*J. Barrie Shineton*
*President & CEO*

Norbord

April 27, 2012

To Our Shareholders,

I'm pleased to report better first quarter results. Norbord generated break-even earnings on positive EBITDA of $21 million, more than double the prior quarter and 50% ahead of the same period last year. This improvement was driven by higher OSB prices in North America and the continuing strong performance of our European operations. It's also the best EBITDA result we've posted in the last seven quarters.

North American operations delivered the biggest quarter-over-quarter improvement, generating EBITDA of $14 million. North Central benchmark OSB prices averaged 7% higher this quarter at $203/Msf. Shipment volumes were up 5%, reflecting both increased sales to home building suppliers and our stronger position with key big box customers.

In Europe, our panel business delivered another solid result despite the persistently negative economic news. Overall sales volume was up 11% from the prior quarter and ahead of the same period last year. Panel prices were also better than we had planned, although OSB prices did soften from their peak a year ago. Particleboard and MDF prices, however, remained strong.

Our Margin Improvement Program (MIP) is off to another great start, delivering $7 million in gains so far this year. The step change in mill productivity we achieved last year continued into the first quarter, with three OSB mills setting new production records. Our Margin Improvement efforts continue to help offset higher raw material input prices, positively impacting manufacturing costs and ultimately, our bottom line. MIP remains a top priority for everyone in our Company and I expect a positive result for the rest of the year.

Earlier this month, we took the unusual step of pre-releasing some of our numbers. We did this so we could explore a broader range of debt refinancing options for our upcoming bond maturity. We want the best possible deal for Norbord and are comfortable taking our time, knowing we have an actionable backup plan. High Yield markets are open and we expect to make an announcement in the coming weeks.

The US housing market is improving with year-over-year starts and permits both up sharply in the first quarter. Most of the economists we follow are of the view that, after a five-year decline, housing stabilized mid-last year and we are now in the early phase of a gradual recovery. All of these experts have raised their forecasts for 2012 and the consensus view today is for 710,000 new home starts – 16% higher than last year's number.

Norbord

Longer-term demographics also suggest that pent-up demand for new homes is building. US population growth over the past five years supports 9 million new household formations, yet less than 3.4 million new residential units have been built. As the economy recovers and mortgage availability improves, this pent-up demographic demand, coupled with better housing numbers, points to a more positive market environment for all building materials, including our OSB.

In spite of these positive trends, there are some headwinds that can't be ignored. Foreclosures and the so-called 'shadow' inventory of empty homes could drag on the housing recovery for several more years. However, it is my view that the impact will be manageable as long as these foreclosed homes come back into the market in an orderly fashion.

The economic uncertainty in Europe will continue for some time. However, Norbord operates in northern Europe and not in the Mediterranean countries at the centre of the sovereign debt crisis. Further, our UK-based manufacturing continues to be advantaged by a weaker Pound Sterling that limits competing imports and allows us to export more of our product to Continental Europe. Our first quarter results were better than we had planned, a trend I now believe should continue for the rest of the year.

Our business is improving. All of Norbord's OSB mills are delivering a step change in productivity and manufacturing costs are trending in the right direction. In North America, we are benefitting from a rebounding home improvement sector and our overall sales volume will grow along with the recovery in new home construction. And in Europe, our panel business is set to have another good year.

I look forward to reporting our results as the year progresses.

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," "believe," "should," "likely," "would," or variations of such words and phrases or statements that certain actions "may," "could," "must," "would," "might," or "will" be undertaken, occur or be achieved. Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of Norbord to be materially different from any future results, performance or achievement expressed or implied by the forward-looking statements. See the cautionary language in the Forward-Looking Statements section of the 2011 Management's Discussion and Analysis dated January 26, 2012 and Q1 2012 Management's Discussion and Analysis dated April 26, 2012.*

# News Release

## NORBORD REPORTS FIRST QUARTER 2012 RESULTS

Note: Financial references in US dollars unless otherwise indicated.

## Q1 2012 HIGHLIGHTS

- **Achieved positive EBITDA of $21 million – more than double the prior quarter**
- **Improved North American EBITDA – $14 million vs. $2 million the prior quarter**
- **European panel markets holding – shipments up 11% vs. the prior quarter**
- **Margin improvement program delivered $7 million of gains**
- **Best-ever quarterly safety performance – incident rate of just 0.40 YTD**

TORONTO, ON (April 27, 2012) – Norbord Inc. (TSX: NBD, NBD.WT) today reported EBITDA of $21 million in the first quarter of 2012, a $12 million improvement from the fourth quarter of 2011 and a $7 million improvement from the same quarter last year. North American operations generated EBITDA of $14 million in the first quarter of 2012 versus $2 million and $7 million in the fourth and first quarters of 2011, respectively. European operations generated EBITDA of $11 million in the first quarters of 2012 and 2011 versus $10 million in the fourth quarter of 2011.

Norbord recorded break-even earnings in the first quarter of 2012 compared to a loss of $9 million or $0.21 per share in the prior quarter. In the same quarter last year, the Company recorded a loss of $2 million or $0.05 per share, which included a non-recurring income tax recovery of $5 million or $0.11 per share.

“Our first quarter results are evidence that business is getting better,” said Barrie Shineton, President and CEO. “Our EBITDA improvement reflects a 7% quarter-over-quarter increase in North American benchmark OSB prices as well as continuing strong results from our European operations. I am particularly pleased with our Margin Improvement Program, which delivered another $7 million in gains from reduced raw material usages and record plant productivity.”

“This more positive trend should continue through the remainder of 2012. In North America, US economic news is improving and housing starts appear to be making a slow comeback. In Europe, our business is holding up better than expected and I now believe we will have another solid year.”

### Market Conditions

US housing starts were 20% higher during the first quarter of this year compared to the same period last year and permits were 30% higher. More importantly for the OSB industry, US single family housing starts were 17% better versus last year. In this firmer demand environment, the North American North Central benchmark OSB price averaged $203 per thousand square feet (Msf) (7⁄16-inch basis) in the first quarter compared to $190 per Msf in the prior quarter and $198 per Msf during the same quarter last year. In the South East region, where approximately 55% of Norbord’s North American capacity is located, prices averaged $190 per Msf in the first quarter, compared to $166 per Msf in the prior quarter and $177 per Msf during the same quarter last year. Expert forecasts for 2012 US housing starts now range from 680,000 to 770,000, which is 11%-26% higher than last year’s 610,000 starts.

In Europe, despite the negative economic news, overall panel markets continued to show surprising strength. In the UK, where the majority of Norbord's European assets are located, the housing market continues to slowly recover with home prices, housing starts activity and mortgage lending all trending up. In addition, the UK government recently announced the "NewBuy" program to spur new home sales and increase home buyer eligibility by guaranteeing mortgages. The UK government also announced legislative changes aimed at unblocking the permit planning pipeline. Both of these initiatives are expected to be positive for housing demand over the longer term.

In the quarter, average European panel prices softened slightly compared to the previous quarter but remain higher than last year. After peaking mid-last year, OSB prices were 7% lower than the same quarter a year ago and 5% down from the prior quarter. However, particleboard and MDF prices are holding on to double digit gains compared to the same quarter last year, at 13% and 11% higher, respectively. Quarter-over-quarter, particleboard and MDF prices were essentially flat.

