J. Barrie Shineton
President & CEO

January 31, 2013

To Our Shareholders,

Norbord's 2012 result was our best since US housing first began its unprecedented decline in 2006. We generated earnings of $1.65 per share on EBITDA of $188 million – a substantial improvement over the $45 million of EBITDA and negative earnings of the previous year.

Last year, I told you the US housing market was at an inflection point and I was optimistic about the positive signs we were starting to see in our business. But I also said OSB pricing would move sideways for most of 2012 as the structural impediments to a housing recovery were worked through. So now I'm particularly pleased to tell you that our financial results were much better than I had expected. And what's even more encouraging is that this upside is carrying over into 2013 and will be reflected in our bottom line again this year.

Our results reflect a US housing recovery that is now well entrenched. Housing starts – the largest driver of OSB demand – jumped 28% last year. In North America, we ran more of our capacity, increased shipments and were able to benefit from 46% higher OSB prices. At the same time, our European panel business delivered a third straight year of strong results.

I'm also pleased to see our improving financial performance reflected in our stock. Norbord's share price has rebounded, starting the year at CAD $8.10 and finishing at CAD $30.19. That's almost four times higher, making Norbord the Top Gainer on the Toronto Stock Exchange in 2012.

Record Operating Performance

Our panelboard mills performed well in 2012. Five of our eight operating OSB facilities set annual production records and overall shipments were up 6%. To meet recovering North American OSB demand, we ran more of our capacity than the prior year and this additional volume was sold at higher prices as the year progressed.

In 2012, we delivered $23 million in Margin Improvement Program (MIP) gains. Our North American mills continued to build on the raw material usage and productivity benefits achieved from the resin conversion and fines screening projects. Our Chief Operating Officer, Peter Wijnbergen, has a simple MIP goal: maintain competitiveness by being better tomorrow than we are today. His operating team continues to push hard on new MIP initiatives each year to deliver on this goal.

Europe Is Holding Steady

In Europe, panel markets remained surprisingly stable in spite of the challenging macroeconomic environment. Our operations had another strong year and we continued to run our mills at capacity. While OSB prices were off their 2011 peak levels, particleboard and MDF prices held firm. The Pound Sterling drifted weaker against the Euro in the second half of the year and this kept our UK-based business competitive.

Balance Sheet Is Improving

In 2012, our Chief Financial Officer, Robin Lampard, successfully refinanced our $240 million bond maturity with new three-year senior notes that will save $10 million in interest over the life of the bonds. She pursued this shorter-term solution based on our expectation that Norbord's improving financial performance would enable a more opportunistic refinancing in 2015.

Our balance sheet is de-levering quickly. Last year, we generated $136 million of operating cash flow and we took the opportunity to fully repay our accounts receivable securitization program. At year-end, we had more than $450 million of cash and unutilized liquidity, allowing us to commit to a more ambitious capital reinvestment program in 2013.

New Home Construction Demand Growing

A decade ago, we purposely diversified away from new home construction by growing our big box, industrial and export volumes. This strategy served us well through what turned out to be a protracted housing downturn by providing a customer channel that is far less cyclical and has steadier annual growth. However, we have always maintained relationships with the large national pro-dealers who service homebuilders. Last year, our strongest growth came from this market segment. Norbord's shipments to pro-dealers grew by 35% in 2012 and now represent almost half of our total sales volume.

World-Class Safety Remains the Goal

We believe that safety and operating performance go hand in hand. Our safety record continued to improve in 2012 with a best-ever Occupational Safety and Health Administration (OSHA) rate of 0.74. Our Joanna, South Carolina and Guntown, Mississippi mills each completed the year without a single recordable injury and our Nacogdoches, Texas facility achieved 10 years without a lost-time incident. In addition, three of our sites (La Sarre, Quebec; Inverness, Scotland; and South Molton, England) obtained Norbord Safety Star certifications, a rigorous program based on standards that go well beyond regulatory requirements. These industry-leading achievements bring our mills another step closer to the goal of world-class safety performance.

Encouraging Outlook for 2013

In the fourth quarter, all the housing indicators we follow continued to strengthen. Foreclosures and existing home inventories are trending down, while home prices and builder confidence are improving. Public homebuilder order backlogs are outpacing expectations, growing 40% year-over-year. The more credible housing economists are now forecasting 2013 housing starts at the 1.0 million level – another 28% increase over the 2012 number. In January, in what is normally the slowest season for construction activity, OSB prices remained surprisingly strong with the North Central benchmark price averaging more than $400 per Msf. This all points to strengthening OSB markets in 2013.

Some of our competitors have announced capacity restarts and we are advancing our own plans to bring our Jefferson, Texas mill online by mid-2013. Norbord's timeline for adding back capacity continues to be dictated by the long lead times required for equipment deliveries, the hiring and training of a new workforce and the rebuilding of a log supply infrastructure. These challenges and the extended timeline suggest to me that improving OSB demand will continue to outstrip supply for at least the next three quarters.

I'm expecting another good result from our European panel business. In the UK, where three of our four mills are located, housing starts, mortgage lending and home prices are below trend but remain stable. Both our January order files and panel prices indicate we are off to a positive start this year.

We continue to monitor pricing trends that impact our manufacturing costs. We will likely see upward pressure on our raw material input prices, particularly wood fibre and resin, as the broader US economy improves. However, we should be able to offset these higher costs through ongoing MIP initiatives.

Disciplined Capital Allocation

With the bottom of the cycle now behind us and peak earnings years ahead of us, we need to prioritize capital allocation alternatives. However, our framework for making these decisions hasn't changed. Our highest priority is to reinvest in our existing OSB business through low-risk, high-return projects at our mills. We will also look for opportunities to grow our OSB business through attractive acquisitions. Further, we will consider paying down debt and returning surplus cash to shareholders if it makes financial sense to do so. Long-term investors will recall that during previous peak earnings years, we paid dividends and bought back shares.

After five years of constraining capital and in keeping with these priorities, we are ramping up capital expenditures to $150 million over the next three years. The $70 million we are planning to spend in 2013 is focused on reducing costs and improving productivity, and includes a $10 million investment to restart our Jefferson mill.

Norbord Is Well Positioned

I'm pleased that we delivered strong earnings and a much improved 21% return on equity in 2012. And I firmly believe that 2013 will be even better.

Norbord

Our mills are performing well and productivity is at an all-time high. We have strong customer partnerships. Demand from US new home construction is accelerating. Our European business is stable and continues to provide a reliable earnings contribution. And we have a solid balance sheet that is de-levering quickly. Norbord will generate robust cash flow now that OSB demand is gaining momentum.

On behalf of everyone at Norbord, I thank you for your ongoing support during the past five challenging years. We remain focused on maximizing shareholder value and I am delighted that your patience is finally being rewarded.

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 "expect," "suggest," "support," "believe," "should," "potential," "likely," "continue," "forecast," "point to," "plan," "indicate," "consider," "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 2012 Management's Discussion and Analysis dated January 30, 2013.

News Release

NORBORD REPORTS IMPROVED 2012 RESULTS

Note: Financial references in US dollars unless otherwise indicated.

2012 HIGHLIGHTS

- **Full year earnings of $1.65 per share ($1.59 per share diluted)**
- **2012 EBITDA of $188 million – a fourfold increase over the prior year**
- **Q4 EBITDA of $70 million – better than Q3 and eight times higher than Q4 2011**
- **North Central benchmark OSB price averaged $271 per Msf – a 46% increase vs. 2011 and the highest average in seven years**
- **North American OSB shipments 8% higher in stronger pricing environment**
- **Annual production records at five of Norbord's eight operating OSB mills**
- **Company-wide safety recordable rate of 0.74 – a best-ever result**

TORONTO, ON (January 31, 2013) – Norbord Inc. (TSX: NBD, NBD.WT) today reported earnings of $72 million or $1.65 per share ($1.59 per share diluted) for the full year 2012 compared to a loss of $11 million or $0.25 per share in 2011. The Company recorded earnings of $38 million or $0.86 per share ($0.76 per share diluted) in the fourth quarter of 2012 versus a loss of $9 million or $0.21 per share in the same quarter of 2011.

