-IFRS financial measure, is defined as net income (loss) from continuing operations before amortization, loss (gain) on disposal of property, plant and equipment, cost of curtailed operations, stock option expense (recovery), finance expense, loss (gain) on derivative financial instrument, foreign exchange (gain) loss on long-term debt, other foreign exchange loss (gain), interest income earned on investments, income tax (recovery) expense and non-recurring items. See the detailed calculation of adjusted EBITDA by quarter on page 20. As a result of adopting the amendment to IAS19 – Employee Benefits (see “Changes in Accounting Standards”), adjusted EBITDA for 2012 has been restated to reflect the increase in pension expense. Adjusted EBITDA for 2012 has also been restated to exclude interest income earned on investments.

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

## Review of Financial Results

	Q4-14	Q4-13	2014	2013
<i>(in millions, except per share data and volume, unless otherwise noted)</i>				
Sales	\$ 102.5	\$ 104.4	\$ 444.0	\$ 488.0
Costs of products sold	99.3	89.4	401.7	323.5
Net (loss) income from continuing operations	(33.5)	(10.6)	(71.1)	39.4
Net (loss) income	(34.1)	(10.7)	(73.0)	38.8
Adjusted (loss) earnings <sup>(1)</sup>	(18.5)	(3.0)	(29.9)	56.3
Adjusted EPS <sup>(2)</sup>	(0.08)	(0.01)	(0.12)	0.23
Adjusted EBITDA	(0.5)	11.3	27.5	148.9
Adjusted EBITDA margin	-0.5%	10.8%	6.2%	30.5%
Shipment volume (mmsf 3/8")	417.1	409.2	1,754.8	1,608.9

(1) Adjusted earnings, a non-IFRS financial measure, is defined as net income (loss) from continuing operations before foreign exchange (gain) loss on long-term debt, loss (gain) on derivative financial instrument, and the related income tax effects.

(2) Adjusted EPS, a non-IFRS financial measure, is defined as adjusted earnings divided by the weighted average common shares outstanding.

## Ainsworth® Fourth Quarter 2014

The table below shows the calculation of adjusted earnings and adjusted EPS:

	Q4-14	Q4-13	2014	2013
<i>(in millions)</i>				
Net (loss) income from continuing operations	\$ (33.5)	\$ (10.6)	\$ (71.1)	\$ 39.4
Adjustments to net (loss) income:				
Foreign exchange loss on long-term debt	12.6	10.9	30.7	24.0
Loss on derivative financial instrument	2.7	(3.8)	11.9	(8.1)
Related income tax effect	(0.3)	0.5	(1.4)	1.0
Adjusted (loss) earnings	\$ (18.5)	\$ (3.0)	\$ (29.9)	\$ 56.3
Adjusted basic EPS	\$ (0.08)	\$ (0.01)	\$ (0.12)	\$ 0.23

Net (loss) income from operations includes several significant non-operational items identified in the table above. After taking into account these items, our adjusted loss for the fourth quarter of 2014 was \$18.5 million compared to \$3.0 million in the fourth quarter of 2013. For the year ended December 31, 2014, adjusted loss was \$29.9 million compared to adjusted earnings of \$56.3 million.

The table below shows the calculation of adjusted EBITDA:

	Q4-14	Q4-13	2014	2013
<i>(in millions)</i>				
Net (loss) income from continuing operations	\$ (33.5)	\$ (10.6)	\$ (71.1)	\$ 39.4
Add (deduct):				
Foreign exchange loss on long-term debt	12.6	10.9	30.7	24.0
Amortization of property, plant and equipment	6.8	6.7	28.5	25.5
Finance expense	6.8	6.5	26.9	27.5
Costs related to mergers and acquisitions	4.6	1.9	7.7	3.6
Loss (Gain) on derivative financial instrument	2.7	(3.8)	11.9	(8.1)
Loss on disposal of property, plant and equipment	0.7	0.1	0.9	0.5
Stock-based compensation expense	0.6	0.3	0.4	1.8
Income tax (recovery) expense	(1.3)	0.2	(5.6)	21.0
Other	(0.5)	(0.9)	(2.8)	(3.9)
Loss on repayment of long-term debt	-	-	-	3.1
Cost of curtailed operations	-	-	-	10.7
Write-down of property, plant and equipment	-	-	-	3.8
Adjusted EBITDA	\$ (0.5)	\$ 11.3	\$ 27.5	\$ 148.9

Net loss from continuing operations in the fourth quarter of 2014 was \$33.5 million compared to \$10.6 million in the fourth quarter of 2013. The \$22.9 million increase in net loss included an \$11.8 million decrease in gross profit (sales less cost of products sold (exclusive of amortization)), a \$6.5 million variation in the value of the derivative financial instrument, a \$3.0 million increase in selling and administration expense, a \$1.7 million increase in foreign exchange loss on long-term debt, and a total of \$1.4 million related to items including loss on disposal of property, plant and equipment, finance expense and other income. These decreases in net income were partially offset by a \$1.5 million variance in income tax.

On an annual basis, net loss from operations was \$71.1 million in 2014 compared to net income of \$39.4 million in 2013, representing a decrease of \$110.5 million. The decrease included a \$122.2 million decrease in gross profit, a \$20.0 million variation in the value of the derivative financial instrument, a \$6.7 million increase in foreign exchange loss on long-term debt, a total \$5.8 increase in items including amortization expense, selling and administration expense, foreign exchange on operations and other income. These decreases were partially offset by a \$26.6 million variance in income tax, a \$10.7 million decrease in costs of curtailed operations, a \$3.8 million decrease in write-down of property, plant and equipment, and a \$3.1 million loss on the repayment of 10% of our senior secured notes in 2013 that did not occur in 2014.

# Ainsworth® Fourth Quarter 2014

## Adjusted EBITDA

In the fourth quarter of 2014, adjusted EBITDA was a loss of \$0.5 million compared to adjusted EBITDA of \$11.3 million in the fourth quarter of 2013. Adjusted EBITDA margin on sales was negative 0.5% compared to positive 10.8% in the fourth quarter of 2013. The decrease was largely related to lower North American OSB prices and higher unit costs.

Adjusted EBITDA on an annual basis was \$27.5 million in 2014, compared to \$148.9 million in 2013. Adjusted EBITDA margin on sales was 6.2% compared to 30.5% in 2013. The decrease was primarily related to a significant decrease in North American OSB prices and higher unit costs.

## Sales

Sales of \$102.5 million in the fourth quarter of 2014 were \$1.9 million lower than sales of \$104.4 million for the same period in 2013. The decrease in sales was mainly due to a 4% decrease in realized pricing. During the fourth quarter of 2014, the average U.S. benchmark price for the North Central and Western Canada regions decreased by 12% and 21%, respectively, compared to the same period in 2013. The impact of the U.S. benchmark declines on our realized pricing was moderated by factors including the effect of a weaker Canadian dollar relative to the fourth quarter of 2013 combined with stable export pricing in Japan. In addition, sales volume increased by 2% due to additional production from High Level. The increase in volume from High Level was partially offset by the downtime taken during the fourth quarter at our various mills.

Sales of \$444.0 million in 2014 were \$44.0 million lower than sales of \$488.0 million in 2013. This decrease was mainly due to a 17% decrease in realized pricing. The average U.S. benchmark price for the North Central and Western Canadian regions decreased by 31% and 34% in 2014, respectively, compared to 2013. The impact of the U.S. benchmark declines on our realized pricing was moderated by factors including the effect of a weaker Canadian dollar in 2014 on average relative to 2013, and stable export pricing in Japan. In addition, sales volume increased by 9%, which was attributable to additional production from High Level (mill was previously curtailed until the latter part of the third quarter of 2013). The increase in volume from High Level was partially offset by the downtime taken at our various mills to complete maintenance and other projects during the year.

The average benchmark F.O.B. mill prices reported by Random Lengths for the each quarter of 2014 and 2013, as well as the annual averages for 2014 and 2013, are shown in the table below:

U.S. dollars	2014	Q4-14	Q3-14	Q2-14	Q1-14	2013	Q4-13	Q3-13	Q2-13	Q1-13
North Central (7/16" basis)	\$ 218	\$ 216	\$ 216	\$ 219	\$ 219	\$ 315	\$ 245	\$ 252	\$ 347	\$ 417
Western Canada (7/16" basis)	196	172	187	206	219	299	219	230	328	419

## Costs of Products Sold (Exclusive of Amortization)

In the fourth quarter of 2014, costs of products sold were \$99.3 million, a \$9.9 million increase over the same period in 2013. The increase in costs of products sold was due to cost increases combined with incremental shipment volumes from High Level. Unit costs increased compared to the prior year, due to a number of factors including raw material price increases and costs associated with the ongoing ramp-up of High Level. Certain raw material price increases were compounded by a weaker Canadian dollar in the fourth quarter of 2014 on average relative to the same period in 2013. Unit costs were also impacted by the downtime taken at the mills during the quarter.

On an annual basis, costs of products sold were \$401.7 million in 2014 compared to \$323.5 million in 2013. The \$78.2 million increase is related to incremental shipment volumes from High Level combined with higher raw material costs (partially due to the weaker Canadian dollar), the ramp-up of High Level and product mix changes. Unit costs were also impacted by the downtime taken at our various mills during the year when we completed maintenance and other projects.

## Selling and Administration

Selling and administration expense increased by \$3.0 million from \$5.8 million in the fourth quarter of 2013 to \$8.8 million in the fourth quarter of 2014. The increase is primarily due to costs incurred with respect to the pending Norbord transaction.

## **Ainsworth® Fourth Quarter 2014**

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On an annual basis, selling and administration expense increased by \$1.7 million from \$21.1 million in 2013 to \$22.8 million in 2014. The increase is primarily related to additional costs incurred with respect to the pending Norbord transaction and the since terminated LP transaction, offset partially by lower salaries and benefits expense and lower share-based compensation.

### ***Amortization of Property, Plant and Equipment and Intangible Assets***

Amortization expense for the fourth quarter of 2014 was not significantly different compared to the fourth quarter of 2013. On an annual basis, amortization expense decreased by \$0.8 million in 2014 compared to 2013. Amortization expense for the year includes a \$754 thousand write-down of intangible assets with respect to certain private wood contracts, while amortization expense in 2013 included a \$3.8 million write-down of property, plant and equipment with respect to obsolete equipment and certain equipment no longer in use. Excluding the impact of the write-downs, amortization expense increased by \$2.3 million in 2014 compared to 2013. The Company uses the units-of-production depreciation method for its production equipment. The fluctuation in depreciation expense for the year reflects relative changes in production levels by mill.

### ***Costs of Curtailed Operations***

Costs of curtailed operations are comprised of costs directly attributable to our High Level, Alberta mill, prior to restarting operations during the latter part of the third quarter of 2013. All costs attributable to the High Level mill were classified as costs of products sold in 2014 rather than costs of curtailed operations.

### ***Finance Expense***

Finance expense increased by \$0.3 million in the fourth quarter of 2014 compared to the fourth quarter of 2013. The increase was primarily due to the foreign exchange effect of a weaker Canadian dollar, on average, relative to the U.S. dollar.

On an annual basis, finance expense decreased by \$0.6 million compared to 2013. The decrease was due to a combination of a lower principal balance of long-term debt, partially offset by the foreign exchange effect of a weaker Canadian dollar, on average, relative to the U.S. dollar.