## Performance

In North America, OSB shipment volumes increased 5% versus the prior quarter and were consistent year-over-year. Norbord's operating OSB mills ran at approximately 85% of their capacity in the first quarter of 2012. Including the indefinitely closed mills in Huguley, Alabama and Jefferson, Texas, the North American operations ran at approximately 65% of capacity in the first quarter of 2012 compared to 60% the previous quarter and identical to the same period a year ago.

Norbord's North American OSB cash production costs per unit decreased by 3% versus the same quarter last year due to lower raw material usage and productivity gains resulting from the Company's Margin Improvement Program (MIP). Cash costs remained in line with the prior quarter.

In Europe, panel shipments increased by 11% over the prior quarter and 3% over the same quarter a year ago. Norbord's European mills produced at approximately 95% of estimated capacity in the quarter, which reflects the 6% increase in stated panel capacity effective December 31, 2011.

Norbord's MIP delivered $7 million in gains in the quarter. Contributions to the MIP include improved production efficiencies, raw material usage reduction initiatives and a richer added-value product mix.

Capital investments totaled $3 million in the first quarter of 2012 compared to $9 million in the prior quarter and $8 million in the first quarter of 2011. Norbord's total capital investments for 2012 are expected to total $25 million, which will include a forming line upgrade at the Bemidji, Minnesota mill and the Company's pilot investment in fines screening technology at its Nacogdoches, Texas mill.

Operating working capital was $71 million at quarter-end compared to $28 million in the prior quarter and $51 million in the prior year. The quarter-over-quarter increase is due to seasonal logging in the northern mills, as well as higher accounts receivable driven by higher shipments and stronger North American OSB prices. Finished goods inventory remains at minimal levels and accounts receivable performance is in line with prior periods.

At quarter-end, Norbord had unutilized liquidity of $327 million, consisting of $267 million in undrawn revolving bank lines and $60 million in cash and cash equivalents. The Company's tangible net worth was $344 million and net debt to total capitalization on a book basis was 53%, well within bank covenants.

## Developments

Subsequent to quarter-end, Norbord announced that effective July 2012, production at its Val-d'Or, Quebec mill will be suspended indefinitely. Approximately 120 employees are affected by this decision. Prior to this announcement, the mill had been operating in a partially curtailed mode for the last five years. Customers will continue to be serviced without disruption. The Company does not expect to incur any material one-time charges as a result of this decision.

The Company continues to explore a range of attractive debt market refinancing options related to the July 1, 2012 bond maturity and expects to announce an outcome in the coming weeks. In addition, Norbord still has the option to repay half the bond maturity from its revolving bank lines and the other half from a standby lending commitment from its largest shareholder, Brookfield Asset Management.

## Additional Information

Norbord's Q1 2012 letter to shareholders, news release, management's discussion and analysis, consolidated unaudited financial statements and notes to the financial statements have been filed on SEDAR (www.sedar.com) and are available in the investor section of the Company's website at www.norbord.com. Shareholders are encouraged to read this material.

## Conference Call

Norbord will hold a conference call for analysts and institutional investors on Friday, April 27, 2012 at 2:00 p.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 May 25, 2012 by dialing 1-888-203-1112 or 647-436-0148. The passcode is 4302017. Audio playback and a written transcript will be available on the Norbord website.

## Norbord Profile

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

-end-

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

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

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

*Except as required by applicable laws, Norbord does not undertake to update any forward-looking statements, whether as a result of new information, future events or otherwise, or to publicly update or revise the above list of factors affecting this information. See the "Caution Regarding Forward-Looking Information" statement in the March 1, 2012 Annual Information Form and the cautionary statement contained in the "Forward-Looking Statements" section of the 2011 Management's Discussion and Analysis dated January 26, 2012 and Q1 2012 Management's Discussion and Analysis dated April 26, 2012.*

APRIL 26, 2012

# Management's Discussion and Analysis

## INTRODUCTION

The Management's Discussion and Analysis (MD&A) provides a review of the significant developments that impacted Norbord's performance during the period. The information in this section should be read in conjunction with the financial statements, which follow this MD&A. Financial data provided has been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). 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. All financial references in the MD&A are stated in US dollars, unless otherwise noted.

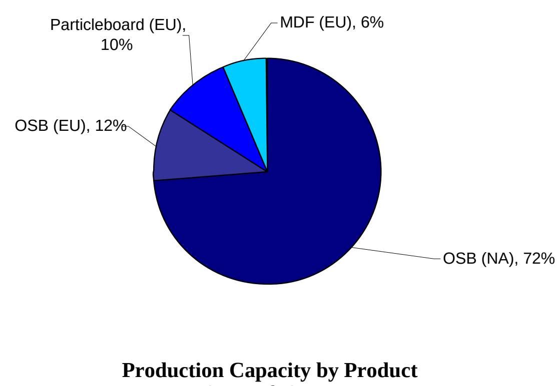
Some of the statements included or incorporated by reference in this MD&A constitute forward-looking statements within the meaning of applicable securities legislation. Forward-looking statements are based on various assumptions and are subject to various risks. See the cautionary statement contained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

Earnings before interest, taxes, depreciation and amortization (EBITDA), operating working capital, total working capital, capital employed, return on capital employed (ROCE), return on equity (ROE), 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 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 & STRATEGY

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 5.1 billion square feet (BSF) (⅜-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. The geographical breakdown of panel production capacity is approximately 72% in North America and 28% in Europe. Norbord's business strategy is focused entirely on the wood panels sector – in particular OSB – in North America and Europe.

**OSB Accounts for Almost 85% of Norbord's Business**




**Production Capacity by Product**
NA = North America
EU = Europe

---

Some of the statements included in this MD&A constitute forward-looking statements that are based on various assumptions and are subject to various risks. See the cautionary statement contained in the Forward-Looking Statements section.

Norbord's financial goal is to achieve top quartile return on equity (ROE) and cash return on capital employed (ROCE) among North American forest products companies. As Norbord operates in a cyclical commodity business, Norbord interprets its financial goals over the cycle.

Protecting the balance sheet is an important element of Norbord's financing strategy. 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. At period-end, Norbord had unutilized liquidity of $327 million, comprised of $267 million in revolving bank lines and $60 million in cash and cash equivalents. Norbord has strong financial liquidity and viable refinancing options for its 2012 debenture maturity on July 1st given strong debt market conditions. The Company also has an actionable backup plan (see Liquidity and Capital Resources) with a $120 million standby term loan commitment from its largest shareholder, Brookfield Asset Management Inc. (Brookfield), which can be used to repay up to half of the 2012 debentures, if necessary.

**SUMMARY**

Norbord achieved break-even earnings this quarter providing optimism as the year begins. In North America, the Company's Margin Improvement Program (MIP) was the primary driver of a 100% increase in year-over-year EBITDA results. Key input usage reduction initiatives, productivity gains and a richer sales product mix were key MIP contributors. Overall, mills operated at record productivity levels. Against this backdrop of notable operational performance, OSB prices and shipment volume trended upward. North Central benchmark OSB prices averaged $203 per thousand square feet (Msf) (7⁄16-inch basis) in the quarter, up $5 and $13 compared to the prior year and the prior quarter, respectively. Norbord's North American OSB shipment volumes were up 5% versus the prior quarter and flat compared to the prior year. Norbord's European panel business remained robust despite negative economic news and depressed consumer confidence across Europe. European EBITDA remained consistently strong compared to both prior year and quarter. Average European panel prices were up 1% and down 3% compared to the prior year and the prior quarter, respectively. Panel shipment volumes increased by 3% and 11% over the prior year and the prior quarter, respectively.

