J. Barrie Shineton
President & CEO

Norbord

January 27, 2012

To Our Shareholders,

2011 turned out to be another challenging year for Norbord. Overall housing sentiment remained negative and our EBITDA result of $45 million is disappointing in absolute terms. However, I am pleased to report that our operations in both North America and Europe continued to perform exceptionally well throughout last year.

We delivered $25 million in margin improvements, reflecting a company-wide effort to reduce manufacturing costs and increase mill productivity. In North America, these gains allowed us to maintain positive EBITDA despite 15% lower OSB prices and higher raw material costs. In Europe, our panel business performed well for the second year in a row, improving full-year EBITDA by 19% even as the sovereign debt crisis intensified.

The road to recovery has been bumpy, but it's my view that the US housing sector is at an inflection point and is now in the early phase of a more gradual rebound. While opinions still vary, several previously bearish housing economists have shifted positions and are now calling a bottom in the market. Their views are supported by encouraging signs: job creation has been positive for five consecutive quarters, new home inventories are below historical levels, home affordability is at historical highs and mortgage availability is better than the headlines suggest.

Good things are happening at Norbord, though I do acknowledge that our progress is sometimes hard to see in our bottom line. However, I am confident that all of our efforts will pay off once the housing recovery takes hold.

***We have solid financial runway***

Our balance sheet continues to be well managed. In 2011, we added two new lenders to our bank group, extended the maturity of our lines and increased the commitment to $270 million. We improved access to our bank lines through an amendment of the net debt to total capitalization covenant, giving us additional headroom should it be required. Most importantly, we put in place a backup refinancing plan for our 2012 bond maturity to maintain financial flexibility. Operating working capital remains tightly controlled and our balance sheet metrics remain comfortably inside bank covenant levels. Our available liquidity at year-end was $350 million, more than sufficient to support our operating and capital investment priorities for the foreseeable future.

***Margin improvement is an operational priority***

We continue to find new ways to reduce costs at both the operational and corporate levels. In 2011, our operations delivered $25 million of margin improvement gains, reflecting an outstanding effort by all our teams to improve manufacturing efficiency. The conversion to a new resin technology in North America contributed more than half of this result, and effectively offset the negative impact of higher resin prices in that part of our business. We expect to deliver similar gains across the Company again in 2012.

***Careful reinvestment is delivering results***

Operational performance continues to improve. In 2011, seven of our nine operating OSB mills set annual productivity records. Of particular note, our Genk OSB facility in Belgium has matured and we will restate this mill's annual capacity from 260 MMsf (3⁄8-inch basis) to 350 MMsf for 2012 to reflect the step change in production output.

Our capital investments have been appropriately kept to minimal levels for the last five years. However, the projects we did prioritize are delivering solid results. The recent upgrade to our particleboard facility in Cowie, Scotland is delivering the raw material usage gains we targeted and productivity is ramping up nicely. This year, we will proceed with our first installation of fines screening equipment at the Nacogdoches, Texas mill. This pilot project, when implemented across the Company, has the same potential for manufacturing cost reduction as our resin conversion initiative. We look forward to proving this out in 2012.

***Our customer strategy continues to evolve***

In North America, we continue to diversify our exposure away from new home construction by growing our big box, industrial and export volumes. Today, almost two-thirds of our North American sales volume is directed toward these market segments. At the same time, we have maintained a strong position with the leading national pro-dealers and remain well positioned to grow with these customers when housing activity rebounds.

***World-class safety performance is the goal***

Most of our operations continued to show year-over-year safety improvement in 2011. Our Cordele, Georgia and Nacogdoches mills both achieved a new milestone, having worked three years without a recordable injury. And in December, our Cowie mill became the first Norbord operation outside the US to achieve Safety Star certification. This program is based on OSHA's Voluntary Protection Program and sets safety standards that go well beyond regulatory requirements. We have an aggressive schedule to certify the remaining Norbord sites as it is clear that our mills that have achieved this rigorous standard also provide the safest workplaces for our employees.

***Succession planning ensures organizational continuity***

Peter Wijnbergen is now settled into his role as Chief Operating Officer and it is his focus on new cost and productivity improvement initiatives that is behind our accelerating margin improvement results. In Europe, we have reorganized our business to provide more clarity around commercial and operational activities and to more effectively position the talents of our existing leadership team.

This year, Dave McElroy, Deputy Managing Director of our European business, and Bob Kinnear, Senior Vice President, Corporate Services, will retire after more than 28 and 10 respective years of service. I thank them both for their invaluable contributions to the Company and wish them well.

**Outlook for 2012**

The North American housing picture is getting brighter, in spite of the remaining structural issues. And while I believe overall OSB pricing will trend sideways for most of 2012, early indicators are pointing to some upside in OSB demand as we move into the first quarter. Supply chain inventories are extremely lean, less capacity appeared to be available at the end of last year and the latest housing numbers were stronger than most forecasters had predicted.

Norbord's European operations performed well last year and, so far this year, have been largely unaffected by the sovereign debt crisis. This is due in large part to a quality customer base and a continuing currency advantage over Continental-based producers. I believe our European business will deliver a solid financial result again in 2012 even though the robust panel pricing of the past two years appears to have peaked.

We continue to monitor industry developments closely. Last year, we were right to be concerned about rising raw material prices. This year, as China's rapid economic growth moderates and some southern European countries fall into recession, raw material prices may ease. We are also watching currencies closely and stand ready to protect our UK business against any significant weakening of the Euro.

Finally, North American OSB markets continue to be hampered by overcapacity and it's my view that any meaningful growth is likely a few years away. For this reason, some analysts have been calling for consolidation in our industry. We have been focused on improving the efficiency of our mills, but I also believe that we could improve our business through acquisition when the time and opportunity are right.

**Norbord is Ready**

While there is more work to be done and headwinds remain, I am optimistic about the future. Our cost-saving initiatives are delivering better cash flows. Our mills are performing well and we continue to find opportunities to push productivity and take out costs. We have strong customer partnerships and have been successful in securing additional home improvement centre business. We have sufficient financial liquidity and plans are in place to address our upcoming bond maturity. Norbord is well positioned to benefit from stronger OSB prices when the US housing recovery takes hold.

On behalf of everyone at Norbord, I thank you for your continued support. I look forward to reporting on our progress throughout the year.

Barrie Shineton

*This letter includes forward-looking statements, as defined by applicable securities legislation including statements related to our strategy, projects, plans, future financial or operating performance and other statements that express management's expectations or estimates of future performance. Often, but not always, forward-looking statements can be identified by the use of words such as "believe," "should," "expect," "suggest," "likely," "would," or variations of such words and phrases or statements that certain actions "may," "could," "must," "would," "might," or "will" be undertaken, occur or be achieved. Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of Norbord to be materially different from any future results, performance or achievement expressed or implied by the forward-looking statements. See the cautionary language in the Forward-Looking Statements section of the 2011 Management's Discussion and Analysis dated January 26, 2012.*

Norbord

# News Release

## NORBORD REPORTS 2011 RESULTS

Note: Financial references in US dollars unless otherwise indicated. All prior period comparative figures have been restated for IFRS.

## 2011 HIGHLIGHTS

- **Norbord achieved positive EBITDA of $45 million**
- **Increased European EBITDA by $7 million to $44 million**
- **Margin improvement program delivered $25 million of gains**
- **Set annual productivity records at 7 of 9 operating OSB mills**
- **Cordele, GA and Nacogdoches, TX mills completed 3+ years without a recordable injury**
- **Cowie, Scotland mill Norbord Safety Star certified, the first in Europe**

TORONTO, ON (January 27, 2012) – Norbord Inc. (TSX: NBD, NBD.WT) today reported EBITDA of $45 million in 2011 compared to $107 million in 2010 on 15% lower North American OSB prices. North American operations generated EBITDA of $14 million versus $83 million in the prior year and European operations generated EBITDA of $44 million versus $37 million in the prior year. In the fourth quarter of 2011, Norbord recorded positive EBITDA of $9 million versus $12 million in the previous quarter and $14 million in the fourth quarter of 2010.

Norbord recorded earnings of negative $11 million or $0.25 per share for the full year compared to earnings of positive $13 million or $0.30 per share (basic) in 2010. The Company recorded earnings of negative $9 million or $0.21 per share in the fourth quarters of both 2011 and 2010.

"Our 2011 financial results are disappointing in absolute terms," said Barrie Shineton, President and CEO. "However, I am pleased that Norbord's operations in both North America and Europe performed exceptionally well this year. We achieved $25 million of margin improvement gains, reflecting an outstanding effort across our company in reducing manufacturing costs and increasing mill productivity. In North America, these gains allowed us to maintain positive EBITDA despite a 15% drop in OSB prices. In Europe, our business held up surprisingly well in the face of increasing economic uncertainty. We increased shipments by 10% and stronger product pricing offset sharply higher raw material costs."

"Early indicators suggest some upside in both demand and price in North America as we move into the first quarter of 2012. The OSB supply chain is lean and less capacity appeared to be available at the end of last year. And, I believe our European business will continue to perform well, in spite of the evolving sovereign debt crisis that continues to dominate media headlines."

## Market Conditions

The seasonally-adjusted US housing starts number for December was 657,000, 25% ahead of last year's year-end pace. Full year housing starts, including multifamily, were approximately 610,000 in 2011, up 3% from 590,000 in 2010. However, the single family component, which is more important to the OSB industry, declined by 9% in 2011.

North Central benchmark OSB prices dropped from a peak of $218 per thousand square feet (Msf) (7⁄16-inch basis) in early January to a low of $165 per Msf in mid-May before stabilizing in a tighter range for the second half of the year. The North Central benchmark OSB price averaged $186 per Msf in 2011 compared to $219 per Msf in 2010, as the exceptional price spike of Q2 2010 did not repeat this year. In the South East region, where approximately 55% of Norbord's North American OSB capacity is located, prices remained at a discount to the North Central region, averaging $169 per Msf compared to $198 per Msf last year.

In the fourth quarter, North Central benchmark OSB prices averaged $190 per Msf, up $6 from the third quarter and in line with the fourth quarter of 2010. South East prices averaged $166 per Msf in the quarter, down $3 from the third quarter and in line with the fourth quarter of 2010.

In the UK, the market remained steady with flat year-over-year housing starts, stable home prices and a more positive mortgage lending environment. In Germany, Norbord's largest Continental market, housing starts averaged 20% higher than 2010.

Norbord's European panel markets remained relatively robust throughout 2011. All panel prices increased, reflecting industry efforts to recover substantially higher raw material input prices. OSB prices peaked mid-year and averaged 8% higher year-over-year. Particleboard and MDF prices firmed throughout the year, increasing 15% and 14%, respectively. Norbord expects this positive dynamic to continue at least into the first half of 2012 despite declining consumer confidence across Europe and the negative impact of the European sovereign debt crisis.

In 2011, European currencies remained in a range that continued to benefit Norbord's primarily UK-based operations. Exports from the Company's UK-based manufacturing plants to Continental Europe increased again this year.

## Performance

In North America, OSB shipment volumes for the full year decreased a modest 3% compared to the prior year. Norbord's operating OSB mills ran at approximately 80% of their capacity in 2011, compared to 85% in 2010, due to more curtailments taken to manage inventory levels during the year. Including the indefinitely closed mills in Huguley, Alabama and Jefferson, Texas, the North American operations ran at approximately 65% of capacity in 2011 versus 70% in the prior year.

Norbord's North American OSB cash production costs per unit decreased by 1% versus 2010. Lower raw materials usage and improved productivity decreased unit costs by 4%, but most of these gains were offset by higher resin prices, the stronger Canadian dollar and higher maintenance curtailment costs in the fourth quarter.

In Europe, panel shipments increased by 10% over the prior year. Norbord's European mills operated at full capacity in 2011 with the exception of a three-week shut for the Cowie, Scotland particleboard mill upgrade and planned holiday and maintenance curtailments. Norbord intends to increase the stated capacity of the Genk, Belgium OSB mill from 260 MMsf (3⁄8-inch basis) to 350 MMsf effective year-end 2011, reflecting a step change improvement in operating efficiency.

Norbord's Margin Improvement Program (MIP) delivered $25 million in gains in 2011. In North America, the resin technology conversion contributed more than half of these benefits through productivity and raw material usage improvements, effectively offsetting the negative impact of higher resin prices and other uncontrollable costs.

Capital investments totaled $25 million in 2011 versus $16 million in 2010. The increase is primarily due to the Cowie, Scotland particleboard mill upgrade in the second quarter. Norbord is planning for capital investments at the same $25 million level in 2012, including a pilot installation of new fines screening technology at the Nacogdoches, Texas mill. Capital expenditures can be constrained to $15 million if market conditions warrant.

Operating working capital increased by $18 million during the year to $28 million at year-end. The biggest component of this increase was higher accounts receivable related to stronger European panel prices and shipments. Norbord's accounts receivable metrics remain in line with prior periods.

At year-end, Norbord had unutilized liquidity of $350 million, consisting of $267 million in undrawn revolving bank lines and $83 million in cash and cash equivalents. The Company's tangible net worth was $343 million and net debt to total capitalization on a book basis was 51%, well within bank covenants.

## Developments

This is Norbord's first full year reporting under International Financial Reporting Standards (IFRS). Extensive transitional disclosure was provided in the 2010 and each interim 2011 management's discussion and analysis and consolidated financial statements. There was no material impact to earnings or cash flow as a result of the Company's conversion to IFRS.

As announced last quarter, Norbord applied to the Toronto Stock Exchange (TSX) and received approval to renew its normal course issuer bid in accordance with TSX rules, beginning December 21, 2011. Under the bid, the Company may purchase up to 2,178,705 of its common shares, which represented approximately 5% of the 43.6 million issued and outstanding common shares as of November 30, 2011. Purchases under the bid will terminate on the earlier of December 20, 2012, the date Norbord completes its purchases pursuant to the notice of intention to make a normal course issuer bid filed with the TSX or the date of notice by Norbord of termination of the bid. No share purchases were made under the Company's previous normal course issuer bid that expired on September 16, 2011.

## Additional Information

Norbord's year-end 2011 letter to shareholders, news release, management's discussion and analysis, annual consolidated audited financial statements and notes to the financial statements have been filed on SEDAR (www.sedar.com) and are available in the investor section of the Company's website at www.norbord.com. Shareholders are encouraged to read this material.

## Conference Call

Norbord will hold a conference call for analysts and institutional investors on Friday, January 27, 2012 at 11:00 a.m. ET. The call will be broadcast live over the Internet via www.norbord.com and www.newswire.ca. A replay number will be available approximately one hour after completion of the call and will be accessible until February 27, 2012 by dialing 1-888-203-1112 or 647-436-0148. The passcode is 9996439. Audio playback and a written transcript will be available on the Norbord website.

## Norbord Profile

Norbord Inc. is an international producer of wood-based panels with assets of $1 billion, employing approximately 2,000 people at 13 plant locations in the United States, Europe and Canada. Norbord is one of the world's largest producers of oriented strand board (OSB). In addition to OSB, Norbord manufactures particleboard, medium density fibreboard (MDF) and related value-added products. Norbord is a publicly-traded company listed on the Toronto Stock Exchange under the symbols NBD and NBD.WT.

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**Contact:**
Heather Colpitts
Manager, Corporate Affairs
Tel. (416) 365-0705
*info@norbord.com*

*This news release contains forward-looking statements, as defined in applicable legislation, including statements related to our strategy, projects, plans, future financial or operating performance and other statements that express management's expectations or estimates of future performance. Often, but not always, words such as "suggest," "appear," "believe," "expect," "will," "will not," "intend," "plan," "can," "should," "forecasts," "confident," "may," and other expressions which are predictions of or indicate future events, trends or prospects and which do not relate to historical matters identify forward-looking statements. Forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of Norbord to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements.*

*Although Norbord believes it has a reasonable basis for making these forward-looking statements, readers are cautioned not to place undue reliance on such forward-looking information. By its nature, forward-looking information involves numerous assumptions, inherent risks and uncertainties, both general and specific, which contribute to the possibility that the predictions, forecasts and other forward-looking statements will not occur. Factors that could cause actual results to differ materially from those contemplated or implied by forward-looking statements include: general economic conditions; risks inherent with product concentration; effects of competition and product pricing pressures; risks inherent with customer dependence; effects of variations in the price and availability of manufacturing inputs; risks inherent with a capital intensive industry; and other risks and factors described from time to time in filings with Canadian securities regulatory authorities.*

*Except as required by applicable laws, Norbord does not undertake to update any forward-looking statements, whether as a result of new information, future events or otherwise, or to publicly update or revise the above list of factors affecting this information. See the "Caution Regarding Forward-Looking Information" statement in the March 1, 2011 Annual Information Form and the cautionary statement contained in the "Forward-Looking Statements" section of the 2011 Management's Discussion and Analysis dated January 26, 2012.*

# Management's Discussion and Analysis

**INTRODUCTION**

This Management's Discussion and Analysis (MD&A) provides a review of the significant developments that impacted Norbord's performance during 2011 relative to 2010. The information in this section should be read in conjunction with the audited financial statements, which follow this MD&A.

In this MD&A, "Norbord" means Norbord Inc. and all of its consolidated subsidiaries and affiliates, and "Company" means Norbord Inc. as a separate corporation, unless the context implies otherwise. "Brookfield" means Brookfield Asset Management Inc. or any of its consolidated subsidiaries and affiliates, a related party, by virtue of a controlling equity interest in the Company.

Additional information on Norbord, including documents publicly filed by the Company, is available on the Company's website at www.norbord.com or the System for Electronic Document Analysis and Retrieval (SEDAR) at www.sedar.com.

Some of the statements included or incorporated by reference in this MD&A constitute forward-looking statements within the meaning of applicable securities legislation. Forward-looking statements are based on various assumptions and are subject to various risks. See the cautionary statement contained in the Forward-Looking Statements section.

To enhance shareholders' understanding, certain five-year historical financial and statistical information is presented. Norbord's significant accounting policies and other financial disclosures are contained in the audited financial statements and accompanying notes, which follow this MD&A. All financial references in the MD&A are stated in US dollars unless otherwise noted.

Earnings before interest, taxes, depreciation and amortization (EBITDA), EBITDA margin, operating working capital, total working capital, capital employed, return on capital employed (ROCE), return on equity (ROE), total shareholder return, net debt, tangible net worth, net debt to capitalization, book basis, and net debt to capitalization, market basis are non-IFRS financial measures described in the Non-IFRS Financial Measures section. Non-IFRS financial measures do not have any standardized meaning prescribed by International Financial Reporting Standards (IFRS) and are therefore unlikely to be comparable to similar measures presented by other companies. Where appropriate, a quantitative reconciliation of the non-IFRS financial measure to the most directly comparable IFRS measure is also provided.

## BUSINESS OVERVIEW

Norbord is an international producer of wood-based panels with 13 plant locations in the United States, Europe and Canada.

Norbord is one of the world's largest producers of oriented strand board (OSB) with an annual capacity of 5.0 billion square feet (Bsf) (3/8-inch basis). The core assets of Norbord's OSB business are located in the South East region of the US. The Company is also a significant producer of wood-based panels in the United Kingdom. Wood fibre is purchased from third parties that include private landowners and government-owned and -managed timberlands. Norbord employed approximately 2,000 people at December 31, 2011.

Operations include 11 OSB mills, 2 particleboard mills, 1 medium density fibreboard (MDF) mill and 1 furniture plant. The Company reports all operations as a single operating segment – wood-based panels.

## STRATEGY

Norbord's business strategy is focused entirely on the wood panels sector – in particular OSB – in North America and Europe. Pricing and demand for Norbord's principal product – OSB – continued to be significantly affected by challenging housing markets. This environment, while not altering the long-term strategy of the business, required management to focus on certain short-term objectives starting in 2008.

In this regard, Norbord accomplished the following in 2011:

| Short-Term Strategic Priority | 2011 Performance |
|---|---|
| **1. Generate cash.** | • Achieved EBITDA of $45 million.<br>• Generated positive EBITDA of $14 million in North American operations despite a 15% drop in benchmark OSB prices and higher raw material input prices.<br>• Increased EBITDA at European operations to $44 million from $37 million in 2010.<br>• Ramped up the Company's European sales volume by 10%, benefiting from 11% higher product prices during the year.<br>• Ongoing minimal investment in capital expenditures and operating working capital. |
| **2. Strengthen the balance sheet.** | • Added two new lenders to revolving bank group, increased committed bank lines to $270 million, and extended term to May 2014.<br>• Improved bank line access through amendment of net debt to total capitalization, book basis covenant from 60% to 65%.<br>• Put in place a backup refinancing plan for $240 million 2012 bond maturity if needed, providing financial flexibility and maintaining adequate liquidity. |

The actions taken by Norbord over the past four years to recapitalize, increase liquidity, reduce losses and conserve cash have stabilized the Company's balance sheet, an important element of Norbord's ongoing financial strategy.

At the end of the year, the Company had unutilized liquidity of $350 million, net debt to capitalization on a book basis of 51%, and tangible net worth of $343 million. Management believes that its record of superior operational performance and prudent balance sheet management should enable it to access public and private capital markets, subject to financial market conditions.

Norbord's long-term strategic priorities remain unchanged from prior years, and the following table provides updates on the Company's 2011 achievements in each area:

| Long-Term Strategic Priority | 2011 Performance |
|---|---|
| **1. Develop a world class safety culture.** | • Maintained industry-leading safety performance with an improvement in the Occupational Safety and Health Administration (OSHA) recordable rate to 1.31.<br>• Completed three OSHA recordable injury-free years at the Cordele, Georgia, and Nacogdoches, Texas mills.<br>• Achieved Norbord Safety Star certification at Cowie, Scotland, the first mill in Europe. |
| **2. Pursue growth in OSB.** | • Improved productivity at North American mills by 5%.<br>• Set annual productivity records at 7 of the Company's 9 operating OSB mills in North America and Europe.<br>• Continued to evaluate opportunities to grow OSB business through acquisition. |
| **3. Own high-quality assets with low-cost positions.** | • Completed implementation of new resin technology across North American mills, delivering a step change improvement in productivity and raw materials usage.<br>• Approved the Company's first pilot investment in fines screening technology at the Nacogdoches, Texas OSB mill. If implemented across the Company, fines screening has the same potential for manufacturing cost reduction as the new resin technology implemented in 2010 and 2011. |
| **4. Maintain a margin-focused operating culture.** | • Generated margin improvements of $25 million from improved production efficiencies and reduced raw materials usage – represents 3% of cash costs of production across the Company. |
| **5. Focus on growth customers.** | • Continued to diversify exposure away from the North American new home construction segment through 4% growth in big box, industrial and export sales volume.<br>• Maintained North American value-added product sales at 40% of total sales volume.<br>• Increased European sales volume by 10%. |
| **6. Allocate capital with discipline.** | • Constrained capital investments to less than 50% of depreciation at $25 million, including completion of the particleboard line upgrade at the Cowie, Scotland mill.<br>• Renewed normal course issuer bid, providing the option to purchase up to 5% of its outstanding common shares. |

**SUMMARY**

| (US $ millions, except per share information, unless otherwise noted) | **2011 IFRS** | 2010 IFRS | 2009 CGAAP | 2008 CGAAP | 2007 CGAAP |
|---|---|---|---|---|---|
| **Key Performance Metrics** | | | | | |
| Return on capital employed (ROCE) | **5%** | 12% | 0% | -6% | 4% |
| Return on equity (ROE) | **-3%** | 4% | -19% | -37% | -11% |
| Cash (used for) provided by operating activities | **(13)** | 127 | (35) | (13) | 15 |
| Cash (used for) provided by operating activities per share | **(0.30)** | 2.93 | (0.82) | (0.86) | 1.03 |
| **Sales and Earnings** | | | | | |
| Sales[1] | **965** | 962 | 718 | 943 | 1,104 |
| EBITDA | **45** | 107 | - | (60) | 42 |
| Earnings | **(11)** | 13 | (58) | (115) | (45) |
| **Per Common Share Earnings** | | | | | |
| Basic | **(0.25)** | 0.30 | (1.35) | (7.62) | (3.10) |
| Diluted | **(0.25)** | 0.29 | (1.35) | (7.62) | (3.10) |
| Common dividends | **-** | - | - | 3.68 | 3.80 |
| Total assets | **1,070** | 1,118 | 1,043 | 1,044 | 1,404 |
| Long-term debt | **438** | 443 | 471 | 542 | 480 |
| Net debt for financial covenant purposes[2] | **360** | 337 | 454 | 477 | 547 |
| Net debt to capitalization, market basis[2] | **42%** | 35% | 48% | 32% | 30% |
| Net debt to capitalization, book basis[2] | **51%** | 49% | 58% | 61% | 60% |
| **Shipments (MMsf–3⁄8")** | | | | | |
| North America | **2,885** | 2,989 | 2,780 | 3,624 | 3,947 |
| Europe | **1,547** | 1,405 | 1,284 | 1,402 | 1,637 |
| **Indicative Average OSB Price** | | | | | |
| North Central ($/Msf–7⁄16") | **186** | 219 | 163 | 172 | 161 |
| South East ($/Msf–7⁄16") | **169** | 198 | 148 | 143 | 143 |
| Europe (€/$m^3$)[3] | **250** | 244 | 190 | 227 | 262 |

[1] Outbound freight costs are no longer netted against sales; 2010 restated as a result of the adoption of IFRS.