### ***Foreign Exchange Loss on Long-Term Debt***

The unrealized foreign exchange loss on long-term debt in the fourth quarter of 2014 was \$12.6 million compared to \$10.9 million in the fourth quarter of 2013. For the full year, the foreign exchange loss on long-term debt was \$30.7 million in 2014 compared to \$24.0 million in 2013.

Our debt is substantially denominated in U.S. currency and is therefore subject to fluctuations in the exchange rate. The strengthening of the Canadian dollar, relative to the U.S. dollar, results in a foreign exchange gain, whereas a weakening of the Canadian dollar, relative to the U.S. dollar, results in a foreign exchange loss.

Management estimates that a one cent change of the Canadian dollar results in an after tax increase/decrease in foreign exchange loss/gain on our U.S. dollar debt of \$3.1 million on an annual basis.

### ***Loss (Gain) on Derivative Financial Instrument***

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

The derivative financial asset embedded in the Notes was revalued at December 31, 2014, resulting in a loss of \$2.7 million in the fourth quarter of 2014, compared to a gain of \$3.8 million in the fourth quarter of 2013. For the full year, the revaluation resulted in a loss of \$11.9 million in 2014 versus a gain of \$8.1 million in 2013. During the fourth quarter of 2014, the option to repurchase 10% of the principal of the senior secured notes at a price of \$103 expired. As a result, the embedded derivative related to this option was extinguished and the resulting loss of \$1.3 million has been included in the loss on derivative financial instrument for the fourth quarter and year ended December 31, 2014.

# **Ainsworth® Fourth Quarter 2014**

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## **Other Items**

Other items for the fourth quarter and full year of 2014 included gains/losses on disposal of property, plant and equipment and other income.

## **Income Taxes**

Income tax recovery in the fourth quarter of 2014 was \$1.3 million on loss before income taxes of \$34.8 million, compared with an income tax expense of \$0.2 million on loss before income taxes of \$10.4 million in the fourth quarter of 2013. Income tax recovery was \$5.6 million for the year 2014 on loss before income taxes of \$76.7 million, compared with income tax expense of \$21.0 million on income before income taxes of \$60.4 million for the year 2013. The majority of the income tax recovery was related to temporary differences that decreased the deferred income tax liability on the statement of financial position. Certain permanent differences, such as the non-taxable portion of the foreign exchange loss on our debt and expenses not deductible for tax purposes, impacted the resulting income tax expense/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.

The Company has benefited Canadian non-capital tax loss carry-forwards of approximately \$192 million for financial statement purposes at December 31, 2014. The Company has U.S. non-capital tax loss carry-forwards of \$431 million that expire between 2026 and 2034, which are not benefited for financial statement purposes. A substantial portion of these losses are restricted due to the 2008 recapitalization. The remaining losses are not benefited as the Company believes it is not probable that the results of future operations in a U.S. entity will generate sufficient taxable income to utilize the U.S. non-capital losses.

The Company also has unrecognized deferred tax assets of \$6.6 million (2013: \$2.8 million) relating to the foreign exchange loss on long-term debt.

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

## **Net Loss from Discontinued Operations**

Net loss from discontinued operations includes expenses, such as pension and actuarial costs, associated with the OSB mills in Minnesota, as well as from the plywood and veneer operations in Lillooet and Savona that were disposed in 2009. The increase in net loss from discontinued operations in 2014 compared to 2013 is primarily due to the tax effect of unrealized foreign exchange gain/loss.

## **Capital Resources and Liquidity**

As of December 31, 2014, our working capital was \$128.7 million, compared to \$170.9 million as at December 31, 2013. Our working capital requirements in the short term are to fund any potential future shortfalls from operations, interest payments, debt principal repayments and essential capital expenditures.

At December 31, 2014, Ainsworth's available liquidity, consisting of cash and cash equivalents, was \$75.6 million, a reduction of \$61.8 million since December 31, 2013 resulting primarily from funding our capital expenditures and interest payments as well as debt repayments and additional working capital requirements. Ainsworth is also permitted under the terms of the Notes to borrow at least an additional U.S.\$170 million of senior secured and unsecured debt subject to the limitations set forth in the indenture.

## Ainsworth® Fourth Quarter 2014

Our cash flows for the quarter ended December 31, 2014 were as follows:

	Q4-14	Q4-13	2014	2013
<i>(in millions)</i>				
Cash (used in) provided by operating activities before interest, taxes and working capital	\$ (11.5)	\$ 5.0	\$ 13.6	\$ 130.4
Cash used for interest payments	(13.7)	(12.6)	(26.8)	(28.1)
Income taxes (paid) received, net	(0.2)	(0.2)	1.4	(1.1)
Cash provided by (used in) working capital	9.1	0.5	(13.5)	(1.0)
Cash (used in) provided by operating activities	\$ (16.3)	\$ (7.3)	\$ (25.3)	\$ 100.2
Cash used in financing activities	\$ -	\$ (2.6)	\$ (10.3)	\$ (43.8)
Cash used in investing activities	\$ (7.0)	\$ (3.7)	\$ (27.0)	\$ (27.4)

In the fourth quarter of 2014 we had cash outflows of \$7.6 million from operating activities before interest and taxes paid and working capital requirements compared to cash inflows of \$5.0 million in the fourth quarter of 2013. Decreases in OSB pricing and higher unit costs resulted in lower cash generated by operations quarter over quarter. The increase in cash provided by working capital in the fourth quarter of 2014 compared to the same period in 2013 was due primarily to the timing of accounts payable and accounts receivable, partially offset by inventories.

For the full year 2014, cash generated by operating activities was \$13.6 million (before interest and taxes paid and working capital requirements), which was significantly lower than 2013 due primarily to lower OSB prices. The increase in cash used in working capital for 2014 compared to 2013 was primarily related to the timing of accounts payable and an increase in inventories. This increase was partially offset by the timing of accounts receivable.

Cash used in financing activities for all periods presented includes repayment of equipment financing loans, combined with capital lease obligations. Cash used in financing activities for the full year of 2013 also includes a 10% repayment of the Notes, which totaled U.S. \$36.1 million including a premium of U.S. \$1.1 million.

Cash used in investing activities increased in the fourth quarter of 2014 compared with the same period in 2013, due primarily to an increase in capital spending. For the full year 2014, cash used in investing activities was comparable to 2013.

Capital spending of \$7.0 million and \$29.2 million in the fourth quarter and full year of 2014, respectively, included maintenance and other capital projects at our operating mills. Capital spending of \$3.6 million and \$28.8 million during the fourth quarter and full year of 2013, respectively, included expenditures associated with the restart of the High Level mill as well as maintenance and other capital projects at our other operating mills, and was partially offset by \$1.0 million of proceeds received on the sale of non-core property located in Savona, British Columbia.

### Contractual Obligations

The following table summarizes the timing of payments for which we have contractual obligations as at December 31, 2014.

	2015	2016 to 2017	2018 to 2019	Thereafter	Total
<i>(In millions)</i>					
Senior Secured Notes <sup>(1)</sup>	\$ 27.4	\$ 420.3	\$ -	\$ -	\$ 447.7
Capital lease obligations <sup>(2)</sup>	0.1	-	-	-	0.1
Operating lease obligations	0.8	1.5	0.5	-	2.8
Purchase commitments <sup>(3)</sup>	1.9	1.0	0.2	0.7	3.8
	\$ 30.2	\$ 422.8	\$ 0.7	\$ 0.7	\$ 454.4

(1) Under the indentures governing our outstanding Senior Secured Notes (the "Notes"), we are required to make cash interest payments at 7.5% per annum on June 15 and December 15. Our Senior Secured Notes mature on December 15, 2017.

(2) Capital lease obligations are payable monthly.

(3) Purchase commitments consist of long-term purchase contracts with annual minimum fixed payments and agreements to purchase certain equipment.

## **Ainsworth<sup>®</sup> Fourth Quarter 2014**

Contractual obligations denominated in \$U.S. are converted to Canadian dollars at the December 31, 2014 exchange rate posted by the Bank of Canada of \$1.00 = U.S. \$0.8620.

### **Outstanding Share Data**

The issued share capital of the Company at December 31, 2014 is as follows:

	<b>Shares</b>	<b>Value (in millions)</b>
Common shares	<b>240,956,309</b>	<b>\$ 583</b>

### **Outstanding Stock Options**

The following table presents the exercise prices and expiry dates for the 2,680,676 stock options outstanding at December 31, 2014:

<b>Grant Date</b>	<b>Number of Options Outstanding</b>	<b>Exercise Price</b>	<b>Expiry Date</b>
November 14, 2008 <sup>(1)</sup>	400,000	\$ 1.16	November 14, 2018
March 5, 2010	175,000	1.53	March 5, 2020
March 15, 2010	25,000	1.63	March 15, 2020
May 13, 2010	72,376	2.99	May 13, 2020
May 21, 2010	50,000	2.76	May 21, 2020
June 14, 2010	100,000	2.19	June 14, 2020
August 5, 2010	6,300	1.93	August 5, 2020
March 4, 2011	225,000	2.19	March 4, 2021
September 9, 2011	200,000	1.29	September 9, 2021
March 9, 2012	100,000	1.03	March 9, 2022
March 13, 2012	87,000	1.03	March 13, 2022
March 15, 2013	375,000	3.73	March 15, 2023
June 13, 2014	865,000	2.80	June 13, 2024

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

### **Financial Instruments**

Ainsworth does not use derivatives or participate in hedging activities. However, our Notes include call options which have been identified as embedded derivatives whereby we have the right to repurchase the Notes. A derivative financial asset was recorded at fair value at issuance of the Notes and is revalued at each reporting period based on the market value of the Notes, the current interest rates, and the credit spread. Changes in the value of this derivative financial asset are reflected in operations as "Gain (loss) on derivative financial instrument". Management estimates that, had interest rates been 1% higher and all other variables were constant, the value of the derivative financial asset would have increased by \$2.5 million. At December 31, 2014, the derivative financial asset had a value of \$7.7 million (December 31, 2013: \$19.6 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 \$2.5 million (December 31, 2013: \$5.1 million), for which restricted cash is held as collateral. Further, there are no off-balance sheet arrangements that have, or are reasonably likely to have, a current or future material effect on the Company's financial condition, results of operations, liquidity, capital expenditures or resources.

# Ainsworth® Fourth Quarter 2014

## Related Party Transactions

The Company is controlled by Brookfield Capital Partners Ltd. (“BCP”), which beneficially owns or exercises control or direction over approximately 54.4% of the issued and outstanding common shares. BCP is controlled by Brookfield Asset Management Inc.

The Company periodically sells goods to BCP affiliates. There were no such sales during the three months and year ended December 31, 2014 (three months ended December 31, 2013: \$25 thousand; year ended December 31, 2013: \$2.6 million).

During the fourth quarter and year ended December 31, 2013, the Company purchased equipment of approximately \$150 thousand from BCP affiliates. There were no such purchases during the fourth quarter and year ended December 31, 2014.

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

	Q4-14	Q4-13	2014	2013
<i>(in thousands)</i>				
Legal fees <sup>(1)</sup>	\$ 635	\$ 198	\$ 1,066	\$ 838
Other services <sup>(2)</sup>	134	227	529	616
Key management compensation <sup>(3)</sup>	664	908	3,122	3,521

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

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

(3) Key management compensation includes total compensation for the Board of Directors and the executive management team. No person on the Board of Directors or the executive management team had any material interest during the period in a contract of significance (except as disclosed above with respect to a service contract for legal services rendered) with the Company or any subsidiary company.