Norbord recorded break-even earnings in the first quarter of 2012 (nil per share) compared to a loss of $9 million in the fourth quarter of 2011 ($0.21 per share). In the first quarter of 2011, the Company recorded a loss of $2 million ($0.05 per share) which included a $5 million ($0.11 per share) non-recurring income tax recovery. The quarter-over-quarter and year-over-year improvements are primarily attributable to higher North American EBITDA.

Housing market activity, particularly in the US, influences OSB demand and pricing. Fluctuation in North American OSB demand and prices therefore significantly affect Norbord's results. Management believes, barring any unforeseen circumstances, the US housing decline has reached bottom and the early phase of a gradual recovery is now underway. In the first quarter of 2012, US housing starts were approximately 20% higher compared to the same period last year. It is important to note that approximately 40% of Norbord's OSB sales volume goes directly into the new home construction sector, while the other 60% goes into repair and remodelling, light commercial construction and industrial applications. Management believes that this limits the Company's relative exposure to the new home construction segment and that this distribution channel diversity provides opportunities to maximize profitability. On the cost side, fluctuations in raw material input prices significantly impact operating costs. Management expects slowing global growth to mitigate the upward pressure on raw material costs. Norbord will continue to pursue aggressive MIP initiatives to reduce raw material usages and improve productivity, to offset potentially higher uncontrollable costs.

The long-term fundamentals that support North American housing and OSB demand such as immigration and new household formations are still predicted to be strong. Norbord's European operations are exposed to different market dynamics relative to the North American operations and this has provided meaningful market and geographic diversification for the Company. Combined with Norbord's strong financial liquidity and solid customer partnerships, the Company is well positioned for the eventual recovery in housing markets.

---

## Results of Operations

| (US $ millions, except per share information, unless otherwise noted) | **Q1 2012** | Q4 2011 | Q1 2011 |
|---|---|---|---|
| Return on capital employed (ROCE) | **10%** | 4% | 6% |
| Return on equity (ROE) | **0%** | -11% | -2% |
| Earnings | **-** | (9) | (2) |
| **Per Common Share Earnings** | | | |
| Basic and diluted | **-** | (0.21) | (0.05) |
| Sales | **253** | 229 | 253 |
| EBITDA | **21** | 9 | 14 |
| Depreciation | **13** | 11 | 14 |
| Investment in property, plant and equipment | **3** | 9 | 8 |
| **Shipments (MMsf–3⁄8")** | | | |
| North America | **728** | 696 | 721 |
| Europe | **414** | 372 | 402 |
| **Indicative Average OSB Price** | | | |
| North Central ($/Msf–7⁄16") | **203** | 190 | 198 |
| South East ($/Msf–7⁄16") | **190** | 166 | 177 |
| Europe (€/$m^3$)[1] | **236** | 245 | 248 |

[1] European indicative average OSB price represents the delivered price to the largest Continental market.

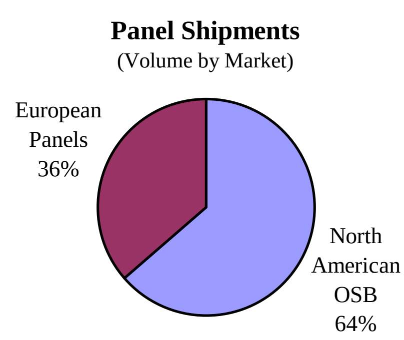
Sales in the quarter were $253 million, compared to $229 million in the previous quarter and $253 million in the first quarter of 2011. Year-over-year, sales remained flat as North American OSB sales increased by 2% attributed to higher OSB prices and European sales decreased by 2% due to the translation of a weaker pound relative to the US dollar. Quarter-over-quarter, sales increased by 10% due to higher North American OSB prices and higher shipment volumes in both North America and Europe.

Earnings in the first quarter of 2011 included a $5 million ($0.11 per share) non-recurring income tax recovery due to the favorable resolution of a tax authority audit previously provided for in the Company's deferred income tax provision.

**Markets**

North America is the principal market destination for Norbord's products. North American OSB comprises 64% of Norbord's panel shipments by volume. Therefore, results of operations are most affected by volatility in North American OSB prices and demand. Europe comprises 36% of shipments by volume. European panel prices are less volatile than North American prices and therefore, affect Norbord's results to a lesser degree.

**Norbord Focused on North American OSB Market**



In North America, first quarter US housing starts were 20% higher and permits were 30% higher than the first quarter of 2011. More importantly for the OSB industry, US single family housing starts were 17% better versus last year. In this firmer demand environment, first quarter benchmark OSB prices modestly improved compared to both the previous quarter and the prior year. The North American North Central benchmark OSB price averaged $203 per Msf (7⁄16-inch basis) in the first quarter compared to $190 per Msf in the prior quarter and $198 per Msf during the same quarter last year. In the South East region, where approximately 55% of Norbord's North American capacity is located, prices averaged $190 per Msf in the first quarter, compared to $166 per Msf in the prior quarter and $177 per Msf during the same quarter in 2011.

Expert forecasts for US housing starts in 2012 now range from 0.68 million to 0.77 million, which is higher than last year but still well below the 25-year historical annualized average of 1.5 million. It is important to note that approximately 40% of Norbord's OSB sales volume goes directly into the new home construction sector, while the other 60% goes into repair and remodeling, light commercial construction and industrial applications. Management believes that this limits the Company's relative exposure to the new home construction segment and provides meaningful distribution channel benefits.

In Europe, despite the negative economic news, overall panel markets continued to show surprising strength. In the UK, where the majority of Norbord's European assets are located, the housing market continues to slowly recover with home prices, housing starts activity and mortgage lending all trending up. In addition, the UK government recently announced the "NewBuy" program to spur new home sales and increase home buyer eligibility by guaranteeing mortgages. The UK government also announced legislative changes aimed at unblocking the permit planning pipeline. Both of these initiatives are expected to be positive for housing demand over the longer term.

In the quarter, average panel prices softened slightly compared to the previous quarter but remain higher than last year. After peaking mid-last year, OSB prices were 7% lower than the same quarter a year ago and 5% down from the prior quarter. However, particleboard and MDF prices are holding on to double digit gains compared to the same quarter last year, at 13% and 11% higher, respectively. Quarter-over-quarter, particleboard and MDF prices were essentially flat.

Historically, the UK has been a net importer of panel products. The weak Pound relative to the Euro has been advantageous to Norbord's primarily UK-based operations as it has improved sales opportunities within the UK and slowed the flow of Continental European imports. This currency trend has also supported Norbord's export program into the Continent.