Norbord generated EBITDA of $188 million in 2012 compared to $45 million in 2011. North American and European operations recorded EBITDA of $165 million and $39 million, respectively, versus $14 million and $44 million, respectively, in the prior year. In the fourth quarter of 2012, Norbord delivered EBITDA of $70 million versus $66 million in the previous quarter and $9 million in the fourth quarter of 2011.

"Our improved 2012 financial results reflect a better-than-expected recovery in the US housing market and this recovery is gaining momentum," said Barrie Shineton, President and CEO. "In North America, we increased shipments and were able to benefit from higher OSB pricing in the second half of last year. I expect this strong improvement in OSB demand to continue as we move through 2013. We are therefore advancing our plans to bring back some of our mothballed capacity. However, in spite of these plans, and the restarts announced by some of our competitors, the lag in bringing back this capacity suggests to me improving OSB demand will continue to outstrip supply for at least the next three quarters."

"In Europe, our panel business delivered another strong result in spite of the challenging macroeconomic environment. Panel markets remain surprisingly stable and we continue to benefit from an ongoing currency advantage due to a weaker Pound Sterling. Both our customer order files and panel pricing trends indicate a positive start to the year."

Market Conditions

US housing starts finished the year at 780,000, up 28% from 610,000 in 2011. Permits were 30% higher year-over-year. The seasonally-adjusted US housing starts number for December was 954,000, 37%

ahead of the 2011 end-of-year pace. This is an encouraging number for what is typically a seasonally slower period for the construction industry and OSB demand.

North American OSB prices improved significantly in the second half of the year. North Central benchmark OSB prices strengthened from a February low of $188 per thousand square feet (Msf) (7⁄16-inch basis) to finish the year at an annual high of $370. North Central prices averaged $271 in 2012 compared to $186 in 2011, a 46% increase. In the South East region, where approximately 55% of Norbord's North American OSB capacity is located, prices averaged $241 per Msf compared to $169 in the prior year.

In the fourth quarter, North Central benchmark OSB prices averaged $332 per Msf, up $19 from the prior quarter and $142 from the fourth quarter of 2011. South East prices averaged $296 per Msf in the quarter, up $22 from the prior quarter and $130 from the fourth quarter of 2011.

In Norbord's primary European markets, housing activity remained stable but unremarkable with UK housing starts decreasing 9% and German housing starts increasing approximately 7% compared to 2011. In the UK, where the majority of Norbord's European assets are located, home prices remain steady and mortgage lending restrictions are easing.

European panel prices decreased modestly in 2012. OSB prices declined 11% from 2011 peak levels while particleboard and MDF prices held firm. The Pound Sterling remained weak versus the Euro and this continues to benefit Norbord's primarily UK-based operations.

Performance

North American OSB shipments for the full year increased 8% compared to the prior year. In the fourth quarter, shipments were 3% lower than the third quarter and 12% higher than the same quarter in 2011. In 2012, Norbord's operating OSB mills ran at 95% of nameplate capacity versus 80% in 2011.

Norbord's 2012 North American OSB cash production costs per unit (excluding incentive compensation) decreased by 1% versus 2011. Excluding the impact of higher raw material prices and higher maintenance costs, production costs per unit decreased by 3%.

In Europe, panel shipments increased 2% over the prior year. Production was also higher as Norbord's four panel mills ran on full operating schedules. Effective for 2012, Europe's stated annual OSB capacity was increased by 90 MMsf (3/8-inch basis), reflecting improvements from both capital investments and operating efficiencies at the Genk, Belgium mill. Norbord's European mills operated at the same 95% of capacity in both 2012 and 2011, although the 2012 percentage was impacted by the stated capacity increase.

Norbord's Margin Improvement Program (MIP) delivered $23 million in gains in 2012, primarily from lower raw materials usage and higher productivity achieved from the Company's resin conversion and fines screening projects.

Capital investments continued to be constrained, totaling $26 million in 2012 versus $25 million in 2011. Norbord's 2013 planned capital expenditures have been ramped up to $70 million, including the necessary investments to restart a portion of the Company's mothballed capacity.

Operating working capital increased by $22 million during the year to $50 million at year-end compared to $28 million at year-end 2011. This increase reflects the impact of higher North American OSB prices on accounts receivable.

At year-end, Norbord had unutilized liquidity of $455 million, consisting of $242 million in undrawn revolving bank lines, $85 million undrawn under its accounts receivable securitization program and $128 million in cash. The Company's tangible net worth was $422 million and net debt to total capitalization on a book basis was 43%, down from 51% a year ago despite repaying $82 million under the accounts receivable securitization program. Both ratios are well within bank covenants.

Developments

In response to increased customer demand for OSB, Norbord intends to restart its curtailed mill in Jefferson, Texas by mid-2013. The mill has been mothballed since the first quarter of 2009. The Company will invest approximately $10 million to bring the mill back into production. Norbord will continue to monitor market conditions, but does not currently expect to restart its mills in Huguley, Alabama or Val-d'Or, Quebec in 2013.

In January, Norbord applied to the Toronto Stock Exchange (TSX) for approval to commence a normal course issuer bid in accordance with TSX rules. Under the previous bid that expired on December 20, 2012, the Company could have purchased 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. No share purchases were made under the Company's previous bid. Full details of the normal course issuer bid will be announced upon receipt of TSX approval.

Additional Information

Norbord's year-end 2012 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 Thursday, January 31, 2013 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 March 1, 2013 by dialing 1-888-203-1112 or 647-436-0148. The passcode is 5040392. 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 1,900 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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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 "expect," "continue," "suggest," "intend," "should," "believe," "forecast," "appear," "will," "will not," "plan," "can," "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, 2012 Annual Information Form and the cautionary statement contained in the "Forward-Looking Statements" section of the 2012 Management's Discussion and Analysis dated January 30, 2013.

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 2012 relative to 2011. 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 which include private landowners and government-owned and -managed timberlands. Norbord employed approximately 1,900 people at December 31, 2012.

Operations include 11 OSB mills, two particleboard mills, one medium density fibreboard (MDF) mill and one 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 – has been significantly affected by the US housing market downturn that began in 2006. 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 2012:

Short-Term Strategic Priority	2012 Performance
1. Generate cash.	• Achieved EBITDA of $188 million. • Increased EBITDA at North American operations to $165 million from $14 million in 2011. • Ramped up the Company's North American shipments by 8%, benefiting from 46% higher North Central average benchmark OSB prices during the year. • Generated EBITDA of $39 million at European operations despite 11% lower OSB prices and higher raw material input prices. • Ongoing minimal investment in capital expenditures and operating working capital.
2. Strengthen the balance sheet.	• Successfully refinanced $240 million 2012 bond maturity with issuance of senior notes due in 2015 and reduced interest rate from 7.25% to 6.25%. • Renewed $245 million committed revolving bank lines and extended term to May 2015.