Sales to overseas markets are handled by Interex Forest Products Ltd. (“Interex”), a cooperative sales company over which Ainsworth, as a shareholder, has significant influence. At December 31, 2014, \$2.4 million was included in trade receivables with respect to Interex (December 31, 2013: \$2.9 million).

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

# Ainsworth® Fourth Quarter 2014

## Selected Quarterly Financial Information

	2014	Q4-14	Q3-14	Q2-14	Q1-14	2013	Q4-13	Q3-13	Q2-13	Q1-13	2012
<i>(in millions, except per share data and volume, unless otherwise noted)</i>											
<b>Sales and earnings (loss)</b>											
Sales	\$ 444.0	\$ 102.5	\$ 116.3	\$ 117.4	\$ 107.8	\$ 488.0	\$ 104.4	\$ 114.3	\$ 127.5	\$ 141.8	\$ 409.1
Operating (loss) income	(9.0)	(12.4)	(3.2)	6.0	0.5	103.4	2.4	10.4	36.2	54.4	75.6
Foreign exchange (loss) gain											
on long-term debt	(30.7)	(12.6)	(17.0)	12.5	(13.6)	(24.0)	(10.9)	7.6	(13.1)	(7.6)	10.3
Net (loss) income from continuing operations	(71.1)	(33.5)	(35.4)	12.3	(14.5)	39.4	(10.6)	10.7	2.8	36.5	28.4
Net (loss) income from discontinued operations	(1.8)	(0.6)	(0.9)	0.5	(0.8)	(0.5)	-	(0.1)	(0.2)	(0.2)	(0.3)
Net (loss) income	(73.0)	(34.1)	(36.4)	12.8	(15.3)	38.8	(10.7)	10.6	2.6	36.3	28.2
Adjusted (loss) earnings	(29.9)	(18.5)	(7.3)	0.3	(4.4)	56.3	(3.0)	(0.1)	22.5	37.0	(2.8)
Adjusted EBITDA <sup>(3)</sup>	27.5	(0.5)	4.7	13.1	10.2	148.9	11.3	24.4	50.7	62.5	105.5
Shipment volume (mmsf 3/8")	1,754.8	417.1	472.3	461.2	404.2	1,608.9	409.2	422.3	380.4	397.0	1,620.0
<b>Basic and diluted earnings (loss) per common share</b>											
Net income (loss)											
continuing operations <sup>(1)</sup>	(0.30)	(0.14)	(0.15)	0.05	(0.06)	0.16	(0.04)	0.04	0.01	0.15	0.28
Net income (loss) <sup>(1)</sup>	(0.30)	(0.14)	(0.15)	0.05	(0.06)	0.16	(0.04)	0.04	0.01	0.15	0.28
Adjusted earnings	(0.12)	(0.08)	(0.03)	-	(0.02)	0.23	(0.01)	-	0.09	0.15	(0.01)
<b>Balance sheet</b>											
Total assets	820.4	820.4	845.8	868.8	890.8	882.0	882.0	892.5	911.0	898.8	835.2
Total long-term debt <sup>(2)</sup>	364.1	364.1	351.4	341.2	356.1	343.3	343.3	334.8	379.1	368.3	361.4

(1) Basic and diluted net income (loss) per share. As at December 31, 2014, the Company had 240,956,309 issued common shares outstanding. For all periods presented the Company has not paid or declared any cash dividends.

(2) Total long-term debt includes the current portion of long-term debt.

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

OSB demand and product pricing were the main factors causing fluctuations in our sales and adjusted EBITDA over the past eight quarters. North American OSB prices have declined versus the levels of late 2012 and early 2013 as the pace of demand growth has moderated. OSB shipment volumes have varied in the past eight quarters depending on production disruptions, maintenance requirements and product mix. Shipment volumes also reflect the start up of the High Level mill in the third quarter of 2013.

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

# Ainsworth® Fourth Quarter 2014

## Segmented Information

Our geographic distribution of sales revenue was as follows:

	Q4-14	Q4-13	2014	2013
<i>(in millions)</i>				
United States	\$ 78.5	\$ 77.3	\$ 330.1	\$ 367.5
Japan	11.4	13.3	54.6	55.2
Canada	8.8	10.1	36.0	55.6
Overseas - other	3.8	3.7	23.3	9.7
	\$ 102.5	\$ 104.4	\$ 444.0	\$ 488.0

Our geographic distribution of sales volume was as follows:

	Q4-14	Q4-13	2014	2013
<i>(mmsf 3/8")</i>				
United States	309.6	290.9	1,257.9	1,140.1
Japan	47.3	55.0	224.1	231.2
Canada	40.2	44.0	152.3	193.3
Overseas - other	20.0	19.3	120.5	44.3
	417.1	409.2	1,754.8	1,608.9

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

## Risks and Uncertainties

### Economic Uncertainty

Our results of operations and financial position could be affected by adverse changes in the global capital and credit markets, and the economy in general. Economic downturns characterized by higher unemployment, lower family income, lower corporate earnings, lower business investment and lower consumer spending typically result in decreased demand for our products. These conditions are beyond our control and may have a significant impact on our business, results of operations, cash flows and financial position.

Our core OSB business relies heavily on new home and renovation construction in North America. Volatility in new home and renovation construction levels is influenced by a number of factors, including the supply of new and existing homes on the market, longer-term interest rates and mortgage foreclosure rates. A significant increase in long-term interest rates, a prolonged decline in the availability of mortgage financing, or the occurrence of other events that reduce levels of residential construction activity could adversely affect our results.

### Liquidity

We are subject to liquidity risk to the extent that our current assets and available sources of funds may not be sufficient to meet current liabilities. Our main sources of liquidity have been cash flow from our current operations and borrowings from third parties. We monitor discretionary capital expenditures carefully as operating results, as well as global debt and equity markets, can be volatile. Under the terms of the indenture governing the Company's Senior Secured Notes, we are permitted to borrow at least an additional U.S.\$170 million of senior secured and unsecured debt, subject to the limitations set forth in the indenture. The availability of this funding, or other sources of capital, is dependent on capital markets at the time and may not be available on acceptable terms.

### Competition

We face competition from numerous domestic and foreign competitors in the wood-based panels industry. We also compete less directly with firms that manufacture substitutes for wood building products. Our ability to compete in these and other markets is dependent on a variety of factors, such as the entry of new competitors, our competitors' pricing strategies, manufacturing costs, availability of key production inputs, access to markets, our ability to anticipate and respond to changing customer preferences, product quality, financial resources and currency exchange rates. Some of our competitors may have greater financial and other resources and greater manufacturing economies of scale compared to our Company. Should our competitors open new mills or reopen curtailed mills market supply could be increased causing downward pressure on product prices, and our profit margins could be eroded.

# **Ainsworth® Fourth Quarter 2014**

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## ***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 outside of our control. We have limited influence over the timing and extent of price changes, which are often volatile. 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. 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. During periods of low prices, our operations are subject to reduced revenues and margins, resulting in substantial declines in profitability and possible net losses. Management estimates the annualized impact of a U.S. \$10 per msf (3/8-inch basis) change in OSB prices on adjusted EBITDA when operating at capacity (including High Level) is approximately U.S. \$25 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.

## ***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. In 2014, we had one customer whose total purchases from both its distribution business and its engineered wood manufacturing business represented 21% of our total net sales. The loss of a significant customer or any significant customer order cancellations could negatively affect sales and earnings.

## ***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 adversely affect 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.

## ***Foreign Exchange***

All of our sales, including products 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 revenue we realize and conversely, any increase in the U.S. dollar relative to the Canadian dollar increases the amount of revenue we realize. The impact of this 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, wax and transportation. At December 31, 2014 and December 31, 2013, 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 long-term agreements with provincial governments. The agreements are granted for various terms from five to twenty-five years. As the agreements come due, we rely on the assumption that we will be able to renew or replace 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 facility that fails to honour the commitments contained within the forest management agreements. Our wood fibre supply could also be influenced by natural events, such as forest fires, severe weather conditions and other natural disasters, which may increase wood fibre costs or restrict our access to wood fibre. 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.

# **Ainsworth® Fourth Quarter 2014**

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## ***Other Input Costs***

In addition to wood fibre, we use various other raw materials, such as resin and wax, and energy sources in our manufacturing process. Changes in the costs and availability of such raw materials and energy sources may adversely affect our operating results. Rising petroleum prices can also reduce our profitability due to increased domestic and international transportation rates or fuel surcharges. We may not be able to fully offset the effects of higher costs through hedging arrangements, price increases, productivity improvements or cost reduction programs.

## ***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. In addition, significant amounts of capital could be required to modify our equipment to produce alternative or additional products or to make significant changes in the characteristics of our current products.

## ***Labour Relations and Employee Retention***

The Grande Prairie and High Level mill employees are non-unionized, while the 100 Mile House and Barwick mills are unionized. The union contracts for 100 Mile House and Barwick are due to expire on June 30, 2017 and July 31, 2017, respectively.

We could experience strikes or work interruptions if we are unable to negotiate acceptable union contracts upon expiry, which could reduce our sales and profitability.

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 our business, financial position and results of operations.

## ***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 fibre 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 adversely affect 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 adversely affect 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 adversely affect 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.

## ***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 any certainty the outcomes or 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 unfavorable judgments arising out of these claims could be adverse to the Company.

Additionally, we acquired the Barwick facility 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 adversely affect 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 accept and not challenge such 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.

## ***Defined Benefit Pension Plan Funding***

We maintain two defined benefit pension plans. In British Columbia, the first defined benefit pension plan provides pension accruals for certain union employees at the 100 Mile House facility and a group of non-union employees, but is closed to any new employees. The second defined benefit pension plan for certain employees in Minnesota is also closed to new members and there are no current service pension accruals. In both cases, plans continue to be subject to market risk on the plan assets and to changes in discount rates. The latest funding valuation indicates that the British Columbia defined benefit pension plan is in a solvency deficit position and therefore we are required to make accelerated cash funding contributions. If actual experience differs from these assumptions or any of these assumptions change such that the solvency deficit increases, we would be required to increase cash funding contributions, reducing the availability of such funds for other corporate purposes. The U.S. defined benefit pension plan is underfunded and we continue to make contributions to the plan.

## **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.

### ***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.

## **Ainsworth® Fourth Quarter 2014**

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### ***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 an estimate of its useful life.

### ***Employee Benefit Plans***

Many of our B.C. employees participate in a defined benefit pension plan sponsored by the Company. We also maintain a defined benefit pension plan in Minnesota related to employees at our former Minnesota OSB mills, which were sold during 2009. 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 and 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.

## ***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.

## **Accounting Standards Developments**

### ***IFRS 15 Revenues from Contracts with Customers (“IFRS 15”)***

This standard was issued on May 28, 2014 and will replace IAS 11 Construction Contracts (“IAS 11”), IAS 18 Revenue (“IAS 18”), and related interpretations. This new standard outlines a single comprehensive model to be used in recognizing revenue arising from contracts with customers, and contains more prescriptive guidance than in IAS 11, IAS 18 and related interpretations. The core principle in IFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration the entity expects to be entitled to in exchange. The standard is effective for reporting periods beginning on or after January 1, 2017, with early adoption permitted. The Company is currently evaluating the impact of adoption on its results and financial position.