## Operating Results

| EBITDA (US $ millions) | **Q1 2012** | Q4 2011 | Q1 2011 |
|---|---|---|---|
| North America | **$ 14** | $ 2 | $ 7 |
| Europe | **11** | 10 | 11 |
| Unallocated | **(4)** | (3) | (4) |
| Total | **$ 21** | $ 9 | $ 14 |

Year-over-year, Norbord generated positive EBITDA of $21 million in the first quarter of 2012 compared to $14 million in the first quarter of 2011. The benefit of North American MIP initiatives and higher North American OSB and European panel prices more than offset higher raw material prices.

Quarter-over-quarter, Norbord generated positive EBITDA of $21 million in the first quarter of 2012 compared to $9 million in the fourth quarter of 2011. The increase is primarily attributed to higher North American OSB prices and higher shipments in North America and Europe.

Major components of the change in EBITDA versus comparative periods are summarized in the variance table below:

| EBITDA variance (US $ millions) | Q1 2012 vs. Q4 2011 | Q1 2012 vs. Q1 2011 |
|---|---|---|
| EBITDA – current period | $ 21 | $ 21 |
| EBITDA – comparative period | 9 | 14 |
| Variance | $ 12 | $ 7 |
| Mill nets[1] | $ 9 | $ 7 |
| Volume[2] | 6 | (2) |
| Key input prices[3] | 1 | (3) |
| Key input usage[3] | - | 5 |
| Other[4] | (4) | - |
| Total | $ 12 | $ 7 |

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

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

3 The key inputs include fibre, resin and energy.

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

***North America***

Year-over-year, North American operations generated EBITDA of $14 million in the first quarter of 2012 versus $7 million in the first quarter of 2011. North American MIP initiatives generated $7 million driven by lower fibre, resin and energy usages, higher productivity, and a richer product mix. These benefits in addition to higher OSB prices more than offset higher fibre prices. Norbord's North American OSB cash production costs per unit decreased by 3% in the first quarter versus the same period last year due to the MIP initiatives.

Quarter-over-quarter, North American operations generated EBITDA of $14 million in the first quarter of 2012 versus $2 million in the fourth quarter of 2011. The benefit of higher OSB prices, higher shipment volume, lower supplies and maintenance costs and lower resin prices more than offset higher seasonally-driven raw material usages. Norbord's North American OSB cash production costs per unit remained in line with the prior quarter.

US housing starts are trending up and a gradual recovery is now underway. Until a meaningful US housing market recovery takes hold, Norbord expects to continue curtailing production to conserve cash, manage inventory levels and maximize operating results. Norbord's North American OSB mills ran at approximately 65% of estimated capacity in the first quarter of 2012 compared to approximately 60% in the fourth quarter of 2011 and 65% in the first quarter of 2011. In the first quarter of 2009, Norbord indefinitely shut OSB mills in Huguley, Alabama and Jefferson, Texas to contain costs and manage operating working capital. The two mills represent approximately 20% of Norbord's annual OSB production capacity in North America. Subject to market conditions, Norbord does not expect to restart these two mills in the near term. Excluding these two mills, Norbord ran at approximately 85% of capacity in the first quarter.

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

***Europe***

European operations generated EBITDA of $11 million in both the first quarter of 2012 and 2011. The benefit of higher product prices and improved key input usages were offset by lower shipment volume on the Company's furniture business segment and higher resin and energy prices. Lower key input usages are primarily attributed to operational initiatives under the Company's MIP. Year-over-year, panel prices increased, on average, by 1% and shipment volumes increased by 3%.

Quarter-over-quarter, European operations generated EBITDA of $11 million in the first quarter of 2012 versus $10 million in the fourth quarter of 2011. The benefit of higher panel shipment volumes which increased by 11%, on average, and lower resin usages were partially offset by a 3% decrease in average panel prices.

Norbord's European mills produced at approximately 95% of estimated capacity in the quarter which reflects the 6% increase in stated panel capacity effective December 31, 2011. This compares to 90% in the fourth quarter of 2011 and 100% in the first quarter of 2011 under the previously stated capacity.

***Margin Improvement Program (MIP)***

Margin improvement represents the Company's single most important operating focus in these challenging markets. The prices of resin, fibre and energy, which account for approximately 65% of Norbord's OSB cash production costs, are determined by economic and market conditions and are, to a large degree, uncontrollable. These costs increased sharply over the five-year period preceding 2009 and resin prices, in particular, have risen in the past year. The Company realized MIP gains of $7 million in the first quarter of 2012. These gains, measured relative to 2011 at constant prices and exchange rates, limited the impact that higher raw material prices had on first quarter earnings. Contributions to MIP included improved production efficiencies, key input usage reduction initiatives and a richer added-value product mix.

## INTEREST, DEPRECIATION AND INCOME TAX

| (US $ millions) | **Q1 2012** | Q4 2011 | Q1 2011 |
|---|---|---|---|
| Interest expense | **$ 8** | $ 9 | $ 8 |
| Depreciation | **13** | 11 | 14 |
| Income tax expense recovery | **-** | (2) | (6) |

**Depreciation**

The Company uses the units of production depreciation method for its production equipment. The fluctuation in quarterly depreciation expense reflects relative changes in production levels by mill.

**Income Tax**

An income tax expense of nil was recorded on a pre-tax income of nil in the first quarter of 2012. The effective tax rate differs from the statutory rate principally due to rate differences on foreign activities and fluctuations in relative currency values. Earnings in the first quarter of 2011 included a $5 million ($0.11 per share) non-recurring income tax recovery due to the favorable resolution of a tax authority audit previously provided for in the Company's deferred income tax provision.

## LIQUIDITY AND CAPITAL RESOURCES

| (US $ millions, except per share information, unless otherwise noted) | **Q1 2012** | Q4 2011 | Q1 2011 |
|---|---|---|---|
| Cash (used for) provided by operating activities | **$ (27)** | $ 31 | $ (33) |
| Cash (used for) provided by operating activities per share | **(0.62)** | 0.73 | (0.76) |
| Operating working capital | **71** | 28 | 51 |
| Total working capital | **135** | 116 | 139 |
| Investment in property, plant and equipment | **3** | 9 | 8 |
| Net debt to capitalization, market basis | **46%** | 42% | 37% |
| Net debt to capitalization, book basis | **53%** | 51% | 51% |

At period-end, Norbord had unutilized liquidity of $327 million, comprised of $267 million in revolving bank lines and $60 million in cash and cash equivalents.

**2012 Debentures**

Norbord intends to refinance its 2012 debentures prior to their July 1st maturity and continues to explore a range of attractive debt market options. In order to provide additional flexibility should this be required, in 2011 Norbord put in place a backup refinancing plan for this debenture maturity. If needed, Norbord has the option to repay up to half of this $240 million maturity from its bank lines and the other half from a $120 million standby term loan commitment from Brookfield.

**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, if necessary. The maturity date would extend beyond the revolving bank lines and up to a 10-year period. The term loan would contain market standard terms at the time of borrowing except that the Company would have the right to prepay the loan at any time without penalty, so long as Brookfield is the holder. The term loan would be secured pari passu with the bank lines and holders of the 2017 senior notes.

**Revolving Bank Lines**

The Company has $270 million in committed revolving bank lines that mature in May 2014 and bear interest at money market rates plus a margin that varies with the Company's credit rating. The bank lines are secured by a first lien on the Company's North American OSB inventory and property, plant and equipment. This lien is shared pari passu with holders of the 2012 debentures and 2017 senior notes.