[2] 2010 has not been restated for IFRS and are the originally disclosed ratios under Canadian GAAP.

[3] Represents the delivered price to the largest Continental market; restated as a result of the adoption of IFRS.

A recovery in US housing demand continues to be delayed as structural issues remain in the North American market. Prices for the Company's OSB products decreased in North America as a result of continuing low demand. In Europe, despite growing economic uncertainty and falling consumer confidence, average panel prices increased and continued to offset higher key input prices. Notwithstanding these challenging market conditions, Norbord generated positive EBITDA in both North America and Europe in 2011.

Fluctuation in North American structural panel demand and OSB prices are significant variables affecting Norbord's results. North American North Central OSB prices remained rangebound during the year, trading between $165 and $218 per thousand square feet (Msf) (7⁄16-inch basis), and averaging just $186 per Msf compared to $219 per Msf in the prior year. To manage inventory levels, Norbord ran less of its capacity during the year, operating at approximately 65% of capacity compared to 70% in 2010.

Norbord achieved EBITDA of $45 million in 2011 versus $107 million in 2010. EBITDA margins were 5%, compared to 11% for the prior year. Earnings were negative $11 million or $0.25 per share (basic) versus earnings of positive $13 million or $0.30 per share (basic) in 2010. Pre-tax ROCE averaged 5% compared to 12% in the prior year. ROCE is a measurement of financial performance, focusing on cash generation and the efficient use of capital. As Norbord operates in a cyclical commodity business, it interprets ROCE over the cycle as a useful means of comparing businesses in terms of efficiency of management and viability of products. ROCE has remained positive in four of the past five years and Norbord has generated an average annual ROCE of 3% through this cyclical trough.

Higher key input prices in both North America and Europe and lower OSB prices in North America were the key drivers of the year-over-year EBITDA decline in 2011. Partially offsetting the decline was $25 million of Margin Improvement Program (MIP) gains. Norbord maintained positive EBITDA for the past 10 consecutive quarters.

Markets are expected to remain volatile next year against a backdrop of global economic uncertainty. The past four years have seen the worst North American housing downturn in several generations, and the Company prudently focused on preserving cash and stabilizing its balance sheet. The Company is well positioned to benefit from an eventual housing market recovery. Over the long term, the underlying demographics will eventually support robust demand for new homes. Further, management believes that Norbord's North American and European operations provide meaningful market and geographic diversification over the cycle.

**OUTLOOK FOR 2012**

Norbord operates in cyclical markets and expects the overall business environment to remain challenging in 2012. Structural issues remain in the North American housing market and the European sovereign debt crisis is undermining business and consumer confidence. This volatile economic environment, particularly in Europe, adds to market uncertainty making it more difficult to predict demand and prices for our products.

The US housing market remains challenged by high unemployment, competition from foreclosures, high existing home inventories and restrictive mortgage lending standards. While the market continues to work through these issues, significant OSB industry supply remains curtailed through indefinite mill closures. Norbord does not yet see signs of a sustainable housing recovery and, subject to market conditions, does not expect to restart its two indefinitely closed mills, in Texas and Alabama, in the near term. Industry experts are forecasting 2012 US housing starts in the range of 630,000 to 750,000, only a modest improvement from the approximately 610,000 starts in 2011. Norbord is of the view that, once the economy finds its footing and the structural housing issues are resolved, new household formation and replacement home trends will ultimately support a return to the long-term annual average of 1.5 million housing starts.

Heading into 2012, Norbord's European operations have been largely unaffected by the sovereign debt crisis that intensified throughout 2011. However, customers are taking a more cautious view of their own businesses and panel markets are expected to moderate somewhat. Norbord's core UK market remains significantly advantaged by a weaker Pound Sterling relative to the Euro. This limits imports into the UK, has the effect of supporting domestic prices and provides further export opportunities to continental Europe.

On the input cost side, it is unclear how fibre, resin and energy prices will respond to the economic uncertainty. But going forward, slowing global growth should mitigate the upward pressure on panel producers' raw material costs. Norbord will continue to pursue aggressive MIP initiatives to reduce raw material usages and improve productivity, to offset potentially higher uncontrollable costs.

Norbord expects 2012 capital investments to remain unchanged from the prior year at $25 million, less than 50% of depreciation. This level allows for modest investments in projects that will further improve Norbord's cost position, but can be further constrained to approximately $15 million if market conditions warrant.

Norbord has strong financial liquidity and an actionable backup plan in place to deal with the 2012 bond maturity should debt markets remain unattractive. Combined with the Company's competitive cost position, diversified sales strategy and solid customer partnerships, Norbord is well positioned for the recovery in housing markets and will benefit from stronger OSB demand in the years ahead.

**RESULTS OF OPERATIONS**

| (US $ millions) | **2011 IFRS** | 2010 IFRS | 2009 CGAAP | 2008 CGAAP | 2007 CGAAP |
|---|---|---|---|---|---|
| Sales[1] | **965** | 962 | 718 | 943 | 1,104 |
| EBITDA | **45** | 107 | - | (60) | 42 |
| EBITDA margin | **5%** | 11% | 0% | -6% | 4% |
| Depreciation | **51** | 51 | 48 | 68 | 88 |
| Investment in property, plant and equipment | **25** | 16 | 14 | 27 | 36 |
| Shipments (MMsf–3⁄8") | **4,432** | 4,394 | 4,064 | 5,026 | 5,584 |
| **Indicative Average OSB Price** | | | | | |
| North Central ($/Msf–7⁄16") | **186** | 219 | 163 | 172 | 161 |
| South East ($/Msf–7⁄16") | **169** | 198 | 148 | 143 | 143 |
| Europe (€/$m^3$)[2] | **250** | 244 | 190 | 227 | 262 |

[1] Outbound freight costs are no longer netted against sales; 2010 restated as a result of the adoption of IFRS.

[2] Represents the delivered price to the largest Continental market; restated as a result of the adoption of IFRS.

**Markets**

North America is the principal market destination for Norbord's products. North American OSB comprises approximately 70% of Norbord's panel shipments by volume. Therefore, results of operations are most affected by volatility in North American OSB prices. European panel prices are less volatile than North American prices. Europe comprises approximately 30% of Norbord's shipments by volume, affecting Norbord's results to a lesser degree.

| Shipments (MMsf–3⁄8") | **2011** | 2010 | 2009 | 2008 | 2007 |
|---|---|---|---|---|---|
| North America | **2,885** | 2,989 | 2,780 | 3,624 | 3,947 |
| Europe | **1,547** | 1,405 | 1,284 | 1,402 | 1,637 |
| Total | **4,432** | 4,394 | 4,064 | 5,026 | 5,584 |

***North America***

The US housing market remained challenging in 2011. North Central benchmark OSB prices dropped from a peak of $218 per Msf (7⁄16-inch basis) in early January to a low of $165 per Msf in mid-May before stabilizing in a tighter range for the second half of the year. The North Central price averaged $186 per Msf in 2011 compared to $219 per Msf in 2010, as the exceptional price spike in the second quarter of 2010 did not repeat this year. In the South East region, where approximately 55% of Norbord's North American OSB capacity is located, prices remained at a discount to the North Central region, averaging $169 per Msf, compared to $198 per Msf last year.

New home construction is still the primary end use for the OSB industry in North America, accounting for approximately 50% of OSB demand in 2011. US housing starts were approximately 610,000 in 2011, up 3% from 590,000 in 2010. However, single family starts, which use approximately three times more OSB than multifamily, declined by 9% in 2011. Total starts remain significantly below the long-term annual average of 1.5 million. To put the decline into context, 100,000 housing starts represent approximately 1 Bsf (3⁄8-inch basis) of OSB demand. It is important to note that approximately 40% of Norbord's OSB sales volume goes directly into the new home construction sector, while the other 60% goes into repair and remodelling, light commercial construction and industrial applications. Management believes that this limits the Company's relative exposure to the new home construction segment and that this distribution channel diversity provides meaningful benefits.

According to APA – The Engineered Wood Association, North American OSB demand remained flat in 2011, at approximately 15.3 Bsf (3⁄8-inch basis), representing almost 60% of total North American OSB and plywood structural panel demand and 56% of industry OSB production capacity. Norbord's North American OSB mills operated at approximately 65% of capacity in 2011, down from 70% in 2010 due to additional curtailments to manage inventory levels.

***Europe***

Norbord's panel markets remained robust in 2011, despite the evolving sovereign debt crisis and falling business and consumer confidence across Europe. In the UK, where the majority of Norbord's European assets are located, the housing market remained steady with more stable home prices, modestly increased mortgage lending and unchanged housing starts. In Germany, Norbord's largest continental European market, housing starts averaged 20% higher than 2010. In this firmer-demand environment, Norbord's European panel mills produced 7% more volume and increased shipments by 10% in 2011. Norbord's mills produced at approximately 95% of capacity in 2011, compared to 90% in 2010.

European panel prices increased in 2011, reflecting the recovery of higher raw material input prices. OSB prices peaked mid-year and averaged 8% higher year-over-year. Particleboard and MDF prices firmed rapidly throughout the year, increasing 15% and 14%, respectively.

The Pound Sterling traded between 1.11 and 1.20 versus the Euro during 2011, a range that continued to benefit Norbord's primarily UK-based manufacturing operations. The Company's exports of all three panel products, OSB, particleboard and MDF, continued to increase during the year.

**Sales**[1]

| (US $ millions) | **2011 IFRS** | 2010 IFRS | 2009 CGAAP | 2008 CGAAP | 2007 CGAAP |
|---|---|---|---|---|---|
| North America | **$ 507** | $ 586 | $ 406 | $ 538 | $ 593 |
| Europe | **458** | 376 | 312 | 405 | 511 |
| Total | **$ 965** | $ 962 | $ 718 | $ 943 | $ 1,104 |

[1] Outbound freight costs are no longer netted against sales; 2010 restated as a result of the adoption of IFRS.

Consolidated sales increased by $3 million in 2011 compared to 2010. North American sales decreased by 13%, and European sales increased by 22%. In North America, the sales decrease was primarily driven by lower OSB prices. Average North Central and South East OSB benchmark prices per Msf (7/16-inch basis) decreased by $33 and $29, respectively, in 2011, which is a decrease of 15% compared to 2010. In Europe, the sales increase was driven by higher prices and shipment volumes across all products. European panel shipment volumes increased by 11% for OSB, 12% for particleboard and 15% for MDF.

**Production**

| (MMsf–3⁄8") | **2011** | 2010 | 2009 | 2008 | 2007 |
|---|---|---|---|---|---|
| North America | **2,864** | 2,993 | 2,785 | 3,645 | 4,268 |
| Europe | **1,537** | 1,437 | 1,266 | 1,332 | 1,704 |
| Total | **4,401** | 4,430 | 4,051 | 4,977 | 5,972 |

Norbord continued to curtail North American production in 2011 to conserve cash, manage inventory levels and maximize operating results. As a result, total production volume decreased by 1% or 29 million square feet (MMsf) (3/8-inch basis).

***North America***

North American production volume decreased by 4% or 129 MMsf (3/8-inch basis) in 2011 despite 5% higher mill productivity. Five of Norbord's seven operating mills set annual productivity records this year.

In January 2009, Norbord announced that indefinite shutdowns would take place at its OSB mills in Huguley, Alabama, and Jefferson, Texas. These two mills represent approximately 20% of Norbord's annual OSB production capacity in North America. Subject to market conditions, Norbord does not expect to restart these two mills in the near term. The oldest of the two production lines at Norbord's Cordele, Georgia mill was temporarily shut down at the end of 2010 and did not operate during 2011.

Norbord's remaining North American OSB mills operated at approximately 80% of their capacity in 2011, compared to 85% in 2010. Including the indefinitely closed mills, Norbord's North American OSB mills operated at approximately 65% of capacity in 2011, compared to 70% in 2010.

In 2010, production at the hardwood plywood joint-venture operation in Cochrane, Ontario ceased (see Investments and Divestitures). Norbord held a 50% joint-venture interest in this non-core business, which represented less than 1% of total assets.

In 2007, North American OSB production included the ramp-up of the new OSB line in Cordele, Georgia.

***Europe***

European production volume increased by 7% or 100 MMsf (3/8-inch basis) in 2011. Production volume increased by 6% for OSB, 2% for particleboard and 17% for MDF. Norbord's OSB and MDF mills ran on full production schedules in 2011 excluding maintenance and holiday shutdowns. The Company's particleboard mill in Cowie, Scotland was shut for three weeks during the capital project (see Investments and Divestitures).

In Europe, mills operated at approximately 95% of capacity in 2011, compared to 90% in 2010. Norbord intends to increase the stated estimated annual capacity of the Genk, Belgium mill from 260 MMsf (3⁄8-inch basis) to 350 MMsf effective for 2012, a 35% pick up due to a step change improvement in operating efficiency.

In March 2008, a particleboard line at our Genk, Belgium mill was closed permanently. The particleboard line was considered non-core as the Genk site was acquired to expand Norbord's OSB presence in Europe.

**Operating Results**

| EBITDA (US $ millions) | **2011** | 2010 |
|---|---|---|
| North America | **$ 14** | $ 83 |
| Europe | **44** | 37 |
| Unallocated | **(13)** | (13) |
| Total | **$ 45** | $ 107 |

Norbord achieved EBITDA of $45 million in 2011, compared to $107 million in 2010. North American OSB generated EBITDA of $14 million, compared to $83 million in the prior year, a year-over-year decline of $69 million. Norbord's European panel operations generated EBITDA of $44 million, a year-over-year improvement of $7 million. Unallocated costs remained flat at $13 million in 2011.

***North America***

Notwithstanding challenging market conditions, Norbord's North American OSB operations delivered a positive EBITDA result in 2011. EBITDA decreased by $69 million in 2011 primarily driven by lower OSB prices and higher key input prices that were only partially offset by lower usages for all key inputs and improved productivity. Average North Central and South East OSB benchmark prices per Msf (7/16-inch basis) decreased by $33 and $29, respectively, in 2011, which is a decrease of 15% compared to 2010. During the year, OSB prices continued to be volatile as prices dropped quickly in the first half of the year and then stabilized in a tighter range for the remainder of the year. On the cost side, higher raw material prices significantly impacted operating costs as resin prices continued to increase through the year.

***Europe***

Norbord's European operations delivered stronger results in 2011 compared to 2010. The EBITDA improvement of $7 million in 2011 was primarily driven by lower raw material usages and improved productivity as higher panel prices offset significantly higher raw material costs. European panel prices increased by 8% for OSB, 15% for particleboard and 14% for MDF. Norbord's panel markets remained surprisingly robust despite the impact of the sovereign debt crisis and falling consumer confidence. The weak Pound Sterling relative to the Euro continued to be advantageous for Norbord, improving sales opportunities within the UK and slowing the flow of imports from Continental Europe.

***EBITDA Variance***

The components of the EBITDA change are summarized in the variance table below.

| (US $ millions) | | 2011 vs. 2010 |
|---|---|---|
| EBITDA – current period | $ | 45 |
| EBITDA – comparative period | | 107 |
| Variance | | (62) |
| Mill nets[1] | | (29) |
| Volume[2] | | 5 |
| Key input prices[3] | | (44) |
| Key input usage[3] | | 18 |
| Other[4] | | (12) |
| Total | $ | (62) |

[1] The mill nets variance represents the change in realized pricing across all products. Mill nets are calculated as sales (net of outbound freight costs) divided by shipment volume.

[2] The volume variance represents the impact of shipment volume changes across all products.

[3] The key inputs include fibre, resin and energy.

[4] The Other category covers all remaining variances including labour and benefits, supplies and maintenance and the impact of foreign exchange.

On the sales side, housing market activity, particularly in the US, influences OSB demand and pricing. Fluctuations in North American OSB demand and prices significantly affect Norbord's results. Average North American benchmark OSB prices decreased by $33 per Msf or 15% in 2011 as the exceptional price spike in the second quarter of 2010 did not repeat this year. These lower North American prices and shipments more than offset the higher panel prices realized in Europe. Norbord's European operations benefited from underlying robust demand dynamics resulting from the weak Pound Sterling and limited imports into the UK market.

On the cost side, fluctuations in raw material input prices significantly impact operating costs. Resin prices in both North America and Europe and energy prices in Europe increased significantly in 2011. The direct impact on operating costs of rising energy prices continues to be mitigated by the use of biomass for all of Norbord's heat energy requirements. Norbord's reduced reliance on fossil fuels has generated significant energy-cost savings in both North America and Europe.

Fibre prices in Europe continued to increase in 2011 due to the ongoing impact of government biomass energy incentives. Norbord does not own any timberlands; therefore, it purchases timber, wood chips and fibre as well as other wood recycled materials on the open market, in competition with other users of such resources, where prices are influenced by factors beyond Norbord's control.

Higher European panel prices offset the significantly higher raw material input prices in 2011.

The prices of resin, fibre and energy, which account for approximately 65% of Norbord's cash production costs have risen in the past two years, particularly in Europe. MIP gains of $25 million in 2011, measured relative to 2010 at constant prices and exchange rates, mitigated the impact of higher raw material prices on Norbord's earnings in 2011. Contributions to MIP included a richer added-value product mix, improved production efficiencies and key input usage reduction initiatives. The largest contributor to the 2011 MIP gains was the Company's North American resin technology change which delivered more than half of the gains.

In 2011, Norbord's North American OSB cash production costs per unit decreased 1% over the prior year. Lower raw material usages and improved productivity decreased unit costs by 4%, but most of these gains were offset by higher resin prices, the stronger Canadian dollar and higher maintenance curtailment costs. Norbord's European operations are disproportionately impacted by rising resin and global energy prices because the products are more resin and energy intensive. A number of initiatives have been undertaken to address these cost pressures, including the permanent closure of a particleboard line at the Genk site in 2008, and the installation of biomass heat energy systems at the Company's OSB mill in Genk, Belgium and MDF mill in Cowie, Scotland in 2007.

**INTEREST, DEPRECIATION AND INCOME TAXES**

| (US $ millions) | **2011 IFRS** | 2010 IFRS | 2009 CGAAP | 2008 CGAAP | 2007 CGAAP |
|---|---|---|---|---|---|
| Interest and other income | **$ -** | $ - | $ - | $ 3 | $ 5 |
| Interest expense | **(33)** | (34) | (36) | (49) | (49) |
| Depreciation | **(51)** | (51) | (48) | (68) | (88) |
| Income tax recovery (expense) | **28** | (1) | 33 | 95 | 45 |

**Interest**

In 2007, the Company had higher average cash balances arising principally from the $200 million issue of senior notes completed in 2007 to pre-fund the 2008 debenture maturity.

Interest expense in 2011 was consistent with 2010. Interest expense was $13 million lower in 2009 compared to 2008 due to three main factors. First, Norbord paid down borrowings under the Company's committed revolving bank lines and Brookfield debt facility with proceeds from the Rights Offering completed in the first quarter of 2009. Second, average interest rates in 2009 were lower than 2008 due to low US Federal Reserve rates. Lastly, interest was higher in 2008 due to the 8⅛% debentures repurchased in the first quarter of 2008.

The effective interest rate on Norbord's debt-related obligations, including the impact of interest rate swaps, was 5.8% as at December 31, 2011, compared to 6.2% as at December 31, 2010. Approximately 23% of Norbord's net debt was subject to floating interest rates during the year, compared to 16% in the prior year.

From time to time, the Company has recouponed its portfolio of interest rate swaps to more efficiently manage cash flow and credit exposure. Any gains or losses realized were deferred and amortized over the remaining term of the debt against which the swaps were designated as hedges. As at December 31, 2011, $1 million in gains were deferred and included in the carrying value of long-term debt in the consolidated balance sheet. Amortization of $2 million in 2011 and $3 million in 2010 was included in interest expense.

**Depreciation**

Depreciation expense in 2011 was consistent with 2010. Effective March 29, 2009, the Company prospectively changed its depreciation of production equipment from straight-line to units-of-production.

**Income Tax**

A tax recovery of $28 million was recorded in 2011 on a pre-tax loss of $39 million. The effective tax rate of 72% is higher than the statutory rate due principally to non-recurring tax recoveries noted below, rate differences on foreign activities and fluctuations in relative currency values. In 2011, the income tax recovery includes: (i) a $7 million ($0.16 per share) recovery due to the recognition of a non-recurring income tax benefit in the second quarter of 2011; and (ii) a $5 million ($0.11 per share) non-recurring income tax recovery due to the favourable resolution of a tax authority audit in the first quarter of 2011 previously provided for in the Company's deferred income tax provision.

In 2011, the Company paid taxes of $1 million. In 2010, 2009, 2008 and 2007, the Company received tax refunds of $52 million, $10 million, $85 million and $33 million, respectively, related to losses carried back and over installments.

At December 31, 2011, the Company had tax operating loss carryforwards of approximately €37 million from operations in Belgium. These losses can be carried forward indefinitely to offset deferred taxable income. The Company also has tax operating losses of CAD $76 million and US $172 million from operations in Canada and the US, respectively, which expire between 2028 and 2031. In addition, the Company has approximately CAD $7 million worth of Investment Tax Credits (ITCs) available to reduce deferred Canadian tax liabilities. The ITCs expire between 2019 and 2030. The loss carryforwards and credits may be utilized over the next several years to eliminate cash taxes otherwise payable, and will enhance future cash flows. Certain future tax benefits have been included in deferred income taxes in the consolidated financial statements. The Company derecognized deferred income tax assets that, in the judgement of management, are not probable to be realized.