### ***IFRS 9 Financial Instruments (“IFRS 9”)***

On July 25, 2014, the final publication of this standard was issued, and will replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 provides guidance for the classification of financial assets based on the contractual cash flow characteristics of the financial assets and the Company’s business model for managing financial assets. Changes in the fair value of an entity’s own debt when it is classified as fair value through profit or loss (“FVTPL”), to the extent that they relate to changes in the entity’s own credit risk, are recognized in other comprehensive income. The new standard also requires a single impairment model to be used, replacing the multiple impairment models in IAS 39. The standard is effective for reporting periods beginning on or after January 1, 2018, with early adoption permitted. The Company is currently evaluating the impact of adoption 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 Executive Officer ("CEO"), and the Vice President, Finance and Chief Financial Officer ("CFO") have evaluated the effectiveness of disclosure controls and procedures as at December 31, 2014. Disclosure controls and procedures are designed to provide reasonable assurance that all necessary information is reported to the CEO 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, 2014, 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, 2014 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 CEO and CFO, has performed an assessment of the effectiveness of the Company's internal control over financial reporting as at December 31, 2014 based on the provisions of the 2013 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, 2014. Management determined that there were no material weaknesses in the Company's internal control over financial reporting as at December 31, 2014.

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® Fourth Quarter 2014

## AINSWORTH LUMBER CO. LTD.

### Other Information

	December 31, 2014		December 31, 2013	
<b>Selected Financial Data (\$000's)</b>				
Cash and cash equivalents	\$	75,623	\$	137,444
Restricted cash		2,517		5,109
Working capital		128,693		170,905
Total assets		820,447		881,957
Total long-term debt		364,124		343,298
Shareholders' equity		348,559		428,567

### Reconciliation of Net Income (Loss) to Adjusted EBITDA

(in millions)	2014	Q4-14	Q3-14	Q2-14	Q1-14	2013	Q4-13	Q3-13	Q2-13	Q1-13	2012
<b>Net (Loss) Income from Continuing Operations</b>	<b>\$ (71.1)</b>	<b>\$ (33.5)</b>	<b>\$ (35.4)</b>	<b>\$ 12.3</b>	<b>\$ (14.5)</b>	<b>\$ 39.4</b>	<b>\$ (10.6)</b>	<b>\$ 10.7</b>	<b>\$ 2.8</b>	<b>\$ 36.5</b>	<b>\$ 28.4</b>
Add (deduct):											
Amortization of property, plant and equipment	28.5	6.8	6.9	7.5	7.3	25.5	6.7	6.2	6.2	6.4	25.6
Loss (gain) on disposal of property, plant and equipment	0.9	0.7	-	-	0.2	0.5	0.1	0.4	-	-	0.1
Write-down of property, plant and equipment, intangibles and other	-	-	-	-	-	3.8	-	-	3.8	-	1.5
Finance expense	26.9	6.8	6.6	6.7	6.7	27.5	6.5	6.7	7.4	6.9	50.8
Costs of curtailed operations	-	-	-	-	-	10.7	-	5.6	3.5	1.6	3.8
Stock-based compensation expense (recovery)	0.4	0.6	0.2	(0.4)	-	1.8	0.3	0.4	1.0	0.1	0.8
Loss on early repayment of long-term debt	-	-	-	-	-	3.1	-	3.1	-	-	22.9
Income tax (recovery) expense	(5.6)	(1.3)	(3.2)	(0.6)	(0.4)	21.0	0.2	0.7	6.6	13.5	5.8
Foreign exchange loss (gain) on long-term debt	30.7	12.6	17.0	(12.5)	13.6	24.0	10.9	(7.6)	13.1	7.6	(10.3)
Loss (gain) on derivative financial instrument	11.9	2.7	12.7	0.6	(4.0)	(8.1)	(3.8)	(3.7)	7.5	(8.1)	(23.9)
Costs (recovery) related to mergers and acquisitions	7.7	4.6	0.8	(0.2)	2.4	3.6	1.9	1.7	-	-	-
Other	(2.8)	(0.5)	(0.9)	(0.3)	(1.1)	(3.9)	(0.9)	0.2	(1.2)	(2.0)	-
<b>Adjusted EBITDA (Note 1)</b>	<b>\$ 27.5</b>	<b>\$ (0.5)</b>	<b>\$ 4.7</b>	<b>\$ 13.1</b>	<b>\$ 10.2</b>	<b>\$148.9</b>	<b>\$ 11.3</b>	<b>\$ 24.4</b>	<b>\$ 50.7</b>	<b>\$ 62.5</b>	<b>\$105.5</b>

(1) Adjusted EBITDA, a non-IFRS financial measure, is defined as net income (loss) from continuing operations before amortization, loss (gain) on disposal of property, plant and equipment, cost of curtailed operations, stock option expense (recovery), finance expense, loss (gain) on derivative financial instrument, foreign exchange (gain) loss on long-term debt, other foreign exchange loss (gain), interest income earned on investments, income tax (recovery) expense and non-recurring items. As a result of adopting the amendment to IAS19R, adjusted EBITDA for 2012 has been restated to reflect the increase in pension expense that is included in cost of products sold, and selling and administrative expense. Adjusted EBITDA for 2012 has also been restated to exclude interest income earned on investments.

## **About Ainsworth**

Ainsworth Lumber Co. Ltd. is a leading manufacturer and marketer of oriented strand board (“OSB”) with a focus on value-added specialty products for markets in North America and Asia. Ainsworth’s four OSB manufacturing mills, located in Alberta, British Columbia and Ontario, have a combined annual capacity of 2.5 billion square feet (3/8-inch basis). Ainsworth is a publicly traded company listed on the Toronto Stock Exchange under the symbol ANS.

### **Ainsworth Lumber Co. Ltd.**

Suite 3194, Bentall 4  
P.O. Box 49307  
1055 Dunsmuir Street  
Vancouver, B.C. V7X 1L3  
Telephone: 604-661-3200  
Facsimile: 604-661-3201

Contact:  
Rick Eng  
Vice President, Finance and Chief Financial Officer  
E-mail: [Rick.Eng@ainsworth.ca](mailto:Rick.Eng@ainsworth.ca)

Rob Feustel  
Treasurer  
E-mail: [Rob.Feustel@ainsworth.ca](mailto:Rob.Feustel@ainsworth.ca)

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

Visit our web-site: [www.ainsworthengineered.com](http://www.ainsworthengineered.com)

*Independent Auditor's Report and Consolidated Financial Statements of*

**AINSWORTH LUMBER CO. LTD.**

*December 31, 2014 and December 31, 2013*

## **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, 2014 and December 31, 2013, and the consolidated statements of income (loss) and comprehensive income (loss), consolidated statements of changes in shareholders' equity and consolidated statements of cash flows for the years then ended, 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, 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, 2014 and December 31, 2013, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

/s/ Deloitte LLP  
Chartered Accountants  
February 26, 2015  
Vancouver, Canada

# AINSWORTH LUMBER CO. LTD.

## Consolidated Statements of Financial Position

(In thousands of Canadian dollars)

	December 31 2014	December 31 2013
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 75,623	\$ 137,444
Restricted cash	2,517	5,109
Trade and other receivables (Note 4)	20,428	23,680
Inventories (Note 5)	69,094	52,471
Prepaid expenses	6,428	5,414
<b>Total Current Assets</b>	<b>174,090</b>	<b>224,118</b>
<b>Property, Plant and Equipment (Note 6)</b>	<b>630,097</b>	<b>628,701</b>
<b>Intangible Assets (Note 7)</b>	<b>6,120</b>	<b>7,601</b>
<b>Other Assets (Note 27)</b>	<b>10,140</b>	<b>21,537</b>
<b>Total Assets</b>	<b>\$ 820,447</b>	<b>\$ 881,957</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current Liabilities</b>		
Trade and other payables (Note 8)	\$ 42,097	\$ 42,133
Income taxes payable	2,928	805
Current portion of long-term debt (Note 9)	77	10,001
Liabilities related to discontinued operations (Note 10)	295	274
<b>Total Current Liabilities</b>	<b>45,397</b>	<b>53,213</b>
<b>Accrued Pension Benefit Liability (Note 11)</b>	<b>10,809</b>	<b>7,542</b>
<b>Reforestation Obligation (Note 12)</b>	<b>3,845</b>	<b>4,390</b>
<b>Long-term Debt (Note 9)</b>	<b>364,047</b>	<b>333,297</b>
<b>Deferred Income Tax Liabilities (Note 24)</b>	<b>44,532</b>	<b>52,719</b>
<b>Liabilities Related to Discontinued Operations (Note 10)</b>	<b>3,258</b>	<b>2,229</b>
<b>Total Liabilities</b>	<b>471,888</b>	<b>453,390</b>
<b>SHAREHOLDERS' EQUITY</b>		
<b>Capital Stock (Note 15)</b>	<b>582,879</b>	<b>582,738</b>
<b>Contributed Surplus</b>	<b>2,492</b>	<b>2,030</b>
<b>Deficit</b>	<b>(236,812)</b>	<b>(156,201)</b>
<b>Total Shareholders' Equity</b>	<b>348,559</b>	<b>428,567</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$ 820,447</b>	<b>\$ 881,957</b>

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

**Commitments (Note 13)**

**Contingencies (Note 14)**

Approved by the Board on February 26, 2015

/s/ Peter Gordon

**DIRECTOR**

/s/ Gordon Lancaster

**DIRECTOR**

# AINSWORTH LUMBER CO. LTD.

## Consolidated Statements of (Loss) Income and Comprehensive (Loss) Income

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

	Year Ended December 31 2014	Year Ended December 31 2013
<b>Sales (Note 26)</b>	<b>\$ 444,005</b>	<b>\$ 488,056</b>
<b>Costs and Expenses</b>		
Costs of products sold (Note 17)	401,652	323,489
Selling and administration (Note 17)	22,842	21,146
Amortization of property, plant and equipment and intangible assets (Notes 6,7)	28,529	29,317
Costs of curtailed operations (Note 22)	-	10,743
<b>Total Costs and Expenses</b>	<b>453,023</b>	<b>384,695</b>
<b>(Loss) Income from Operations</b>	<b>(9,018)</b>	<b>103,361</b>
<b>Finance Expense (Note 18)</b>	<b>(26,868)</b>	<b>(27,541)</b>
<b>Loss on Early Repayment of Long-Term Debt (Note 19)</b>	<b>-</b>	<b>(3,088)</b>
<b>Foreign Exchange Loss (Note 20)</b>	<b>(29,405)</b>	<b>(21,794)</b>
<b>(Loss) Gain on Derivative Financial Instrument (Note 21)</b>	<b>(11,922)</b>	<b>8,052</b>
<b>Other Items (Note 23)</b>	<b>511</b>	<b>1,391</b>
<b>(Loss) Income Before Income Taxes</b>	<b>(76,702)</b>	<b>60,381</b>
<b>Income Tax Recovery (Expense) (Note 24)</b>	<b>5,563</b>	<b>(20,997)</b>
<b>(Loss) Income from Continuing Operations</b>	<b>(71,139)</b>	<b>39,384</b>
<b>Net Loss from Discontinued Operations (Note 10)</b>	<b>(1,832)</b>	<b>(485)</b>
<b>Net (Loss) Income</b>	<b>\$ (72,971)</b>	<b>\$ 38,899</b>
<b>Other Comprehensive Income</b>		
Items not to be subsequently reclassified to profit or loss:		
Remeasurement of defined benefit obligation, net of tax (Note 11)	(7,640)	4,060
<b>Total Comprehensive (Loss) Income</b>	<b>\$ (80,611)</b>	<b>\$ 42,959</b>
Basic and diluted net (loss) income per common share (Note 15)		
Continuing operations	\$ (0.30)	\$ 0.16
Discontinued operations	0.00	0.00
Basic and diluted net (loss) income per common share	\$ (0.30)	\$ 0.16
Weighted average number of common shares outstanding - basic	240,920,829	240,870,080
Effect of dilutive stock options on continuing operations	-	802,577
Weighted average number of common shares outstanding - diluted	240,920,829	241,672,657