The actions taken by Norbord over the past five 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 $455 million, net debt to capitalization on a book basis of 43% and tangible net worth of $422 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 2012 achievements in each area:

Long-Term Strategic Priority	2012 Performance
1. Develop a world-class safety culture.	• Maintained industry-leading safety performance with a Company best-ever Occupational Safety and Health Administration (OSHA) recordable rate of 0.74. • Completed OSHA recordable injury-free year at the Joanna, South Carolina and Guntown, Mississippi mills. • Completed 10 years without a lost-time incident at the Nacogdoches, Texas mill. • Achieved Norbord Safety Star certification at the La Sarre, Quebec, Inverness, Scotland and South Molton, England mills.
2. Pursue growth in OSB.	• Improved productivity at North American OSB mills by 3%. • Set annual production records at five of the Company's eight operating OSB mills in North America and Europe. • Continued to evaluate opportunities to grow OSB business through acquisition.
3. Own high-quality assets with low-cost positions.	• Indefinitely curtailed production at the Val-d'Or, Quebec mill and consolidated the Company's Canadian OSB production at the La Sarre, Quebec mill. • Completed the Company's pilot investment in fines screening technology at the Nacogdoches, Texas OSB mill. The project has exceeded its return expectations to-date. • Developed plans for $150 million three-year capital reinvestment strategy for the North American OSB mills, focused on reducing manufacturing costs.
4. Maintain a margin-focused operating culture.	• Generated margin improvements of $23 million from reduced raw materials usage and improved production efficiencies.
5. Focus on growth customers.	• Increased North American pro-dealer sales volume by 35% as US housing starts improved 28%. The Company's sales volume to customers supplying the new home construction segment represented 45% of total sales volume compared to 35% in 2011. • Increased shipments of North American value-added products by 29%. • Increased European sales volume by 2%.
6. Allocate capital with discipline.	• Constrained capital investments to less than 50% of depreciation at $26 million. • Fully paid down $82 million drawn under the Company's accounts receivable securitization program. • Put a plan in place to commence a 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)	**2012 IFRS**	2011 IFRS	2010 IFRS	2009 CGAAP	2008 CGAAP
KEY PERFORMANCE METRICS					
Return on capital employed (ROCE)	**23%**	5%	12%	0%	-6%
Return on equity (ROE)	**21%**	-3%	4%	-19%	-37%
Cash provided by (used for) operating activities	**136**	(13)	127	(35)	(13)
Cash provided by (used for) operating activities per share	**3.12**	(0.30)	2.93	(0.82)	(0.86)
SALES AND EARNINGS					
Sales[1]	**1,149**	965	962	718	943
EBITDA	**188**	45	107	-	(60)
Earnings	**72**	(11)	13	(58)	(115)
PER COMMON SHARE EARNINGS					
Basic	**1.65**	(0.25)	0.30	(1.35)	(7.62)
Diluted	**1.59**	(0.25)	0.29	(1.35)	(7.62)
Common dividends	**-**	-	-	-	3.68
Total assets	**1,115**	1,070	1,118	1,043	1,044
Long-term debt	**433**	438	443	471	542
Net debt for financial covenant purposes[2]	**315**	360	337	454	477
Net debt to capitalization, market basis[2]	**32%**	42%	35%	48%	32%
Net debt to capitalization, book basis[2]	**43%**	51%	49%	58%	61%
KEY STATISTICS					
Shipments (MMsf–3⁄8")					
North America	**3,111**	2,885	2,989	2,780	3,624
Europe	**1,574**	1,547	1,405	1,284	1,402
Indicative Average OSB Price					
North Central ($/Msf–7⁄16")	**271**	186	219	163	172
South East ($/Msf–7⁄16")	**241**	169	198	148	143
Europe (€/m^3)[3]	**260**	264	244	190	227

[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 shows the originally disclosed ratios under Canadian GAAP.

[3] European indicative average OSB price represents the gross delivered price to the largest Continental market; restated as a result of the adoption of IFRS. The 2011 comparative has been restated to gross delivered price.

The long-awaited US housing market recovery is well underway. Higher US housing starts and OSB demand in 2012, especially in the second half of the year, are clear and positive indicators. In 2012, US housing starts were 28% higher compared to 2011. The North American North Central OSB benchmark price averaged at its highest level in seven years at $271 per thousand square feet (Msf) (7⁄16-inch basis) in 2012, up 46% over 2011. Norbord ran more of its North American capacity during the year, operating at approximately 70% of capacity compared to 65% in 2011. Norbord's European panel business continued to deliver consistently strong results and remains resilient despite broader economic and currency concerns in Europe.

Against this improving market backdrop, Norbord generated EBITDA of $188 million in 2012 versus $45 million in 2011. EBITDA margins were 16%, compared to 5% for the prior year. Earnings were $72 million or $1.65 per share (basic) versus negative $11 million or $0.25 per share (basic) in 2011. Pre-tax ROCE averaged 23% compared to 5% 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 three of the past five years and Norbord has generated an average annual ROCE of 7% through this cyclical trough.

Significantly higher North American OSB prices and shipment volumes were the primary drivers of the year-over-year EBITDA improvement in 2012. In addition, 2012 results include $23 million of Margin Improvement Program (MIP) gains primarily generated from lower raw material input usages and higher productivity.

The US housing recovery is expected to gain further momentum as the underlying demographics drive more robust demand for new homes. During the US housing market downturn which began in 2006, the Company prudently focused on preserving cash and stabilizing its balance sheet. 2012 has marked a turning point in the cycle as Norbord generated $136 million in operating cash flow and had $455 million of unutilized liquidity at the end of the year. Norbord is well positioned and will continue to benefit from the housing market recovery.

OUTLOOK FOR 2013

Norbord expects the overall business environment to continue to be positive in 2013. The recovery in the US housing market which took hold in the second half of 2012 is expected to continue to accelerate in 2013. Industry experts are forecasting 2013 US housing starts in the range of 900,000 to 1.2 million. While starts still remain below the long-term annual average of 1.5 million, it will be another year of robust growth in housing activity. Unemployment, foreclosures, existing home inventories and mortgage rates are all trending down and home prices and builder confidence are rising. On the other hand, mortgage lending standards are likely to become more restrictive as new regulations take effect this year and this is expected to be a headwind. In response to increased customer demand for OSB, Norbord intends to restart its mill in Jefferson, Texas by mid-2013, which represents 9% of the Company’s annual OSB production capacity in North America. This mill was indefinitely shut in the first quarter of 2009 in response to the unprecedented deterioration in US housing activity. Norbord will continue to monitor market conditions, but does not currently expect to restart its mills in Huguley, Alabama or Val-d’Or, Quebec in 2013. These two mills represent 19% of Norbord’s annual OSB production capacity in North America.

Heading into 2013, despite the challenging macroeconomic environment, Norbord’s European operations are expected to continue delivering strong results as panel markets remain stable. In the UK, where the majority of Norbord’s European assets are located, the Company’s view suggests no material change in the panel market drivers – housing starts, mortgage lending and home prices are below trend but continue to be stable. Norbord’s core UK mills also remain significantly advantaged by a weaker Pound Sterling relative to the Euro. This currency trend makes imports into the UK less competitive and provides the Company with further export opportunities to continental Europe.

On the input cost side, as the US economic recovery picks up speed, management expects to see continued upward pressure on global commodity prices, which would affect panel producers’ raw material costs, specifically fibre, resin and energy. Norbord will continue to pursue aggressive MIP initiatives to reduce raw material usages and improve productivity to offset these potentially higher uncontrollable costs.

Norbord is planning to increase capital investments to $70 million in 2013, which represents 127% of depreciation. Key strategic capital projects are planned at the North American OSB mills focused on reducing manufacturing costs and increasing productivity.

Norbord has strong financial liquidity and no debt maturities until 2015. Combined with the Company’s competitive cost position, diversified sales strategy and solid customer partnerships, Norbord is well positioned for the accelerating recovery in housing markets and will benefit from stronger OSB demand in the years ahead.

RESULTS OF OPERATIONS

(US $ millions, unless otherwise noted)	**2012 IFRS**	2011 IFRS	2010 IFRS	2009 CGAAP	2008 CGAAP
Sales[1]	**1,149**	965	962	718	943
EBITDA	**188**	45	107	-	(60)
EBITDA margin	**16%**	5%	11%	0%	-6%
Depreciation	**53**	51	51	48	68
Investment in property, plant and equipment	**26**	25	16	14	27
Shipments (MMsf–3⁄8")	**4,685**	4,432	4,394	4,064	5,026
Indicative Average OSB Price					
North Central ($/Msf–7⁄16")	**271**	186	219	163	172
South East ($/Msf–7⁄16")	**241**	169	198	148	143
Europe (€/m^3)[2]	**260**	264	244	190	227

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

[2] European indicative average OSB price represents the gross delivered price to the largest Continental market; restated as a result of the adoption of IFRS. The 2011 comparative has been restated to gross delivered price.