**LIQUIDITY AND CAPITAL RESOURCES**

| (US $ millions, except per share information, unless otherwise noted) | **2011 IFRS** | 2010 IFRS | 2009 CGAAP | 2008 CGAAP | 2007 CGAAP |
|---|---|---|---|---|---|
| Cash (used for) provided by operating activities | **$ (13)** | $ 127 | $ (35) | $ (13) | $ 15 |
| Cash (used for) provided by operating activities per share | **(0.30)** | 2.93 | (0.82) | (0.86) | 1.03 |
| Operating working capital | **28** | 10 | (42) | (53) | 23 |
| Total working capital | **116** | 127 | 36 | (20) | 240 |
| Investment in property, plant and equipment | **25** | 16 | 14 | 27 | 36 |
| Net debt to capitalization, market basis[1] | **42%** | 35% | 48% | 32% | 30% |
| Net debt to capitalization, book basis[1] | **51%** | 49% | 58% | 61% | 60% |

[1] 2010 has not been restated for IFRS and are the originally disclosed ratios under Canadian GAAP.

At year-end, the Company had unutilized liquidity of $350 million, comprising $267 million in revolving bank lines and $83 million in cash and cash equivalents. Norbord has no investments in, or other direct exposure to, US sub-prime mortgages, US auction rate securities or Canadian asset-backed commercial paper.

The Company's outstanding long-term debt has a weighted average term of 2.4 years. Norbord's net debt for financial covenant purposes was $360 million at December 31, 2011, which includes long-term debt of $440 million less cash and cash equivalents of $83 million plus letters of credit of $3 million.

**2012 Debentures**

Norbord intends to refinance its 2012 debentures prior to their July 1st maturity, subject to favourable financial market conditions. However, recognizing the current state of financial markets and to provide additional flexibility should this be required, in 2011 Norbord put in place a backup refinancing plan for this debenture maturity. If needed, Norbord has the option to repay up to half of this $240 million maturity from its bank lines and the other half from a $120 million standby lending commitment from Brookfield.

**Standby Term Loan Commitment**

In October 2011, Brookfield committed to put in place a $120 million standby term loan to be used to repay up to one-half of the 2012 debentures, if necessary. The maturity date would extend beyond the revolving bank lines and up to a 10-year period. The term loan would contain market standard terms at the time of borrowing except that the Company would have the right to prepay the loan at any time without penalty, so long as Brookfield is the holder. The term loan would be secured pari passu with the bank lines and holders of the 2017 senior notes.

**Revolving Bank Lines**

In April 2011, the Company renewed its committed revolving bank lines, adding two new lenders and extending the maturity by one year to May 2014. As a result of the renewal, the Company increased its total aggregate commitment from $245 million to $270 million. The bank lines bear interest at money market rates plus a margin that varies with the Company's credit rating. The bank lines are secured by a first lien on the Company's North American OSB inventory and property, plant and equipment. This lien is shared pari passu with holders of the 2012 debentures and 2017 senior notes.

In October 2011, the Company amended its $270 million committed revolving bank lines to: (i) allow the Company the option to utilize up to $120 million of the bank lines to repay up to half of the 2012 debentures, if necessary; and (ii) to widen one of its two quarterly financial covenants, such that the maximum net debt to total capitalization, book basis, increased from 60% to 65%.

The bank lines contain two quarterly financial covenants: minimum tangible net worth of $250 million and maximum net debt to total capitalization, book basis, of 65%. As a result of the bank line renewal completed in 2010, the IFRS transitional adjustments to shareholders' equity of $21 million at January 1, 2011 are added back for the purposes of the tangible net worth calculation. In addition, other comprehensive income movement subsequent to January 1, 2011 is excluded from the tangible net worth calculation. Net debt includes total debt, principal value, less cash and cash equivalents plus letters of credit issued. At period-end, the Company's tangible net worth was $343 million for financial covenant purposes and net debt for financial covenant purposes was $360 million. Net debt to total capitalization, book basis, was 51%.

**Accounts Receivable Securitization**

The Company has an $85 million accounts receivable securitization program to sell its receivables to a third-party trust, sponsored by a highly rated Canadian financial institution. The program has an evergreen commitment that is subject to termination on 12 months' notice. Under the program, Norbord has transferred substantially all of its present and future trade accounts receivable to the trust, on a fully serviced basis, for proceeds consisting of cash and deferred purchase price. At December 31, 2011, Norbord recorded cash proceeds of $69 million relating to this program, as other long-term debt.

The securitization program contains no financial covenants; however, the program is subject to minimum credit-rating requirements. The Company must maintain a long-term issuer credit rating of at least single B(mid) or the equivalent. As at January 26, 2012, Norbord's ratings were BB(low) (Dominion Bond Rating Service), BB- (Standard & Poor's Ratings Services) and Ba3 (Moody's Investors Service).

**Other Liquidity and Capital Resources**

Operating working capital, consisting of accounts receivable and inventory less accounts payable and accrued liabilities, increased by $18 million during the year to $28 million at year-end, compared to $10 million at December 31, 2010. Inventory was modestly higher due to fewer production curtailments taken towards the end of 2011 compared to the prior year. Accounts receivable was higher due to European panel prices and shipments. Despite the challenging economic environment, Norbord's accounts receivable metrics remain in line with prior periods. The Company aims to minimize the amount of capital held as operating working capital and continued to manage it at minimal levels throughout the year.

Total working capital, which includes operating working capital plus cash and cash equivalents and income tax receivable, was $116 million as at December 31, 2011, compared to $127 million in the prior year. The decrease is attributed to a lower cash balance which was partially offset by higher operating working capital balances.

Operating activities consumed $13 million of cash or $0.30 per share in 2011, compared generating $127 million or $2.93 per share in 2010. In 2011, lower EBITDA and the increase in operating working capital were the primary drivers in cash consumption. In 2010, higher EBITDA, the reduction of operating working capital and the receipt of $52 million in cash tax refunds drove the cash generation.

The Company realized a loss of $1 million on its matured net investment hedges in 2011, compared to a gain of $6 million in 2010. The realized loss and gain were offset by an unrealized gain and loss on the net investments being hedged.

The following table summarizes the aggregate amount of future cash outflows for contractual obligations:

| | Payments Due by Period | | | | | | |
|---|---|---|---|---|---|---|---|
| (US $ millions) | 2012 | 2013 | 2014 | 2015 | 2016 | Thereafter | **Total** |
| Long-term debt, including interest | $ 274 | $ 87 | $ 17 | $ 16 | $ 16 | $ 208 | **$ 618** |
| Purchase obligations | 59 | 36 | 20 | 20 | 20 | 10 | **165** |
| Operating leases | 3 | 3 | 2 | 1 | 1 | - | **10** |
| Total | $ 336 | $ 126 | $ 39 | $ 37 | $ 37 | $ 218 | **$ 793** |

Note: The above table does not include pension and post-retirement benefits plan obligations, which are discussed in the Significant Accounting Policies and Estimates – Defined Benefit Pension Plans section.

## INVESTMENTS AND DIVESTITURES

### Investment in Property, Plant and Equipment

| (US $ millions) | **2011** | 2010 | 2009 | 2008 | 2007 |
|---|---|---|---|---|---|
| Increased productivity | **$ 15** | $ 7 | $ 4 | $ 3 | $ 20 |
| Environmental | **2** | 4 | 6 | 13 | 2 |
| Maintenance of business | **8** | 5 | 4 | 11 | 11 |
| Capitalized interest | **-** | - | - | - | 3 |
| Total | **$ 25** | $ 16 | $ 14 | $ 27 | $ 36 |

Investment in property, plant and equipment in 2011 was $25 million, representing approximately 50% of depreciation. The increase versus prior year is primarily due to the completion of the Company's infrastructure investment program at the particleboard mill in Cowie, Scotland.

Due to market conditions, investment in property, plant and equipment was limited in the past few years to essential projects and, more recently, modest improvements in projects that further improve Norbord's cost position.

Norbord's 2012 investment in property, plant and equipment is expected to be constrained to $25 million which will include essential capital projects and the Company's pilot investment in fines screening technology at its Nacogdoches, Texas mill. These investments will be funded with cash on hand, cash generated from operations and, if necessary, drawings under the Company's committed revolving bank lines, and can be further constrained to approximately $15 million if market conditions warrant.

### Divestitures

In January 2011, True North Hardwood Plywood Inc. announced the winding down of its hardwood plywood operation in Cochrane. Norbord held a 50% joint-venture interest in this non-core business, which represented less than 1% of total assets. Approximately 200 employees were affected by this decision. In 2010, the Company recorded an $8 million non-cash provision for the write-down of its investment in the joint venture.

## CAPITALIZATION

| Common Share Information as at December 31 | **2011** | 2010 | 2009 | 2008 | 2007 |
|---|---|---|---|---|---|
| Shares outstanding (millions) | **43.6** | 43.5 | 43.2 | 26.9 | 14.7 |
| Dividends (US $ millions) | **$ -** | $ - | $ - | $ 56 | $ 55 |
| Market price at year-end (CAD $) | **$ 8.10** | $ 14.64 | $ 14.66 | $ 7.00 | $ 79.60 |

At January 26, 2012, there were 43.6 million common shares outstanding. In 2011, the total return on Norbord shares was negative 45%, compared to negative 1% in 2010. The average daily volume traded during 2011 was approximately 80,000 shares, compared to approximately 170,000 shares in 2010.

On November 10, 2008, the Company announced the suspension of quarterly dividend payments on its common shares until further notice. No dividends have been paid since that date.

In 2011, Norbord applied to the Toronto Stock Exchange (TSX) and received approval to renew its normal course issuer bid in accordance with TSX rules. Under the bid, the Company may purchase up to 2,178,705 of its common shares, which represented approximately 5% of the 43.6 million issued and outstanding common shares as at November 30, 2011. Purchases under the bid will terminate on the earlier of December 20, 2012, the date Norbord completes its purchases pursuant to the notice of intention to make a normal course issuer bid filed with the TSX, or the date Norbord provides notice of termination of the bid. No share purchases were made under the Company's previous bid that expired on September 16, 2011.

**Secondary Offering**

In March 2010, Brookfield and the Company entered into an agreement with a syndicate of investment dealers to complete a secondary offering of Norbord's common shares. Under the agreement, the syndicate purchased 9 million common shares at a price of CAD $16.70 per common share, for gross proceeds of CAD $150 million, on March 30, 2010. Brookfield offered 8.7 million shares and the Company's senior management offered 0.3 million shares. Upon completion of the secondary offering, Brookfield's ownership decreased from approximately 73% to 52% of common shares outstanding. Norbord did not receive any proceeds from the offering.

**Warrants**

As at December 31, 2011, there were 136.3 million warrants outstanding, entitling the holders to purchase 13.6 million common shares. Ten whole warrants entitle the holder to purchase one common share at a price of CAD $13.60 at any time prior to December 24, 2013.

**Stock Options**

As at December 31, 2011, options on 2.0 million common shares were outstanding, with 32% vested. The exercise prices for the outstanding options range from CAD $5.40 to CAD $111.30, with expiry on various dates up to 2020. In 2011, approximately 0.1 million common shares were issued under the Company's stock option plan, generating proceeds of less than $1 million.

**SELECTED QUARTERLY INFORMATION**

| (US $ millions, except per share information, unless otherwise noted) | 2011 Q4 | 2011 Q3 | 2011 Q2 | 2011 Q1 | 2010 Q4 | 2010 Q3 | 2010 Q2 | 2010 Q1 |
|---|---|---|---|---|---|---|---|---|
| **KEY PERFORMANCE METRICS** | | | | | | | | |
| Return on capital employed (ROCE) | **4%** | **6%** | **5%** | **6%** | 6% | 6% | 32% | 4% |
| Return on equity (ROE) | **-11%** | **-1%** | **2%** | **-2%** | -10% | -5% | 41% | -9% |
| Cash provided by (used for) operating activities | **31** | **(14)** | **3** | **(33)** | 41 | 9 | 70 | 10 |
| Cash provided by (used for) operating activities per share | **0.73** | **(0.32)** | **0.05** | **(0.76)** | 0.94 | 0.21 | 1.61 | 0.23 |
| **SALES AND EARNINGS** | | | | | | | | |
| Sales[1] | **229** | **242** | **241** | **253** | 240 | 229 | 296 | 197 |
| EBITDA | **9** | **12** | **10** | **14** | 14 | 13 | 72 | 8 |
| Earnings | **(9)** | **(1)** | **1** | **(2)** | (9) | (4) | 33 | (7) |
| **PER COMMON SHARE EARNINGS** | | | | | | | | |
| Basic | **(0.21)** | **(0.02)** | **0.03** | **(0.05)** | (0.21) | (0.09) | 0.76 | (0.16) |
| Diluted | **(0.21)** | **(0.02)** | **0.03** | **(0.05)** | (0.21) | (0.09) | 0.72 | (0.16) |
| **KEY STATISTICS** | | | | | | | | |
| **Shipments (MMsf–3⁄8")** | | | | | | | | |
| North America | **696** | **747** | **721** | **721** | 768 | 757 | 834 | 630 |
| Europe | **372** | **373** | **400** | **402** | 355 | 359 | 370 | 321 |
| **Indicative Average OSB Price** | | | | | | | | |
| North Central ($/Msf–7⁄16") | **190** | **184** | **173** | **198** | 191 | 180 | 295 | 212 |
| South East ($/Msf–7⁄16") | **166** | **169** | **162** | **177** | 165 | 156 | 277 | 197 |
| Europe (€/$m^3$)[2] | **245** | **251** | **256** | **248** | 261 | 254 | 242 | 210 |

1 Outbound freight costs are no longer netted against sales; 2010 restated as a result of the adoption of IFRS.

2 Represents the delivered price to the largest Continental market; restated as a result of the adoption of IFRS.

Quarterly results are 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 uses of Norbord's products – are generally stronger in the spring and summer months. Adverse weather can also limit access to logging areas, which can affect the supply of fibre to Norbord's operations. Shipment volumes and commodity prices are affected by these factors as well as by global supply and demand conditions.

Operating working capital is typically built up in the first quarter of the year due primarily to log inventory purchases in the Northern regions of North America and Europe. Logs are generally consumed in the spring and summer months. Operating working capital also fluctuates based on the timing of bond coupon payments in the first and third quarters.

The price of and demand for OSB in North America are significant variables affecting the comparability of Norbord's results over the past eight quarters. Fluctuations in earnings during that time mirror fluctuations in the price of and demand for OSB in North America. The Company estimates that the annualized impact of a $10 per Msf (7/16-inch basis) change in the North American OSB price on EBITDA, when operating at capacity, is approximately $36 million or $0.83 per share. Regional pricing variations, particularly in the Southern US, make the North Central benchmark price a useful, albeit imperfect, proxy for overall North American OSB pricing. Further, competition premiums obtained on value-added products, the pricing lag effect of maintaining an order file, and volume and trade discounts cause realized prices to differ from the benchmark.

High global commodity prices caused upward pressure on the prices of key input costs, primarily resin, wax, energy and fibre prior to 2009. Downward trends in global energy prices provided significant input cost relief in the first half of 2009, with prices on the bottom during the second half of 2009. In 2010, commodity prices increased in the first half of the year and then leveled off for the remainder of the year. In 2011, resin prices and European fibre and energy prices were significantly higher than 2010. If global growth slows in 2012, this upward pressure on input costs could subside.

Norbord has relatively low exposure to the Canadian dollar due to a comparatively small manufacturing base in Canada, which comprises 12% of its panel production capacity. The Company estimates that the unfavourable impact of a one-cent (US) increase in the value of the Canadian dollar would negatively impact annual EBITDA by approximately $1 million, when Norbord's Canadian OSB mills operate at capacity.

Items not related to ongoing business operations that had a significant impact on quarterly results include:

***Provision for non-core operation*** − In the fourth quarter of 2010, the Company recorded a provision of $6 million pre-tax ($0.14 per share) related to its 50% interest in a non-core hardwood plywood joint-venture operation.

***Income taxes*** − In the second quarter of 2011, the Company recorded an income tax recovery of $7 million ($0.16 per share) related to the recognition of a non-recurring income tax benefit. Earnings in the first quarter of 2011 included a $5 million ($0.11 per share) non-recurring income tax recovery due to the favorable resolution of a tax authority audit previously provided for in the Company's deferred income tax provision. In the first quarter of 2010, the Company received an income tax refund of $52 million related to 2008 losses carried back to prior years.

**FOURTH QUARTER RESULTS**

Norbord achieved positive EBITDA for the 10th consecutive quarter.

In North America, certain mills took maintenance shutdowns during the seasonally slow fourth quarter resulting in lower shipments and higher costs versus comparative quarters. In Europe, the normal seasonal slowdown was evident as panel prices softened somewhat during the quarter. Shipment volumes remained in line with the prior quarter but were still up significantly compared to the same quarter last year.

In the quarter, North Central benchmark OSB prices averaged $190 per Msf (7/16-inch basis), up $6 per Msf from the third quarter and consistent with the fourth quarter of 2010. In the South East region, where approximately 55% of Norbord's North American OSB capacity is located, prices averaged $166 per Msf in the quarter, down $3 from the third quarter and in line with the fourth quarter of 2010. European MDF prices increased by 4% relative to the third quarter of 2011, while particleboard and OSB prices decreased by 4% and 6%, respectively. Year-over-year, European particleboard and MDF prices increased by 18% and 17%, respectively, while OSB prices decreased by 5%.

Sales in the quarter were $229 million, compared to $242 million and $240 million in the third quarter of 2011 and fourth quarter of 2010, respectively. Quarter-over-quarter, sales decreased by $13 million mainly due to lower North American OSB shipment volumes. Year-over-year, sales decreased by $11 million primarily due to lower North American OSB shipment volumes which was partially offset by higher shipment volumes and panel pricing in Europe.

In the fourth quarter of 2011, Norbord's North American OSB mills operated at 60% of capacity and its European mills operated at 90% of capacity, compared to 65% and 90%, respectively, in the fourth quarter of 2010. In the third quarter of 2011, North American OSB mills operated at 65% of capacity and European mills operated at 90% of capacity.

Norbord recorded a loss of $9 million ($0.21 per share) in the fourth quarter of 2011. The Company recorded a loss of $1 million ($0.02 per share) in the third quarter of 2011 and $9 million ($0.21 per share) in the fourth quarter of 2010. Quarter-over-quarter, lower earnings are attributed to lower North American EBITDA and a higher income tax recovery in the third quarter of 2011. Year-over-year, lower earnings were primarily driven by lower North American EBITDA results.

In the quarter, Norbord recorded EBITDA of $9 million, versus $12 million in the previous quarter and $14 million in the fourth quarter of 2010. EBITDA changes are summarized in the variance table below.

| (US $ millions) | | Q4 2011 vs. Q3 2011 | | Q4 2011 vs. Q4 2010 |
|---|---|---|---|---|
| EBITDA – current period | $ | 9 | $ | 9 |
| EBITDA – comparative period | | 12 | | 14 |
| Variance | | (3) | | (5) |
| Mill nets[1] | | (2) | | 5 |
| Volume[2] | | (2) | | (5) |
| Key input prices[3] | | - | | (10) |
| Key input usage[3] | | (1) | | 5 |
| Other[4] | | 2 | | - |
| Total | $ | (3) | $ | (5) |

[1] The mill nets variance represents the change in realized pricing across all products. Mill nets are calculated as sales (net of outbound freight costs) divided by shipment volume.

[2] The volume variance represents the impact of shipment volume changes across all products.

[3] The key inputs include fibre, resin and energy.

[4] The Other category covers all remaining variances including labour and benefits, supplies and maintenance and the impact of foreign exchange.

**EBITDA**

| (US $ millions) | | **Q4 2011** | | Q3 2011 | | Q4 2010 |
|---|---|---|---|---|---|---|
| North America | **$** | **2** | $ | 5 | $ | 7 |
| Europe | | **10** | | 10 | | 12 |
| Unallocated | | **(3)** | | (3) | | (5) |
| Total | **$** | **9** | $ | 12 | $ | 14 |

Norbord's North American operations generated EBITDA of $2 million in the fourth quarter of 2011, versus $5 million in the third quarter of 2011 and $7 million in the fourth quarter of 2010. Quarter-over-quarter, the decrease in EBITDA of $3 million was attributed to increased curtailments and higher supplies and maintenance costs. The year-over-year decrease of $5 million was attributed to six fewer days in the fiscal fourth quarter of 2011, increased curtailments and higher input prices, which were only partially offset by improved key input usages and higher productivity.

In the fourth quarter, Norbord's North American per unit OSB cash production costs increased by 2% over the third quarter of 2011 due to higher supplies and maintenance costs related to annual maintenance shutdowns at five mills. Year-over-year, OSB cash production costs increased by 2% over the fourth quarter of 2010. The benefit of improved key input usages and higher productivity was more than offset by higher input prices and higher supplies and maintenance costs.

Norbord's European operations generated EBITDA of $10 million in both the third and fourth quarters of 2011 and $12 million in the fourth quarter of 2010. The year-over-year decrease of $2 million is attributed to lower shipment volumes as higher panel prices offset higher input prices.

Quarter-over-quarter, unallocated costs remained unchanged. Year-over-year, unallocated costs were $2 million lower due to lower corporate general and administrative expenses.

## TRANSACTIONS WITH RELATED PARTIES

In the normal course of operations, the Company enters into various transactions on market terms with related parties which have been measured at exchange value and are recognized in the consolidated financial statements. The following transactions have occurred between the Company and its related parties during the normal course of business.

### Standby Term Loan Commitment

In October 2011, the Company entered into a $120 million standby term loan commitment with Brookfield (see Liquidity and Capital Resources).

### Secondary Offering

In March 2010, upon completion of the secondary offering (see Capitalization), Brookfield's ownership decreased from approximately 73% to 52% of common shares outstanding.

### Indemnity Commitment

As at December 31, 2011, total future costs related to a 1999 asset purchase agreement between the Company and Brookfield, for which Norbord provided an indemnity, are estimated at less than $1 million and are included in other liabilities in the consolidated balance sheet.

### Other

The Company provides certain administrative services to Brookfield or its affiliates which are charged on a cost recovery basis. In addition, the Company periodically engages the services or purchases goods from Brookfield or its affiliates for various financial, real estate and other business advisory services. In 2011, the fees and costs for these services and goods were $5 million (2010 – less than $1 million) and were charged at market rates.

## FINANCIAL POLICIES

### Capital Allocation

Norbord considers effective capital allocation to be critical to its success. Capital is invested only when Norbord expects returns to exceed pre-determined thresholds, taking into consideration both the degree and magnitude of the relative risks and rewards and, if appropriate, strategic considerations in the establishment of new business activities or maintenance of existing business activities. Post-investment reviews are conducted on capital investment decisions to assess the results against planned project returns.

### Liquidity

Norbord strives to maintain sufficient financial liquidity at all times in order to participate in attractive investment opportunities as they arise, and to withstand sudden adverse changes in economic circumstances. Management forecasts cash flows for its current and subsequent fiscal years to identify financing requirements. These requirements are then addressed through a combination of committed credit facilities and access to capital markets.

At year-end, the Company had unutilized liquidity of $350 million, comprising $83 million in cash and cash equivalents and $267 million in unutilized committed revolving bank lines with nine international financial institutions, available to support its liquidity requirements. In addition, the Company has a backup plan in place for its July 1, 2012 bond maturity under which up to $120 million may be repaid from the bank lines and up to $120 million from a standby lending commitment from Brookfield.

