Ainsworth®

Dear Shareholders:

For Ainsworth Lumber, 2008 was the most challenging and transformational year in the Company's history. The engineered wood products (EWP) industry is, by any measure, facing a period of unprecedented uncertainty.

That being said, we continue to believe that the medium to long-term market potential for engineered wood products, including oriented strand board (OSB), remains strong. Over the past 12 months, your company has taken a number of decisive steps to position it to capitalize on this return to stronger market fundamentals and deliver greater value for shareholders.

In July 2008, we successfully completed a recapitalization of the company's balance sheet, which included a US$200 million cash injection through the issuance of new senior unsecured notes and the cancellation of all of the former senior unsecured notes in exchange for the issuance of an additional US$150 million of the new senior unsecured notes. In all, this process enabled Ainsworth to bring its debt levels back to more moderate and manageable levels while providing the company with the financial strength and liquidity to withstand a prolonged market downturn.

More broadly, we have committed to a fundamental change in how we operate and invest in this business, moving away from high cost, under performing assets, which are poorly suited to the current rigors of the OSB industry. By focusing on our most efficient and competitive assets, we expect to deliver significantly improved cash flow, strengthen our balance sheet and improve liquidity in the near term. We have neither the time nor the capital to upgrade subpar facilities and wait for OSB markets to return. The risk is too great, and the reward is questionable.

After a strategic review, we decided to permanently close the Grand Rapids OSB mill in August 2008 and the other two Minnesota-based OSB mills in January 2009. At the same time, we are actively exploring opportunities to divest our specialty plywood and veneer mills in Savona and Lillooet, B.C., respectively. We are also working to aggressively cut overhead costs, including putting the corporate jet up for sale, and we have reduced staffing levels at our head office in Vancouver by 45% and scaled down the office space accordingly.

These were difficult changes to make, to be sure. But taken as a whole, they were critically important to securing the future of the company. We are a much leaner, more efficient and more sustainable company than we were 12 months ago, and we are moving forward with a sharp focus on one objective: to reinforce our competitive strengths as a leading supplier of EWP during this period of extraordinary instability and position ourselves to capitalize on a return to stronger marker fundamentals over the next two to three years.

Our key competitive strength continues to be our ability to develop and manufacture innovative, margin-added products that meet the current and future needs of our customers. This is deeply rooted in a long-standing corporate culture at Ainsworth that encourages innovation, accountability, safety and environmental sustainability. We are fortunate to have some of the best in the business working for us. Our people are the foundation of our business and they are one of the principal reasons we are well on our way to becoming a business that is sustainable and profitable through all parts of the EWP business cycle.

2008 was a challenging year for Ainsworth, and 2009 is not expected to bring any measurable relief. But as a company, we are heading in the right direction, and over the long-term we believe we have the strategy and the assets in place to create and deliver value for our shareholders.

Thank you for your continued support.

Sincerely,

/s/ Jay Gurandiano
Chairman

/s/ Rick Huff
President and CEO

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS For the Three Month Period and the Year Ended December 31, 2008

This management's discussion and analysis is presented as at March 3, 2009. Financial references are in Canadian dollars unless otherwise indicated. Additional information relating to Ainsworth (also referred to as the Company, or we, or our), including our annual information form, is available on SEDAR at www.sedar.com. Our financial statements are prepared in accordance with Canadian generally accepted accounting principles ("GAAP") in Canadian dollars. Previously reported balances for the first three quarters of 2008 and the years 2007 and 2006 have been reclassified to reflect the results of discontinued operations.

The results for the year 2008 are disclosed in the financial statements as the period from January 1 to July 29, 2008 before the recapitalization (the results of the "Predecessor") and the period from July 30 to December 31, 2008 after the recapitalization ("the results of the "Company"). The recapitalization plan is described in Note 1 of our audited consolidated financial statements for the period ended December 31, 2008 and the "2008 Recapitalization and Fresh Start" section in this report.

Overview

Ainsworth is a leading manufacturer of engineered wood products known as oriented strand board ("OSB"). We operate three wholly-owned Canadian OSB manufacturing facilities located in Grande Prairie, Alberta, 100 Mile House, British Columbia, and Barwick, Ontario. In addition, we have a 50% ownership interest in an OSB facility located in High Level, Alberta which was shut down on December 20, 2007 for an indefinite period due to weak market demand conditions.