Markets

North America is the principal market destination for Norbord’s products. North American OSB comprises approximately 66% 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 34% of Norbord’s shipments by volume, affecting Norbord’s results to a lesser degree.

Shipments

MMsf–3⁄8"	**2012**	2011	2010	2009	2008
North America	**3,111**	2,885	2,989	2,780	3,624
Europe	**1,574**	1,547	1,405	1,284	1,402
Total	**4,685**	4,432	4,394	4,064	5,026

North America

2012 marked a turning point in the US housing market and in turn the OSB market. Reflecting increased demand from new home construction, North American OSB prices improved steadily throughout the year and gained momentum in the second half of the year. North Central benchmark OSB prices strengthened from a February low of $188 per Msf (7⁄16-inch basis) to finish the year at an annual high of $370 per Msf. The North Central benchmark price averaged $271 per Msf in 2012 compared to $186 per Msf in 2011, a 46% increase. In the South East region, where approximately 55% of Norbord’s North American OSB capacity is located, prices averaged $241 per Msf, compared to $169 per Msf in the prior year.

According to APA – The Engineered Wood Association (APA), new home construction is still the primary end use for the OSB industry in North America, accounting for approximately 50% of OSB demand in 2012. US housing starts were approximately 780,000 in 2012, up 28% from 610,000 in 2011, while permits were 30% higher than in the previous year. More importantly for the OSB industry, single family starts (which use approximately three times more OSB than multifamily) increased by 24% in 2012. Despite these notable gains, total starts remain below the long-term annual average of 1.5 million. For context, 100,000 housing starts represent approximately 1 Bsf (3⁄8-inch basis) of OSB demand.

Norbord’s North American OSB shipment volume increased by 8% in 2012 compared to 2011. Approximately 45% of Norbord’s OSB sales volume went to the new home construction sector in 2012, up from 35% in 2011. The other 55% went into repair and remodelling, light commercial construction and industrial applications.

Management believes that this distribution channel diversity provides opportunities to maximize profitability while limiting the Company's relative exposure to the new home construction segment during periods of soft housing activity. Management expects the Company's sales volume to the new home construction sector will continue to grow as US housing recovers to more normal levels.

According to the APA, North American OSB demand increased in 2012 to approximately 16.8 Bsf (3⁄8-inch basis), representing almost 60% of total North American OSB and plywood structural panel demand and 60% of industry OSB production capacity. Norbord's North American OSB mills operated at approximately 70% of capacity in 2012, up from 65% in 2011.

Europe

Norbord's European panel markets remained resilient in 2012 in spite of persistent economic and currency concerns in Europe. In the UK, where the majority of Norbord's European assets are located, housing starts decreased by 9% compared to 2011, but the housing market nonetheless remained steady overall with stable home prices and modestly increased mortgage lending. In Germany, Norbord's largest continental European market, housing starts averaged approximately 7% higher than 2011. In this stable environment, Norbord's European panel mills produced 3% more volume and increased shipments by 2% versus the prior year. Norbord's mills produced at approximately 95% of capacity in both 2012 and 2011.

European panel prices decreased modestly in 2012. OSB prices declined 11% from 2011 peak levels while particleboard and MDF prices firmed up throughout the year, increasing 1% and 3%, respectively.

Historically, the UK has been a net importer of panel products. For the past several years, the Pound Sterling has traded in a range relative to the Euro that has been advantageous to Norbord's primarily UK-based manufacturing operations as it has improved sales opportunities within the UK, slowed the flow of Continental European imports and supported Norbord's export program into the Continent. The Pound Sterling traded between 1.18 and 1.28 versus the Euro during 2012, a range that continued to benefit Norbord.

Sales[1]

(US $ millions)	**2012 IFRS**	2011 IFRS	2010 IFRS	2009 CGAAP	2008 CGAAP
North America	**$ 701**	$ 507	$ 586	$ 406	$ 538
Europe	**448**	458	376	312	405
Total	**$ 1,149**	$ 965	$ 962	$ 718	$ 943

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

Total sales increased by $184 million or 19% in 2012 compared to 2011. In North America, sales increased by 38% due to significantly higher OSB prices and shipment volumes. Average North Central and South East OSB benchmark prices per Msf (7/16-inch basis) increased by $85 and $72, respectively, in 2012, which is an increase of 46% and 43%, respectively, compared to 2011. In Europe, sales declined by a modest 2% due to lower OSB prices that were only partially offset by higher shipment volumes and moderately higher particleboard and MDF prices. European panel shipment volumes increased by 3% for OSB, 2% for MDF, and remained relatively flat for particleboard.

Production

(MMsf–3⁄8")	**2012**	2011	2010	2009	2008
North America	**3,123**	2,864	2,993	2,785	3,645
Europe	**1,576**	1,537	1,437	1,266	1,332
Total	**4,699**	4,401	4,430	4,051	4,977

Total production volume increased by 7% or 298 million square feet (MMsf) (3/8-inch basis) as the Company ran more of its North American capacity to meet increased OSB demand. The Company's European panel mills continued to produce at full production schedules.

North America

North American production volume increased by 9% or 259 MMsf (3/8-inch basis) in 2012 in response to higher OSB demand and improved productivity. Three of Norbord's six operating mills set annual production records in 2012.

Effective April 2012, the older of the two production lines at Norbord's Cordele, Georgia mill restarted. The line was temporarily shut down at the end of 2010 and did not operate during 2011.

Effective July 2012, Norbord indefinitely suspended production at its OSB mill in Val-d'Or, Quebec to conserve cash and improve earnings. The decision to suspend production was made to optimize the Company's operating configuration in Canada given management's assessment that the housing market recovery will be gradual. Customers continue to be serviced without disruption. Approximately 120 employees were affected by this decision. The Company did not incur any material one-time charges as a result of this decision. The mill represents approximately 8% of Norbord's annual OSB production capacity in North America. Prior to this indefinite curtailment, the mill had been operating in a partially curtailed mode for the last five years.

In the first quarter of 2009, Norbord indefinitely suspended production 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. In response to increased customer demand for OSB, Norbord intends to restart its mill in Jefferson, Texas by mid-2013. Norbord will continue to monitor market conditions, but does not currently expect to restart its mills in Huguley, Alabama or Val-d'Or, Quebec in 2013.

Norbord's North American OSB mills operated at approximately 95% of their capacity in 2012, compared to 80% in 2011. Including the indefinitely closed mills, Norbord's North American OSB mills operated at approximately 70% of capacity in 2012, compared to 65% in 2011.

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

Europe

European production volume increased by 3% or 39 MMsf (3/8-inch basis) in 2012 reflecting similar volume gains across the Company's three panel products and annual production records at the two OSB mills. All of Norbord's panel mills ran on full production schedules in 2012 excluding maintenance and holiday shutdowns. The Company's particleboard mill in Cowie, Scotland was shut for three weeks in 2011 during a significant capital project.

In Europe, mills operated at approximately 95% of capacity in both 2012 and 2011, reflecting higher production in 2012 offset by the 6% increase in Norbord's stated European panel capacity effective December 31, 2011. Norbord increased the stated annual capacity of the Genk, Belgium mill from 260 MMsf (3/8-inch basis) to 350 MMsf effective for 2012, a 35% gain due to improvements from both capital investment and operating efficiencies.