**Credit Ratings**

Maintaining a stable balance sheet is an important element of Norbord's financing strategy. Norbord believes that its record of superior operational performance and prudent balance sheet management should enable it to access public and private capital markets, subject to financial market conditions.

At January 26, 2012, Norbord's long-term issuer credit ratings were:

| | Dominion Bond Rating Service | Standard & Poor's Ratings Services | Moody's Investors Service |
|---|---|---|---|
| Rating | BB(low) | BB- | Ba3 |
| Outlook | Stable | Negative | Stable |

In early 2011, Standard & Poor's Ratings Services (S&P) and Moody's Investors Service revised their outlooks on Norbord's ratings from negative to stable, citing the Company's stable credit metrics and adequate liquidity. In late 2011, S&P revised their outlook back to negative, citing the prolonged recovery of the US housing construction market.

Credit ratings are intended to provide investors with an independent measure of the credit quality of any securities issue. The credit ratings accorded to debt securities by the rating agencies are not recommendations to purchase, hold or sell the debt securities, as such ratings do not comment as to market price or suitability for a particular investor. There is no assurance that any rating will remain in effect for any given period of time or that any rating will not be revised or withdrawn entirely by a rating agency in the future if, in its judgement, circumstances so warrant.

**Use of Financial Instruments**

Norbord uses derivative financial instruments solely for the purpose of managing its interest rate, foreign exchange and commodity price exposures, as further detailed in the Risks and Uncertainties section. These activities are governed by Board-approved financial policies that cover risk identification, tolerance, measurement and reporting. Derivative transactions are executed only with approved, high-quality counterparties under master netting agreements. Derivative contracts that are deemed to be highly effective in offsetting changes in the fair value, net investment or cash flows of hedged items are designated as hedges of specific exposures and, accordingly, all gains and losses on these instruments are recognized in the same manner as the item being hedged.

## FUTURE CHANGES IN ACCOUNTING POLICIES

**Transfers of Financial Assets**

In October 2010, the International Accounting Standards Board (IASB) amended IFRS 7, *Financial Instruments: Disclosures* and added additional disclosure requirements for financial assets that have been transferred but not derecognized in accordance with IAS 39, *Financial Instruments: Recognition and Measurement* (IAS 39). The amendments are effective for annual periods beginning on or after July 1, 2011, so will be effective for the year ending December 31, 2012. The Company's accounts receivable securitization program meets the definition of a transferred financial asset that is not derecognized. In 2012, the Company will supplement the existing disclosures on the program in note 4 to the consolidated financial statements accordingly.

**Financial Instruments**

IFRS 9, *Financial Instruments* (IFRS 9) was issued by the IASB on November 12, 2009 and will replace IAS 39. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of its financial assets. The new standard requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 also provides for new measurement guidance for financial liabilities designated at fair value through profit or loss. In December 2011, the IASB deferred the mandatory effective date of IFRS 9 to annual periods beginning on or after January 1, 2015, so it will be effective for the year ending December 31, 2015. The Company has not yet determined the impact of IFRS 9 on its financial statements.

**Consolidation**

In May 2011, the IASB issued the following new standards:

- IFRS 10, *Consolidated Financial Statements*, which will replace SIC-12 *Consolidation—Special Purpose Entities* and parts of IAS 27 *Consolidated and Separate Financial Statements*;
- IFRS 11, *Joint Arrangements* which will replace IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly Controlled Entities—Non-monetary Contributions by Venturers*; and
- IFRS 12, *Disclosure of Interests in Other Entities*

These new standards provide more guidance on the identification of entities and joint arrangements that should be included in the consolidated statements of a parent company and also require additional disclosure of all forms of interests that an entity holds. The standards are effective for annual periods beginning on or after January 1, 2013 with early adoption permitted and will be effective for the year ending December 31, 2013. The Company has not yet determined the impact of these standards on its financial statements.

**Fair Value Measurement**

In May 2011, the IASB issued IFRS 13, *Fair Value Measurement* (IFRS 13) which provides a revised definition of fair value, establishes a framework for measuring fair value and sets out disclosure requirements for when fair value measurement is required or permitted under IFRS. IFRS 13 is effective for annual periods beginning on or after January 1, 2013 with early adoption permitted and will be effective for the year ending December 31, 2013. The Company has not yet determined the impact of IFRS 13 on its financial statements.

**Employee Future Benefits**

In June 2011, the IASB amended IAS 19, *Employee Benefits* (IAS 19). The main amendments include the requirement to immediately recognize actuarial gains and losses in Other Comprehensive Income/(Loss) (OCI), the replacement of the calculation of both the expected return on the plan assets and the interest cost of the pension obligation with the interest cost on the net deficit, the clarification on specific measurement issues and enhanced disclosure requirements. The amendments are effective for annual periods beginning on or after January 1, 2013 with early adoption permitted and will be effective for the year ending December 31, 2013. The Company has not yet determined the impact of these amendments on its financial statements.

**Other Comprehensive Income**

In June 2011, the IASB amended IAS 1, *Presentation of Financial Statements* (IAS 1) to require the grouping together of OCI items that may be reclassified to the Statement of Earnings within OCI. The amendment is effective for annual periods beginning on or after July 1, 2012 and will be effective for the year ending December 31, 2013. The Company has not yet determined the impact of this amendment on its financial statements.

## INTERNATIONAL FINANCIAL REPORTING STANDARDS

IFRS replaced Canadian generally accepted accounting principles (Canadian GAAP) for publicly accountable enterprises for financial periods beginning on and after January 1, 2011. Accordingly, the Company has adopted IFRS effective January 1, 2011 and has prepared its current financial statements using IFRS accounting policies the Company has adopted in its consolidated financial statements as at and for the year ended December 31, 2011. Prior to the adoption of IFRS, the Company's financial statements were prepared in accordance with Canadian GAAP. The Company's financial statements for the year ended December 31, 2011 are the first annual financial statements that comply with IFRS.

IFRS are premised on a conceptual framework similar to Canadian GAAP; however, significant differences exist in certain matters of recognition, measurement and disclosure on the consolidated financial statements. The impact of the adoption of IFRS on the Company's January 1, 2010 opening balance sheet compared to the December 31, 2009 balance sheet prepared under Canadian GAAP was a decrease to shareholders' equity of $13 million. In addition, the impact of adoption of IFRS on the Company's December 31, 2010 balance sheet compared to the balance sheet prepared under Canadian GAAP was a decrease to shareholders' equity of $21 million.

Note 3 of the consolidated financial statements provides detailed reconciliations between Canadian GAAP and IFRS for total assets, total liabilities and shareholders' equity as at January 1 and December 31, 2010 and for net income and comprehensive income for the year ended December 31, 2010. These reconciliations provide explanations of each major difference. There were no material adjustments to the cash flow statement as a result of the conversion to IFRS.

**IMPACT OF IFRS ON THE BALANCE SHEET AND STATEMENT OF EARNINGS**

The following discussion highlights the significant new standards that the Company has adopted under IFRS and the effect on the comparative period earnings and financial position as previously reported under Canadian GAAP as well as the possible effects going forward.

**(i) Employee Benefits**

***Unfunded Pension Obligation***

Under Canadian GAAP, accrued pension benefit obligation in excess of plan assets for defined benefit pension plans was only required to be disclosed in the notes to the consolidated financial statements. Under IAS 19, *Employee Benefits,* the obligation in excess of plan assets was recorded as a liability on the balance sheet. The Company recorded an increase to other liabilities and decrease to retained earnings of $18 million on January 1, 2010 (December 31, 2010 – increase to other liabilities of $28 million, decrease to retained earnings of $28 million as noted below).

***Actuarial Gains and Losses***

Under Canadian GAAP, actuarial gains and losses were recognized on a systematic and consistent basis, subject to a minimum required amortization based on a "corridor" approach. Unrecognized actuarial gains and losses below the "corridor" were deferred. Under IFRS, in accordance with the Company's IFRS 1 election, any deferred actuarial gains and losses were recognized in shareholders' equity and the Company recorded an actuarial loss of $3 million to retained earnings on January 1, 2010. Post-adoption, the Company elected to immediately recognize all actuarial gains and losses through OCI and in retained earnings and the Company recorded additional actuarial losses of $10 million for the year ended December 31, 2010.

**(ii) Plant, Property and Equipment**

***Deemed Cost***

Upon transition to IFRS, the Company elected to measure its property, plant and equipment at fair value as its deemed cost. Certain items of property, plant and equipment in the North American operations had a fair value of $30 million above their book value under Canadian GAAP, and certain items of property, plant and equipment in the European operations had a fair value of $30 million below their book value under Canadian GAAP. The net effect of these fair value measurements was nil on a consolidated basis on January 1, 2009. The measurement was based on fair value as at January 1, 2009, Brookfield's IFRS transition date. The Company determined the fair value of certain items of property, plant and equipment using an income approach. Fair value measurements were prepared internally using a discounted cash flow model, taking into consideration forecasts and assumptions concerning future cash flows and a discount rate based on the Company's weighted average cost of capital as at the measurement date. All subsequent depreciation under IFRS will be based on the new deemed cost.

The Company recorded a decrease to retained earnings for additional depreciation expense related to the deemed cost adjustment to property, plant and equipment of $4 million on January 1, 2010 (December 31, 2010 – $10 million cumulative decrease to retained earnings).

***Component Accounting***

Both IFRS and Canadian GAAP require property, plant and equipment to be disaggregated into components and depreciated separately. Under Canadian GAAP, component accounting was interpreted and applied more generally. The Company has applied the guidance under IAS 16, *Property, Plant and Equipment*, and disaggregated its property, plant and equipment into components and reviewed the useful life of each separate component. For certain components of property, plant and equipment, useful lives were reassessed and the effect of these changes in estimates will accelerate the expected depreciation expense under IFRS. The impact of this change on subsequent depreciation expense is immaterial.

***Impairments***

Under both Canadian GAAP and IFRS, an asset or group of assets is tested for impairment only when there is an indication of impairment. Under Canadian GAAP, impairment testing of an asset or group of assets is a two-step approach. First, the carrying value of an asset or group of assets is compared to the undiscounted future cash flows to determine whether impairment exists. If impairment exists, then the second step is to measure the impairment by comparing the carrying value of the asset or group of assets to its fair value, as calculated using the present value of future cash flows. Under IAS 36, *Impairment of Assets*, impairment testing is a one-step approach for both testing and measurement, with the carrying value of the asset or group of assets compared directly to the higher of fair value less costs to sell, and value in use. Fair value is measured at the sales price of the asset or group of assets in an arm's length transaction. Value in use is based on the discounted future cash flows of the asset or group of assets. This approach could potentially result in write-downs where the carrying value of an asset or group of assets was previously supported under Canadian GAAP on an undiscounted cash flow basis. Furthermore, while Canadian GAAP prohibits the reversals of impairment losses recognized in prior periods, IFRS requires such reversals to be recognized for assets other than goodwill if certain criteria are met.

Under IFRS, the Company assessed impairment for property, plant and equipment as at December 31, 2010 and January 1, 2010 (one year following the Company's IFRS measurement date of January 1, 2009) and concluded that no impairment existed.

**(iii) Consistency in Accounting Policies**

IFRS requires consistency in accounting policies across subsidiaries. The Company aligned the accounting policies of all of its subsidiaries under IFRS. The Company recorded an increase to inventory and shareholders' equity of $5 million on January 1, 2010 (December 31, 2010 – $5 million).

**(iv) Share-Based Payments**

The Company issues share-based awards in the form of stock options that vest evenly over a five-year period. Under Canadian GAAP, the Company recognized the fair value of the award, determined at the time of the grants, on a straight-line basis over the five-year vesting period. Under IFRS 2, *Share-Based Payments*, the fair value of each tranche of the award is considered to be a separate grant based on its vesting period. The fair value of each tranche is determined separately and recognized as compensation expense over the term of its respective vesting period. Accordingly, compensation expense under IFRS will be recognized at an accelerated rate compared to Canadian GAAP. The Company recorded additional compensation expense of $1 million through an increase to contributed surplus and a decrease to retained earnings on January 1, 2010 (December 31, 2010 – less than $1 million).

**(v) Income Taxes**

***Tax Effect of IFRS Accounting Adjustments***

Deferred income tax is adjusted to reflect the change in temporary differences resulting from the IFRS adjustments described above. The Company recorded a net increase to deferred tax liability of $1 million on January 1, 2010 (December 31, 2010 – $4 million net decrease).

***Translation of Non-Monetary Balances***

The Company has certain non-monetary assets and liabilities for which the tax-reporting currency is different than its functional currency. Under Canadian GAAP, any translation gains or losses arising due to the remeasurement of these items, at current exchange rates versus historic exchange rates, do not give rise to a deferred income tax asset or liability. Under IAS 12, *Income Taxes*, such translation gains or losses do give rise to a temporary difference that is recorded as a deferred tax asset or liability. The Company recorded a decrease to deferred tax liability of $5 million on January 1, 2010 (December 31, 2010 – $5 million).

**(vi) Cumulative Translation Account**

Upon transition to IFRS, Norbord elected under IFRS 1 to reset all cumulative translation differences to nil as at January 1, 2009 and the Company recorded a $13 million adjustment to accumulated other comprehensive income and retained earnings.

**(vii) Accounts Receivable Securitization**

Under Canadian GAAP, the Company's accounts receivable securitization program was treated as a true sale of accounts receivable, as the Company transferred substantially all of its present and future trade accounts receivable to a third-party trust, sponsored by a highly rated Canadian financial institution, on a fully serviced basis, for proceeds consisting of cash and deferred purchase price. Under IAS 39, the securitization program does not meet the criteria for a sale transaction and is treated as a financing arrangement. Accordingly, an adjustment to the balance sheet, to recognize the accounts receivable and long-term debt related to securitization, was required and the Company recorded an increase of $62 million to accounts receivable and long-term debt on January 1, 2010 (December 31, 2010 – $60 million).

**(viii) Investment in a Joint Venture**

In 2009 and 2010, the Company held a 50% interest in a joint-venture hardwood plywood business. This operation was non-core and represented less than 1% of total assets. Under Canadian GAAP, the Company proportionately consolidated its 50% interest in the joint venture in the consolidated financial statements. Under IAS 31, *Interests in Joint Ventures*, the Company elected to account for its investment under the equity method. The Company recorded a decrease in assets of $1 million and a decrease in liabilities of $1 million on January 1, 2010. In the fourth quarter of 2010, the business ceased operation and, therefore, the Company recorded a provision for the write-down of its 50% investment in the joint venture.

**(ix) Revenue Recognition**

Under Canadian GAAP, the Company presented outbound freight costs as a net against revenues. Under IFRS, IAS 18, *Revenues*, the Company revenues should only take into account trade discounts and volume rebates. As a consequence, the Company has presented sales without adjustment for outbound freight costs. Total sales increased by $86 million for the year ended December 31, 2010.

**IMPACT ON FINANCIAL COVENANTS – IFRS TRANSITION**

The Company has committed revolving bank lines that contain two quarterly financial covenants – minimum tangible net worth of $250 million and maximum net debt to total capitalization on a book basis of 65%. Net debt includes total debt less cash and cash equivalents plus letters of credit issued. The Company's lending agreement provides for the following adjustments to its covenant calculations as a result of the changeover to IFRS on January 1, 2011: (i) the exclusion of accounts receivable securitization proceeds from the net debt calculation; (ii) the add-back of IFRS transitional adjustments of $21 million to shareholders' equity, as at January 1, 2011, for the purposes of the tangible net worth calculation; and (iii) the exclusion of other comprehensive income movement from the tangible net worth calculation, subsequent to January 1, 2011.

**SIGNIFICANT ACCOUNTING POLICIES, JUDGEMENTS AND ESTIMATES**

The preparation of financial statements in conformity with IFRS requires management to select appropriate accounting policies to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. In particular, significant accounting policies, judgements and estimates utilized in the normal course of preparing the Company's financial statements require management to make critical determinations that affect the reported amounts of assets, liabilities, revenues, expenses, and disclosure of contingent assets and liabilities. Actual results could materially differ from those estimates.

In making estimates and judgements, management relies on external information and observable conditions where possible, supplemented by internal analysis as required. These estimates and judgements have been applied in a manner consistent with prior periods and there are no known trends, commitments, events or uncertainties that we believe will materially affect the methodology or assumptions utilized in making these estimates and judgements in these financial statements. For further reference on the Company's significant accounting policies, refer to note 2 of the consolidated financial statements.

**RISKS AND UNCERTAINTIES**

Norbord is exposed to a number of risks and uncertainties in the normal course of its business that could have a material adverse effect on the Company's business, financial position, operating results and cash flows. A discussion of some of the major risks and uncertainties follows.

**Product Concentration and Cyclicality**

OSB accounts for almost 85% of Norbord's panel production capacity. The price of OSB is one of the most volatile in the wood-based panels industry. Norbord's concentration on OSB increases its sensitivity to product pricing and may result in a high degree of sales and earnings volatility.

Norbord's financial performance is principally dependent on the selling price of its products. Most of Norbord's products are globally traded commodities for which no liquid futures markets exist. The markets for most of Norbord's products are highly cyclical and characterized by periods of supply and demand imbalance, during which its product prices have tended to fluctuate significantly. In addition, since many of Norbord's products are used for new home construction, seasonal and annual weather changes can affect demand and sales volumes. These imbalances, which may affect different areas of Norbord's business at different times, are influenced by numerous factors that are beyond Norbord's control and include: changes in global and regional production capacity for a particular product or group of products; changes in the end use of those products, or the increased use of substitute products; and the overall level of economic activity in the regions in which Norbord conducts business. In the past, Norbord has been negatively affected by declines in product pricing and has taken production downtime to manage working capital and minimize cash losses. Severe and prolonged weakness in the markets for Norbord's products, particularly OSB, could seriously harm the Company's financial position, operating results and cash flows, including the ability to satisfy interest and principal payments on outstanding debt.

Based on operating at full capacity, the following table shows the approximate annualized impact of changes in product prices on EBITDA:

| | Sensitivity Factor | Impact on EBITDA (US $ millions) |
|---|---|---|
| OSB – North America | $10 per Msf–7/16" | 36 |
| OSB – Europe | €10 per $m^3$ | 7 |

**Liquidity**

Norbord relies on long-term borrowings and access to revolving bank lines to fund its ongoing operations. The Company's ability to refinance or renew such facilities is dependent upon financial market conditions. Although Norbord has an actionable backup plan for its 2012 bond maturity and has bank lines that are committed to 2014, financing may not be available when required or may not be available on commercially favourable or otherwise satisfactory terms in the future.

**Competition**

The wood-based panels industry is a highly competitive business environment in which companies compete, to a large degree, on the basis of price. Norbord's principal market is the US, where it competes with North American and, in some instances, foreign producers. Norbord's European operations compete primarily with other European producers. Certain competitors may have lower-cost facilities than Norbord. Norbord's ability to compete in these and other markets is dependent on a variety of factors, such as manufacturing costs, availability of key production inputs, continued free access to markets, customer service, product quality, financial resources and currency exchange rates. In addition, competitors could develop new cost-effective substitutes for Norbord's wood-based panels, or building codes could be changed to make the use of Norbord's products less attractive for certain applications.

**Customer Dependence**

Norbord sells its products primarily to major retail chains, contractor supply yards and industrial manufacturers, and faces strong competition for the business of significant customers. In 2011, Norbord had one customer whose purchases represented greater than 10% of total net sales. Norbord generally does not have contractual assurances of future sales. As a result, the loss of a significant customer or any significant customer order cancellations could negatively affect Norbord's sales and earnings. Continued consolidation in the retail industry could expose Norbord to increased concentration of customer dependence and increase customers' abilities to exert pricing pressure on Norbord.

**Manufacturing Inputs**

Norbord is exposed to commodity price risk on most of its manufacturing inputs, which are principally comprised of wood fibre, resin and energy. These manufacturing inputs are purchased primarily on the open market in competition with other users of such resources, and prices are influenced by factors beyond Norbord's control. Norbord may not be able to hedge the purchase price of manufacturing inputs or pass increased costs on to its customers.

**Fibre Resource**

As Norbord does not own any timberlands, it purchases timber, wood chips and fibre as well as other wood recycled materials on the open market, in competition with other users of such resources, where prices are influenced by factors beyond Norbord's control. Adverse weather can also limit access to logging areas, which can affect the supply of fibre to Norbord's operations. In addition, Norbord's supply and cost of fibre may be negatively impacted by increased demand resulting from market-based or legislative initiatives to use wood-based biomass materials in the production of heat, electricity and other biobased products.

Norbord's wood fibre supply comes from several different sources. In the US, roundwood logs are primarily sourced from private and industry-owned woodlands. In Europe, wood fibre is purchased from the government and private landowners. Fibre for OSB comes from roundwood logs while the MDF and particleboard mills source fibre in the form of roundwood logs, wood chips, sawdust and recycled wood. Norbord's Canadian mills source roundwood logs primarily from private landholders and hold forestry licences and agreements to source aspen and birch from Crown timberlands in Quebec. Most of this Crown volume is harvested and delivered by third parties that also hold licences to operate in these areas.

The Crown licences require the payment of stumpage fees for the timber harvested and compliance with specified rehabilitation and silvicultural management practices. The licences cover periods ranging from 20 to 25 years and are renewed or extended every five years. They can be revoked or cancelled for non-performance and contain terms and conditions that could, under certain circumstances, result in a reduction of annual allowable timber that may be harvested by Norbord without any compensation.

**Employee Retention and Labour Relations**

Norbord's success depends in part on the Company's ability to attract and retain senior management and other key employees. Competition for qualified personnel depends on economic and industry conditions, competitors' hiring practices and the effectiveness of Norbord's compensation programs. The loss of, or inability to recruit and retain, any such personnel could impact the Company's ability to execute on its strategy.

Norbord's US employees are non-unionized while its UK, Belgian and most of its Canadian employees are unionized – representing just under one-half of the workforce. All of Norbord's UK and Belgian union contracts are evergreen. Canadian union contracts typically cover a three- to five-year term.

In 2009, a seven-year agreement, expiring June 30, 2016, was negotiated with the Communications, Energy and Paperworkers Union representing members at the OSB mill in La Sarre, Quebec. In 2008, a five-year agreement, expiring December 31, 2012, was negotiated with the Teamsters Union representing members at the OSB mill in Val-d'Or, Quebec. Strikes or work stoppages could result in lost production and sales, higher costs or supply constraints if Norbord is unable to negotiate acceptable contracts with its various trade unions upon expiry.

**Environmental Matters**

Norbord's 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 Norbord's production capacity or increase Norbord's production costs. Norbord has incurred, and expects to continue to incur, capital expenditures and operating costs to comply with applicable environmental laws and regulations. In addition, environmental laws and regulations could become more stringent in the future.

**Product Liability and Legal Proceedings**

Norbord produces a variety of wood-based panels that are used in new home construction, repair and remodelling of existing homes, furniture and fixtures and industrial applications. In the normal course of business, the end users of Norbord's products have in the past made, and could in the future make, claims with respect to the fitness for use of its products, or related to product quality or performance issues. In addition, Norbord has in the past been, and may in the future be involved in legal proceedings involving antitrust, negligence, personal injury, property damage and other claims against the Company or its predecessors. Norbord could face increased costs if any future claims exceed purchased insurance coverage.