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)

	<b>Capital Stock</b>	<b>Contributed Surplus</b>	<b>Deficit</b>	<b>Total Shareholders' Equity</b>
Balance, January 1, 2013	\$ 582,626	\$ 1,808	\$ (199,160)	\$ 385,274
Net income and total comprehensive income	-	-	42,959	42,959
Share-based payments (Note 16)	-	267	-	267
Stock options exercised (Note 16)	112	(45)	-	67
Balance, December 31, 2013	<b>\$ 582,738</b>	<b>\$ 2,030</b>	<b>\$ (156,201)</b>	<b>\$ 428,567</b>

	<b>Capital Stock</b>	<b>Contributed Surplus</b>	<b>Deficit</b>	<b>Total Shareholders' Equity</b>
Balance, January 1, 2014	\$ 582,738	\$ 2,030	\$ (156,201)	\$ 428,567
Net loss and total comprehensive loss	-	-	(80,611)	(80,611)
Share-based payments (Note 16)	-	514	-	514
Stock options exercised (Note 16)	141	(52)	-	89
Balance, December 31, 2014	<b>\$ 582,879</b>	<b>\$ 2,492</b>	<b>\$ (236,812)</b>	<b>\$ 348,559</b>

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

# AINSWORTH LUMBER CO. LTD.

## Consolidated Statements of Cash Flows

(In thousands of Canadian dollars)

	Year Ended December 31 2014	Year Ended December 31 2013
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net (Loss) Income	\$ (72,971)	\$ 38,899
Items not affecting cash		
Amortization of property, plant and equipment and intangible assets (Notes 6, 7)	28,529	29,317
Finance expense (Note 18)	26,868	27,541
Loss on early repayment of long-term debt (Note 19)	-	3,088
Share-based payments (Note 16)	398	1,827
Foreign exchange loss on long-term debt (Note 20)	30,730	23,922
Loss (gain) on derivative financial instrument (Note 21)	11,922	(8,052)
Loss on disposal of property, plant and equipment (Note 23)	939	409
Change in non-current reforestation obligation	(599)	180
Deferred taxes (Note 24)	(5,969)	20,518
Pension and other	(6,287)	(7,273)
Cash flows from operating activities before working capital, interest and income taxes	13,560	130,376
Change in non-cash operating working capital (Note 25)	(13,482)	(1,027)
Interest paid	(26,781)	(28,138)
Income taxes received (paid), net	1,365	(1,066)
Cash (used in) provided by operating activities	(25,338)	100,145
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Repayment of long-term debt (Note 9)	(9,945)	(43,300)
Proceeds from issue of shares (Note 15, 16)	89	67
Reduction in finance lease obligations (Note 9)	(402)	(517)
Cash used in financing activities	(10,258)	(43,750)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Decrease in restricted cash	2,592	451
Additions to property, plant and equipment and intangible assets (Notes 6, 7)	(29,241)	(28,811)
Proceeds on disposal of property, plant and equipment	220	1,092
Increase in other assets	(524)	(89)
Cash used in investing activities	(26,953)	(27,357)
Effect of foreign exchange rate changes on cash and cash equivalents	728	1,629
<b>NET CASH (OUTFLOW) INFLOW</b>	<b>(61,821)</b>	<b>30,667</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>	<b>137,444</b>	<b>106,777</b>
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	<b>\$ 75,623</b>	<b>\$ 137,444</b>
Cash	18,157	24,110
Cash equivalents	57,466	113,334
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	<b>\$ 75,623</b>	<b>\$ 137,444</b>

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

# **AINSWORTH LUMBER CO. LTD.**

## **Notes to the Consolidated Financial Statements**

**For the year ended December 31, 2014**

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

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### **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, which had been curtailed since December of 2007, resumed production during the third quarter of 2013. The Company's registered address is 1055 Dunsmuir Street, Suite 3194, Bentall 4, P.O. Box 49307, Vancouver, British Columbia, Canada, V7X 1L3.

Ainsworth is a publicly listed company incorporated under the laws of British Columbia. The Company's shares are listed on the Toronto Stock Exchange under the symbol ANS.

#### ***Pending Transaction***

On December 8, 2014, the Company and Norbord Inc. ("Norbord") announced that they had entered into an arrangement agreement under which Norbord will acquire all of the outstanding common shares of Ainsworth in an all-share transaction. Under the terms of the agreement, Ainsworth shareholders will receive 0.1321 of a share of Norbord for each Ainsworth share.

On January 27, 2015, the transaction was approved by the required majorities of shareholders of each of Norbord and the Company. On January 30, 2015, the Supreme Court of British Columbia granted a final order approving the combination of Norbord and the Company by way of a plan of arrangement under the Business Corporations Act (British Columbia). The transaction remains subject to customary conditions to closing and is expected to close by the end of the first quarter of 2015.

### **2. SIGNIFICANT ACCOUNTING POLICIES**

#### **a) *Statement of compliance***

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The policies set out below were consistently applied to all periods presented.

These consolidated financial statements were authorized for issuance by the Board of Directors of the Company on February 26, 2015.

#### **b) *Basis of consolidation***

The consolidated financial statements of the Company for the year ended December 31, 2014 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 power over an investee, when the Company is exposed, or has rights, to variable returns from the investee and when the Company has the ability to affect those returns through its power over the investee. The Company's principal subsidiaries include Ainsworth Corp. and Ainsworth Engineered Canada Limited Partnership. Intercompany balances, transactions, revenues, and expenses, between subsidiaries are eliminated upon consolidation.

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

# AINSWORTH LUMBER CO. LTD.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2014

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

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### 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

c) *Adoption of accounting standards*

i. *IAS 32 Financial instruments: presentation* ("IAS 32")

IAS 32 was amended to clarify existing application issues relating to the offsetting of financial assets and financial liabilities, and became effective on January 1, 2014. The adoption of IAS 32 did not have a significant impact on the Company's results and financial position.

ii. *IFRIC 21 Levies* ("IFRIC 21")

IFRIC 21 provides guidance on when to recognize a liability to pay a levy imposed by government that is accounted for in accordance with *IAS 37 Provisions, Contingent Liabilities and Contingent Assets*. IFRIC 21 became effective on January 1, 2014. The adoption of IFRIC 21 did not have a significant impact on the Company's results and financial position.

d) *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.

e) *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 the exchange 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.

## **AINSWORTH LUMBER CO. LTD.**

### **Notes to the Consolidated Financial Statements**

**For the year ended December 31, 2014**

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

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#### **2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

e) *Functional and presentational currency (continued)*

The functional currency of Ainsworth Corp. and Ainsworth Engineered Canada Limited Partnership is the Canadian dollar. 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.

f) *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 OSB facilities; accounting for business combinations; measurement of deferred income tax assets and liabilities; valuation of inventory; loss contingencies; embedded derivative; 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; determination of cash generating units; purchase price allocation under the acquisition method; lease classification; and classification of financial instruments.

g) *Cash and cash equivalents*

Cash and cash equivalents generally consist of cash balances with banks, investments with original maturities of three months or less at the time of purchase, and investments that are both readily convertible to cash and subject to insignificant risk of changes in value.

The Company had an unutilized U.S.\$2.5 million future foreign exchange contract credit facility at December 31, 2014 which, if utilized, would be secured by cash collateral.

h) *Restricted cash*

Restricted cash is held in a separate account as collateral for the \$2.5 million (December 31, 2013: \$5.1 million) outstanding letters of credit to support the Company's ongoing business operations.

# AINSWORTH LUMBER CO. LTD.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2014

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

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### 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

i) *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.

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

j) *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 income 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, to a maximum of 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:

<u>Assets</u>	<u>Rates</u>
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). Significant parts replaced are amortized on a straight line basis over their expected useful life (two to five 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.

## **AINSWORTH LUMBER CO. LTD.**

### **Notes to the Consolidated Financial Statements**

**For the year ended December 31, 2014**

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

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#### **2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*j) Property, plant and equipment (continued)*

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(l).

*k) 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(l).

*l) 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.

*m) Other assets*

Other assets consist of long-term advances and deposits which are recorded at cost and a derivative financial instrument measured at fair value upon initial recognition and at 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 in the statement of income and comprehensive income.

# AINSWORTH LUMBER CO. LTD.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2014

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

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### 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 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 premiums and consent fees, which are deferred at inception and subsequently amortized over the term of the debt 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 using the effective interest rate method.

r) *Taxation*

Tax expense is comprised of current and deferred tax components. Tax is recognized in the statement of income and comprehensive income 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 currently 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.

## AINSWORTH LUMBER CO. LTD.

### Notes to the Consolidated Financial Statements

For the year ended December 31, 2014

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

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#### 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

r) *Taxation (continued)*

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 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) *Net income (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. Past service costs are recognized immediately in income. The Company recognizes all actuarial gains and losses (excluding interest) arising from defined benefit plans in other comprehensive income that will not be reclassified to profit or loss, and reports them in retained earnings (deficit). Net interest is calculated by applying the discount rate to the net defined benefit liability or asset, and is recognized as employee benefits through profit or loss. The liability recognized in the statement of financial position is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets.

# AINSWORTH LUMBER CO. LTD.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2014

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

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### 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

t) *Employee benefits (continued)*

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 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, which are fair valued at grant date using the Black-Scholes option-pricing model. 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"), which are fair valued using the volume weighted average price ("VWAP") of the Company's common shares for the five business days prior to the grant date. 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.

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 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.

## AINSWORTH LUMBER CO. LTD.

### Notes to the Consolidated Financial Statements

For the year ended December 31, 2014

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

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#### 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

v) *Financial instruments (continued)*

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

a) *IFRS 15 Revenues from Contracts with Customers* (“IFRS 15”)

This standard was issued on May 28, 2014 and will replace *IAS 11 Construction Contracts* (“IAS 11”), *IAS 18 Revenue* (“IAS 18”), and related interpretations. This new standard outlines a single comprehensive model to be used in recognizing revenue arising from contracts with customers, and contains more prescriptive guidance than in IAS 11, IAS 18 and related interpretations. The core principle in IFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration the entity expects to be entitled to in exchange. The standard is effective for reporting periods beginning on or after January 1, 2017, with early adoption permitted. The Company is currently evaluating the impact of adoption on its results and financial position.

b) *IFRS 9 Financial instruments* (“IFRS 9”)

On July 25, 2014, the final publication of this standard was issued, and will replace *IAS 39 Financial Instruments: Recognition and Measurement*. IFRS 9 provides guidance for the classification of financial assets based on the contractual cash flow characteristics of the financial assets and the Company’s business model for managing financial assets. Changes in the fair value of an entity’s own debt when it is classified as fair value through profit or loss (“FVTPL”), to the extent that they relate to changes in the entity’s own credit risk, are recognized in other comprehensive income. The new standard also requires a single impairment model to be used, replacing the multiple impairment models in IAS 39. The standard is effective for reporting periods beginning on or after January 1, 2018, with early adoption permitted. The Company is currently evaluating the impact of adoption on its results and financial position.