Operating Results

EBITDA (US $ millions)	**2012**	2011
North America	**$ 165**	$ 14
Europe	**39**	44
Unallocated	**(16)**	(13)
Total	**$ 188**	$ 45

Norbord generated EBITDA of $188 million in 2012, compared to $45 million in 2011. North American OSB generated EBITDA of $165 million, compared to $14 million in the prior year, a year-over-year improvement of $151 million. Norbord's European panel operations generated EBITDA of $39 million, a year-over-year decline of $5 million. Unallocated costs were $3 million higher due to higher incentive compensation attributed to the improved results and a higher mark-to-market valuation for certain share-based compensation due to the increase in Norbord's share price.

North America

Norbord's North American OSB operations delivered significantly improved EBITDA results in 2012. EBITDA increased by $151 million primarily driven by higher OSB prices, higher sales volumes and lower usages for all key inputs, partially offset by higher raw material input prices and higher profit share costs attributed to the improved results. Average North Central and South East OSB benchmark prices per Msf increased by $85 and $72, respectively, which is an increase of 46% and 43%, respectively, compared to 2011. On the cost side, higher raw material prices negatively impacted operating costs as fibre, resin and wax prices increased year-over-year.

Europe

Norbord's European operations continued to deliver consistently strong results and remained resilient despite economic and currency concerns in Europe. The EBITDA decline of $5 million in 2012 was primarily driven by lower OSB prices and higher key input prices, particularly fibre and energy. This was partially offset by the benefit of lower raw material usages, higher particleboard and MDF prices, and higher panel shipment volumes. European panel prices decreased by 11% for OSB and increased 3% and 1% for MDF and particleboard, respectively. 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)	2012 vs. 2011
EBITDA – current period	$ 188
EBITDA – comparative period	45
Variance	143
Mill nets[1]	135
Volume[2]	25
Key input prices[3]	(9)
Key input usage[3]	10
Other[4]	(18)
Total	$ 143

[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, wax and energy.

[4] The Other category covers all remaining variances including labour and benefits (including incentive compensation), 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 Central benchmark OSB prices increased by $85 per Msf or 46% in 2012. These significantly higher North American prices combined with higher shipment volume in both North America and Europe more than offset lower European OSB prices.

On the cost side, fluctuations in raw material input prices significantly impact operating costs. All key input prices, with the exception of North American energy, increased in 2012. 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 increased in both North America and Europe in 2012. 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.

The prices of fibre, resin, wax and energy, which account for approximately 65% of Norbord's cash production costs, have risen in the past two years. MIP gains of $23 million in 2012, measured relative to 2011 at constant prices and exchange rates, mitigated the impact of higher raw material prices on Norbord's earnings in 2012. Contributions to MIP included raw material usage reduction initiatives, improved production efficiencies and a richer added-value product mix. Approximately 75% of MIP gains were attributed to the North American operations. The largest contributor to 2012 MIP gains was the Company's North American resin technology change which started in 2011. In addition, the Company's pilot capital investment in fines screening technology in North America was completed in 2012 and also contributed to MIP.

In 2012, Norbord's North American OSB cash production costs per unit (excluding incentive compensation) decreased 1% over the prior year. Excluding the impact of higher raw material prices and higher maintenance costs, production cost per unit decreased by 3%. 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, Belgium site in 2008 and the installation of biomass heat energy systems at the Company's OSB mill in Genk and MDF mill in Cowie, Scotland in 2007.

INTEREST, DEPRECIATION AND INCOME TAXES

(US $ millions)	**2012 IFRS**	2011 IFRS	2010 IFRS	2009 CGAAP	2008 CGAAP
Interest and other income	**$ -**	$ -	$ -	$ -	$ 3
Interest expense	**(36)**	(33)	(34)	(36)	(49)
Depreciation	**(53)**	(51)	(51)	(48)	(68)
Income tax (expense) recovery	**(27)**	28	(1)	33	95

Interest

Interest expense in 2012 was $3 million higher than in 2011 due to higher amortization of debt issue costs related to the 2012 bond refinancing and lower gains on interest rate swaps that matured in 2012. This was partially offset by lower coupon rates on the refinanced $240 million senior notes and on the 2017 bonds due to the upgraded secured credit rating (see Liquidity and Capital Resources section).

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 in 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 6.9% as at December 31, 2012, compared to 5.8% as at December 31, 2011. None of Norbord's net debt was subject to floating interest rates as at December 31, 2012, compared to 23% as at December 31, 2011.

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, 2012, all interest rate swaps had matured and no amounts were deferred and included in the carrying value of long-term debt in the consolidated balance sheet. Amortization of $1 million in 2012 and $2 million in 2011 was included in interest expense.

Depreciation

Depreciation expense in 2012 was $2 million higher than in 2011 due to higher production volumes. Effective March 29, 2009, the Company prospectively changed its depreciation of production equipment from straight-line to units-of-production.

Income Tax

A tax expense of $27 million was recorded in 2012 on a pre-tax income of $99 million. The effective tax rate of 27% is marginally higher than the Canadian statutory rate principally due to rate differences on foreign activities and fluctuations in relative currency values. In 2011, the effective tax rate of 72% was 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 included: (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 2012 and 2011, the Company paid net taxes of $nil and $1 million, respectively. In 2010, 2009 and 2008, the Company received tax refunds of $52 million, $10 million and $85 million, respectively, related to losses carried back and over installments.

At December 31, 2012, the Company had tax operating loss carryforwards of approximately €38 million from operations in Belgium. These losses can be carried forward indefinitely to offset future taxable income in Belgium. The Company also has tax operating losses of CAD $85 million and US $145 million from operations in Canada and the US, respectively, which expire between 2028 and 2033. In addition, the Company has capital losses of CAD $18 million which can be carried forward indefinitely. The Company also has approximately CAD $3 million worth of Investment Tax Credits (ITCs) available to reduce future Canadian tax liabilities. The ITCs expire between 2019 and 2031. The loss carryforwards and credits may be utilized over the next several years to eliminate cash taxes otherwise payable, and will protect future cash flows. Certain deferred tax assets in respect of its tax losses and attributes have been recognized and included in deferred income taxes in the consolidated financial statements. The Company reviews its deferred income tax assets at each balance date and reduces the amount recognized to the extent, in the judgement of management, is not probable to be realized.

LIQUIDITY AND CAPITAL RESOURCES

(US $ millions, except per share information, unless otherwise noted)	**2012 IFRS**	2011 IFRS	2010 IFRS	2009 CGAAP	2008 CGAAP
Cash provided by (used for) operating activities	**$ 136**	$ (13)	$ 127	$ (35)	$ (13)
Cash provided by (used for) operating activities per share	**3.12**	(0.30)	2.93	(0.82)	(0.86)
Operating working capital	**50**	28	10	(42)	(53)
Total working capital	**178**	116	127	36	(20)
Investment in property, plant and equipment	**26**	25	16	14	27
Net debt to capitalization, market basis[1]	**32%**	42%	35%	48%	32%
Net debt to capitalization, book basis[1]	**43%**	51%	49%	58%	61%

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

At year-end, the Company had unutilized liquidity of $455 million, comprising $242 million in revolving bank lines, $85 million undrawn under its accounts receivable securitization program and $128 million in cash. 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 3.2 years. Norbord's net debt for financial covenant purposes was $315 million at December 31, 2012, which includes long-term debt of $440 million less cash and cash equivalents of $128 million plus letters of credit of $3 million.

Senior Notes Due 2015

In June 2012, the Company issued $240 million in senior notes due in 2015 with an interest rate of 6.25%. The notes comprise two tranches. The first tranche consists of $165 million of senior secured notes that rank pari passu with the Company's existing senior secured notes due in 2017 and committed revolving bank lines. The second tranche consists of $75 million of senior unsecured notes. The Company used the proceeds to repay the $240 million 7.25% debentures due on July 1, 2012.