The bank lines contain two quarterly financial covenants: minimum tangible net worth of $250 million and maximum net debt to total capitalization, book basis, of 65%. As a result of the bank line renewal completed in 2010, the IFRS transitional adjustments to shareholders' equity of $21 million at January 1, 2011 are added back for the purposes of the tangible net worth calculation. In addition, other comprehensive income movement subsequent to January 1, 2011 is excluded from the tangible net worth calculation. Net debt includes total debt, principal value, less cash and cash equivalents plus letters of credit issued. At period-end, the Company's tangible net worth was $344 million for financial covenant purposes and net debt for financial covenant purposes was $383 million. Net debt to total capitalization, book basis, was 53%.

**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.

At period-end, Norbord had transferred but continued to recognize $110 million in accounts receivable and recorded drawings of $74 million relating to this program. The level of accounts receivable transferred under the program fluctuates with the level of shipment volumes, product prices and foreign exchange rates. The amount of drawings fluctuates with the level of accounts receivable transferred, timing of cash settlements and the Company's cash requirements. The drawings are presented as other long-term debt on the balance sheet and are excluded from the net debt to capitalization calculation for financial covenant purposes.

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 April 26, 2012, 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, was $71 million at period-end compared to $28 million in the prior quarter and $51 million in the prior year. The Company aims to continuously minimize the amount of capital held as operating working capital and takes actions to manage it at minimal levels. Quarter-over-quarter, operating working capital increased $43 million primarily due to higher accounts receivable, higher inventory and lower accounts payable. Higher accounts receivable is due to higher North American OSB prices and higher North American and European shipments. Despite the current economic environment, Norbord's accounts receivable performance metrics remain in line with prior periods. Higher inventory is the result of the annual seasonal log inventory build in North America. Finished goods inventories remain at minimal levels. Lower accounts payable is primarily attributed to the timing of interest payments.

Year-over-year, operating working capital increased by $20 million due to higher accounts receivable and lower accounts payable. Higher accounts receivable was primarily attributed to higher particleboard and MDF prices as well as the timing of sales and collections in Europe. Higher accounts payable was attributed to capital projects and the timing of production curtailments taken in the comparative quarters.

Total working capital, which includes operating working capital plus cash and cash equivalents and income tax receivable, was $135 million at the end of the first quarter of 2012 compared to $116 million at the end of the prior quarter and $139 million in the prior year. The quarter-over-quarter increase is attributed to the seasonally higher operating working capital partially offset by lower cash and cash equivalents. The year-over-year decrease is due to lower cash and cash equivalents partially offset by higher operating working capital.

Operating activities consumed $27 million in cash ($0.62 per share) in the first quarter of 2012. Operating activities generated $31 million in cash ($0.73 per share) in the prior quarter and consumed $33 million in cash ($0.76 per share) in the first quarter of 2011. The consumption of cash versus the prior period is attributed to the seasonal increase in operating working capital in the first quarter of 2012.

## INVESTMENTS AND DIVESTITURES

**Investment in Property, Plant and Equipment**

Investment in property, plant and equipment was $3 million in the first quarter of 2012 compared to $9 million in the prior quarter and $8 million in the first quarter of 2011. The decrease versus prior year is due to the Company's infrastructure investment program at the Cowie, Scotland particleboard mill undertaken and completed in 2011.

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

---

## SELECTED QUARTERLY INFORMATION

| (US $ millions, except per share information, unless otherwise noted) | **2012 Q1** | Q4 | Q3 | Q2 | 2011 Q1 | Q4 | Q3 | 2010 Q2 |
|---|---|---|---|---|---|---|---|---|
| **KEY PERFORMANCE METRICS** | | | | | | | | |
| Return on capital employed (ROCE) | **10%** | 4% | 6% | 5% | 6% | 6% | 6% | 32% |
| Return on equity (ROE) | **0%** | -11% | -1% | 2% | -2% | -10% | -5% | 41% |
| Cash (used for) provided by operating activities | **(27)** | 31 | (14) | 3 | (33) | 40 | 8 | 69 |
| Cash (used for) provided by operating activities per share | **(0.62)** | 0.73 | (0.32) | 0.05 | (0.76) | 0.93 | 0.18 | 1.59 |
| **SALES AND EARNINGS** | | | | | | | | |
| Sales | **253** | 229 | 242 | 241 | 253 | 240 | 229 | 296 |
| EBITDA | **21** | 9 | 12 | 10 | 14 | 14 | 13 | 72 |
| Earnings | **-** | (9) | (1) | 1 | (2) | (9) | (4) | 33 |
| **PER COMMON SHARE EARNINGS** | | | | | | | | |
| Basic | **-** | (0.21) | (0.02) | 0.03 | (0.05) | (0.21) | (0.09) | 0.76 |
| Diluted | **-** | (0.21) | (0.02) | 0.03 | (0.05) | (0.21) | (0.09) | 0.72 |
| **KEY STATISTICS** | | | | | | | | |
| **Shipments (MMsf–3⁄8")** | | | | | | | | |
| North America | **728** | 696 | 747 | 721 | 721 | 768 | 757 | 834 |
| Europe | **414** | 372 | 373 | 400 | 402 | 355 | 359 | 370 |
| **Indicative Average OSB Price** | | | | | | | | |
| North Central ($/Msf–7⁄16") | **203** | 190 | 184 | 173 | 198 | 191 | 180 | 295 |
| South East ($/Msf–7⁄16") | **190** | 166 | 169 | 162 | 177 | 165 | 156 | 277 |
| Europe (€/$m^3$)[1] | **236** | 245 | 251 | 256 | 248 | 261 | 254 | 242 |

[1] European indicative average OSB price represents the delivered price to the largest Continental market.

Quarterly results are impacted by seasonal factors such as weather and building activity. Market demand varies seasonally, as homebuilding activity and repair and renovation work – the principal end uses of Norbord's products – are generally stronger in the spring and summer months. Adverse weather can also limit access to logging areas, which can affect the supply of fibre to Norbord's operations. Shipment volumes and commodity prices are affected by these factors as well as by global supply and demand conditions.

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

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

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

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

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

***Income tax recovery* –** In the second quarter of 2011, the Company recorded an income tax recovery of $7 million ($0.16 per share) related to the recognition of a non-recurring income tax benefit. Earnings in the first quarter of 2011 included a $5 million ($0.11 per share) non-recurring income tax recovery due to the favorable resolution of a tax authority audit previously provided for in the Company's deferred income tax provision.

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

**COMMON SHARES**

At April 26, 2012, there were 43.6 million common shares outstanding. In addition, 2.5 million stock options were outstanding, of which approximately 40% were fully vested, and warrants to purchase 13.6 million common shares were outstanding.

**OFF BALANCE SHEET ARRANGEMENTS**

The Company utilizes various derivative financial instruments to manage risk and make better use of capital. The fair values of these instruments are reflected on the Company's balance sheet and are disclosed in note 12 to the interim consolidated financial statements.

**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 interim consolidated financial statements. The following transactions have occurred between the Company and Brookfield during the normal course of business.

**Standby Term Loan Commitment**

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

**Other**

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

## CHANGES IN ACCOUNTING STANDARDS

(i) **Transfers of Financial Assets**

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

## INTERNAL CONTROLS OVER FINANCIAL REPORTING

There were no changes in the Company's internal controls over financial reporting during the three months ended March 31, 2012 that have materially affected, or are reasonably likely to materially affect, its internal controls over financial reporting.