# AINSWORTH LUMBER CO. LTD.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2014

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

### 4. TRADE AND OTHER RECEIVABLES

All trade and other receivables are pledged as security for the 7.5% Senior Secured Notes due in 2017 (the "Notes") and are comprised of the following:

	2014	2013
Trade receivables	\$ 15,532	\$ 17,237
Other receivables	4,896	6,543
	<b>20,428</b>	23,780
Less: allowance for doubtful accounts	-	(100)
	<b>\$ 20,428</b>	<b>\$ 23,680</b>

Changes in the allowance for doubtful accounts during the year are as follows:

	2014	2013
Balance, January 1	\$ 100	\$ 100
Receivables written off during the year	(100)	-
Balance, December 31	\$ -	\$ 100

The aging of trade receivables is as follows:

	2014	2013
< 30 days	\$ 15,475	\$ 15,298
30 - 60 days	41	1,541
> 60 days	16	398
	<b>\$ 15,532</b>	<b>\$ 17,237</b>

The Company did not have any significant impaired trade receivables for the year ended December 31, 2014 or 2013.

### 5. INVENTORIES

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

	2014	2013
Logs	\$ 25,304	\$ 18,690
Panel products	20,373	16,032
Materials, supplies and spares	23,417	17,749
	<b>\$ 69,094</b>	<b>\$ 52,471</b>

There were no inventory write-downs or recoveries of previous write-downs during the years ended December 31, 2014 and 2013.

During the year ended December 31, 2014, \$319.5 million (year ended December 31, 2013: \$259.1 million) of inventory was charged to costs of products sold.

All inventories are pledged as security for the Notes.

# AINSWORTH LUMBER CO. LTD.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2014

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

### 6. PROPERTY, PLANT AND EQUIPMENT

Cost	Land	Building	Machinery and Equipment	Assets under Finance Lease	Other Assets (1)	Construction in Progress (2)	Total (3)
Cost, December 31, 2013	\$ 2,135	\$ 224,249	\$ 460,230	\$ 2,077	\$ 10,385	\$ 62,726	\$ 761,802
Additions	-	-	-	-	372	28,703	29,075
Disposals	-	(88)	(1,374)	-	(136)	(15)	(1,613)
Investment tax credits on capital expenditures	-	-	(3)	-	-	-	(3)
Transfers	-	324	14,137	-	3,904	(18,365)	-
Cost, December 31, 2014	\$ 2,135	\$ 224,485	\$ 472,990	\$ 2,077	\$ 14,525	\$ 73,049	\$ 789,261
<b>Accumulated Amortization</b>							
Accumulated amortization, December 31, 2013	\$ -	\$ (33,666)	\$ (94,412)	\$ (1,622)	\$ (3,401)	\$ -	\$ (133,101)
Amortization for the period	-	(7,505)	(17,231)	(382)	(1,409)	-	(26,527)
Disposals	-	15	372	-	77	-	464
Accumulated amortization, December 31, 2014	\$ -	\$ (41,156)	\$ (111,271)	\$ (2,004)	\$ (4,733)	\$ -	\$ (159,164)
<b>Carrying amount</b>							
Balance, Dec. 31, 2013	\$ 2,135	\$ 190,583	\$ 365,818	\$ 455	\$ 6,984	\$ 62,726	\$ 628,701
Balance, Dec. 31, 2014	2,135	183,329	361,719	73	9,792	73,049	630,097

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

(2) No interest has been capitalized in construction in progress for the periods presented as construction has been put on hold indefinitely. Included in construction in progress is \$52.1 million related to our second production line at Grande Prairie, which is currently curtailed.

(3) All property, plant and equipment are pledged as security for the Notes.

There were no write-downs during the year ended December 31, 2014.

During the year ended December 31, 2013, the Company recorded a \$3.8 million write-down with respect to obsolete equipment and certain equipment that is no longer in use. The write-down was included in amortization of property, plant and equipment and intangible assets on the statement of income and comprehensive income.

# AINSWORTH LUMBER CO. LTD.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2014

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

### 7. INTANGIBLE ASSETS

Intangible assets consist of timber rights.

#### Cost

Cost at December 31, 2013	\$	26,562
Additions		489
Cost, December 31, 2014	\$	27,051

#### Accumulated Amortization

Accumulated amortization at December 31, 2013	\$	(18,961)
Amortization for the period		(1,970)
Accumulated amortization, December 31, 2014	\$	(20,931)

#### Carrying Amount <sup>(1)</sup>

Balance, December 31, 2013	\$	7,601
Balance, December 31, 2014		6,120

<sup>(1)</sup> Intangible assets are pledged as security for the Notes.

### 8. TRADE AND OTHER PAYABLES

	2014		2013	
Trade payables	\$	15,503	\$	16,613
Other payables and accruals <sup>(1)</sup>		26,594		25,520
	\$	42,097	\$	42,133

<sup>(1)</sup> Other payables and accruals include wages and benefits, severance payable, sundry payables, current reforestation liabilities and accrued interest. At December 31, 2014, \$134 (December 31, 2013: \$227) is payable to Brookfield Capital Partners Ltd. ("BCP") and \$306 (December 31, 2013: \$70) is payable to a law firm of which one of the Company's directors is also a partner, for services provided to the Company.

# AINSWORTH LUMBER CO. LTD.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2014

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

### 9. LONG-TERM DEBT

	Note	Par Value	Maturity	2014	2013
Bank and other loans					
Senior secured notes	(a)	US \$315,000	Dec. 15, 2017	\$ 365,431	\$ 335,034
Equipment financing loan	(b)			-	7,863
Equipment financing loan	(b)			-	1,750
Finance leases	(c)		2015	77	478
				<b>365,508</b>	345,125
Unamortized transaction costs				(5,125)	(6,663)
Unamortized deferred debt premium				3,741	4,836
				<b>\$ 364,124</b>	\$ 343,298
Current				\$ 77	\$ 10,001
Non-current				<b>364,047</b>	333,297
				<b>\$ 364,124</b>	\$ 343,298

- a) The Senior Secured Notes (the "Notes") bear interest at an annual rate of 7.5%, payable semi-annually in cash in arrears, and are secured by substantially all of the Company's assets on a first priority basis, subject to certain exceptions and permitted liens.
- b) These floating rate equipment financing loans were fully repaid upon maturity during the year ended December 31, 2014.
- c) Secured by certain property, plant and equipment.

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:

2015	\$ 77
2016	-
2017	365,431
2018	-
2019	-
And thereafter	-
	<b>\$ 365,508</b>

# AINSWORTH LUMBER CO. LTD.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2014

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

### 10. DISCONTINUED OPERATIONS

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

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

	2014	2013
LIABILITIES		
Current Liabilities of Discontinued Operations		
Trade and other payables	\$ 295	\$ 274
Accrued Pension Benefit Liability	3,258	2,229
Total Liabilities Held for Disposal	\$ 3,553	\$ 2,503
	2014	2013
Loss Before Income Taxes	\$ (532)	\$ (324)
Income Tax Expense	(1,300)	(161)
Loss from Discontinued Operations	\$ (1,832)	\$ (485)

There have 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.

### 11. ACCRUED PENSION BENEFIT LIABILITY

#### *Defined benefit plans:*

The Company maintains two defined benefit pension plans for certain salaried and certain hourly employees in British Columbia and Minnesota, both of which are closed to new entrants. The defined benefit plans are subject to the applicable pension regulations in those jurisdictions. The defined benefit plans are governed by the Company's retirement committee, which are comprised of members of the Company's management group and report to the Company's Board of Directors. The retirement committee is required by law to act in the best interests of the plan participants and is responsible for the prudent management of the plan assets as well as for making recommendations on investment policy and changes to the defined benefit plans in order to preserve and enhance the value as well as maximize the long-term rate of return of the defined benefit plans' assets.

Under both defined benefit plans, employees are entitled to monthly pension benefits upon retirement at age 65, and a death benefit. Pension benefits are dependent on a member's salary throughout their career and years of service with the Company. Payments under the B.C. defined benefit plan pension benefit is calculated as 1.5% of yearly maximum pensionable earnings ("YMPE") plus 2% of gross earnings over YMPE. Payments under the Minnesota defined pension plan are either a dollar multiplier times the number years of credited service, or 1.25% of final average earnings times years of credited service. The pension liability of the Minnesota plan was reclassified to discontinued operations (Note 10).

# AINSWORTH LUMBER CO. LTD.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2014

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

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### 11. ACCRUED PENSION BENEFIT LIABILITY (Continued)

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, 2013. The date of the next required valuation is December 31, 2016. The most recent actuarial valuation of the Minnesota pension plan was as of January 1, 2013. The next valuation will be prepared as of January 1, 2014. The net accrued benefit liability related to the Company's U.S. operations has been classified separately due to the sale of these operations. Actuarial gains and losses are recognized in other comprehensive income in the period within which they occur.

The defined benefit pension plans expose the Company to a number of actuarial risks, including investment risk, interest rate risk, longevity risk and salary 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's objectives, policies and processes for managing these risks are described below.

#### *Investment risk*

The present value of the pension benefit obligations are calculated using a discount rate set with reference to Canadian corporate bond yields. If the return on plan assets is below this rate, this will result in a plan deficit. The Company manages risk through specifying allowable and prohibited investment types, setting diversification strategies and determining target asset allocations.

The B.C. plan has a balanced investment in equity securities and corporate and government bonds. Due to the long-term nature of the pension benefit obligations, the retirement committee considers it appropriate that a portion of the plan assets should be invested in equity securities which are expected to outperform corporate and government bonds in the long-term notwithstanding higher volatility and risk in the short-term. A breakdown of the various categories in which the Company's plan assets are invested is provided in the tables that follow.

The Minnesota plan assets are invested in a money market fund.

#### *Interest rate risk*

A decrease in the bond interest rate will increase the pension benefit obligations, although this will be partially offset by an increase in the return on the plan's bond investments. At December 31, 2014, if interest rates had been 1% higher/lower and all other variables were constant, the value of the accrued benefit obligation would decrease/increase by approximately \$11.1 million/\$14.2 million.

#### *Longevity risk*

The present value of the pension benefit obligations are calculated using the best estimate of the mortality of plan participants both during and after their employment. An increase in the life expectancy of the plan participants will result in an increase in the value of the obligations. At December 31, 2014, if mortality rates had been 1% higher/lower and all other variables were constant, the value of the accrued benefit obligation would decrease/increase by approximately \$188.

#### *Salary risk*

The present value of the pension benefit obligations are calculated using the expected future pensionable earnings of the plan participants. An increase in the pensionable earnings of the plan participants will increase the value of the obligations. At December 31, 2014, if the rate of salary increases had been 1% higher/lower and all other variables were constant, the value of the accrued benefit obligation would increase/decrease by approximately \$1.4 million/\$1.2 million.