Senior Secured Notes Due 2017

The Company's senior secured notes due in 2017 bear an interest rate that varies with the Company's credit ratings. In June 2012, Moody's Investors Service upgraded the ratings on the Company's senior secured debt from Ba3 to Ba2, and, accordingly, the interest rate on the 2017 notes decreased by 0.25% from 7.95% to 7.70% effective February 15, 2012.

Revolving Bank Lines

In July 2012, the Company renewed its committed revolving bank lines, extending the maturity by one year and reducing the aggregate commitment by $25 million. All other material terms of the bank lines remain unchanged. As a result, the Company now has a total aggregate commitment of $245 million which matures in May 2015 and bears 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 2015 and 2017 senior secured notes.

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%. 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 $422 million for financial covenant purposes, and net debt for financial covenant purposes was $315 million. Net debt to total capitalization, book basis, was 43%.

Accounts Receivable Securitization

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 is revolving and 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 December 31, 2012, Norbord had transferred but continued to recognize $112 million in accounts receivable but had no drawings on this program.

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 30, 2013, Norbord's ratings were BB(low) (DBRS), 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 $22 million during the year to $50 million at year-end, compared to $28 million at December 31, 2011. The year-over-year increase was primarily due to higher accounts receivable mainly as a result of higher North American OSB prices. 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 $178 million as at December 31, 2012, compared to $116 million in the prior year. The increase is attributed to a higher cash balance and higher operating working capital balances.

Operating activities generated $136 million of cash or $3.12 per share in 2012, compared to consuming $13 million or $0.30 per share in 2011. In 2012, higher EBITDA was the primary driver of the improved cash generation.

The Company realized a gain of $3 million on its matured net investment hedges in 2012, compared to a loss of $1 million in 2011. The realized gain and loss were offset by an unrealized loss and gain 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)	2013	2014	2015	2016	2017	Thereafter	**Total**
Long-term debt, including interest	$ 32	$ 32	$ 264	$ 15	$ 208	$ -	**$ 551**
Purchase obligations	44	32	20	20	6	5	**127**
Operating leases	3	2	2	1	-	-	**8**
Total	$ 79	$ 66	$ 286	$ 36	$ 214	$ 5	**$ 686**

Note: The above table does not include pension and post-employment benefits plan obligations, which are discussed in the Risks and Uncertainties – Defined Benefit Pension Funding section.

INVESTMENTS AND DIVESTITURES

Investment in Property, Plant and Equipment

(US $ millions)	**2012**	2011	2010	2009	2008
Increased productivity	**$ 16**	$ 15	$ 7	$ 4	$ 3
Environmental	**3**	2	4	6	13
Maintenance of business	**7**	8	5	4	11
Total	**$ 26**	$ 25	$ 16	$ 14	$ 27

Investment in property, plant and equipment in 2012 was $26 million, representing approximately 50% of depreciation, which included the Company's pilot investment in fines screening technology at its Nacogdoches, Texas mill.

Due to market conditions, investment in property, plant and equipment has been constrained in the past five years to essential projects and, more recently, modest investments in technology that further improve Norbord's cost position.

Norbord's 2013 investment in property, plant and equipment is expected to be $70 million which will include essential capital projects of approximately $10 million to restart the Jefferson, Texas mill. The plan also includes investment in certain key strategic capital projects to improve production efficiency and reduce manufacturing costs at the North American mills. 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.

Divestitures

In January 2011, True North Hardwood Plywood Inc. announced the winding down of its hardwood plywood operation in Cochrane, Ontario. 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

At December 31	**2012**	2011	2010	2009	2008
Shares outstanding (millions)	**44.0**	43.6	43.5	43.2	26.9
Dividends (US $ millions)	**$ -**	$ -	$ -	$ -	$ 56
Market price at year-end (CAD $)	**$ 30.19**	$ 8.10	$ 14.64	$ 14.66	$ 7.00

At January 30, 2013, there were 44.0 million common shares outstanding. In 2012, the total return on Norbord shares was positive 273%, compared to negative 45% in 2011. The average daily volume traded during 2012 was approximately 86,000 shares, compared to approximately 80,000 shares in 2011.

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 January 2013, Norbord applied to the Toronto Stock Exchange (TSX) for approval to commence a normal course issuer bid in accordance with TSX rules. Under the previous bid which expired on December 20, 2012, the Company could have purchased 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. No share purchases were made under the Company's previous bid.

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, 2012, there were 135.2 million warrants outstanding, entitling the holders to purchase 13.5 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. In 2012, approximately 1.1 million common share purchase warrants were exercised, resulting in the issuance of 0.1 million common shares for total proceeds of $1 million.

Stock Options

As at December 31, 2012, options on 2.2 million common shares were outstanding, with 32% vested. The exercise prices for the outstanding options range from CAD $6.50 to CAD $111.30, with expiry on various dates up to 2022. In 2012, 0.3 million stock options were exercised resulting in the issuance of 0.3 million common shares for total proceeds of $3 million.

SELECTED QUARTERLY INFORMATION

(US $ millions, except per share information, unless otherwise noted)	**2012** Q4	Q3	Q2	Q1	**2011** Q4	Q3	Q2	Q1
KEY PERFORMANCE METRICS								
Return on capital employed (ROCE)	**33%**	**32%**	**15%**	**10%**	4%	6%	5%	6%
Return on equity (ROE)	**42%**	**36%**	**8%**	**0%**	-11%	-1%	2%	-2%
Cash provided by (used for) operating activities	**86**	**52**	**25**	**(27)**	31	(14)	3	(33)
Cash provided by (used for) operating activities per share	**1.98**	**1.19**	**0.57**	**(0.62)**	0.73	(0.32)	0.05	(0.76)
SALES AND EARNINGS								
Sales[1]	**322**	**302**	**272**	**253**	229	242	241	253
EBITDA	**70**	**66**	**31**	**21**	9	12	10	14
Earnings	**38**	**28**	**6**	**-**	(9)	(1)	1	(2)
PER COMMON SHARE EARNINGS								
Basic	**0.86**	**0.64**	**0.14**	**-**	(0.21)	(0.02)	0.03	(0.05)
Diluted	**0.76**	**0.61**	**0.14**	**-**	(0.21)	(0.02)	0.03	(0.05)
KEY STATISTICS								
Shipments (MMsf–3⁄8")								
North America	**779**	**799**	**805**	**728**	695	747	721	721
Europe	**380**	**396**	**384**	**414**	372	373	400	402
Indicative Average OSB Price								
North Central ($/Msf–7⁄16")	**332**	**313**	**235**	**203**	190	184	173	198
South East ($/Msf–7⁄16")	**296**	**274**	**204**	**190**	166	169	162	177
Europe (€/m^3)[2]	**259**	**260**	**260**	**261**	259	265	271	260

1 Outbound freight costs are no longer netted against sales.

2 European indicative average OSB price represents the gross delivered price to the largest Continental market. Prior period comparatives from Q1 2011 to Q4 2011 have been restated to gross delivered price.

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. Prior to the second quarter of 2012, operating working capital also fluctuated based on the timing of coupon payments on the 2012 debentures and 2017 notes that normally fell in the first and third quarters. Starting in the third quarter of 2012, coupon payments on the 2015 notes, which refinanced the 2012 debentures, fall in the second and fourth 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 on EBITDA of a $10 per Msf (7/16-inch basis) change in the North American OSB price, when operations are running at full capacity, is approximately $36 million or $0.82 per share (pre-tax). 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. Similarly in Europe, regional pricing variations and product mix make the European OSB indicative price a useful, albeit imperfect, proxy for overall European 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 benchmarks for both North America and Europe.

Global commodity prices affect the prices of key input costs, primarily resin, wax, energy and fibre. In 2010, commodity prices increased in the first half of the year and then levelled off for the remainder of the year. In 2011, resin prices and European fibre and energy prices were significantly higher than in 2010. In 2012, all input prices except North American energy increased compared to 2011. In 2013, as the US economic recovery picks up speed, upward pressure on input costs is expected to continue.