**Natural Events**

Norbord's business is exposed to numerous natural events, such as forest fires, adverse weather conditions, insect infestation, disease, prolonged drought and other natural disasters, that are not insurable events. If such an event occurs, Norbord may need to curtail production or incur increased fibre or other costs.

**Capital Intensity**

The production of wood-based panels is capital intensive. There can be no assurance that key pieces of equipment will not 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 insurable.

**Tax Exposures**

Norbord takes various tax-filing positions in the normal course of business, and there can be no assurance that tax authorities will not challenge such filing positions. In addition, Norbord is subject to further uncertainties concerning the interpretation and application of tax laws in various operating jurisdictions. Norbord 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. However, future settlements could differ materially from the Company's reserves.

**Currency Exposures**

Norbord reports its financial results in US dollars. A portion of Norbord's product prices and costs are influenced by relative currency values (particularly the Canadian dollar, Pound Sterling and Euro). Significant fluctuations in relative currency values could negatively affect the cost competitiveness of Norbord's facilities, the value of its foreign investments, the results of its operations and its financial position.

Norbord's foreign exchange exposure arises from the following sources:

- Net investments in foreign operations, limited to Norbord's investment in its European operations
- Net Canadian dollar-denominated monetary assets and liabilities
- Committed or anticipated foreign currency-denominated transactions, primarily Canadian dollar costs in Norbord's Canadian operations and Euro revenues in Norbord's UK operations

**Defined Benefit Pension Plan Funding**

Although Norbord's defined benefit pension plans are all closed to future service accrual, the Company continues to be subject to market risk on the plan assets and obligations related to past service. Defined benefit pension plan funding requirements are based on actuarial valuations that make assumptions about the long-term expected rate of return on assets, salary escalation, life expectancy and discount rates. The Company's latest funding valuations indicate the plans are in a solvency deficit position and therefore Norbord is 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, the Company would be required to increase cash funding contributions, reducing the availability of such funds for other corporate purposes.

## ASSESSMENT AND CHANGES IN INTERNAL CONTROLS AND DISCLOSURE CONTROLS OVER FINANCIAL REPORTING

In accordance with the requirements of *National Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings*, the Company's management, including the Chief Executive Officer (CEO) and Chief Financial Officer (CFO), has evaluated the operating effectiveness of the Company's internal control over financial reporting. Management of Norbord is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is a process designed by, or under the supervision of, the CEO and CFO, and it is effected by management and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2011. Based on this assessment, management believes that, as of December 31, 2011, the Company's internal control over financial reporting is operating effectively. Management determined that there were no material weaknesses in the Company's internal control over financial reporting as of December 31, 2011. There have been no changes in Norbord's internal control over financial reporting during the year ended December 31, 2011, that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting.

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to senior management, including the CEO and CFO, on a timely basis so that appropriate decisions can be made regarding annual and interim financial statement disclosure. An evaluation of the effectiveness of the design and operation of disclosure controls and procedures was conducted as of December 31, 2011 by Norbord's management, including the CEO and CFO. Based on this evaluation, the CEO and CFO have concluded that Norbord's disclosure controls and procedures, as defined in *National Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings*, are effective.

**NON-IFRS FINANCIAL MEASURES**

The following non-IFRS financial measures have been used in this MD&A. Non-IFRS financial measures do not have any standardized meaning prescribed by IFRS and are therefore unlikely to be comparable to similar measures presented by other companies. Each non-IFRS financial measure is defined below. Where appropriate, a quantitative reconciliation of the non-IFRS financial measure to the most directly comparable IFRS measure is provided.

**EBITDA** is earnings determined in accordance with IFRS before interest, provision for non-core operation, foreign exchange loss, litigation settlement, income tax, depreciation and amortization. As Norbord operates in a cyclical commodity business, Norbord interprets EBITDA over the cycle as a useful indicator of the Company's ability to incur and service debt and meet capital expenditure requirements. In addition, Norbord views EBITDA as a measure of gross profit and interprets EBITDA trends as indicators of relative operating performance.

The following table reconciles EBITDA to the most directly comparable IFRS measure:

| (US $ millions) | **2011 IFRS** | 2010 IFRS | 2009 CGAAP | 2008 CGAAP | 2007 CGAAP |
|---|---|---|---|---|---|
| Earnings | **$ (11)** | $ 13 | $ (58) | $ (115) | $ (45) |
| Add: Interest expense | **33** | 34 | 36 | 49 | 49 |
| Less: Interest and other income | **-** | - | - | (3) | (5) |
| Add: Provision for non-core operation | **-** | 8 | 4 | 4 | - |
| Add: Foreign exchange loss | **-** | - | 3 | - | - |
| Add: Litigation settlement | **-** | - | - | 32 | - |
| Add: Depreciation | **51** | 51 | 48 | 68 | 88 |
| Add: Income tax (recovery) expense | **(28)** | 1 | (33) | (95) | (45) |
| EBITDA | **$ 45** | $ 107 | $ - | $ (60) | $ 42 |

**EBITDA margin (%)** is EBITDA as a percentage of sales. When compared with industry statistics and prior periods, EBITDA margin can be a useful indicator of operating efficiency and a company's ability to compete successfully with its peers. Norbord interprets EBITDA margin trends as indicators of relative operating performance.

**Operating working capital** is accounts receivable plus inventory less accounts payable and accrued liabilities. Operating working capital is a measure of the investment in accounts receivable, inventory, accounts payable and accrued liabilities required to support operations. The Company aims to minimize its investment in operating working capital, however, the amount will vary with seasonality, and sales expansions and contractions.

| (US $ millions) | **2011 IFRS** | 2010 IFRS | 2009 CGAAP | 2008 CGAAP | 2007 CGAAP |
|---|---|---|---|---|---|
| Accounts receivable | **$ 102** | $ 90 | $ 27 | $ 12 | $ 83 |
| Inventory | **88** | 84 | 71 | 81 | 131 |
| Accounts payable and accrued liabilities | **(162)** | (164) | (140) | (146) | (191) |
| Operating working capital | **$ 28** | $ 10 | $ (42) | $ (53) | $ 23 |

**Total working capital** is operating working capital plus cash and cash equivalents and tax receivable less bank advances, if any.

| (US $ millions) | **2011 IFRS** | 2010 IFRS | 2009 CGAAP | 2008 CGAAP | 2007 CGAAP |
|---|---|---|---|---|---|
| Operating working capital | **$ 28** | $ 10 | $ (42) | $ (53) | $ 23 |
| Cash and cash equivalents | **83** | 111 | 21 | 20 | 128 |
| Tax receivable | **5** | 6 | 57 | 13 | 89 |
| Total working capital | **$ 116** | $ 127 | $ 36 | $ (20) | $ 240 |

**Capital employed** is the sum of property, plant and equipment, operating working capital, tax receivable and other assets less any unrealized balance sheet losses included in other liabilities. Capital employed is a measure of the total investment in a business in terms of property, plant, equipment, operating working capital, tax receivable and other assets.

| (US $ millions) | **2011 IFRS** | 2010 IFRS | 2009 CGAAP | 2008 CGAAP | 2007 CGAAP |
|---|---|---|---|---|---|
| Property, plant and equipment | **$ 787** | $ 814 | $ 860 | $ 885 | $ 968 |
| Accounts receivable | **102** | 90 | 27 | 12 | 83 |
| Tax receivable | **5** | 6 | 57 | 13 | 89 |
| Inventory | **88** | 84 | 71 | 81 | 131 |
| Accounts payable and accrued liabilities | **(162)** | (164) | (140) | (146) | (191) |
| Other assets | **5** | 13 | 7 | 33 | 5 |
| Unrealized net investment hedge losses[1] | **-** | - | - | (8) | (8) |
| Capital employed | **$ 825** | $ 843 | $ 882 | $ 870 | $ 1,077 |

[1] Included in other liabilities.

**ROCE** (return on capital employed) is EBITDA divided by average capital employed. ROCE is a measurement of financial performance, focusing on cash generation and the efficient use of capital. As Norbord operates in a cyclical commodity business, it interprets ROCE over the cycle as a useful means of comparing businesses in terms of efficiency of management and viability of products. Norbord targets top-quartile ROCE among North American forest products companies over the cycle.

**ROE** (return on equity) is earnings available to common shareholders divided by average common shareholders' equity. ROE is a measure that allows common shareholders to determine how effectively their invested capital is being employed. As Norbord operates in a cyclical commodity business, it looks at ROE over the cycle and targets top-quartile performance among North American forest products companies.

**Total shareholder return** is a useful measure of the return on an investment in Norbord common shares, including share-price appreciation and dividends. The calculation assumes the reinvestment of all dividends in shares of Norbord.

**Net debt** is the principal value of long-term debt, including the current portion and bank advances, less cash and cash equivalents. Net debt is a useful indicator of a company's debt position. Net debt comprises:

| (US $ millions) | **2011 IFRS** | 2010 CGAAP[1] | 2009 CGAAP | 2008 CGAAP | 2007 CGAAP |
|---|---|---|---|---|---|
| Long-term debt, principal value | **$ 440** | $ 440 | $ 467 | $ 532 | $ 675 |
| Less: Cash and cash equivalents | **(83)** | (113) | (21) | (20) | (128) |
| Less: Drawings under Brookfield debt facility[2] | **-** | - | - | (35) | - |
| Net debt | **357** | 327 | 446 | 477 | 547 |
| Add: Letters of credit | **3** | 10 | 8 | - | - |
| Net debt for financial covenant purposes | **$ 360** | $ 337 | $ 454 | $ 477 | $ 547 |

[1] 2010 has not been restated for IFRS and are the originally disclosed figures under Canadian GAAP.

[2] Facility was cancelled in July 2010.

**Tangible net worth** consists of shareholders' equity. A minimum tangible net worth is one of two financial covenants contained in the Company's committed bank lines. For financial covenant purposes, effective January 1, 2011, tangible net worth excludes all IFRS transitional adjustments and all movement in cumulative other comprehensive income subsequent to January 1, 2011.

| (US $ millions) | **2011 IFRS** | 2010 CGAAP[1] | 2009 CGAAP | 2008 CGAAP | 2007 CGAAP |
|---|---|---|---|---|---|
| Shareholders' equity | **$ 300** | $ 352 | $ 334 | $ 268 | $ 360 |
| Add: IFRS transitional adjustments | **21** | - | - | - | - |
| Add: Other comprehensive income movement[2] | **22** | - | - | - | - |
| Add: Drawings under Brookfield debt facility[3] | **-** | - | - | 35 | |
| Tangible net worth | **$ 343** | $ 352 | $ 334 | $ 303 | $ 360 |

[1] 2010 has not been restated for IFRS and are the originally disclosed figures under Canadian GAAP.

[2] Subsequent to January 1, 2011.

[3] Facility was cancelled in July 2010.

**Net debt to capitalization, book basis,** is net debt divided by the sum of net debt and tangible net worth. Net debt to capitalization on a book basis is a measure of a company's relative debt position. Norbord interprets this measure as an indicator of the relative strength and flexibility of its balance sheet. In addition, a maximum net debt to capitalization, book basis, is one of two financial covenants contained in the Company's committed bank lines.

**Net debt to capitalization, market basis,** is net debt divided by the sum of net debt and market capitalization. Market capitalization is the number of common shares outstanding at period-end multiplied by the trailing 12-month average per share market price. Market basis capitalization is intended to correct for the low historical book value of Norbord's asset base relative to its fair value. Net debt to capitalization, market basis is a key measure of a company's relative debt position and Norbord interprets this measure as an indicator of the relative strength and flexibility of its balance sheet. While the Company considers both book and market basis metrics, it believes the market basis to be superior to the book basis in measuring the true strength and flexibility of its balance sheet.

**FORWARD-LOOKING STATEMENTS**

This document includes forward-looking statements, as defined by applicable securities legislation. Often, but not always, forward-looking statements can be identified by the use of words such as "believes," "expects," "does not expect," "is expected," "targets," "outlook," "plans," "scheduled," "estimates," "forecasts," "intends," "predicts," "aims," "anticipates" or "does not anticipate" or variations of such words and phrases or statements that certain actions, events or results "may," "could," "would," "should," "might" or "will" be taken, occur or be achieved. Forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of Norbord to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements.

Examples of such statements include, but are not limited to, comments with respect to: (1) outlook for the markets for products; (2) expectations regarding future product pricing; (3) outlook for operations; (4) expectations regarding mill capacity; (5) objectives; (6) strategies to achieve those objectives; (7) expected financial results including the expected results of the MIP; (8) sensitivity to changes in product prices, such as the price of OSB; (9) sensitivity to key input prices, such as the price of fibre, resin and energy; (10) sensitivity to changes in foreign exchange rates; (11) expectations regarding income tax rates; (12) expectations regarding compliance with environmental regulations; (13) expectations regarding contingent liabilities and guarantees, including the outcome of pending litigation; and (14) expectations regarding the amount, timing and benefits of capital investments.

Although Norbord believes it has a reasonable basis for making these forward-looking statements, readers are cautioned not to place undue reliance on such forward-looking information. By its nature, forward-looking information involves numerous assumptions, inherent risks and uncertainties, both general and specific, which contribute to the possibility that the predictions, forecasts and other forward-looking statements will not occur. These factors include, but are not limited to: (1) assumptions in connection with the economic and financial conditions in the US, Europe, Canada and globally; (2) risks inherent to product concentration; (3) effects of competition and product pricing pressures; (4) risks inherent to customer dependence; (5) effects of variations in the price and availability of manufacturing inputs, including continued access to fibre resources at competitive prices; (6) various events which could disrupt operations, including natural events and ongoing relations with employees; (7) impact of changes to, or non-compliance with, environmental regulations; (8) impact of any product liability claims in excess of insurance coverage; (9) risks inherent to a capital intensive industry; (10) impact of future outcome of certain tax exposures; and (11) effects of currency exposures and exchange rate fluctuations.

The above list of important factors affecting forward-looking information is not exhaustive. Additional factors are noted elsewhere, and reference should be made to the other risks discussed in filings with Canadian securities regulatory authorities. Except as required by applicable law, Norbord does not undertake to update any forward-looking statements, whether written or oral, that may be made from time to time by, or on behalf of, the Company, whether as a result of new information, future events or otherwise, or to publicly update or revise the above list of factors affecting this information.

# Management's Responsibility for the Financial Statements

The accompanying consolidated financial statements and all information in this annual report are the responsibility of management and have been approved by the Board of Directors.

The consolidated financial statements have been prepared by management in accordance with International Financial Reporting Standards. Financial statements are not precise since they include certain amounts based upon estimates and judgements. When alternative methods exist, management has chosen those it deems to be the most appropriate in the circumstances in order to ensure that the consolidated financial statements are presented fairly, in all material respects, in accordance with International Financial Reporting Standards.

The Company maintains systems of internal controls, which are designed to provide reasonable assurance that accounting records are reliable and to safeguard the Company's assets.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the financial statements. The Board carries out this responsibility principally through its Audit Committee.

The Audit Committee is appointed by the Board and reviews the consolidated financial statements and Management's Discussion and Analysis, considers the report of the external auditors, assesses the adequacy of the internal controls of the Company, approves the services provided by the external auditors, examines the fees and expenses for audit services, and recommends to the Board the independent auditors for appointment by the shareholders. The Committee reports its findings to the Board of Directors for consideration when approving the consolidated financial statements for issuance to the shareholders.

January 26, 2012

J. BARRIE SHINETON
*President and Chief Executive Officer*

ROBIN E. LAMPARD
*Senior Vice President and Chief Financial Officer*

# INDEPENDENT AUDITORS' REPORT

To the Shareholders of Norbord Inc.

We have audited the accompanying consolidated financial statements of Norbord Inc., which comprise the consolidated balance sheet as at December 31, 2011, December 31, 2010, and January 1, 2010, the consolidated statements of earnings, comprehensive income, changes in equity and cash flows for the years ended December 31, 2011 and December 31, 2010, and notes, comprising 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.

*Auditors' 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 our 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, we consider 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 consolidated balance sheet of Norbord Inc. as at December 31, 2011, December 31, 2010, and January 1, 2010, and its consolidated financial performance and its consolidated cash flows for the years ended December 31, 2011 and December 31, 2010 in accordance with International Financial Reporting Standards.

Yours very truly,

KPMG LLP

Chartered Accountants, Licensed Public Accountants

**Toronto, Canada**
**January 26, 2012**

# Consolidated Balance Sheets

| (US $ millions) | Note | Dec 31 2011 | Dec 31 2010[1] | Jan 1 2010[1] |
|---|---|---|---|---|
| **Assets** | | | | |
| Current assets | | | | |
| Cash and cash equivalents | 15 | **$ 83** | $ 111 | $ 20 |
| Accounts receivable | 4 | **102** | 90 | 88 |
| Tax receivable | | **5** | 6 | 57 |
| Inventory | 5 | **88** | 84 | 72 |
| | | **278** | 291 | 237 |
| Non-current assets | | | | |
| Property, plant and equipment | 6 | **787** | 814 | 854 |
| Other assets | 7 | **5** | 13 | 14 |
| | | **792** | 827 | 868 |
| | | **$ 1,070** | $ 1,118 | $ 1,105 |
| **Liabilities and Shareholders' Equity** | | | | |
| Current liabilities | | | | |
| Accounts payable and accrued liabilities | | **$ 162** | $ 164 | $ 139 |
| Current portion of long-term debt | 8 | **242** | - | - |
| | | **404** | 164 | 139 |
| Non-current liabilities | | | | |
| Long-term debt | 8 | **196** | 443 | 471 |
| Other long-term debt | 4 | **69** | 60 | 62 |
| Other liabilities | 9 | **40** | 35 | 27 |
| Deferred income taxes | 12 | **61** | 85 | 85 |
| | | **366** | 623 | 645 |
| Shareholders' equity | 13 | **300** | 331 | 321 |
| | | **$ 1,070** | $ 1,118 | $ 1,105 |

[1] Refer to note 3 for effects of adoption of IFRS.

(See accompanying notes)

On behalf of the Board:

ROBERT J. HARDING
*Chair*

J. BARRIE SHINETON
*President and Chief Executive Officer*

# Consolidated Statements of Earnings

| Years ended December 31 (US $ millions, except per share information) | Note | 2011 | 2010[1] |
|---|---|---|---|
| Sales | | **$ 965** | $ 962 |
| Cost of sales | | **(907)** | (842) |
| General and administrative expenses | | **(13)** | (13) |
| Earnings before interest, income tax, depreciation and provision for non-core operation | | **45** | 107 |
| Interest expense | 4, 8 | **(33)** | (34) |
| Provision for non-core operation | 11 | **-** | (8) |
| Earnings before income tax and depreciation | | **12** | 65 |
| Depreciation | | **(51)** | (51) |
| Income tax recovery (expense) | 12 | **28** | (1) |
| Earnings | | **$ (11)** | $ 13 |
| Earnings per common share | 14 | | |
| Basic | | **$ (0.25)** | $ 0.30 |
| Diluted | | **(0.25)** | 0.29 |

[1] Refer to note 3 for effects of adoption of IFRS.

(See accompanying notes)

# Consolidated Statements of Comprehensive (Loss)/Income

| Years ended December 31 (US $ millions) | Note | 2011 | 2010[1] |
|---|---|---|---|
| Earnings | | **$ (11)** | $ 13 |
| Other comprehensive (loss) income, net of tax | | | |
| Foreign currency translation loss on foreign operations | 12 | **(4)** | (7) |
| Net (loss) gain on hedge of net investment in foreign operations | 12 | **(1)** | 5 |
| Actuarial loss on post-employment obligation | 12 | **(17)** | (7) |
| | | **(22)** | (9) |
| Comprehensive (loss) income | | **$ (33)** | $ 4 |

[1] Refer to note 3 for effects of adoption of IFRS.

(See accompanying notes)

# Consolidated Statements of Changes in Shareholders’ Equity

| Years ended December 31 (US $ millions) | Note | 2011 | 2010[1] |
|---|---|---|---|
| **Share Capital** | | | |
| Balance, beginning of year | | **$ 340** | $ 335 |
| Issue of common shares, net | 13 | **-** | 5 |
| Balance, end of year | | **$ 340** | $ 340 |
| **Contributed Surplus** | | | |
| Balance, beginning of year | | **$ 41** | $ 40 |
| Stock-based compensation | 13 | **2** | 1 |
| Balance, end of year | | **$ 43** | $ 41 |
| **Retained Earnings** | | | |
| Balance, beginning of year | | **$ (54)** | $ (60) |
| Earnings | | **(11)** | 13 |
| Other comprehensive loss | | **(17)** | (7) |
| Balance, end of year | | **$ (82)** | $ (54) |
| **Accumulated Other Comprehensive Income** | | | |
| Balance, beginning of year | | **$ 4** | $ 6 |
| Other comprehensive loss | | **(5)** | (2) |
| Balance, end of year | 13 | **$ (1)** | $ 4 |
| Shareholders' equity | | **$ 300** | $ 331 |

[1] Refer to note 3 for effects of adoption of IFRS.

(See accompanying notes)

Norbord

# Consolidated Statements of Cash Flows

| Years ended December 31 (US $ millions) | Note | 2011 | 2010[1] |
|---|---|---|---|
| **CASH PROVIDED BY (USED FOR):** | | | |
| **Operating Activities** | | | |
| Earnings | | **$ (11)** | $ 13 |
| Items not affecting cash: | | | |
| Depreciation | | **51** | 51 |
| Deferred income tax | 12 | **(31)** | 1 |
| Other items | | **-** | 2 |
| | | **9** | 67 |
| Net change in non-cash operating working capital balances | 15 | **(23)** | 8 |
| Net change in tax receivable | | **1** | 52 |
| | | **(13)** | 127 |
| **Investing Activities** | | | |
| Investment in property, plant and equipment | | **(23)** | (14) |
| Realized net investment hedge (loss) gain | 17 | **(1)** | 6 |
| | | **(24)** | (8) |
| **Financing Activities** | | | |
| Accounts receivable securitization proceeds (repayments) | | **10** | (1) |
| Debt issue costs | 8 | **(1)** | (2) |
| Revolving bank lines repayments | | **-** | (27) |
| Issue of shares | 13 | **-** | 2 |
| | | **9** | (28) |
| **Cash and Cash Equivalents** | | | |
| (Decrease) increase during the year | | **(28)** | 91 |
| Balance, beginning of year | | **111** | 20 |
| Balance, end of year | 15 | **$ 83** | $ 111 |

[1] Refer to note 3 for effects of adoption of IFRS.

(See accompanying notes)

# Notes to the Consolidated Financial Statements

(in US $, unless otherwise noted)

In these notes, "Norbord" means Norbord Inc. and all of its consolidated subsidiaries and affiliates, and "Company" means Norbord Inc. as a separate corporation, unless the context implies otherwise. "Brookfield" means Brookfield Asset Management Inc. or any of its consolidated subsidiaries and affiliates, a related party, by virtue of a controlling equity interest in the Company.

**NOTE 1. NATURE AND DESCRIPTION OF THE COMPANY**

Norbord is an international producer of wood-based panels with 13 plant locations in the United States, Europe and Canada. Norbord is a publicly-traded company listed on the Toronto Stock Exchange under the symbols NBD and NBD.WT. The Company is incorporated under the *Canada Business Corporations Act* and is headquartered in Toronto, Ontario, Canada.