## 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, 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) | **Q1 2012** | Q4 2011 | Q1 2011 |
|---|---|---|---|
| Earnings | **$ -** | $ (9) | $ (2) |
| Add: Interest expense | **8** | 9 | 8 |
| Add: Depreciation | **13** | 11 | 14 |
| Less: Income tax recovery | **-** | (2) | (6) |
| EBITDA | **$ 21** | $ 9 | $ 14 |

**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) | **Mar 31 2012** | Dec 31 2011 | Apr 2 2011 |
|---|---|---|---|
| Accounts receivable | **$ 126** | $ 102 | $ 114 |
| Inventory | **98** | 88 | 102 |
| Accounts payable and accrued liabilities | **(153)** | (162) | (165) |
| Operating working capital | **$ 71** | $ 28 | $ 51 |

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

| (US $ millions) | **Mar 31 2012** | Dec 31 2011 | Apr 2 2011 |
|---|---|---|---|
| Operating working capital | **$ 71** | $ 28 | $ 51 |
| Cash and cash equivalents | **60** | 83 | 83 |
| Tax receivable | **4** | 5 | 5 |
| Total working capital | **$ 135** | $ 116 | $ 139 |

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

| (US $ millions) | **Mar 31 2012** | Dec 31 2011 | Apr 2 2011 |
|---|---|---|---|
| Property, plant and equipment | **$ 782** | $ 787 | $ 814 |
| Accounts receivable | **126** | 102 | 114 |
| Tax receivable | **4** | 5 | 5 |
| Inventory | **98** | 88 | 102 |
| Accounts payable and accrued liabilities | **(153)** | (162) | (165) |
| Other assets | **1** | 5 | 5 |
| Unrealized net investment hedge losses[1] | **(1)** | - | (2) |
| Capital employed | **$ 857** | $ 825 | $ 873 |

[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.

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

| (US $ millions) | **Mar 31 2012** | Dec 31 2011 | Apr 2 2011 |
|---|---|---|---|
| Long-term debt, principal value | **$ 440** | $ 440 | $ 440 |
| Less: Cash and cash equivalents | **(60)** | (83) | (83) |
| Net debt | **380** | 357 | 357 |
| Add: Letters of credit | **3** | 3 | 10 |
| Net debt for financial covenant purposes | **$ 383** | $ 360 | $ 367 |

**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) | **Mar 31 2012** | Dec 31 2011 | Apr 2 2011 |
|---|---|---|---|
| Shareholders' equity | **$ 306** | $ 300 | $ 335 |
| Add: IFRS transitional adjustments | **21** | 21 | 21 |
| Add (Less): Other comprehensive income movement[1] | **17** | 22 | (5) |
| Tangible net worth | **$ 344** | $ 343 | $ 351 |

[1] Subsequent to January 1, 2011.

**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," "predicts," "aims," "anticipates" or "does not anticipate" or variations of such words and phrases or statements that certain actions, events or results "may," "could," "would," "should," "might" or "will" be taken, occur or be achieved. Forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of Norbord to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements.

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

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

The above list of important factors affecting forward-looking information is not exhaustive. Additional factors are noted elsewhere, and reference should be made to the other risks discussed in filings with Canadian securities regulatory authorities. Except as required by applicable law, Norbord does not undertake to update any forward-looking statements, whether written or oral, that may be made from time to time by, or on behalf of, the Company, whether as a result of new information, future events or otherwise, or to publicly update or revise the above list of factors affecting this information. 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 2011 Management's Discussion and Analysis dated January 26, 2012.

# Consolidated Balance Sheets

| (US $ millions) | Note | Mar 31 2012 (unaudited) | Dec 31 2011 |
|---|---|---|---|
| **Assets** | | | |
| Current assets | | | |
| Cash and cash equivalents | | **$ 60** | $ 83 |
| Accounts receivable | 3 | **126** | 102 |
| Tax receivable | | **4** | 5 |
| Inventory | 4 | **98** | 88 |
| | | **288** | 278 |
| Non-current assets | | | |
| Property, plant and equipment | | **782** | 787 |
| Other assets | 5 | **1** | 5 |
| | | **783** | 792 |
| | | **$ 1,071** | $ 1,070 |
| **Liabilities and Shareholders' Equity** | | | |
| Current liabilities | | | |
| Accounts payable and accrued liabilities | | **$ 153** | $ 162 |
| Current portion of long-term debt | 6 | **241** | 242 |
| | | **394** | 404 |
| Non-current liabilities | | | |
| Long-term debt | 6 | **196** | 196 |
| Other long-term debt | 3 | **74** | 69 |
| Other liabilities | 7 | **39** | 40 |
| Deferred income taxes | | **62** | 61 |
| | | **371** | 366 |
| Shareholders' equity | | **306** | 300 |
| | | **$ 1,071** | $ 1,070 |

(See accompanying notes)

# Consolidated Statements of Earnings

| (unaudited)<br>Quarters ended March 31 and April 2 (US $ millions, except per share information) | Note | Q1<br>2012 | Q1<br>2011<br>(note 15) |
|---|---|---|---|
| Sales | | $ 253 | $ 253 |
| Cost of sales | | (228) | (235) |
| General and administrative expenses | | (4) | (4) |
| Earnings before interest, income tax and depreciation | | 21 | 14 |
| Interest expense | | (8) | (8) |
| Earnings before income tax and depreciation | | 13 | 6 |
| Depreciation | | (13) | (14) |
| Income tax recovery | | - | 6 |
| Earnings | | $ - | $ (2) |
| Earnings per common share | 9 | | |
| Basic and Diluted | | $ - | $ (0.05) |

(See accompanying notes)

# Consolidated Statements of Comprehensive Income

| (unaudited)<br>Quarters ended March 31 and April 2 (US $ millions) | Q1<br>2012 | Q1<br>2011<br>(note 15) |
|---|---|---|
| Earnings | $ - | $ (2) |
| Other comprehensive income, net of tax | | |
| Foreign currency translation gain on foreign operations | 6 | 8 |
| Net loss on hedge of net investment in foreign operations | (1) | (5) |
| Actuarial gain on post-employment obligation | - | 2 |
| | 5 | 5 |
| Comprehensive income | $ 5 | $ 3 |

(See accompanying notes)

Norbord

# Consolidated Statements of Changes in Shareholders' Equity

| (unaudited)<br>Quarters ended March 31 and April 2 (US $ millions) | Note | **Q1<br>2012** | Q1<br>2011<br>(note 15) |
|---|---|---|---|
| **Share capital** | | | |
| Balance, beginning and end of period | | **$ 340** | $ 340 |
| **Contributed surplus** | | | |
| Balance, beginning of period | | **$ 43** | $ 41 |
| Stock-based compensation | 8 | **1** | 1 |
| Balance, end of period | | **$ 44** | $ 42 |
| **Retained earnings** | | | |
| Balance, beginning of period | | **$ (82)** | $ (54) |
| Earnings | | **-** | (2) |
| Other comprehensive income | | **-** | 2 |
| Balance, end of period | | **$ (82)** | $ (54) |
| **Accumulated Other Comprehensive Income (Loss)** | | | |
| Balance, beginning of period | | **$ (1)** | $ 4 |
| Other comprehensive income | | **5** | 3 |
| Balance, end of period | 8 | **$ 4** | $ 7 |
| Shareholders' equity | | **$ 306** | $ 335 |