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:

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 favourable resolution of a tax authority audit previously provided for in the Company's deferred income tax provision.

FOURTH QUARTER RESULTS

In the fourth quarter of 2012, Norbord achieved its highest sustained quarterly EBITDA result since the second quarter of 2006, driven by higher North American OSB prices.

In the quarter, North Central benchmark OSB prices averaged $332 per Msf (7/16-inch basis), up $19 per Msf from the prior quarter and up $142 per Msf from the fourth quarter of 2011. In the South East region, where approximately 55% of Norbord's North American OSB capacity is located, prices averaged $296 per Msf in the quarter, up $22 from the prior quarter and up $130 from the fourth quarter of 2011. European OSB and MDF prices both increased by 1% relative to the third quarter of 2012, while particleboard prices decreased by 1%. Year-over-year, European OSB, particleboard and MDF prices decreased by 8%, 3% and 2%, respectively.

In North America, several mills took scheduled maintenance shutdowns during the fourth quarter resulting in lower shipments and higher costs versus the prior quarter but benefited from higher OSB prices. Year-over-year, North American OSB prices and shipments rose. In Europe, the normal seasonal slowdown was evident as shipment volumes decreased over the prior quarter but were up compared to the same quarter last year. European panel prices remained relatively in line with the prior quarter but compared to the same quarter last year OSB prices were significantly lower, while both MDF and particleboard prices were moderately lower.

Sales in the quarter were $322 million, compared to $302 million and $229 million in the third quarter of 2012 and fourth quarter of 2011, respectively. Quarter-over-quarter, sales increased by $20 million mainly due to higher North American OSB prices. Year-over-year, sales increased by $93 million primarily due to significantly higher North American OSB prices and a 12% increase in shipment volumes.

In the fourth quarter of 2012, Norbord's North American OSB mills operated at approximately 70% of capacity and its European mills operated at approximately 90% of capacity, compared to 60% and 90%, respectively, in the fourth quarter of 2011. In the third quarter of 2012, North American OSB mills operated at 70% of capacity and European mills operated at 95% of capacity.

Norbord recorded earnings of $38 million ($0.86 per share) in the fourth quarter of 2012. The Company recorded earnings of $28 million ($0.64 per share) in the third quarter of 2012 and a loss of $9 million ($0.21 per share) in the fourth quarter of 2011. Quarter-over-quarter and year-over-year, higher earnings were primarily driven by higher North American EBITDA results.

In the quarter, Norbord recorded EBITDA of $70 million, versus $66 million in the previous quarter and $9 million in the fourth quarter of 2011. EBITDA changes are summarized in the variance table below:

(US $ millions)		Q4 2012 vs. Q3 2012		Q4 2012 vs. Q4 2011
EBITDA – current period	$	70	$	70
EBITDA – comparative period		66		9
Variance		4		61
Mill nets[1]		20		63
Volume[2]		(5)		12
Key input prices[3]		(1)		(2)
Key input usage[3]		(1)		-
Other[4]		(9)		(12)
Total	$	4	$	61

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, wax and energy.

4 The Other category covers all remaining variances including labour and benefits (including incentive compensation), supplies and maintenance and the impact of foreign exchange.

EBITDA

(US $ millions)		**Q4 2012**		Q3 2012		Q4 2011
North America	**$**	**67**	$	58	$	2
Europe		**9**		10		10
Unallocated		**(6)**		(2)		(3)
Total	**$**	**70**	$	66	$	9

Norbord's North American operations generated EBITDA of $67 million in the fourth quarter of 2012, versus $58 million in the third quarter of 2012 and $2 million in the fourth quarter of 2011. Quarter-over-quarter, the increase in EBITDA of $9 million was attributed to higher OSB prices partially offset by lower shipment volumes and higher supplies and maintenance costs. The year-over-year increase of $65 million was attributed to significantly higher OSB prices and shipment volumes partially offset by higher fibre and resin prices and higher incentive compensation attributed to the improved results.

In the fourth quarter, Norbord's North American OSB cash production costs per unit (excluding incentive compensation) increased by 8% over the third quarter of 2012 due to lower production volume and higher supplies and maintenance costs related to annual maintenance shutdowns. Year-over-year, OSB cash production costs per unit (excluding incentive compensation) increased by 4% over the fourth quarter of 2011. The benefit of higher production volume was more than offset by higher fibre and resin prices.

Norbord's European operations generated EBITDA of $9 million in the fourth quarter of 2012, versus $10 million in both the third quarter of 2012 and fourth quarter of 2011. The quarter-over-quarter decrease of $1 million is primarily attributed to seasonally higher fibre and energy usages. The year-over-year decrease of $1 million is primarily attributed to lower panel prices partially offset by higher shipment volumes.

Quarter-over-quarter and year-over-year, unallocated costs increased by $4 million and $3 million, respectively, due to higher incentive compensation attributed to the improved results, and a higher mark-to-market valuation for certain share-based compensation due to the increase in Norbord's share price.

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 2011, Brookfield committed to put in place a $120 million standby term loan to be used to repay up to half of the 2012 debentures, which were due July 1, 2012, if necessary. Since the 2012 debentures were refinanced through the issuance of senior notes during the year, the standby term loan commitment automatically terminated.

Secondary Offering

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

Indemnity Commitment

As at December 31, 2012, 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 which are charged on a cost recovery basis. In addition, the Company periodically purchases goods from or engages the services of Brookfield for various financial, real estate and other business advisory services. In 2012, the fees for services rendered and cost of goods purchased were $4 million (2011 – $5 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 $455 million, comprising $128 million in cash, $85 million undrawn under its accounts receivable securitization program and $242 million in unutilized committed revolving bank lines with eight international financial institutions, available to support its liquidity requirements.

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 30, 2013, Norbord's long-term debt and issuer ratings were:

	DBRS	Standard & Poor's Ratings Services	Moody's Investors Service
Secured Notes	BB(mid)	BB-	Ba2
Unsecured Notes	B(mid)	B+	B2
Issuer	BB(low)	BB-	Ba3
Outlook	Stable	Stable	Stable

In September 2012, Standard & Poor's Ratings Services revised their outlook on Norbord's issuer rating from negative to stable, citing improved North American housing market conditions.

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 on 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 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.

CHANGES IN ACCOUNTING STANDARDS

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 Company's accounts receivable securitization program met the definition of a transferred financial asset that is not derecognized when the amendments became effective for the Company on January 1, 2012, and the disclosures on the program were amended accordingly in note 3 to the consolidated financial statements.

FUTURE CHANGES IN ACCOUNTING POLICIES

Employee Future Benefits

In June 2011, the IASB amended IAS 19, *Employee Benefits*. 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 of specific measurement issues; and enhanced disclosure requirements. The amendments are effective for the year ending December 31, 2013. The Company is currently assessing the impact of this amendment 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 the year ending December 31, 2013. The Company is currently assessing the impact of IFRS 13 on its financial statements.

Other Comprehensive Income

In June 2011, the IASB amended IAS 1, *Presentation of Financial Statements* to require the grouping together of OCI items that may be reclassified to the Statement of Earnings within OCI. The amendment is effective for the year ending December 31, 2013. The Company is currently assessing the impact of this amendment 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 the year ending December 31, 2013. The Company does not expect these standards to have any impact on its financial statements.

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 is currently assessing the impact of IFRS 9 on its financial statements

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 information 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 which 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 operations running 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, access to revolving bank lines and an accounts receivable securitization program to fund its ongoing operations. The Company's ability to refinance or renew such facilities is dependent upon financial market conditions. Although Norbord has notes maturing in 2015 and 2017 and has bank lines that are committed to 2015, 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 2012, Norbord had one customer whose purchases represented greater than 10% of total 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' ability to exert pricing pressure on Norbord.