# AINSWORTH LUMBER CO. LTD.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2014

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

### 11. ACCRUED PENSION BENEFIT LIABILITY (Continued)

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

	2014	2013
<b>PLAN ASSETS</b>		
Fair value at beginning of year	\$ 51,134	\$ 43,928
Expected return on plan assets	2,553	1,982
Remeasurement gain (loss) included in other comprehensive income:		
Actuarial gain (loss)	3,943	2,962
Employer contributions <sup>(1)</sup>	7,681	6,964
Benefits paid	(3,623)	(4,702)
Fair value at end of year	\$ 61,688	\$ 51,134
<b>ACCRUED BENEFIT OBLIGATION</b>		
Balance at beginning of year	\$ 58,676	\$ 60,934
Current service cost	1,922	1,943
Interest cost	2,822	2,663
Benefits paid	(3,623)	(4,702)
Remeasurement loss (gain) included in other comprehensive income:		
Actuarial loss (gain) due to changes in demographic assumptions	2,470	1,493
Actuarial loss (gain) due to changes in financial assumptions	8,487	(3,751)
Experience adjustments	1,743	96
Balance at end of year <sup>(2)</sup>	72,497	58,676
<b>NET PLAN DEFICIT AT END OF YEAR</b>	<b>\$ (10,809)</b>	<b>\$ (7,542)</b>
Fair value of plan assets at end of year, discontinued operations	\$ 4,244	\$ 4,094
Accrued benefit obligation at end of year, discontinued operations	\$ 7,502	\$ 6,323
Net plan deficit at end of year, discontinued operations	\$ (3,258)	\$ (2,229)

<sup>(1)</sup> Employer contributions for the year ended December 31, 2015 are estimated at \$7.6 million.

<sup>(2)</sup> Accrued benefit obligation includes liabilities of \$2.2 million (December 31, 2013: \$2.0 million) related to the Lillooet and Savona discontinued operations.

The components of pension expense that have been charged to the statement of income and comprehensive income for the period, within selling and administration and cost of products sold, are set out below:

	2014	2013
Accrual for current services	\$ 1,922	\$ 1,943
Interest on accrued benefits	2,822	2,663
Expected return on pension fund assets	(2,553)	(1,982)
Pension expense, continuing operations	\$ 2,191	\$ 2,624
Pension expense, discontinued operations	\$ 90	\$ 90

# AINSWORTH LUMBER CO. LTD.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2014

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

### 11. ACCRUED PENSION BENEFIT LIABILITY (Continued)

Net actuarial losses have been charged to other comprehensive income and immediately recognized in retained earnings (deficit) as follows:

	2014	2013
Actuarial losses in other comprehensive income, January 1	\$ 14,609	\$ 18,669
(Gain) loss charged to comprehensive income for the year:		
Actuarial (gain) loss on plan assets, continuing operations	(3,943)	(2,962)
Actuarial (gain) loss on plan liabilities, continuing operations	12,700	(2,162)
Net actuarial loss, discontinued operations	1,098	(233)
Income tax expense (recovery) on actuarial (gain) loss	(2,215)	1,297
Total (gain) loss charged to other comprehensive income for the year	7,640	(4,060)
Actuarial losses in other comprehensive income, December 31	\$ 22,249	\$ 14,609

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

	2014	2013
Discount rate on accrued benefit obligation at end of year	4.00%	4.80%
Discount rate on benefit costs	4.80%	4.40%
Expected long-term rate of return on plan assets	4.80%	4.40%
Actual return on plan assets	12.41%	11.51%
Rate of compensation increase	3.00%	3.00%
Average longevity at retirement age for current pensioners (years):		
Males	21.4	19.8
Females	23.9	22.1
Average longevity at retirement age for current employees (future pensioners) (years):		
Males	22.6	21.3
Females	24.9	22.9

The expected rate of return considers the allocation of the assets in which the pension fund is invested and the individual best estimate rates of return on those asset classes in order to establish an overall rate of return for the entire fund. This rate is assumed to be net of administration and investment management fees charged to the plan.

The timing of expected benefit payments within the next 10 years is disclosed below:

	Less than 1 year		1 to 2 years		3 to 5 years		5 to 10 years		Total
\$	5,370	\$	3,210	\$	9,854	\$	17,450	\$	35,884

# AINSWORTH LUMBER CO. LTD.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2014

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

### 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 the Statement of Investment Policies and Procedures, are as follows:

PLAN ASSETS	2014	2013
Cash	0.1%	0.2%
Canadian bonds and debentures	49.4%	42.8%
Canadian pooled equity funds	31.4%	35.5%
U.S. pooled equity funds	19.1%	21.5%
	<b>100.0%</b>	<b>100.0%</b>

At December 31, 2014, 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:*

The Company maintains a Canadian defined contribution pension plan for all non-union employees who joined the Company after April 1, 2010. Beginning in September 2013, all new unionized employees at the 100 Mile House, British Columbia facility were also enrolled into the defined contribution pension plan. The plan is funded by payments from the employees and the Company. Payments are charged to the statement of income and comprehensive income for the period as incurred.

The Company also sponsors a Group Registered Retirement Savings Plan (RRSP) at three of its Canadian operations, as well as a Deferred Profit Sharing Plan for union employees at the Barwick, Ontario facility.

Contributions to these plans were as follows:

	2014	2013
Deferred profit sharing plan	\$ 708	\$ 693
Group RRSP	503	588
Defined contribution pension plan	935	569
401(k) savings plans	32	29

# AINSWORTH LUMBER CO. LTD.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2014

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

### 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.

	2014		2013	
Balance, January 1	\$	5,181	\$	4,269
Expense		1,116		1,489
Paid during the year		(810)		(821)
Fair value adjustment		(200)		244
Balance, December 31	\$	5,287	\$	5,181
Current portion, included in trade and other payables	\$	1,442	\$	791
Non-current portion		3,845		4,390
	\$	5,287	\$	5,181

### 13. COMMITMENTS

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	\$	796	\$	78
Later than one year, but no later than five years		2,014		-
Later than five years		-		-
		2,810		78
Less: future finance charges		-		(1)
Present value of minimum lease payments	\$	2,810	\$	77

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 had a contractual commitment to purchase property, plant and equipment at December 31, 2014 of approximately \$1.1 million (December 31, 2013: \$4.5 million). 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. Based on current claims outstanding and historical experience, the Company did not have a significant provision for warranty claims as at December 31, 2014 and 2013.

### 14. 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, 2014 cannot be predicted with certainty, the Company believes the resolution will not have a material effect on the Company's financial position, financial performance, or cash flows.

# AINSWORTH LUMBER CO. LTD.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2014

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

### 15. 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 and outstanding share capital is as follows:

	2014		2013		
	Shares	Amount	Shares	Warrants <sup>(1)</sup>	Amount
Balance, January 1	240,906,309	\$ 582,738	240,833,888	8,695,634	\$ 582,626
Stock options exercised (Note 16)	50,000	141	42,000	-	112
Shareholder warrants converted <sup>(1)</sup>	-	-	30,421	(8,695,634)	-
Balance, December 31	240,956,309	\$ 582,879	240,906,309	-	\$ 582,738

- <sup>(1)</sup> The Company issued 8,695,634 warrants on July 28, 2008. The number of shares to be issued to warrant holders was dependent on the market price of the Company's common shares. If the Company's common share price exceeded a barrier price of U.S.\$7.89 per share on or before July 29, 2013, each warrant would be converted into 1.52 common shares; otherwise, each warrant would be converted into 0.0035 common shares. On July 29, 2013, the shareholder warrants were deemed to be exercised without additional consideration. Since the Company's share price did not exceed the barrier price of U.S.\$7.89 per common share, each warrant was converted into 0.0035 common shares, resulting in the issuance of 30,421 common shares. These warrants had nominal value for accounting purposes.

- b) Net income per share

At December 31, 2014 there were 1,240,000 (December 31, 2013: 475,000) 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.

### 16. SHARE-BASED PAYMENTS

#### Stock Option Plan

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 granted:

	2014	2013
Risk-free interest rate	1.58%	1.26%
Expected volatility <sup>(1)</sup>	56.00%	50.00%
Dividend yield	0%	0%
Expected option life (years)	5.00	4.00
Share price	\$2.71	\$4.17
Weighted average fair value per option granted	\$1.30	\$1.81

- <sup>(1)</sup> Expected volatility is based on the historical share price volatility over the options' expected life, taking into consideration the volatility of similar entities over a comparable period.

# AINSWORTH LUMBER CO. LTD.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2014

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

### 16. SHARE-BASED PAYMENTS (Continued)

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

	2014		2013	
	Number of Share Options	Weighted Average Exercise Price	Number of Share Options	Weighted Average Exercise Price
Outstanding at beginning of period	1,990,676	\$ 2.11	1,588,676	\$ 1.60
Granted during the period	965,000	2.80	500,000	3.73
Exercised during the period <sup>(1)</sup>	(50,000)	1.77	(42,000)	1.60
Forfeited during the period <sup>(2)</sup>	(225,000)	3.07	(56,000)	2.55
Outstanding at end of period	2,680,676	\$ 2.28	1,990,676	\$ 2.11
Options exercisable at end of period	1,231,676	\$ 1.76	1,073,676	\$ 1.65

<sup>(1)</sup> During the year ended December 31, 2014, \$141 was credited to capital stock with respect to options that were exercised. This includes \$89 consideration received on exercise, plus \$52 representing the vested fair value of the stock options.

During the year ended December 31, 2013, \$112 was credited to capital stock with respect to options that were exercised. This includes \$67 consideration received on exercise, plus \$45 representing the vested fair value of the stock options.

<sup>(2)</sup> During the year ended December 31, 2014, \$113 (December 31, 2013: \$12) 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, 2014:

Options Outstanding				Options Exercisable	
Range of Exercise Prices	Number of Options	Weighted Average Remaining Contractual Life (yrs)	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
\$0 - 2	993,300	5.34	\$ 1.24	799,300	\$ 1.27
2.01 - 4	1,687,376	8.21	2.90	432,376	2.66
	2,680,676	7.15	\$ 2.28	1,231,676	\$ 1.76

The following table outlines the Company's share-based compensation expense with respect to the stock option plan:

	2014	2013
Stock option expense	\$ 514	\$ 267

# AINSWORTH LUMBER CO. LTD.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2014

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

### 16. SHARE-BASED PAYMENTS (Continued)

#### *Deferred Share Unit Plan*

The Company has 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 volume weighted average price (“VWAP”) 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 DSUs is the amount of fees payable to the director, and is recognized immediately. The liability is subsequently re-measured to fair value using the VWAP for the last five business days of each reporting period until settlement. The initial fair value of amounts granted and any subsequent changes in fair value are recorded within compensation expense in the period.