We also operate a wholly-owned veneer plant at Lillooet, British Columbia and a wholly-owned plywood plant at Savona, British Columbia, although we are pursuing the sale of these two operations as part of our strategy to divest non-core assets.

Ainsworth has an exceptional brand, a loyal customer base, low cost OSB operations, strong technical skills and a proven ability to innovate. Our strategy is to reinforce our competitive strengths during the current period of market instability and position the Company to capitalize on a return to stronger market fundamentals over the medium to long term. Geographically, we are expanding into non-U.S. markets, especially Japan, to reduce our exposure to the U.S. market weakness. Ultimately, our objective is to create a business that will be sustainable and profitable through all parts of the business cycle.

Advisory Regarding Forward-Looking Statements

This document contains forward looking statements under the heading "Outlook" and elsewhere concerning future events or expectations of Ainsworth's future performance, OSB demand and pricing, and other matters. Investors are cautioned that such forward-looking statements involve risks and uncertainties. Important factors that could cause actual results to differ materially from those expressed or implied by such forward looking statements include, without limitation, the future demand for, and sales volumes of, Ainsworth's products, future production volumes, efficiencies and operating costs, increases or decreases in the prices of Ainsworth's products, Ainsworth's future stability and growth prospects, Ainsworth's future profitability and capital needs, including capital expenditures, and the outlook for and other future developments in Ainsworth's affairs or in the industries in which Ainsworth participates and factors detailed from time to time in Ainsworth's periodic reports filed with the Canadian Securities Administrators and other regulatory authorities. These periodic reports are available to the public at www.sedar.com.

Ainsworth believes that the expectations reflected in its forward-looking information are reasonable but no assurance can be given that these expectations will prove to be correct and such forward-looking statements included in this report should not be unduly relied upon. These statements speak only as of the date of this report. Ainsworth has no intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as may be required under applicable securities laws. The forward-looking statements contained in this document are expressly qualified by this cautionary statement.

Non-GAAP Measures

In addition to GAAP measures, Ainsworth uses the non-GAAP measures “adjusted EBITDA”, “adjusted working capital”, “operating working capital”, and "gross profit" to make strategic decisions and to provide investors with a basis to evaluate operating performance and ability to incur and service debt. Non-GAAP measures do not have a standardized meaning prescribed by GAAP and may not be comparable to similar measures used by other companies. Included in this report are tables calculating adjusted EBITDA, adjusted working capital, operating working capital and narrative disclosures defining gross profit.

Outlook

The U.S., Ainsworth’s most important geographic market for structural panels, is in a severe recession. On January 23, 2009 the U.S. Commerce Department announced that 2008 U.S. housing starts – the key driver of OSB demand – fell to its lowest level in 63 years. U.S. housing demand faces many challenges, such as mortgage market contraction, an excess supply of new and existing homes, rising foreclosures, and home price deflation. As a result, we expect U.S. market conditions will not improve until late 2010, at the earliest, and OSB products will remain oversupplied until at least 2011. Canadian housing market conditions also weakened in 2008 and the outlook is uncertain for 2009 and beyond.

Until North American market conditions improve, we have frozen all discretionary capital expenditures. In the meantime, we believe that we have sufficient working capital to fund any shortfall from operations, interest payments, debt repayments and essential capital expenditures. We do not foresee a significant risk of default or a need to seek additional credit in the current unfavourable credit market conditions. Should there be a need for additional capital, the Company is permitted to borrow an additional U.S.$125.0 million of senior secured debt and U.S.$75.0 million of senior unsecured debt. The availability of this funding source is dependent on the return of the credit market to normalized conditions.

We intend to closely monitor our operations and costs to determine if there are areas where cash from operations could be maximized. Our debt principal repayments approximate $12.4 million in both 2009 and 2010, and $27.2 million in 2011. Our U.S.$350.0 million Senior Unsecured Notes, issued as part of a 2008 recapitalization, mature in 2015.