**NOTE 2. SIGNIFICANT ACCOUNTING POLICIES**

**(a) Statement of Compliance**

These consolidated financial statements represent the first annual financial statements of the Company prepared in accordance with the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). The Company adopted IFRS in accordance with IFRS 1, *First-time Adoption of International Financial Reporting Standards* (IFRS 1), as discussed in note 3.

These financial statements were authorized for issuance by the Board of Directors of the Company on January 26, 2012.

**(b) Basis of Presentation**

These consolidated interim financial statements include the accounts of the Company, all its wholly-owned subsidiaries and a jointly-controlled entity, which is accounted for using the equity method. Effective December 2010, the joint venture, which was non-core and represented less than 1% of total assets, ceased operations.

**(c) Foreign Currency Translation**

The US dollar is the functional and presentation currency of the Company. Each of the Company's subsidiaries determines its functional currency and items included in the financial statements of each subsidiary are measured using that functional currency.

Assets and liabilities of foreign operations having a functional currency other than the US dollar are translated at the rate of exchange prevailing at the reporting date and revenues and expenses at average rates during the period. Gains or losses on translation are included as a component of shareholders' equity in other comprehensive income. Gains or losses on foreign currency-denominated balances and transactions that are designated as hedges of net investments in these operations are reported in the same manner.

Foreign exchange gains or losses arising from monetary assets or liabilities to a foreign operation, the settlement of which is neither planned nor likely to occur in the foreseeable future and which in substance is considered to form part of the net investment in the foreign operation, are recognized in other comprehensive income. Foreign currency-denominated monetary assets and liabilities of the Company and its subsidiaries are translated using the rate of exchange prevailing at the reporting date. Revenue and expenses are measured at average rates during the period. Gains or losses on translation of these items are included in earnings. Gains or losses on transactions which hedge these items are also included in earnings. Foreign currency-denominated non-monetary assets and liabilities, measured at historic cost, are translated at the rate of exchange at the transaction date. Foreign exchange gains or losses arising from monetary assets or liabilities to a foreign operation, the settlement of which is neither planned nor likely to occur in the foreseeable future and which in substance is considered to form part of the net investment in the foreign operation, are recognized in other comprehensive income.

#### (d) Cash and Cash Equivalents

Cash and cash equivalents consist of demand deposits and investment grade money market securities and bank term deposits with maturities of 90 days or less from the date of purchase. Cash and cash equivalents are recorded at cost, which approximates market value.

#### (e) Inventories

Inventories of finished goods, raw materials and operating and maintenance supplies are valued at the lower of cost and net realizable value, with cost determined on an average cost basis. The cost of finished goods inventories includes direct material, direct labour and an allocation of overhead.

#### (f) Property, Plant and Equipment

Property, plant and equipment are recorded at cost less accumulated depreciation. Property and plant includes land and buildings. Buildings are depreciated on a straight-line basis over 20 to 40 years. Production equipment is depreciated using the units of production basis. This method amortizes the cost of equipment over the estimated units that will be produced during its estimated useful life, which ranges from 10 to 25 years. When 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. The rates of depreciation are intended to fully depreciate manufacturing and non-manufacturing assets over their useful lives. These periods are assessed at least annually to ensure that they continue to approximate the useful lives of the related assets.

Property, plant and equipment is tested for impairment only when there is an indication of impairment. Impairment testing is a one-step approach for both testing and measurement, with the carrying value of the asset or group of assets compared directly to the higher of fair value less costs to sell, and value in use. Fair value is measured at the sales price of the asset or group of assets in an arm's length transaction. Value in use is based on the discounted future cash flows of the asset or group of assets. The projection of future cash flows takes into account the relevant operating plans and management's best estimate of the most probable set of conditions anticipated to prevail. Where an impairment loss exists, it is recorded against earnings. If an impairment loss subsequently reverses, the carrying amount of the asset is increased to the lesser of the revised estimate of recoverable amount and the carrying value that would have remained had no impairment loss been recognized previously. IFRS requires such reversals to be recognized in earnings if certain criteria are met.

#### (g) Employee Future Benefits

Norbord sponsors various defined benefit and defined contribution pension plans, which cover substantially all employees and are funded in accordance with applicable plan and regulatory requirements. The benefits under Norbord's defined benefit pension plans are generally based on an employee's length of service and the final five years' average salary, and the plans do not provide for indexation of benefit payments.

The measurement date for all defined benefit pension plans is December 31. The obligations associated with Norbord's defined benefit pension plans are actuarially valued using the projected unit credit method, management's best estimate assumptions for long-term expected rate of return on assets, salary escalation, life expectancy, and a current market discount rate. For the purpose of calculating the expected return on plan assets, those assets are measured at fair value. The obligation in excess of plan assets is recorded as a liability. All actuarial gains or losses are recognized immediately through other comprehensive income and in retained earnings.

### (h) Financial Instruments

The Company utilizes derivative financial instruments solely to manage its foreign currency, interest rate and commodity price exposures in the ordinary course of business. Derivatives are not used for trading or speculative purposes. All hedging relationships, risk management objectives and hedging strategies are formally documented and periodically assessed to ensure that the changes in the value of these derivatives are highly effective in offsetting changes in the fair values, net investments or cash flows of the hedged exposures. Accordingly, all gains and losses (realized and unrealized, as applicable) on such derivatives are recognized in the same manner as gains and losses on the underlying exposure being hedged. Any resulting carrying amounts are included in other assets if there is an unrealized gain on the derivative, or in other liabilities if there is an unrealized loss on the derivative.

The fair values of the Company's derivative financial instruments are determined by using observable market inputs for identical assets and liabilities. These fair values reflect the estimated amount that the Company would have paid or received if required to settle all outstanding contracts at period-end. This fair value represents a point-in-time estimate that may not be relevant in predicting the Company's future earnings or cash flows.

The Company is exposed to credit risk in the event of non-performance by its derivative counterparties. However, the Company's Board-approved financial policies require that derivative transactions be executed only with approved, highly rated counterparties under master netting agreements; therefore, the Company does not anticipate any non-performance. The fair value measurements of the Company's derivative financial instruments are classified as Level 2 of a three-level hierarchy as fair value of these derivative instruments is based on observable market inputs.

The carrying value of the Company's non-derivative financial instruments approximates fair value, except where disclosed in these notes. Fair values disclosed are determined using actual quoted market prices or, if not available, indicative prices based on similar publicly-traded instruments.

### (i) Debt Issue Costs

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 interest expense over the term of the related long-term debt.

### (j) Income Taxes

The Company uses the asset and liability method of accounting for income taxes. Accordingly, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. In addition, the effect on deferred tax assets and liabilities of a change in tax rates is recognized in earnings in the year of enactment or substantive enactment. Current and deferred income taxes relating to items recognized directly in shareholders' equity are also recognized directly in shareholders' equity. The Company assesses recoverability of deferred tax assets based on the Company's estimates and assumptions. Deferred tax assets are recorded at an amount that the Company considers probable to be realized.

The Company has certain non-monetary assets and liabilities for which the tax reporting currency is different from its functional currency. Any translation gains or losses arising on the remeasurement of these items at current exchange rates versus historic exchange rates that give rise to a temporary difference are recorded as a deferred tax asset or liability.

**(k) Share-Based Payments**

The Company issues share-based awards to certain employees in the form of stock options that vest evenly over a five-year period. The fair value of the options on the grant date is determined using a fair value model (Black-Scholes option pricing model). Each tranche of the award is considered to be a separate grant based on its respective vesting period. The fair value of each tranche is determined separately on the date of grant and recognized as compensation expense, net of forfeiture estimate, over the term of its respective vesting period, with a corresponding increase to contributed surplus.

**(l) Warrants**

The Company measures warrants at the issue date using the Black-Scholes option pricing model, reduced by any related issue costs.

**(m) Revenue Recognition**

Sales are recognized when the risks and rewards of ownership pass to the purchaser. This is generally when goods are shipped. Sales are recorded net of discounts.

Sales are governed by contract or by standard industry terms. Revenue is not recognized prior to the completion of those terms. The majority of product is shipped via third-party transport on a freight-onboard shipping point basis. In all cases, product is subject to quality testing by the Company to ensure it meets applicable standards prior to shipment.

**(n) Critical Judgements and Estimates**

The preparation of the consolidated financial statements in conformity with IFRS requires management to make critical judgements and estimates that affect the reported amounts of assets, liabilities, revenues, expenses and disclosure of contingent assets and liabilities. Actual results could materially differ from those estimates.

In making estimates and judgements, management relies on external information and observable conditions where possible, supplemented by internal analysis as required. These estimates and judgements have been applied in a manner consistent with prior periods and there are no known trends, commitments, events or uncertainties that we believe will materially affect the methodology or assumptions utilized in making these estimates and judgements in these financial statements. The significant estimates and judgements used in determining the recorded amount for assets and liabilities in the financial statements include the following:

(i) Inventory

Norbord estimates the net realizable value of its inventory using estimates regarding future selling prices.

(ii) Property, Plant and Equipment

When determining the value in use of property, plant and equipment during impairment testing, the Company uses the following critical estimates: the timing of forecasted revenues; future selling prices and margins; future sales volumes; maintenance and other capital expenditures; discount rates; useful lives; and residual values.

(iii) Employee Benefit Expense

The net obligations associated with the defined benefit pension plans are actuarially valued using: the projected unit credit method; management’s best estimates for long-term expected rate of return on assets, salary escalation and life expectancy; and a current market discount rate.

(iv) Income Taxes

Current income tax assets and liabilities are measured at the amount expected to be paid to tax authorities, net of recoveries, based on the tax rates and laws enacted or substantively enacted at the balance sheet date.

In accordance with IFRS, the Company uses the asset and liability method of accounting for deferred income taxes and provides for deferred income taxes for all significant differences between the tax bases and carrying amounts of assets and liabilities. Deferred income tax assets are recognized for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that deductions, tax credits and tax losses can be utilized. The carrying amount of deferred income tax assets are reviewed at each balance sheet date and reduced to the extent it is no longer probable that the income tax asset will be realized. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability settled, based on the tax rates and laws that have been enacted or substantively enacted at the balance sheet date.

Judgement is required in determining the provision for income taxes, deferred tax assets and liabilities. To the extent a recognition or derecognition of a deferred tax asset is required, current period earnings or other comprehensive income will be affected.

In the normal course of operations, judgement is required to assess tax interpretations, regulations and legislation, which are continually changing to ensure liabilities are complete and to ensure deferred tax assets are realizable.

(v) Financial Instruments

The critical assumptions and estimates used in determining the fair value of financial instruments are: equity and commodity prices; future interest rates; the relative creditworthiness of the Company to its counterparties; estimated future cash flows; discount rates; and volatility utilized in option valuations.

**(o) Future Changes in Accounting Policies**

(i) Transfers of Financial Assets

In October 2010, the IASB amended IFRS 7, *Financial Instruments: Disclosures*, and added additional disclosure requirements for financial assets that have been transferred but not derecognized in accordance with IAS 39, *Financial Instruments: Recognition and Measurement* (IAS 39). The amendments are effective for annual periods beginning on or after July 1, 2011, so will be effective for the year ending December 31, 2012. The Company's accounts receivable securitization program meets the definition of a transferred financial asset that is not derecognized. In 2012, the Company will supplement the existing disclosures on the program in note 4 to the consolidated financial statements accordingly.

(ii) Financial Instruments

IFRS 9, *Financial Instruments* (IFRS 9), was issued by the IASB on November 12, 2009 and will replace IAS 39. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of its financial assets. The new standard requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 also provides for new measurement guidance for financial liabilities designated at fair value through profit or loss. In December 2011, the IASB deferred the mandatory effective date of IFRS 9 to annual periods beginning on or after January 1, 2015 and will be effective for the year ending December 31, 2015. The Company has not yet determined the impact of these standards on its financial statements.

(iii) Consolidation

In May 2011, the IASB issued the following new standards:

- IFRS 10, *Consolidated Financial Statements*, which will replace SIC-12, *Consolidation - Special Purpose Entities* and parts of IAS 27, *Consolidated and Separate Financial Statements*;

- IFRS 11, *Joint Arrangements* which will replace IAS 31, *Interests in Joint Ventures*, and SIC-13, *Jointly Controlled Entities - Non-monetary Contributions by Venturers*; and
- IFRS 12, *Disclosure of Interests in Other Entities*.

These new standards provide more guidance on the identification of entities and joint arrangements that should be included in the consolidated statements of a parent company and also require additional disclosure of all forms of interests that an entity holds. The standards are effective for annual periods beginning on or after January 1, 2013 with early adoption permitted and will be effective for the year ending December 31, 2013. The Company has not yet determined the impact of these standards on its financial statements.

(iv) Fair Value Measurement

In May 2011, the IASB issued IFRS 13, *Fair Value Measurement* (IFRS 13), which provides a revised definition of fair value, establishes a framework for measuring fair value and sets out disclosure requirements for when fair value measurement is required or permitted under IFRS. IFRS 13 is effective for annual periods beginning on or after January 1, 2013 with early adoption permitted and will be effective for the year ending December 31, 2013. The Company has not yet determined the impact of IFRS 13 on its financial statements.

(v) Employee Future Benefits

In June 2011, the IASB amended IAS 19, *Employee Benefits* (IAS 19). The main amendments include the requirement to immediately recognize actuarial gains and losses in Other Comprehensive Income/(Loss) (OCI), the replacement of the calculation of both the expected return on the plan assets and the interest cost of the pension obligation with the interest cost on the net deficit, the clarification on specific measurement issues and enhanced disclosure requirements. The amendments are effective for annual periods beginning on or after January 1, 2013 with early adoption permitted and will be effective for the year ending December 31, 2013. The Company has not yet determined the impact of these amendments on its financial statements.

(vi) Other Comprehensive Income

In June 2011, the IASB amended IAS 1, *Presentation of Financial Statements* (IAS 1), to require the grouping together of OCI items that may be reclassified to the Statement of Earnings within OCI. The amendment is effective for annual periods beginning on or after July 1, 2012 and will be effective for the year ending December 31, 2013. The Company has not yet determined the impact of this amendment on its financial statements.

## NOTE 3. TRANSITION TO IFRS

The Company has adopted IFRS effective January 1, 2011. Prior to the adoption of IFRS, the Company prepared its financial statements in accordance with Canadian GAAP. The Company's transition date is January 1, 2010 (the "transition date") and the Company has prepared its opening IFRS balance sheet as at that date. These financial statements have been prepared in accordance with the accounting policies described in note 2.

### (a) Elected exemptions from full retrospective application

In preparing these consolidated financial statements in accordance with IFRS 1, *First-time Adoption of International Financial Reporting Standards* (IFRS 1), the Company has elected certain optional exemptions from the full retrospective application of IFRS. The optional exemptions applied are described below.

(i) Measurement of Assets and Liabilities

The Company's majority shareholder, Brookfield, was granted exemptive relief by the Canadian Securities Administrators to prepare its financial statements in accordance with IFRS one year earlier than required for Canadian publicly accountable enterprises, which was effectively one year earlier than Norbord's transition date. IFRS 1 provides an exemption that permits a subsidiary to measure its assets and liabilities at the carrying amounts included in its parent company's financial statements. The Company has elected this exemption. Therefore, the Company has used the measurement of its assets and liabilities as of January 1, 2009 – that was included in Brookfield's financial statements for Brookfield's transition – as the basis for the measurement of the Company's assets and liabilities upon its transition to IFRS. As a result, the Company has applied the same exemptions and elections as Brookfield.

(ii) Fair Value as Deemed Cost

IFRS 1 allows an entity to initially measure an item of property, plant and equipment upon transition to IFRS at fair value, as opposed to recreating depreciated cost under IFRS. The Company has used fair value as deemed cost for property, plant and equipment as of January 1, 2009, which has resulted in carrying values under IFRS that are different than those under Canadian GAAP. This change in carrying value is the result of the change in value of such assets in aggregate since acquisition and depreciation previously recorded.

(iii) Cumulative Translation Differences

IAS 21, *The Effects of Changes in Foreign Exchange Rates*, requires a company to determine the translation differences in accordance with IFRS from the date on which a subsidiary was formed or acquired. IFRS 1 allows cumulative translation differences for all foreign operations to be deemed zero at the date of transition to IFRS, with future gains or losses on subsequent disposal of any foreign operations to exclude translation differences arising prior to the date of transition to IFRS. The Company has reset all cumulative translation differences to zero as at January 1, 2009.

(iv) Future Employee Benefits

IAS 19 allows certain actuarial gains and losses to be either deferred and amortized or recognized immediately through shareholders' equity. On adoption of IFRS, the Company has elected to record all deferred actuarial gains and losses to retained earnings at January 1, 2009.

(v) Share-Based Payments

On adoption of IFRS, under IFRS 1, an entity is not required to recognize share-based payments settled before the entity's IFRS transition date. IFRS 1 encourages, but does not require, application of its provisions to equity instruments granted on or before November 7, 2002. The Company has recognized, under IFRS 2, *Share-based Payment* (IFRS 2), all share-based awards that were recognized under Canadian GAAP.

IFRS 1 allows for certain other optional exemptions; however, such exemptions are not significant to the Company's adoption of IFRS.

**(b) Mandatory exceptions to retrospective application**

In preparing these consolidated financial statements in accordance with IFRS 1, the Company has applied certain mandatory exceptions from full retrospective application of IFRS. The mandatory exceptions applied from full retrospective application of IFRS are described below.

(i) Hedge Accounting

Only hedging relationships that satisfied the hedge accounting criteria as of the transition date are reflected as hedges in the Company's results under IFRS.

(ii) Estimates

Hindsight was not used to create or revise estimates and accordingly the estimates previously made by the Company under Canadian GAAP are consistent under IFRS.

### (c) Reconciliation of Shareholders' Equity as Reported Under Canadian GAAP to IFRS

The following is a reconciliation of the Company's shareholders' equity reported in accordance with Canadian GAAP to its shareholders' equity in accordance with IFRS at the transition date (January 1, 2010). For additional disclosure, Canadian GAAP to IFRS adjustments to shareholders' equity on Brookfield's transition date (January 1, 2009) are also presented, as the Company elected to measure assets and liabilities under IFRS as of that date.

| Shareholders' Equity (US $ millions) | Share Capital | Contributed Surplus | Retained Earnings | Accumulated Other Comprehensive Income | Total |
|---|---|---|---|---|---|
| As reported under Canadian GAAP – Dec 31, 2009 | $ 335 | $ 39 | $ (32) | $ (8) | $ 334 |
| IFRS adjustments at measurement date – Jan 1, 2009[1] | | | | | |
| (i) Employee benefits | – | – | (14) | – | (14) |
| (ii) Property, plant and equipment | | | | | |
| Deemed cost adjustment (net) | – | – | – | – | – |
| (iii) Consistency in accounting policies | – | – | 4 | – | 4 |
| (iv) Share-based compensation | – | 1 | (1) | – | – |
| (v) Deferred income tax | – | – | (7) | – | (7) |
| (vi) Cumulative translation account | – | – | (13) | 13 | – |
| | – | 1 | (31) | 13 | (17) |
| IFRS adjustments – year ended Dec 31, 2009[1] | | | | | |
| (i) Employee benefits | – | – | (4) | – | (4) |
| (ii) Property, plant and equipment | | | | | |
| Depreciation on deemed cost adjustment | – | – | (4) | – | (4) |
| (iii) Consistency in accounting policies | – | – | – | 1 | 1 |
| (v) Deferred income tax | – | – | 11 | – | 11 |
| | – | – | 3 | 1 | 4 |
| Total IFRS adjustments – Jan 1, 2010 | $ – | $ 1 | $ (28) | $ 14 | $ (13) |
| As reported under IFRS – Jan 1, 2010 | $ 335 | $ 40 | $ (60) | $ 6 | $ 321 |

1 Refer to Notes for Canadian GAAP to IFRS Reconciliations.

Norbord

The following is a reconciliation of the Company's shareholders' equity reported in accordance with Canadian GAAP to its shareholders' equity in accordance with IFRS at December 31, 2010:

| Shareholders' Equity (US $ millions) | Share Capital | Contributed Surplus | Retained Earnings | Accumulated Other Comprehensive Income | Total |
|---|---|---|---|---|---|
| As reported under Canadian GAAP – Dec 31, 2010 | $ 340 | $ 40 | $ (15) | $ (13) | $ 352 |
| IFRS adjustments[1] | | | | | |
| (i) Employee benefits | – | – | (28) | – | (28) |
| (ii) Property, plant and equipment Depreciation on deemed cost adjustment | – | – | (10) | – | (10) |
| Foreign exchange on deemed cost adjustment | – | – | – | 3 | 3 |
| (iii) Consistency in accounting policies | – | – | 4 | 1 | 5 |
| (iv) Share-based compensation | – | 1 | (1) | – | – |
| (v) Deferred income tax | – | – | 9 | – | 9 |
| (vi) Cumulative translation account | – | – | (13) | 13 | – |
| | $ – | $ 1 | $ (39) | $ 17 | $ (21) |
| As reported under IFRS – Dec 31, 2010 | $ 340 | $ 41 | $ (54) | $ 4 | $ 331 |

1 Refer to Notes for Canadian GAAP to IFRS Reconciliations.

### (d) Reconciliation of Earnings as Reported Under Canadian GAAP to IFRS

The following is a reconciliation of the Company's earnings reported in accordance with Canadian GAAP to its earnings in accordance with IFRS for the year ended December 31, 2010:

| (US $ millions) | Year ended Dec 31, 2010 |
|---|---|
| Earnings as reported under Canadian GAAP | $ 17 |
| IFRS adjustments[1] | |
| (ii) Property, plant and equipment | |
| Depreciation on deemed cost adjustment | (6) |
| (v) Deferred income tax | 2 |
| | (4) |
| Earnings as reported under IFRS | $ 13 |

1 Refer to Notes for Canadian GAAP to IFRS Reconciliations.

### (e) Reconciliation of Comprehensive Income as Reported Under Canadian GAAP to IFRS

The following is a reconciliation of the Company's comprehensive loss reported in accordance with Canadian GAAP to its comprehensive loss in accordance with IFRS for the year ended December 31, 2010:

| (US $ millions) | | Year ended Dec 31, 2010 |
|---|---|---|
| Comprehensive income as reported under Canadian GAAP | $ | 12 |
| IFRS adjustments[1] | | |
| Differences in Canadian GAAP to IFRS earnings noted in 3(d) | | (4) |
| (i) Employee benefits | | (10) |
| (ii) Property, plant and equipment | | |
| Foreign exchange on deemed cost adjustment | | 3 |
| (v) Deferred income tax | | 3 |
| | | (8) |
| Comprehensive income as reported under IFRS | $ | 4 |

[1] Refer to Notes for Canadian GAAP to IFRS Reconciliations.

### (f) Reconciliation of Total Assets, Liabilities and Shareholders' Equity as Reported Under Canadian GAAP to IFRS

The following is a reconciliation of the Company's total assets, liabilities and shareholders' equity reported in accordance with Canadian GAAP to its total assets, liabilities and shareholders' equity in accordance with IFRS as at the transition date (January 1, 2010):

| (US $ millions) | | Total Assets | | Total Liabilities | | Shareholders' Equity |
|---|---|---|---|---|---|---|
| As reported under Canadian GAAP – Dec 31, 2009 | $ | 1,043 | $ | 709 | $ | 334 |
| IFRS adjustments[1] | | | | | | |
| (i) Employee benefits | | – | | 18 | | (18) |
| (ii) Property, plant and equipment | | (4) | | – | | (4) |
| (iii) Consistency in accounting policies | | 5 | | – | | 5 |
| (v) Deferred income tax | | – | | (4) | | 4 |
| (vii) Accounts receivable securitization | | 62 | | 62 | | – |
| (viii) Investment in joint venture | | (1) | | (1) | | – |
| | $ | 62 | $ | 75 | $ | (13) |
| As reported under IFRS – Jan 1, 2010 | $ | 1,105 | $ | 784 | $ | 321 |

[1] Refer to Notes for Canadian GAAP to IFRS Reconciliations.