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

	2014		2013	
	Number of DSUs	Fair Value	Number of DSUs	Fair Value
Outstanding at beginning of period	494,022	\$ 2,045	415,958	\$ 485
Granted during the period	90,430	280	78,064	208
Change in value	-	(396)	-	1,352
Outstanding at end of period	584,452	\$ 1,929	494,022	\$ 2,045

### 17. EMPLOYEE BENEFITS

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

	2014	2013
Short-term employee benefits	\$ 70,722	\$ 65,560
Long-term employee benefits	5,759	5,785
Share-based payments (recovery)	398	1,827
	\$ 76,879	\$ 73,172

### 18. FINANCE EXPENSE

	2014	2013
Interest expense	\$ (26,403)	\$ (26,977)
Interest on finance leases	(22)	(79)
Amortization of bond premium, transaction costs and consent fees	(443)	(485)
	\$ (26,868)	\$ (27,541)

## AINSWORTH LUMBER CO. LTD.

### Notes to the Consolidated Financial Statements

For the year ended December 31, 2014

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

#### 19. LOSS ON EARLY REPAYMENT OF LONG-TERM DEBT

On August 14, 2013, the Company redeemed U.S. \$35 million (or 10%) in principal amount of the Notes, pursuant to the terms of the indenture governing the Notes, at a price equal to 103% of the principal amount of the Notes redeemed, plus accrued and unpaid interest to, but excluding the redemption date. A loss was recognized as a result, consisting of the following:

	2014		2013	
Extinguishment of derivative embedded in Senior Notes	\$	-	\$	(1,791)
Premium paid		-		(1,082)
Write-off of transaction costs and bond premium		-		(215)
	\$	-	\$	(3,088)

#### 20. FOREIGN EXCHANGE (LOSS) GAIN

	2014		2013	
Foreign exchange loss on long-term debt	\$	(30,730)	\$	(23,922)
Other foreign exchange gain		1,325		2,128
	\$	(29,405)	\$	(21,794)

#### 21. (LOSS) GAIN ON DERIVATIVE FINANCIAL INSTRUMENT

The Notes issued on November 27, 2012 have embedded call options, whereby the Company has the right to repurchase 10% of the original principal of the Notes each year in the first two years, and the right to redeem the Notes after two years. The derivative financial asset was recorded at fair value at issuance of the Notes and is revalued at each reporting period based on the market value of the Notes, the current interest rates, and the credit spread. The fair value of this instrument is included in other assets on the consolidated statement of financial position. Changes in the fair value are reflected in net income.

Changes in the market value of the Notes, the risk-free rate, the credit spread and the cash interest rate resulted in an \$11.9 million loss on the derivative financial asset for the year ended December 31, 2014 (year ended December 31, 2013: \$8.1 million gain), as follows:

	2014		2013	
Change in fair value relating to price	\$	(10,650)	\$	8,052
Extinguishment of embedded derivative upon expiry <sup>(1)</sup>		(1,272)		-
(Loss) gain on embedded derivative	\$	(11,922)	\$	8,052

<sup>(1)</sup> During the year ended December 31, 2014, the option to repurchase 10% of the principal of the Notes at a price of 103% of the principal amount of the Notes expired. As a result, the embedded derivative related to this option was extinguished.

#### 22. COSTS OF CURTAILED OPERATIONS

Costs of curtailed operations primarily include costs associated with the High Level OSB facility up until the Company restarted production at this mill in the latter part of the third quarter of 2013.

# AINSWORTH LUMBER CO. LTD.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2014

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

### 23. OTHER ITEMS

	2014		2013	
Loss on disposal of property, plant and equipment	\$	(939)	\$	(409)
Other income		1,450		1,800
	\$	511	\$	1,391

### 24. TAXATION

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

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

#### (a) Reconciliation of the effective tax rate:

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

	2014		2013	
	Amount	%	Amount	%
Income tax (recovery) expense at statutory rate	\$ (19,398)	25	\$ 15,235	25
Non-taxable foreign exchange loss (gain)	4,791	(6)	3,154	5
Non-taxable financing costs	1,507	(2)	(790)	(1)
Change in statutory income tax rates	537	(1)	654	1
Other	7,000	(9)	2,744	5
Tax (recovery) expense	\$ (5,563)	7	\$ 20,997	35
Comprised of:				
Current taxes	\$ 97		\$ 640	
Deferred income tax (recovery) expense	(5,660)		20,357	
Tax (recovery) expense	\$ (5,563)		\$ 20,997	

# AINSWORTH LUMBER CO. LTD.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2014

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

### 24. TAXATION (Continued)

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

	2014	2013
Deferred income tax assets:		
Accruals not currently deductible	\$ 1,229	\$ 1,722
Deferred pension costs	2,280	1,394
Financing costs	1,319	1,763
Investment tax credits	12,826	14,223
Land	60	60
Tax loss carryforwards	49,507	40,583
Other tax credits	918	918
	<b>\$ 68,139</b>	<b>\$ 60,663</b>
Deferred income tax liabilities:		
Depreciable capital assets	(110,246)	(110,898)
Derivative gain on financial instrument	(975)	(2,484)
Foreign exchange gain on long-term debt	(1,450)	-
	<b>\$ (112,671)</b>	<b>\$ (113,382)</b>
Deferred income tax liability, net	<b>\$ (44,532)</b>	<b>\$ (52,719)</b>

The Company has benefited Canadian non-capital tax loss carry-forwards of approximately \$192 million for financial statement purposes at December 31, 2014 (December 31, 2013: \$155 million).

### (c) Unrecognized deferred tax assets:

The Company has U.S. non-capital tax loss carry-forwards of \$431 million that expire between 2026 and 2034, which are not benefited for financial statement purposes. A substantial portion of these losses are restricted due to the 2008 recapitalization. The remaining losses are not benefited as the Company believes it is not probable that the results of future operations in a U.S. entity will generate sufficient taxable income to utilize the U.S. non-capital losses.

The Company also has unrecognized deferred tax assets of \$6.6 million (2013: \$2.8) relating to foreign exchange loss on long-term debt.

The movement in deferred income tax assets and liabilities during the year was all charged to the statement of income and comprehensive income, with the exception of a \$2.2 million recovery to other comprehensive income related to the movement in deferred pension costs (2013: \$1.3 million expense).

### 25. CHANGES IN NON-CASH OPERATING WORKING CAPITAL

	2014	2013
Trade and other receivables	\$ 3,238	\$ 1,928
Income taxes payable	758	(269)
Trade and other payables	215	11,681
Prepaid expenses	(1,038)	(167)
Inventories	(16,655)	(14,200)
	<b>\$ (13,482)</b>	<b>\$ (1,027)</b>

# AINSWORTH LUMBER CO. LTD.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2014

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

### 26. SEGMENTED REPORTING

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

	2014	2013
United States	\$ 330,112	\$ 367,536
Japan	54,579	55,214
Canada	36,007	55,638
Overseas - other	23,307	9,668
	\$ 444,005	\$ 488,056

Included in sales are \$92.3 million (December 31, 2013: \$115.6 million) to the Company's largest customer. No other single customer contributed 10% or more to the Company's revenue for both 2014 and 2013.

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

### 27. 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. At December 31, 2014, the Company is in compliance with the provisions of these indentures.

# AINSWORTH LUMBER CO. LTD.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2014

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

### 27. 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	2014	2013
<b>FINANCIAL ASSETS</b>			
Held for trading			
Cash and cash equivalents	Level 1	\$ 75,623	\$ 137,444
Loans and receivables			
Trade and other receivables <sup>(1)</sup>	n/a	20,428	23,680
Derivative financial asset <sup>(2)</sup>	Level 2	7,711	19,632
		<b>\$ 103,762</b>	<b>\$ 180,756</b>
<b>FINANCIAL LIABILITIES</b>			
Other financial liabilities			
Trade and other payables <sup>(1)</sup>	n/a	\$ 42,097	\$ 42,133
Long-term debt, including current portion	n/a	364,047	342,819
		<b>\$ 406,144</b>	<b>\$ 384,952</b>

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

<sup>(2)</sup> The Company applies a standard Option-Adjusted Spread model for the call options. The current bid price for the bonds of 103 at December 31, 2014 (December 31, 2013: 107.25) is used as the market value input.

The Company's policy for determining the timing of transfers between levels of the fair value hierarchy is based on the date of the event or change in circumstances that caused the transfer. There were no transfers between level 1 and level 2 for the years ended December 31, 2014 and 2013. There were no financial instruments classified as level 3 at December 31, 2014 or December 31, 2013.

#### 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.

# AINSWORTH LUMBER CO. LTD.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2014

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

### 27. FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (Continued)

#### *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. The Company's maximum exposure to credit risk is the gross carrying amount of these assets net of any allowance for doubtful accounts or impairment loss as reflected in these consolidated financial statements. At December 31, 2014, the amount of accounts receivable past due or impaired was nominal.

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

#### *Liquidity risk*

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

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

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	Total
Senior Secured Notes	\$ -	\$ -	\$ 27,407	\$420,246	\$ -	\$447,653
Finance lease obligations	12	24	42	-	-	78
Operating lease obligations	68	136	592	2,014	-	2,810
Trade payable and accrued liabilities	38,061	384	2,734	-	-	41,179
Reforestation obligation	-	-	-	3,116	729	3,845
Purchase commitments	147	1,190	602	1,123	720	3,782
	\$ 38,288	\$ 1,734	\$ 31,377	\$426,499	\$ 1,449	\$499,347

# AINSWORTH LUMBER CO. LTD.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2014

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

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### 27. FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (Continued)

#### *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. 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. During the year ended December 31, 2014, the Company repaid its floating rate debts and is no longer exposed to interest rate risk on floating rate debt.

The Company is also exposed to interest rate risk on the derivative financial instrument that arises from the call option embedded in the 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, 2014 was \$7.7 million (December 31, 2013: \$19.6 million) and was included in Other Assets. At December 31, 2014, if interest rates had been 1% higher and all other variables were constant, the value of the derivative financial asset would increase by approximately \$2.5 million (December 31, 2013: \$2.5 million).

##### *Currency risk*

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

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

At December 31, 2014, the impact on the after tax net income of a one cent weakening/strengthening of the Canadian dollar, all other variables remaining constant, on the revaluation of the Company's monetary assets and liabilities would be would have been \$3.0 million higher/lower on an annual basis (December 31, 2013: \$2.7 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 markets, 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.

# AINSWORTH LUMBER CO. LTD.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2014

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

### 27. FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (Continued)

#### Fair value of financial instruments

The fair value of financial instruments, with the exception of the Notes, is estimated to approximate their carrying value at December 31, 2014 due to the immediate or short-term maturity of these financial instruments.

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

	December 31, 2014		December 31, 2013	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Senior Secured Notes <sup>(1)</sup>	\$ 364,047	\$ 376,394	\$ 333,245	\$ 352,699
Equipment financing <sup>(2)</sup>	-	-	9,574	9,574
	<b>\$ 364,047</b>	<b>\$ 376,394</b>	<b>\$ 342,819</b>	<b>\$ 362,273</b>

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

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

The fair value of the call option embedded in the Notes as at December 31, 2014 was \$7.7 million (December 31, 2013: \$19.6 million).

### 28. RELATED PARTY TRANSACTIONS

#### Brookfield Capital Partners

The Company is controlled by BCP, which beneficially owns or exercises control or direction over approximately 54.4% of the issued and outstanding common shares. BCP is controlled by Brookfield Asset Management Inc.

The Company periodically sells goods to BCP affiliates. There were no such sales during the year ended December 31, 2014 (year ended December 31, 2013: \$2.6 million).

The Company did not purchase any equipment from BCP affiliates during the year ended December 31, 2014 (year ended December 31, 2013: \$150).

#### 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.

# AINSWORTH LUMBER CO. LTD.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2014

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

### 28. RELATED PARTY TRANSACTIONS (Continued)

#### *Compensation of the executive management team and directors*

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

	2014		2013
Short-term employee benefits	\$ 2,221	\$	2,764
Long-term employee benefits	144		153
Share-based payments	510		604
Termination benefits	247		-
	\$ 3,122	\$	3,521

#### *Other*

	2014		2013
Legal fees <sup>(1)</sup>	\$ 1,066	\$	838
Other services <sup>(2)</sup>	529		616
	\$ 1,595	\$	1,454

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

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

Sales to overseas markets are handled by Interex Forest Products Ltd. ("Interex"), a cooperative sales company over which Ainsworth, as a shareholder, has significant influence. At December 31, 2014, \$2.4 million was included in trade receivables with respect to Interex (December 31, 2013: \$2.9 million).

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