(See accompanying notes)

# Consolidated Statements of Cash Flows

| (unaudited)<br>Quarters ended March 31 and April 2 (US $ millions) | Note | | **Q1 2012** | | Q1 2011 |
|---|---|---|---|---|---|
| **CASH PROVIDED BY (USED FOR):** | | | | | |
| **Operating Activities** | | | | | |
| Earnings | | **$** | **-** | $ | (2) |
| Items not affecting cash: | | | | | |
| Depreciation | | | **13** | | 14 |
| Deferred income tax | | | **-** | | (4) |
| Other items | | | **1** | | 3 |
| | | | **14** | | 11 |
| Net change in non-cash operating working capital balances | 10 | | **(42)** | | (45) |
| Net change in tax receivable | | | **1** | | 1 |
| | | | **(27)** | | (33) |
| **Investing Activities** | | | | | |
| Investment in property, plant and equipment | | | **(3)** | | (8) |
| Realized net investment hedge gain | 12 | | **3** | | 1 |
| Other | | | **-** | | 2 |
| | | | **-** | | (5) |
| **Financing Activities** | | | | | |
| Accounts receivable securitization proceeds | | | **4** | | 10 |
| **Cash and Cash Equivalents** | | | | | |
| Decrease during the period | | | **(23)** | | (28) |
| Balance, beginning of period | | | **83** | | 111 |
| Balance, end of period | 10 | **$** | **60** | $ | 83 |

(See accompanying notes)

Norbord

# Notes to the Consolidated Financial Statements

(unaudited)
(in US $, unless otherwise noted)

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

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

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

**NOTE 2. SIGNIFICANT ACCOUNTING POLICIES**

**(a) Statement of Compliance**

These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard (IAS) 34, *Interim Financial Reporting*, as issued by the International Accounting Standards Board (IASB) on a basis consistent with the accounting policies the Company disclosed in its audited consolidated financial statements as at, and for the year ended December 31, 2011. These interim financial statements should be read in conjunction with the Company's 2011 annual financial statements, which includes information necessary or useful to understanding the Company's business and financial statement presentation.

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

**(b) 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 meets the definition of a transferred financial asset that is not derecognized. The amendments became effective for the Company on January 1, 2011 and the disclosures on the program were amended accordingly (note 3).

**NOTE 3. ACCOUNTS RECEIVABLE**

The Company has an $85 million accounts receivable securitization program with a third-party trust sponsored by a highly rated Canadian financial institution. The program 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.

At period-end, Norbord had transferred but continued to recognize $110 million (December 31, 2011 – $88 million) in accounts receivable and recorded drawings of $74 million (December 31, 2011 – $69 million) relating to this program. The level of accounts receivable transferred under the program fluctuates with the level of shipment volumes, product prices and foreign exchange rates. The amount of drawings fluctuates with the level of accounts receivable transferred, timing of cash settlements and the Company's cash requirements. The drawings are presented as other long-term debt on the balance sheet and are excluded from the net debt to capitalization calculation for financial covenant purposes (note 11).

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 April 26, 2012, Norbord's ratings were BB (low) (DBRS), BB- (Standard & Poor's) and Ba3 (Moody's Investors Service).

## NOTE 4. INVENTORY

| (US $ millions) | | **Mar 31 2012** | | Dec 31 2011 |
|---|---|---|---|---|
| Raw materials | **$** | **28** | $ | 22 |
| Finished goods | | **39** | | 36 |
| Operating and maintenance supplies | | **31** | | 30 |
| | **$** | **98** | $ | 88 |

At period-end, the provision to reflect inventories at the lower of cost and net realizable value was $2 million (December 31, 2011 – $2 million).

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

| (US $ millions) | | **Q1 2012** | | Q1 2011 |
|---|---|---|---|---|
| Cost of inventories | **$** | **220** | $ | 226 |
| Depreciation on property, plant and equipment | | **13** | | 14 |
| | **$** | **233** | $ | 240 |

## NOTE 5. OTHER ASSETS

| (US $ millions) | | **Mar 31 2012** | | Dec 31 2011 |
|---|---|---|---|---|
| Unrealized interest rate swap gains *(note 12)* | **$** | **1** | $ | 2 |
| Unrealized net investment hedge gains *(note 12)* | | **-** | | 3 |
| | **$** | **1** | $ | 5 |

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

## NOTE 6. LONG-TERM DEBT

| (US $ millions) | | **Mar 31 2012** | | Dec 31 2011 |
|---|---|---|---|---|
| **Principal value** | | | | |
| 7 1/4% debentures due 2012 | **$** | **240** | $ | 240 |
| Senior notes due 2017 | | **200** | | 200 |
| | | **440** | | 440 |
| Debt issue costs | | **(4)** | | (5) |
| Unrealized interest rate swap gains *(note 12)* | | **1** | | 2 |
| Deferred interest rate swap gains | | **-** | | 1 |
| | | **437** | | 438 |
| Less: Current portion | | **(241)** | | (242) |
| | **$** | **196** | $ | 196 |

### 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, if necessary. The maturity date would extend beyond the revolving bank lines and up to a 10-year period. The term loan would contain market standard terms at the time of borrowing except that the Company would have the right to prepay the loan at any time without penalty, so long as Brookfield is the holder. The term loan would be secured pari passu with the bank lines and holders of the 2017 senior notes.

### Revolving Bank Lines

The Company has $270 million in committed revolving bank lines that mature in May 2014 and bear interest at money market rates plus a margin that varies with the Company's credit rating. If needed, the Company has the option to repay up to half of the 2012 debentures from the revolving bank lines. The bank lines are secured by a first lien on the Company's North American OSB inventory and property, plant and equipment. This lien is shared pari passu with holders of the 2012 debentures and 2017 senior notes.

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

The bank lines contain two quarterly financial covenants: minimum tangible net worth of $250 million and maximum net debt to total capitalization, book basis, of 65%. As a result of the bank line renewal completed in 2010, the IFRS transitional adjustments to shareholders' equity of $21 million at January 1, 2011 are added back for the purposes of the tangible net worth calculation. In addition, other comprehensive income movement subsequent to January 1, 2011 is excluded from the tangible net worth calculation. Net debt includes total debt, principal value, less cash and cash equivalents plus letters of credit issued. At period-end, the Company's tangible net worth for financial covenant purposes was $344 million and net debt for financial covenant purposes was $383 million. Net debt to total capitalization was 53% on a book basis (note 11).

### Interest Rate Swaps

At period-end, the Company had outstanding interest rate swaps of $115 million (December 31, 2011 – $115 million). The terms of these swaps correspond to the terms of the underlying hedged debt. The unrealized interest rate swap gains are offset by unrealized losses on the underlying exposures being hedged within interest expense.