The following is a reconciliation of the Company's assets, liabilities and shareholders' equity reported in accordance with Canadian GAAP to its assets, liabilities and shareholders' equity in accordance with IFRS as at December 31, 2010:

| (US $ millions) | | Total Assets | | Total Liabilities | | Shareholders' Equity |
|---|---|---|---|---|---|---|
| As reported under Canadian GAAP – Dec 31, 2010 | $ | 1,062 | $ | 710 | $ | 352 |
| IFRS adjustments[1] | | | | | | |
| (i) Employee benefits | | – | | 28 | | (28) |
| (ii) Property, plant and equipment | | (7) | | – | | (7) |
| (iii) Consistency in accounting policies | | 5 | | – | | 5 |
| (v) Deferred income tax | | – | | (9) | | 9 |
| (vii) Accounts receivable securitization | | 60 | | 60 | | – |
| (viii) Investment in joint venture | | (2) | | (2) | | – |
| | $ | 56 | $ | 77 | $ | (21) |
| As reported under IFRS – Dec 31, 2010 | $ | 1,118 | $ | 787 | $ | 331 |

1 Refer to Notes for Canadian GAAP to IFRS Reconciliations.

**(g) Reconciliation of Cash Flows as Reported Under Canadian GAAP to IFRS**

There were no material adjustments to the cash flow statement as a result of the conversion to IFRS.

## Notes for Canadian GAAP to IFRS Reconciliations

**(i) Employee Benefits**

Unfunded Pension Obligation

Under Canadian GAAP, accrued pension benefit obligation in excess of plan assets for defined benefit pension plans only required disclosure in the notes to the consolidated financial statements. Under IAS 19, the obligation in excess of plan assets is recorded as a liability on the balance sheet.

Actuarial Gains and Losses

Under Canadian GAAP actuarial gains and losses were recognized in earnings on a systematic and consistent basis, subject to a minimum required amortization based on a "corridor" approach. Unrecognized actuarial gains and losses below the corridor were deferred. Under IFRS, in accordance with the Company's IFRS 1 election, any deferred actuarial gains and losses as at the Company's IFRS measurement date of January 1, 2009, Brookfield's IFRS transition date, were recognized immediately in retained earnings. Post-adoption, the Company elected to recognize all actuarial gains and losses immediately through OCI and in retained earnings.

**(ii) Plant, Property and Equipment**

Deemed Cost

Upon transition to IFRS, the Company elected to measure its property, plant and equipment at fair value as its deemed cost. Certain items of property, plant and equipment in the North American operations had a fair value of $30 million above their book value under Canadian GAAP and certain items of property, plant and equipment in the European operations had a fair value of $30 million below their book value under Canadian GAAP. The net effect of these fair value measurements was nil on a consolidated basis on January 1, 2009. The fair value measurement was based on January 1, 2009. The Company determined the fair value of certain items of property, plant and equipment using an income approach. Fair value measurements were prepared internally using a discounted cash flow model taking into consideration forecasts and assumptions of future cash flows and a discount rate based on the Company's weighted average cost of capital as at the measurement date. All subsequent depreciation under IFRS is based on this deemed cost.

Component Accounting

Both IFRS and Canadian GAAP require property, plant and equipment to be disaggregated into components and depreciated separately. Under Canadian GAAP, component accounting was interpreted and applied more generally. The Company has applied the guidance under IFRS, IAS 16, *Property, Plant and Equipment*, and disaggregated its property, plant and equipment into components and reviewed the useful life of each separable component. For certain components of property, plant and equipment, useful lives were reassessed and the effect of these changes in estimates will accelerate the expected depreciation expense under IFRS.

Impairments

Under both Canadian GAAP and IFRS, an asset or group of assets is tested for impairment only when there is an indication of impairment. Under Canadian GAAP, impairment testing of an asset or group of assets is a two-step approach: first, the carrying value of an asset or group of assets is compared to the undiscounted future cash flows to determine whether impairment exists. If impairment exists, then the second step is the measurement of the impairment by comparing the carrying value of the asset or group of assets to their fair value, as calculated using the present value of future cash flows. Under IFRS, IAS 36, *Impairment of Assets*, impairment testing is a one-step approach for both testing and measurement, with the carrying value of the asset or group of assets compared directly with the higher of fair value less costs to sell and value in use. Fair value is measured at the sales price of the asset or group of assets in an arm's length transaction. Value in use is based on the discounted future cash flows of the asset or group of assets. This may potentially result in write-downs where the carrying value of an asset or group of assets was previously supported under Canadian GAAP on an undiscounted cash flow basis. Furthermore, while Canadian GAAP prohibits the reversals of impairment losses recognized in prior periods, IFRS requires such reversals to be recognized if certain criteria are met.

The Company assessed impairment under IFRS for property, plant and equipment as at December 31, 2010, and December 31, 2009, and concluded no impairment existed.

**(iii) Consistency in Accounting Policies**

IFRS requires consistency of accounting policies across subsidiaries. The Company aligned the accounting policies of all of its subsidiaries under IFRS resulting in an adjustment on the Company's IFRS measurement date of January 1, 2009, and in subsequent periods.

**(iv) Share-Based Payments**

The Company issues share-based awards in the form of stock options that vest evenly over a five-year period. Under Canadian GAAP, the Company recognized the fair value of the award, determined at the time of the grants, on a straight-line basis over the five-year vesting period. Under IFRS 2, the fair value of each tranche of the award is considered to be a separate grant based on its vesting period. The fair value of each tranche is determined separately and recognized as compensation expense over the term of its respective vesting period. Accordingly, compensation expense under IFRS will be recognized at an accelerated rate compared to under Canadian GAAP.

**(v) Income Taxes**

Tax Effect of IFRS Accounting Adjustments

Deferred income tax is adjusted to reflect the change in temporary differences resulting from the IFRS adjustments described above.

Translation of Non-Monetary Assets and Liabilities

The Company has certain non-monetary assets and liabilities for which the tax reporting currency is different from its functional currency. Under Canadian GAAP, any translation gains or losses arising on the remeasurement of these items at current exchange rates versus historic exchange rates do not give rise to a deferred income tax asset or liability. Under IFRS, IAS 12, *Income Taxes*, such translation gains or losses do give rise to a temporary difference that is recorded as a deferred tax asset or liability.

**(vi) Cumulative Translation Account**

As at January 1, 2009, Norbord elected under IFRS 1 to reset all cumulative translation differences to nil.

**(vii) Accounts Receivable Securitization**

Under Canadian GAAP, the Company's accounts receivable securitization program was treated as a true sale of accounts receivable and the receivables were derecognized as the Company had transferred substantially all of its present and future trade accounts receivable to a third-party trust sponsored by a highly rated Canadian financial institution, on a fully serviced basis, for proceeds consisting of cash and deferred purchase price. Under IAS 39, the securitization program does not meet the criteria for a sale transaction and is treated as a financing arrangement. Accordingly, an adjustment to the balance sheet to recognize the accounts receivable and long-term debt related to securitization is required.

**(viii) Investment in a Joint Venture**

The Company has a 50% interest in a joint-venture hardwood plywood business which ceased operations effective December 2010. This operation was non-core and represented less than 1% of total assets. Under Canadian GAAP, the Company proportionately consolidated its 50% interest in the joint venture in the consolidated financial statements. Under IAS 31, *Interests in Joint Ventures*, the Company elected to account for its investment under the equity method.

**(ix) Revenue Recognition**

Under Canadian GAAP, the Company presented outbound freight costs as a reduction of sales. Under IFRS, IAS 18, *Revenues*, the Company revenues should only take into account trade discounts and volume rebates. As a consequence, the Company has presented sales gross of outbound freight costs.

## NOTE 4. ACCOUNTS RECEIVABLE

The Company has an $85 million accounts receivable securitization program with a third-party trust sponsored by a highly rated Canadian financial institution. The program has an evergreen commitment subject to termination on 12 months' notice. Under the program, Norbord has transferred substantially all of its present and future trade accounts receivable to the trust, on a fully serviced basis, for proceeds consisting of cash and deferred purchase price. However, the asset derecognition criteria under IFRS have not been met and the transferred accounts receivable remain recorded as an asset.

At period-end, Norbord recorded cash proceeds of $69 million (December 31, 2010 – $60 million; January 1, 2010 – $62 million) relating to this program. The cash proceeds are presented as other long-term debt on the balance sheet and are excluded from the net debt to capitalization calculation for financial covenant purposes (note 16). The utilization charge, which is based on money market rates plus a margin, and other program fees are recorded as interest expense. In 2011, the utilization charge and program fees included in interest expense totalled $2 million (2010 – $1 million).

The securitization program contains no financial covenants. However, the program is subject to minimum credit-rating requirements. The Company must maintain a long-term issuer credit rating of at least single B (mid) or the equivalent. As at January 26, 2012, Norbord's ratings were BB (low) (DBRS), BB- (Standard & Poor's) and Ba3 (Moody's).

NOTE 5. INVENTORY

| (US $ millions) | Dec 31 2011 | Dec 31 2010 | Jan 1 2010 |
|---|---|---|---|
| Raw materials | **$ 22** | $ 18 | $ 11 |
| Finished goods | **36** | 38 | 32 |
| Operating and maintenance supplies | **30** | 28 | 29 |
| | **$ 88** | $ 84 | $ 72 |

At period-end, the provision to reflect inventories at the lower of cost and net realizable value was $2 million (December 31, 2010 – $2 million; January 1, 2010 – $1 million).

The amount of inventory recognized as an expense was as follows:

| (US $ millions) | 2011 | 2010 |
|---|---|---|
| Cost of inventories | **$ 872** | $ 812 |
| Depreciation on property, plant and equipment | **50** | 51 |
| | **$ 922** | $ 863 |

NOTE 6. PROPERTY, PLANT AND EQUIPMENT

| (US $ millions) | Land | Buildings | Production Equipment | Total |
|---|---|---|---|---|
| **Cost** | | | | |
| January 1, 2010 | $ 12 | $ 120 | $ 722 | $ 854 |
| Additions | - | - | 16 | 16 |
| Effect of translation | (1) | (1) | (4) | (6) |
| December 31, 2010 | 11 | 119 | 734 | 864 |
| Additions | - | - | 25 | 25 |
| Effect of translation | - | - | (2) | (2) |
| **December 31, 2011** | **$ 11** | **$ 119** | **$ 757** | **$ 887** |
| | | | | |
| **Accumulated depreciation** | | | | |
| January 1, 2010 | $ - | $ - | $ - | $ - |
| Additions | - | 8 | 42 | 50 |
| December 31, 2010 | - | 8 | 42 | 50 |
| Additions | - | 8 | 43 | 51 |
| Effect of translation | - | - | (1) | (1) |
| **December 31, 2011** | **$ -** | **$ 16** | **$ 84** | **$ 100** |
| | | | | |
| **Net** | | | | |
| January 1, 2010 | $ 12 | $ 120 | $ 722 | $ 854 |
| December 31, 2010 | 11 | 111 | 692 | 814 |
| **December 31, 2011** | **11** | **103** | **673** | **787** |

## NOTE 7. OTHER ASSETS

| (US $ millions) | Dec 31 2011 | Dec 31 2010 | Jan 1 2010 |
|---|---|---|---|
| Unrealized net investment hedge gains *(note 17)* | **$ 3** | $ 3 | $ 2 |
| Unrealized interest rate swap gains *(note 17)* | **2** | 5 | 4 |
| Unrealized monetary hedge gains *(note 17)* | **-** | 2 | - |
| Other | **-** | 3 | 8 |
| | **$ 5** | $ 13 | $ 14 |

Unrealized net investment hedge gains, unrealized interest rate swap gains and unrealized monetary hedge gains are offset by unrealized losses on the underlying exposures being hedged.

## NOTE 8. LONG-TERM DEBT

| (US $ millions) | Dec 31 2011 | Dec 31 2010 | Jan 1 2010 |
|---|---|---|---|
| **Principal value** | | | |
| 7 1/4% debentures due 2012 | **$ 240** | $ 240 | $ 240 |
| Senior notes due 2017 | **200** | 200 | 200 |
| Revolving bank lines | **-** | - | 27 |
| | **440** | 440 | 467 |
| Debt issue costs | **(5)** | (5) | (6) |
| Deferred interest rate swap gains | **1** | 3 | 6 |
| Unrealized interest rate swap gains (*note 7)* | **2** | 5 | 4 |
| | **438** | 443 | 471 |
| Less: Current portion | **(242)** | - | - |
| | **$ 196** | $ 443 | $ 471 |

Maturities of long-term debt are as follows:

| (US $ millions) | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | Total |
|---|---|---|---|---|---|---|---|
| Maturities of long-term debt | $ 240 | $ - | $ - | $ - | $ - | $ 200 | $ 440 |

As at December 31, 2011, the effective interest rate on the Company's debt-related obligations, including the impact of the interest rate swaps, was 5.8% (2010 – 6.2%). Interest expense on long-term debt for the year, including the impact of interest rate swaps, was $33 million (2010 – $32 million). Total interest paid during the year was $33 million (2010 – $32 million).

### Senior Notes Due in 2017

The Company's senior notes, due in 2017, bear an interest rate that varies with the Company's credit ratings. As at December 31, 2011, the interest rate was 7.95% (2010 – 7.95%). The average interest rate in 2011 was 7.95% (2010 – 7.95%).

### Standby Term Loan

During the year, Brookfield committed to put in place a $120 million standby term loan to be used to repay up to half of the 2012 debentures, if necessary. The maturity date would extend beyond the revolving bank lines and up to a 10-year period. The term loan would contain market standard terms at the time of borrowing except that the Company would have the right to prepay the loan at any time without penalty, so long as Brookfield is the holder. The term loan would be secured pari passu with the bank lines and holders of the 2017 senior notes.

### Revolving Bank Lines

In April 2011, the Company renewed its committed revolving bank lines, adding two new lenders and extending the maturity by one year to May 2014. As a result of the renewal, the Company increased its total aggregate commitment from $245 million to $270 million. The bank lines bear interest at money market rates plus a margin that varies with the Company's credit rating. The bank lines are secured by a first lien on the Company's North American OSB inventory and property, plant and equipment. This lien is shared pari passu with holders of the 2012 debentures and 2017 senior notes.

In October 2011, the Company amended its $270 million committed revolving bank lines to: (i) allow the Company the option to utilize up to $120 million of the bank lines to repay up to half of the 2012 debentures, if necessary; and (ii) to widen one of its two quarterly financial covenants, such that the maximum net debt to total capitalization, book basis, increases from 60% to 65%.

At period-end, none of the revolving bank lines was drawn as cash, $3 million was utilized for letters of credit and $267 million was available to support short-term liquidity requirements.

The bank lines contain two quarterly financial covenants: minimum tangible net worth of $250 million and maximum net debt to total capitalization, book basis, of 65%. As a result of the bank line renewal completed in 2010, the IFRS transitional adjustments to shareholders' equity of $21 million at January 1, 2011 are added back for the purposes of the tangible net worth calculation. In addition, other comprehensive income movement subsequent to January 1, 2011 is excluded from the tangible net worth calculation. Net debt includes total debt, principal value, less cash and cash equivalents plus letters of credit issued. At period-end, the Company's tangible net worth for financial covenant purposes was $343 million and net debt for financial covenant purposes was $360 million (note 16). Net debt to total capitalization was 51% on a book basis.

### Debt Issue Costs

In 2011, debt issue costs of $1 million (2010 – $2 million), related to the renegotiation of the revolving bank lines, were paid. Amortization expense related to debt issue costs for 2011 was $2 million (2010 – $3 million).

### Interest Rate Swaps

At period-end, the Company had outstanding interest rate swaps of $115 million (December 31, 2010 and January 1, 2010 – $115 million). The terms of these swaps correspond to the terms of the underlying hedged debt. The unrealized interest rate swap gains are offset by unrealized losses on the underlying exposures being hedged within interest expense.

## NOTE 9. OTHER LIABILITIES

| (US $ millions) | **Dec 31 2011** | Dec 31 2010 | Jan 1 2010 |
|---|---|---|---|
| Defined benefit pension obligation *(note 10)* | **$ 31** | $ 26 | $ 17 |
| Accrued employee benefits | **8** | 8 | 7 |
| Unrealized monetary hedge loss *(note 17)* | **1** | - | - |
| Other | **-** | 1 | 3 |
| | **$ 40** | $ 35 | $ 27 |

The unrealized monetary hedge loss is offset by unrealized gains on the underlying exposures being hedged.

## NOTE 10. EMPLOYEE BENEFIT PLANS

### Pension Plans

Norbord has a number of pension plans in which participation is available to substantially all employees. Norbord's obligations under its defined benefit pension plans are determined periodically through the preparation of actuarial valuations. The most recent actuarial valuation was conducted as of December 31, 2010.

Information about Norbord's defined benefit pension obligation and assets is as follows:

| (US $ millions) | | **2011** | | 2010 |
|---|---|---|---|---|
| **Change in Accrued Benefit Obligation During the Year** | | | | |
| Accrued benefit obligation, beginning of year | **$** | **85** | $ | 69 |
| Current service cost | | **2** | | 1 |
| Interest on accrued benefit obligation | | **4** | | 4 |
| Benefits paid | | **(4)** | | (4) |
| Net actuarial loss | | **5** | | 10 |
| Curtailment gain | | **(1)** | | - |
| Foreign currency exchange rate impact | | **(3)** | | 5 |
| Accrued benefit obligation, end of year[1] | **$** | **88** | $ | 85 |
| **Change in Plan Assets During the Year** | | | | |
| Plan assets, beginning of year | **$** | **59** | $ | 52 |
| Expected return on plan assets | | **4** | | 4 |
| Employer contributions | | **5** | | 4 |
| Benefits paid | | **(4)** | | (4) |
| Net actuarial loss | | **(5)** | | - |
| Foreign currency exchange rate impact | | **(2)** | | 3 |
| Plan assets, end of year[1] | **$** | **57** | $ | 59 |
| **Funded Status** | | | | |
| Accrued benefit obligation | **$** | **88** | $ | 85 |
| Plan assets | | **57** | | 59 |
| Accrued benefit obligation in excess of plan assets | **$** | **(31)** | $ | (26) |

1 All plans have accrued benefit obligations in excess of plan assets.

The components of benefit expense/(income) recognized in the statement of earnings are as follows:

| (US $ millions) | | **2011** | | 2010 |
|---|---|---|---|---|
| Current service cost | **$** | **2** | $ | 1 |
| Interest on accrued benefit obligation | | **4** | | 4 |
| Expected return on plan assets | | **(4)** | | (4) |
| Curtailment gain | | **(1)** | | - |
| Net periodic pension expense | **$** | **1** | $ | 1 |

| Significant Weighted Average Actuarial Assumptions | 2011 | 2010 |
|---|---|---|
| Used in calculation of net periodic pension expense for the year | | |
| Discount rate | **5.2%** | 5.9% |
| Expected long-term rate of return on plan assets | **7.0%** | 7.7% |
| Rate of compensation increase | **3.6%** | 3.6% |
| Used in calculation of accrued benefit obligation, end of year | | |
| Discount rate | **4.5%** | 5.1% |
| Rate of compensation increase | **3.3%** | 3.6% |

The weighted average asset allocation of Norbord's defined benefit pension plan assets is as follows:

| | Dec 31 2011 | Dec 31 2010 |
|---|---|---|
| Asset category | | |
| Equity investments | **60%** | 61% |
| Fixed income investments | **39%** | 37% |
| Cash | **1%** | 2% |
| Total assets | **100%** | 100% |

Operating costs include $7 million (2010 – $5 million) related to contributions to Norbord's defined contribution pension plans.

The cumulative actuarial losses recognized in the statement of comprehensive income are as follows:

| (US $ millions) | Dec 31 2011 | Dec 31 2010 |
|---|---|---|
| Cumulative actuarial losses | **$ 27** | $ 16 |

### NOTE 11. PROVISION FOR NON-CORE OPERATION

In 2010, the Company recorded an $8 million provision relating to its 50% investment in a hardwood plywood joint-venture operation – True North Hardwood Plywood Inc. This operation was non-core and represented less than 1% of total assets.

### NOTE 12. INCOME TAX

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities in the balance sheet and the amounts used for income tax purposes.

The source of deferred income taxes balances is as follows:

| (US $ millions) | Dec 31 2011 | Dec 31 2010 | Jan 1 2010 |
|---|---|---|---|
| Property, plant and equipment, differences in basis | **$ (161)** | $ (159) | $ (161) |
| Benefit of tax loss carryforwards | **87** | 66 | 66 |
| Investment and other tax credits | **7** | 5 | 5 |
| Other differences in basis | **6** | 3 | 5 |
| Deferred income taxes liability | **$ (61)** | $ (85) | $ (85) |

As at December 31, 2011, the Company had the following approximate tax attributes available to carry forward:

| | Amount (millions) | Latest Expiry Year |
|---|---|---|
| Tax loss carryforwards | | |
| Belgium | € 37 | Indefinite |
| Canada - non-capital loss | CAD $ 76 | 2031 |
| Canada - capital loss | CAD $ 18 | Indefinite |
| United States | US $ 172 | 2031 |
| Investment and other tax credits | | |
| Canada | CAD $ 7 | 2030 |

The loss carryforwards and credits may be utilized over the next several years to eliminate cash taxes otherwise payable, and they will enhance future cash flows. Certain deferred tax benefits have been included in deferred income taxes in the consolidated financial statements. At each balance sheet date, the Company assess its deferred income tax assets position and recognizes and/or derecognizes the amounts that, in the judgment of management, are probable to be realized or unrealized. During the year, the Company recognized $10 million in deferred tax assets relating to the benefits of its prior years' tax losses. Concurrently, the Company derecognized the aggregate of $11 million of deferred tax assets, that in the judgement of management, are not probable to be realized. The Company recorded $9 million of the $11 million in other comprehensive income.

The expiry date, if applicable, of the unrecognized deferred tax assets is as follows:

| (US $ millions) | **Dec 31 2011** | Dec 31 2010 | Jan 1 2010 |
|---|---|---|---|
| 2013 | **$ 2** | $ 2 | $ 2 |
| 2018 - 2028 | **6** | - | - |
| Do not expire | **35** | 35 | 42 |
| Total | **$ 43** | $ 37 | $ 44 |

The aggregate amount of temporary differences associated with investments in subsidiaries for which deferred tax assets have not been recognized as at December 31, 2011 is $431 million (December 31, 2010 – $378 million).