Manufacturing Inputs

Norbord is exposed to commodity price risk on most of its manufacturing inputs, which principally comprise wood fibre, resin, wax 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 bio-based 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 now indefinitely curtailed 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. The Company 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 related to 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 provides 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 estimated liabilities.

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 the Company'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, 2012. Based on this assessment, management believes that, as of December 31, 2012, 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, 2012. There have been no changes in Norbord's internal control over financial reporting during the year ended December 31, 2012 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, 2012 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)	**2012 IFRS**	2011 IFRS	2010 IFRS	2009 CGAAP	2008 CGAAP
Earnings	**$ 72**	$ (11)	$ 13	$ (58)	$ (115)
Add: Interest expense	**36**	33	34	36	49
Less: Interest and other income	**-**	-	-	-	(3)
Add: Provision for non-core operation	**-**	-	8	4	4
Add: Foreign exchange loss	**-**	-	-	3	-
Add: Litigation settlement	**-**	-	-	-	32
Add: Depreciation	**53**	51	51	48	68
Add: Income tax expense (recovery)	**27**	(28)	1	(33)	(95)
EBITDA	**$ 188**	$ 45	$ 107	$ -	$ (60)

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)	**2012 IFRS**	2011 IFRS	2010 IFRS	2009 CGAAP	2008 CGAAP
Accounts receivable	**$ 125**	$ 102	$ 90	$ 27	$ 12
Inventory	**98**	88	84	71	81
Accounts payable and accrued liabilities	**(173)**	(162)	(164)	(140)	(146)
Operating working capital	**$ 50**	$ 28	$ 10	$ (42)	$ (53)

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

(US $ millions)	**2012 IFRS**	2011 IFRS	2010 IFRS	2009 CGAAP	2008 CGAAP
Operating working capital	**$ 50**	$ 28	$ 10	$ (42)	$ (53)
Cash and cash equivalents	**128**	83	111	21	20
Tax receivable	**-**	5	6	57	13
Total working capital	**$ 178**	$ 116	$ 127	$ 36	$ (20)

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 and equipment, operating working capital, tax receivable and other assets.

(US $ millions)	**2012 IFRS**	2011 IFRS	2010 IFRS	2009 CGAAP	2008 CGAAP
Property, plant and equipment	**$ 764**	$ 787	$ 814	$ 860	$ 885
Accounts receivable	**125**	102	90	27	12
Tax receivable	**-**	5	6	57	13
Inventory	**98**	88	84	71	81
Accounts payable and accrued liabilities	**(173)**	(162)	(164)	(140)	(146)
Other assets	**-**	5	13	7	33
Unrealized net investment hedge losses[1]	**-**	-	-	-	(8)
Capital employed	**$ 814**	$ 825	$ 843	$ 882	$ 870

[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 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, if any, less cash and cash equivalents. Net debt is a useful indicator of a company's debt position. Net debt comprises:

(US $ millions)	**2012 IFRS**	2011 IFRS	2010 CGAAP[1]	2009 CGAAP	2008 CGAAP
Long-term debt, principal value	**$ 440**	$ 440	$ 440	$ 467	$ 532
Less: Cash and cash equivalents	**(128)**	(83)	(113)	(21)	(20)
Less: Drawings under Brookfield debt facility[2]	**-**	-	-	-	(35)
Net debt	**312**	357	327	446	477
Add: Letters of credit	**3**	3	10	8	-
Net debt for financial covenant purposes	**$ 315**	$ 360	$ 337	$ 454	$ 477

[1] 2010 has not been restated for IFRS and shows 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)	**2012 IFRS**	2011 IFRS	2010 CGAAP[1]	2009 CGAAP	2008 CGAAP
Shareholders' equity	**$ 386**	$ 300	$ 352	$ 334	$ 268
Add: IFRS transitional adjustments	**21**	21	-	-	-
Add: Other comprehensive income movement[2]	**15**	22	-	-	-
Add: Drawings under Brookfield debt facility[3]	**-**	-	-	-	35
Tangible net worth	**$ 422**	$ 343	$ 352	$ 334	$ 303

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

[2] Cumulative 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. 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,” “aims,” “predicts,” “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, wax 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 that 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 outcomes 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 30, 2013

J. BARRIE SHINETON	ROBIN E. LAMPARD
President and Chief Executive Officer	*Senior Vice President and Chief Financial Officer*

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To the Shareholders of Norbord Inc.

We have audited the accompanying consolidated financial statements of Norbord Inc., which comprise the consolidated balance sheets as at December 31, 2012 and December 31, 2011, the consolidated statements of earnings, comprehensive income/(loss), changes in equity and cash flows for the years then ended, 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 audit. We conducted our audit 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 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 financial position of Norbord Inc. as at December 31, 2012 and December 31, 2011, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Accountants, Licensed Public Accountants
January 30, 2013
Toronto, Canada

Consolidated Balance Sheets

(US $ millions)	Note	Dec 31, 2012	Dec 31, 2011
Assets			
Current assets			
Cash		**$ 128**	$ 83
Accounts receivable	3	**125**	102
Tax receivable		**-**	5
Inventory	4	**98**	88
		351	278
Non-current assets			
Property, plant and equipment	5	**764**	787
Other assets	6	**-**	5
		764	792
		$ 1,115	$ 1,070
Liabilities and Shareholders' Equity			
Current liabilities			
Accounts payable and accrued liabilities		**$ 173**	$ 162
Current portion of long-term debt	7	**-**	242
		173	404
Non-current liabilities			
Long-term debt	7	**433**	196
Other long-term debt	3	**-**	69
Other liabilities	8	**40**	40
Deferred income taxes	10	**83**	61
		556	366
Shareholders' equity	11	**386**	300
		$ 1,115	$ 1,070

(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	2012	2011
Sales		**$ 1,149**	$ 965
Cost of sales		**(945)**	(907)
General and administrative expenses		**(16)**	(13)
Earnings before interest, income tax and depreciation		**188**	45
Interest expense	3, 7	**(36)**	(33)
Earnings before income tax and depreciation		**152**	12
Depreciation		**(53)**	(51)
Income tax (expense) recovery	10	**(27)**	28
Earnings		**$ 72**	$ (11)
Earnings per common share	12		
Basic		**$ 1.65**	$ (0.25)
Diluted		**1.59**	(0.25)

(See accompanying notes)

Consolidated Statements of Comprehensive Income/(Loss)

Years ended December 31 (US $ millions)	Note	2012	2011
Earnings		**$ 72**	$ (11)
Other comprehensive income (loss), net of tax			
Foreign currency translation gain (loss) on foreign operations	10	**7**	(4)
Net loss on hedge of net investment in foreign operations	10	**-**	(1)
Actuarial loss on post-employment obligation	10	**-**	(17)
		7	(22)
Comprehensive income (loss)		**$ 79**	$ (33)

(See accompanying notes)

Consolidated Statements of Changes in Shareholders' Equity

Years ended December 31 (US $ millions)	Note	2012	2011
Share capital			
Balance, beginning of year		**$ 340**	$ 340
Issue of common shares, net	11	**6**	-
Balance, end of year		**$ 346**	$ 340
Contributed surplus			
Balance, beginning of year		**$ 43**	$ 41
Stock-based compensation	11	**2**	2
Stock options and warrants exercised	11	**(1)**	-
Balance, end of year		**$ 44**	$ 43
Retained earnings			
Balance, beginning of year		**$ (82)**	$ (54)
Earnings		**72**	(11)
Other comprehensive loss		**-**	(17)
Balance, end of year		**$ (10)**	$ (82)
Accumulated Other Comprehensive Income (Loss)			
Balance, beginning of year		**$ (1)**	$ 4
Other comprehensive income (loss)		**7**	(5)
Balance, end of year	11	**$ 6**	$ (1)
Shareholders' equity		**$ 386**	$ 300

(See accompanying notes)