## NOTE 7. OTHER LIABILITIES

| (US $ millions) | **Mar 31 2012** | Dec 31 2011 |
|---|---|---|
| Defined benefit pension obligation | **$ 31** | $ 31 |
| Accrued employee benefits | **7** | 8 |
| Unrealized net investment hedge loss *(note 12)* | **1** | - |
| Unrealized monetary hedge loss *(note 12)* | **-** | 1 |
| | **$ 39** | $ 40 |

The unrealized net investment hedge loss and unrealized monetary hedge loss are offset by unrealized gains on the underlying exposures being hedged.

## NOTE 8. SHAREHOLDERS' EQUITY

### Stock Options

In the first quarter, 0.5 million options were granted under the stock option plan. Earnings include $1 million related to stock-based compensation expense. Year-to-date, 0.1 million common shares were issued as a result of options exercised under the stock option plan for proceeds of less than $1 million.

**Accumulated Other Comprehensive Income (Loss)**

| (US $ millions) | Mar 31 2012 | Dec 31 2011 |
|---|---|---|
| Foreign currency translation gain on foreign operations | **$ 13** | $ 7 |
| Net loss on hedge of net investment in foreign operations | **(9)** | (8) |
| Accumulated other comprehensive income (loss), net of tax | **$ 4** | $ (1) |

## NOTE 9. EARNINGS PER COMMON SHARE

| (US $ millions, except share and per share information, unless otherwise noted) | Q1 2012 | Q1 2011 |
|---|---|---|
| Earnings available to common shareholders | **$ -** | $ (2) |
| Common shares (millions): | | |
| Weighted average number of common shares outstanding | **43.6** | 43.5 |
| Stock options[1] | **-** | - |
| Warrants[1] | **-** | - |
| Diluted number of common shares | **43.6** | 43.5 |
| Earnings per common share: | | |
| Basic and Diluted | **$ -** | $ (0.05) |

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

## NOTE 10. SUPPLEMENTAL CASH FLOW INFORMATION

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

| (US $ millions) | Q1 2012 | Q1 2011 |
|---|---|---|
| Cash used for: | | |
| Accounts receivable | **$ (25)** | $ (25) |
| Inventory | **(11)** | (17) |
| Accounts payable and accrued liabilities | **(6)** | (3) |
| | **$ (42)** | $ (45) |

Cash income taxes and interest comprises:

| (US $ millions) | Q1 2012 | Q1 2011 |
|---|---|---|
| Cash interest paid | **$ 16** | $ 16 |
| Cash taxes (received), net | **(1)** | - |

Cash and cash equivalents comprises:

| (US $ millions) | Mar 31 2012 | Apr 2 2011 |
|---|---|---|
| Cash | **$ 60** | $ 37 |
| Cash equivalents | **-** | 46 |
| | **$ 60** | $ 83 |

## NOTE 11. CAPITAL MANAGEMENT

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

| (US $ millions) | Mar 31 2012 | Dec 31 2011 |
|---|---|---|
| Long-term debt, principal value *(note 6)* | **$ 440** | $ 440 |
| Less: Cash and cash equivalents | **(60)** | (83) |
| Net debt | **380** | 357 |
| Add: Letters of credit | **3** | 3 |
| Net debt for financial covenant purposes | **383** | 360 |
| Shareholders' equity | **306** | 300 |
| Add: IFRS transitional adjustments *(note 6)* | **21** | 21 |
| Less: Other comprehensive income movement[1] *(note 6)* | **17** | 22 |
| Tangible net worth for financial covenant purposes | **344** | 343 |
| Total capitalization | **$ 727** | $ 703 |
| Net debt to capitalization, book basis | **53%** | 51% |
| Net debt to capitalization, market basis | **46%** | 42% |

[1] Subsequent to January 1, 2011.

## NOTE 12. FINANCIAL INSTRUMENTS

### Non-Derivative Financial Instruments

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

| | | Mar 31 2012 | | Dec 31 2011 | |
|---|---|---|---|---|---|
| (US $ millions) | Financial Instrument Category | **Net Book Value** | **Fair Value** | Net Book Value | Fair Value |
| Financial assets: | | | | | |
| Cash and cash equivalents | Fair value through profit or loss | **$ 60** | **$ 60** | $ 83 | $ 83 |
| Accounts receivable | Loans and receivables | **126** | **126** | 102 | 102 |
| | | **$ 186** | **$ 186** | $ 185 | $ 185 |
| Financial liabilities: | | | | | |
| Accounts payable and accrued liabilities | Amortized cost | **$ 153** | **$ 153** | $ 162 | $ 162 |
| Long-term debt | Amortized cost | **437** | **448** | 438 | 433 |
| Other long-term debt | Amortized cost | **74** | **74** | 69 | 69 |
| Other liabilities | Amortized cost | **39** | **39** | 40 | 40 |
| | | **$ 703** | **$ 714** | $ 709 | $ 704 |

## Derivative Financial Instruments

Information about derivative financial instruments was as follows:

| (US $ millions, unless otherwise noted) | Mar 31 2012 Notional Value | Mar 31 2012 Unrealized (Loss) Gain at Period-End[1] | Dec 31 2011 Notional Value | Dec 31 2011 Unrealized Gain (Loss) at Period-End[1] |
|---|---|---|---|---|
| Currency hedges: | | | | |
| Net investment | | | | |
| Belgium | **€ 9** | **$ -** | € 11 | $ 2 |
| UK | **£37** | **(1)** | £41 | 1 |
| Monetary position | | | | |
| Canadian dollar | **CAD $80** | **-** | CAD $93 | (1) |
| Interest rate hedges: | | | | |
| Interest rate swaps | **$115** | **1** | $115 | 2 |

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

The realized gains on the Company's matured currency hedges were:

| (US $ millions) | Q1 2012 | Q1 2011 |
|---|---|---|
| Net investment | | |
| Belgium | **$ 2** | $ 1 |
| UK | **1** | - |
| Monetary position | | |
| Canadian Dollar | **1** | 4 |
| | **$ 4** | $ 5 |

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

## NOTE 13. RELATED PARTY TRANSACTIONS

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

### Standby Term Loan Commitment

In 2011, the Company entered into a $120 million standby term loan commitment with Brookfield (note 6).

### Other

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

## NOTE 14. GEOGRAPHIC SEGMENTS

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

| | | | | Q1 2012 |
|---|---|---|---|---|
| (US $ millions) | North America | Europe | Unallocated | Total |
| Sales | $ 135 | $ 118 | $ - | $ 253 |
| EBITDA[1] | 14 | 11 | (4) | 21 |
| Depreciation | 8 | 5 | - | 13 |
| Investment in property, plant and equipment | 3 | - | - | 3 |
| Property, plant and equipment | 643 | 139 | - | 782 |

| | | | | Q1 2011 |
|---|---|---|---|---|
| (US $ millions) | North America | Europe | Unallocated | Total |
| Sales | $ 133 | $ 120 | $ - | $ 253 |
| EBITDA[1] | 7 | 11 | (4) | 14 |
| Depreciation | 8 | 6 | - | 14 |
| Investment in property, plant and equipment | 3 | 5 | - | 8 |
| Property, plant and equipment[2] | 646 | 141 | - | 787 |

[1] EBITDA is earnings before interest, income tax and depreciation.

[2] Balance as at December 31, 2011.

## NOTE 15. COMPARATIVE FIGURES

Certain 2011 figures have been reclassified to conform with the current period's presentation.