Income tax (recovery) expense recognized in the statement of earnings comprises the following:

| (US $ millions) | **2011** | 2010 |
|---|---|---|
| Current income tax | **$ 3** | $ - |
| Deferred income tax | **(31)** | 1 |
| Income tax | **$ (28)** | $ 1 |

Income tax (recovery) expense is calculated as follows:

| (US $ millions) | 2011 | 2010 |
|---|---|---|
| Earnings before income tax | $ (39) | $ 14 |
| Income tax recovery (expense) at combined Canadian federal and provincial statutory rate of 28.3% (2010 – 30.6%) | (11) | 4 |
| Effect of: | | |
| Rate differences on foreign activities | (2) | (3) |
| Derecognition (recognition) of the benefit of current year's tax loss and other deferred tax assets/liabilities | 2 | (5) |
| Recognition of the benefit of prior year's tax losses and deferred tax assets | (10) | - |
| Foreign exchange gain | (1) | (1) |
| Other | (6) | 6 |
| Income tax (recovery) expense | $ (28) | $ 1 |

Income tax (expense) recovery recognized in the statement of comprehensive (loss) income comprises the following:

| (US $ millions) | 2011 | 2010 |
|---|---|---|
| Foreign currency translation loss on foreign operations | $ (3) | $ (7) |
| Tax | (1) | - |
| Net of tax | $ (4) | $ (7) |
| | | |
| Net (loss) gain on hedge of net investment in foreign operations | $ (1) | $ 7 |
| Tax | - | (2) |
| Net of tax | $ (1) | $ 5 |
| | | |
| Actuarial loss on post-employment obligation | $ (11) | $ (10) |
| Tax | (6) | 3 |
| Net of tax | $ (17) | $ (7) |

**NOTE 13. SHAREHOLDERS' EQUITY**

**Share Capital**

| | 2011 | | 2010 | |
|---|---|---|---|---|
| | Shares (millions) | Amount (US $ millions) | Shares (millions) | Amount (US $ millions) |
| Common shares outstanding, beginning of year | 43.5 | $ 340 | 43.2 | $ 335 |
| Issue of common shares, net | 0.1 | - | 0.3 | 5 |
| Common shares outstanding, end of year | 43.6 | $ 340 | 43.5 | $ 340 |

As at December 31, 2011, the authorized capital stock of the Company is as follows: an unlimited number of Class A and Class B preferred shares, an unlimited number of non-voting participating shares and an unlimited number of common shares.

**Contributed Surplus**

Contributed surplus comprises transactions on account of the warrants issued by Norbord and stock options issued under the Company's stock option plan.

### Warrants

| | 2011 | | 2010 | |
|---|---|---|---|---|
| | **Warrants (millions)** | **Amount (US $ millions)** | Warrants (millions) | Amount (US $ millions) |
| Balance, beginning and end of year | **136.3** | **$ 35** | 136.3 | $ 35 |

As at December 31, 2011, the Company had 136.3 million common share purchase warrants outstanding, entitling holders to purchase 13.6 million common shares, at a price of CAD $13.60 per share, at any time prior to December 24, 2013.

### Stock Options

| | 2011 | | 2010 | |
|---|---|---|---|---|
| | **Options (millions)** | **Weighted Average Exercise Price (CAD $)** | Options (millions) | Weighted Average Exercise Price (CAD $) |
| Balance, beginning of year | **1.5** | **$ 23.73** | 1.3 | $ 21.47 |
| Options granted | **0.6** | **14.93** | 0.5 | 18.10 |
| Options exercised | **(0.1)** | **6.12** | (0.3) | 6.50 |
| Balance, end of year | **2.0** | **$ 21.63** | 1.5 | $ 23.73 |
| Exercisable at year-end | **0.7** | **$ 33.30** | 0.3 | $ 58.61 |

Under the Company's stock option plan, the Board of Directors may issue stock options to certain employees of the Company. These options vest over a five-year period and expire 10 years from the date of issue. In 2011, stock option expense of $2 million was recorded against contributed surplus (2010 – $1 million).

The following table summarizes the weighted average exercise prices and the weighted average remaining contractual life of the balances of stock options outstanding at December 31, 2011:

| | Options Outstanding | | | Options Exercisable | |
|---|---|---|---|---|---|
| **Range of Exercise Prices (CAD $)** | **Options** | **Weighted Average Remaining Contractual Life (years)** | **Weighted Average Exercise Price (CAD $)** | **Options** | **Weighted Average Exercise Price (CAD $)** |
| **$5.40–$6.50** | **621,208** | **7.01** | **$ 6.49** | **321,208** | **$ 6.48** |
| **$8.40–$12.05** | **16,890** | **5.65** | **10.60** | **8,890** | **9.29** |
| **$14.93** | **585,000** | **9.09** | **14.93** | **-** | **-** |
| **$18.21** | **540,000** | **8.09** | **18.21** | **108,000** | **18.21** |
| **$38.30** | **22,100** | **2.07** | **38.30** | **22,100** | **38.30** |
| **$60.90** | **90,630** | **6.10** | **60.90** | **54,378** | **60.90** |
| **$87.30–$111.30** | **151,460** | **4.21** | **97.13** | **137,380** | **97.70** |
| | **2,027,288** | **7.58** | **21.63** | **651,956** | **33.30** |

**Accumulated Other Comprehensive (Loss) Income**

| (US $ millions) | Dec 31 2011 | Dec 31 2010 |
|---|---|---|
| Foreign currency translation gain on foreign operations | **$ 7** | $ 11 |
| Net loss on hedge of net investment in foreign operations | **(8)** | (7) |
| Accumulated other comprehensive (loss) income, net of tax | **$ (1)** | $ 4 |

## NOTE 14. EARNINGS PER COMMON SHARE

| (US $ millions, except share and per share information, unless otherwise noted) | 2011 | 2010 |
|---|---|---|
| Earnings available to common shareholders | **$ (11)** | $ 13 |
| Common shares (millions): | | |
| Weighted average number of common shares outstanding | **43.6** | 43.4 |
| Stock options[1] | **-** | 0.4 |
| Warrants[1] | **-** | 0.6 |
| Diluted number of common shares | **43.6** | 44.4 |
| Earnings per common share: | | |
| Basic | **$ (0.25)** | $ 0.30 |
| Diluted | **(0.25)** | 0.29 |

[1] Applicable if dilutive and when the weighted average share price for the period was greater than the exercise price for vested stock options and warrants.

## NOTE 15. SUPPLEMENTAL CASH FLOW INFORMATION

The net change in non-cash operating working capital balance comprises:

| (US $ millions) | 2011 | 2010 |
|---|---|---|
| Cash (used for) provided by: | | |
| Accounts receivable | **$ (11)** | $ (8) |
| Inventory | **(8)** | (15) |
| Accounts payable and accrued liabilities | **(4)** | 31 |
| | **$ (23)** | $ 8 |

Cash income taxes and interest comprises:

| (US $ millions) | 2011 | 2010 |
|---|---|---|
| Cash interest paid | **$ 33** | $ 33 |
| Cash taxes paid (received), net | **1** | (52) |

Cash and cash equivalents comprises:

| (US $ millions) | Dec 31 2011 | Dec 31 2010 | Jan 01 2010 |
|---|---|---|---|
| Cash | **$ 83** | $ 91 | $ 7 |
| Cash equivalents | **-** | 20 | 13 |
| | **$ 83** | $ 111 | $ 20 |

### NOTE 16. CAPITAL MANAGEMENT

Norbord's capital management objective is to achieve top-quartile return on equity (ROE) and cash return on capital employed (ROCE) over the business cycle, among North American forest products companies, to enable it to retain access to public and private capital markets, subject to financial market conditions. This objective is unchanged from the prior year.

Norbord monitors its capital structure using two key measures of its relative debt position. While the Company considers both book and market basis metrics, it believes the market basis to be superior to the book basis in measuring the true strength and flexibility of its balance sheet.

**Net debt to capitalization, book basis**, is net debt divided by the sum of net debt and tangible net worth. Net debt consists of the principal value of long-term debt, including the current portion and bank advances less cash and cash equivalents. Consistent with the treatment under the Company's financial covenants, letters of credit are included in net debt. Tangible net worth consists of shareholders' equity.

**Net debt to capitalization, market basis**, is net debt divided by the sum of net debt and market capitalization. Net debt is calculated, as outlined above, under net debt to capitalization, book basis. Market capitalization is the number of common shares outstanding at period-end multiplied by the trailing 12-month average per share market price. Market basis capitalization is intended to correct for the low historical book value of Norbord's asset base relative to its fair value.

Norbord's capital structure at period-end consisted of the following:

| (US $ millions) | **Dec 31 2011** | Dec 31 2010[1] | Jan 1 2010[1] |
|---|---|---|---|
| Long-term debt, principal value *(note 8)* | **$ 440** | $ 440 | $ 467 |
| Less: Cash and cash equivalents | **(83)** | (113) | (21) |
| Net debt | **357** | 327 | 446 |
| Add: Letters of credit | **3** | 10 | 8 |
| Net debt for financial covenant purposes | **360** | 337 | 454 |
| Shareholders' equity | **300** | 352 | 334 |
| Add: IFRS transitional adjustments | **21** | - | - |
| Add: Other comprehensive income movement[2] | **22** | - | - |
| Tangible net worth for financial covenant purposes | **343** | 352 | 334 |
| Total capitalization | **$ 703** | $ 689 | $ 788 |
| Net debt to capitalization, book basis | **51%** | 49% | 58% |
| Net debt to capitalization, market basis | **42%** | 35% | 48% |

[1] Figures have not been restated for IFRS. Effective January 1, 2011, the Company's lending agreement provides for the following adjustments to covenant calculations as a result of the changeover to IFRS: (i) the exclusion of accounts receivable securitization proceeds from the net debt calculation; (ii) the add-back of IFRS transitional adjustments to shareholders' equity, as at January 1, 2011, for the purposes of the tangible net worth calculation; and (iii) the exclusion of cumulative other comprehensive income from the tangible net worth calculation, subsequent to January 1, 2011.

[2] Subsequent to January 1, 2011.

### NOTE 17. FINANCIAL INSTRUMENTS

Norbord has exposure to market, commodity price, interest rate, currency, counterparty credit and liquidity risk. Norbord's primary risk management objective is to protect the Company's balance sheet, earnings and cash flow in support of achieving top-quartile return on equity (ROE) and cash return on capital employed (ROCE) among North American forest products companies.

Norbord's financial risk management activities are governed by Board-approved financial policies that cover risk identification, tolerance, measurement, hedging limits, hedging products, authorization levels and reporting. Derivative contracts that are deemed to be highly effective in offsetting changes in the fair value, net investment or cash flows of hedged items are designated as hedges of specific exposures. Gains and losses on these instruments are recognized in the same manner as the item being hedged. Hedge ineffectiveness, if any, is measured and included in current period earnings.

### Market Risk

Norbord purchases commodity inputs, issues debt at fixed and floating interest rates, invests surplus cash, sells product and purchases inputs in foreign currencies and invests in foreign operations. These activities expose the Company to market risk, from changes in commodity prices, interest rates and foreign exchange rates, which affects the Company's balance sheet, earnings and cash flows. The Company uses derivatives as part of its overall financial risk management policy to manage certain exposures to market risk that result from these activities.

### Commodity Price Risk

Norbord is exposed to commodity price risk on most of its manufacturing inputs, which are principally comprised of wood fibre, resin and energy. These manufacturing inputs are purchased primarily on the open market in competition with other users of such resources, and prices are influenced by factors beyond Norbord's control.

Norbord monitors market developments in all commodity prices to which it is materially exposed. No liquid futures markets exist for the majority of Norbord's commodity inputs, but, where possible, Norbord will hedge a portion of its commodity price exposure up to Board-approved limits in order to reduce the potential negative impact of rising commodity input prices. Should Norbord decide to hedge any of this exposure, it will lock-in prices directly with its suppliers and, if unfeasible, purchase financial hedges where liquid markets exist.

At December 31, 2011, Norbord has hedged approximately 63% of its 2012 expected natural gas consumption by locking-in the price directly with its suppliers. Approximately 60% of Norbord's electricity is purchased in regulated markets, and Norbord has hedged approximately 48% of its 2012 deregulated electricity consumption. While these contracts are derivatives, they are exempt from being accounted for as financial instruments as they were normal purchases for the purpose of receipt.

### Interest Rate Risk

Norbord's financing strategy is to access public and private capital markets to raise long-term core financing, and utilize the banking market to provide committed standby credit facilities to support its short-term cash flow needs. The Company has fixed-rate debt, which subjects it to interest rate price risk, and has floating-rate debt, which subjects it to interest rate cash flow risk. In addition, the Company invests surplus cash in bank deposits and short-term money market securities.

The Company enters into interest rate swaps to convert a portion of its debt from fixed to floating rates. At period-end, $115 million in interest rate swaps were outstanding (note 7). The terms of these swaps correspond to the terms of the underlying hedged debt.

From time to time, the Company has recouponed its portfolio of interest rate swaps to more efficiently manage cash flow and credit exposure. Any gains or losses realized are deferred and amortized over the remaining term of the debt against which the swaps were designated as hedges. At year-end, $1 million in interest rate swap gains were deferred and included in the carrying value of long-term debt in the consolidated balance sheets (note 8). In 2011, amortization of $2 million (2010 – $3 million) was included in interest expense (note 8).

### Currency Risk

Norbord's foreign exchange exposure arises from the following sources:

- Net investments in foreign operations, limited to Norbord's investment in its European operations
- Net Canadian dollar-denominated monetary assets and liabilities
- Committed or anticipated foreign currency-denominated transactions, primarily Canadian dollar costs in Norbord's Canadian operations and Euro revenues in Norbord's UK operations

The Company's policy is to manage all significant balance sheet foreign exchange exposures by entering into cross-currency swaps and forward foreign exchange contracts. The Company may hedge a portion of future foreign currency-denominated cash flows, using forward foreign exchange contracts or options for periods of up to three years, in order to reduce the potential negative effect of a strengthening Canadian dollar versus the US dollar, or a weakening Euro versus the Pound Sterling.

### Counterparty Credit Risk

Norbord invests surplus cash in bank deposits and short-term money market securities, sells its product to customers on standard market credit terms and uses derivatives to manage its market risk exposures. These activities expose the Company to counterparty credit risk that would result if the counterparty failed to meet its obligations in accordance with the terms and conditions of its contracts with the Company.

Norbord operates in a cyclical commodity business. Accounts receivable credit risk is mitigated through established credit management techniques, including conducting financial and other assessments to establish and monitor a customer's creditworthiness, setting customer limits, monitoring exposures against these limits and, in some instances, purchasing credit insurance or obtaining trade letters of credit. At period-end, the key performance metrics on the Company's accounts receivable are in line with prior periods. As at December 31, 2011, the provision for doubtful accounts was less than $1 million (December 31, 2010 – less than $1 million; January 1, 2010 – $1 million). In 2011, Norbord had one customer whose purchases represented greater than 10% of total net sales.

Under an accounts receivable securitization program, Norbord has transferred substantially all of its present and future trade accounts receivable to a third-party trust, sponsored by a highly rated Canadian financial institution, on a fully serviced basis, for proceeds consisting of cash and deferred purchase price. At December 31, 2011, Norbord recorded cash proceeds of $69 million (December 31, 2010 – $60 million; January 1, 2010 – $62 million) relating to this program. The fair value of the deferred purchase price approximates its carrying value as a result of the short accounts receivable collection cycle and negligible historical credit losses.

Surplus cash is only invested with counterparties meeting minimum credit quality requirements and issuer and concentration limits. Derivative transactions are executed only with approved, high-quality counterparties under master netting agreements. The Company monitors and manages its concentration of counterparty credit risk on an ongoing basis.

The Company's maximum counterparty credit exposure at year-end consists of the carrying amount of cash and cash equivalents and accounts receivable, which approximate fair value, and the fair value of derivative financial assets.

### Liquidity Risk

Norbord strives to maintain sufficient financial liquidity at all times in order to participate in investment opportunities as they arise, as well as to withstand sudden adverse changes in economic circumstances. Management forecasts cash flows for its current and subsequent fiscal years to identify financing requirements. These requirements are then addressed through a combination of committed credit facilities and access to capital markets.

At period-end, Norbord had $83 million in cash and cash equivalents and $267 million in unutilized committed revolving bank lines.

### Financial Liabilities

The following table summarizes the aggregate amount of contractual future cash outflows for the Company's financial liabilities:

| | | | | | | Payments Due by Period | |
|---|---|---|---|---|---|---|---|
| (US $ millions) | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | Total |
| Principal | $ 240 | $ - | $ - | $ - | $ - | $ 200 | $ 440 |
| Interest | 32 | 18 | 17 | 16 | 16 | 8 | 107 |
| Long-term debt, including interest | $ 272 | $ 18 | $ 17 | $ 16 | $ 16 | $ 208 | $ 547 |

### Non-Derivative Financial Instruments

The net book values and fair values of non-derivative financial instruments were as follows:

| | | **Dec 31 2011** | | Dec 31 2010 | | Jan 1 2010 | |
|---|---|---|---|---|---|---|---|
| (US $ millions) | Financial Instrument Category | **Net Book Value** | **Fair Value** | Net Book Value | Fair Value | Net Book Value | Fair Value |
| Financial assets: | | | | | | | |
| Cash and cash equivalents | Fair value through profit or loss | **$ 83** | **$ 83** | $ 111 | $ 111 | $ 20 | $ 20 |
| Accounts receivable | Loans and receivables | **102** | **102** | 90 | 90 | 88 | 88 |
| | | **$ 185** | **$ 185** | $ 201 | $ 201 | $ 108 | $ 108 |
| Financial liabilities: | | | | | | | |
| Accounts payable and accrued liabilities | Amortized cost | **$ 162** | **$ 162** | $ 164 | $ 164 | $ 139 | $ 139 |
| Long-term debt | Amortized cost | **438** | **433** | 443 | 447 | 471 | 474 |
| Other long-term debt | Amortized cost | **69** | **69** | 60 | 60 | 62 | 62 |
| Other liabilities | Amortized cost | **40** | **40** | 35 | 35 | 27 | 27 |
| | | **$ 709** | **$ 704** | $ 702 | $ 706 | $ 699 | $ 702 |

### Derivative Financial Instruments

Information about derivative financial instruments was as follows:

| | | | | **Dec 31 2011** |
|---|---|---|---|---|
| (US $ millions, unless otherwise noted) | **Notional Value** | **Unrealized Gain (Loss) at Period-End[1]** | **Realized (Loss) Gain for the Year** | **Sensitivity to 1% Change** |
| Currency hedges: | | | | |
| Net investment | | | | |
| Belgium | **€ 11** | **$ 2** | **$ (2)** | **$ -** |
| UK | **£41** | **1** | **1** | **1** |
| Monetary position | | | | |
| Canadian dollar | **CAD $93** | **(1)** | **1** | **1** |
| Interest rate hedges: | | | | |
| Interest rate swaps | **$115** | **2** | **-** | **1** |

| (US $ millions, unless otherwise noted) | Notional Value | Unrealized Gain (Loss) at Period-End[1] | Realized (Loss) Gain for the Year | Sensitivity to 1% Change |
|---|---|---|---|---|
| | | | | Dec 31 2010 |
| Currency hedges: | | | | |
| Net investment | | | | |
| Belgium | € 40 | $ 1 | $ 4 | $ 1 |
| UK | £47 | 2 | 2 | 1 |
| Monetary position | | | | |
| Canadian dollar | CAD $78 | 2 | 1 | 1 |
| Interest rate hedges: | | | | |
| Interest rate swaps | $115 | 5 | - | 1 |

| (US $ millions, unless otherwise noted) | Notional Value | Unrealized Gain at Period-End[1] | Sensitivity to 1% Change |
|---|---|---|---|
| | | | Jan 1 2010 |
| Currency hedges: | | | |
| Net investment | | | |
| Belgium | € 40 | $ 1 | $ 1 |
| UK | £56 | 1 | 1 |
| Monetary position | | | |
| Canadian dollar | CAD $9 | - | - |
| Interest rate hedges: | | | |
| Interest rate swaps | $115 | 4 | 1 |

[1] The carrying values of the derivative financial instruments are equivalent to the unrealized gain (loss) at period-end.

Realized and unrealized gains and losses on derivative financial instruments are offset by realized and unrealized losses and gains on the underlying exposures being hedged.

## NOTE 18. COMMITMENTS AND CONTINGENCIES

### Tax Exposures

In the normal course of operations, the Company is subject to various uncertainties concerning the interpretation and application of tax laws, in the filing of its tax returns in operating jurisdictions, that could materially affect the Company's cash flows. There can be no assurance that the tax authorities will not challenge the Company's filing positions.

### Other

The Company has provided certain commitments and indemnifications, including those related to former businesses. The maximum amounts from many of these items cannot be reasonably estimated at this time. However, in certain circumstances, the Company has recourse against other parties to mitigate the risk of loss.

The Company has entered into various commitments as follows:

| (US $ millions) | Less than 1 year | 1-5 years | Thereafter | Total |
|---|---|---|---|---|
| | | | | Payments Due by Period |
| Purchase obligations | $ 59 | $ 96 | $ 10 | $ 165 |
| Operating leases | 3 | 7 | - | 10 |
| | $ 62 | $ 103 | $ 10 | $ 175 |

## NOTE 19. RELATED PARTY TRANSACTIONS

In the normal course of operations, the Company enters into various transactions on market terms with related parties, which have been measured at exchange value and recognized in the consolidated financial statements. The following transactions have occurred between the Company and its related parties during the normal course of business:

### Standby Term Loan Commitment

During the year, the Company entered into a $120 million standby term loan commitment with Brookfield (note 8).

### Indemnity Commitment

As at December 31, 2011, total future costs related to a 1999 asset purchase agreement between the Company and Brookfield, for which Norbord provided an indemnity, are estimated at less than $1 million and are included in other liabilities in the consolidated balance sheets.

### Other

The Company provided certain administrative services to Brookfield or its affiliates which were charged on a cost recovery basis. In addition, the Company periodically engages the services of, or purchases goods from Brookfield or its affiliates for various financial, real estate and other business advisory services. In 2011, the fees and costs for these services and goods were $5 million (2010 – less than $1 million) and were charged at market rates.

### Compensation of Key Management Personnel

The remuneration of directors and other key management personnel was as follows:

| (US $ millions) | **2011** | 2010 |
|---|---|---|
| Salaries, incentives and short-term benefits | **$ 2** | $ 3 |
| Share-based awards | **2** | 1 |
| | **$ 4** | $ 4 |

## NOTE 20. GEOGRAPHIC SEGMENTS

The Company has a single reportable segment. The Company operates principally in North America and Europe. Sales by geographic segment are determined based on the origin of shipment and therefore include export sales.

| | | | | **2011** |
|---|---|---|---|---|
| (US $ millions) | **North America** | **Europe** | **Unallocated** | **Total** |
| Sales | **$ 507** | **$ 458** | **$ -** | **$ 965** |
| EBITDA[1] | **14** | **44** | **(13)** | **45** |
| Depreciation | **31** | **19** | **1** | **51** |
| Investment in property, plant and equipment | **14** | **11** | **-** | **25** |
| Property, plant and equipment | **646** | **141** | **-** | **787** |

| | | | | 2010 |
|---|---|---|---|---|
| (US $ millions) | North America | Europe | Unallocated | Total |
| Sales | $ 586 | $ 376 | $ - | $ 962 |
| EBITDA[1] | 83 | 37 | (13) | 107 |
| Depreciation | 33 | 18 | - | 51 |
| Investment in property, plant and equipment | 9 | 7 | - | 16 |
| Property, plant and equipment | 665 | 148 | 1 | 814 |

[1] EBITDA is earnings before interest, income tax, depreciation and provision for non-core operation.