We expect that stronger markets will eventually return and will be sustainable based on demographic trends in the U.S., including immigration and the priority status that home ownership has for families. We are also confident that structural panel consumption per home will increase as builders identify new uses for engineered wood products in home construction. The long-term trend toward sustainable building technologies and products in North America, Asia and Europe also favours the Company. Ainsworth is well positioned to take advantage of this trend because OSB and other engineered wood products are environmentally friendly.

The 2008 Recapitalization and Fresh Start

On July 29, 2008 we completed a recapitalization plan which resulted in a realignment of equity and non-equity interests. Prior to the recapitalization, we faced the prospect of being unable to meet obligations to creditors due to challenging market conditions and our deteriorating financial position. The outcome of the recapitalization was a significant de-leveraging of our balance sheet. Our total debt and cash interest expense was reduced, and we are in a significantly better position to meet current and future market challenges.

As a result of the substantial realignment of equity and non-equity interests, Ainsworth’s identifiable assets and liabilities were recorded at a new cost basis, being the value established by the equity and non-equity interest. The value may not exceed fair value, if determinable, as required under the Canadian Institute of Chartered Accountants Handbook Section 1625 – Comprehensive Revaluation of Assets and Liabilities (“CICA 1625”). The process of undertaking such a comprehensive revaluation is commonly referred to as “fresh start accounting”. For purposes of this report, reported sales and adjusted EBITDA were relatively unaffected, as Ainsworth's physical operations were not impacted by the financial recapitalization. The results for the year 2008, as discussed in this report, include the period from January 1 to July 29, 2008 before the recapitalization (the results of the "Predecessor") and the period from July 30 to December 31, 2008 after the recapitalization ("the results of the "Company"), and are discussed on a quarterly and annual comparative basis. The impact of the recapitalization on finance expense and derivative instruments is described separately for the seven month period to July 29, 2008 and the five month period ended December 31, 2008. The recapitalization plan is described in Note 1 of our audited consolidated financial statements for the period ended December 31, 2008.

Summary of Operating Results

We announced the permanent closure of our Grand Rapids, Minnesota OSB mill on August 26, 2008. The Grand Rapids mill stopped production in September 2006. In December 2008 we commenced a strategic review of our assets, and on January 27, 2009 we announced our decision to permanently close and dispose of our remaining two US OSB mills at Cook and Bemidji, Minnesota. The Cook mill stopped production on January 16, 2008 and the Bemidji mill on October 6, 2008. We originally acquired these mills in 2004 from Potlatch Corporation. For financial accounting purposes, the U.S. OSB operations met the criteria to qualify for discontinued operations in December 2008 so the results of the Minnesota mills are excluded from continuing operations in this report.

The average of the market prices reported by Random Lengths during the fourth quarter of 2008 was U.S.$170 per msf (North Central region, on a 7/16th-inch basis) compared to U.S.$165 per msf in the fourth quarter of 2007. On an annual basis, the average market price was U.S.$172 per msf in 2008 and U.S.$161 per msf in 2007. The Random Lengths benchmark price was higher in 2008 than in 2007, despite the deterioration in the U.S. housing market, due to a reduction in overall production capacity.

OSB shipments from our continuing operations of 378,376 msf in the fourth quarter of 2008 were not significantly different than in the same period of 2007. For the year, OSB shipments from continuing operations were 17% lower in 2008 compared to 2007. Production at our jointly-owned OSB facility at High Level, Alberta was indefinitely curtailed as of December 20, 2007 and the mill remains closed.

Summary of Financial Results from Continuing Operations

Review of Financial Results

(in millions)		Q4-08		Q4-07		2008		2007
Sales	**$**	**90.4**	$	88.6	**$**	**359.3**	$	460.9
Costs and expenses		**101.4**		167.0		**404.2**		604.4
Operating loss		**(11.0)**		(78.4)		**(44.9)**		(143.5)
Net loss from continuing operations		**(79.9)**		(80.5)		**(233.5)**		(32.0)
Net loss		**(156.7)**		(184.5)		**(321.8)**		(216.5)
Adjusted EBITDA (1)		**(3.2)**		(13.3)		**(8.3)**		(24.4)

(1) Adjusted EBITDA, a non-GAAP financial measure, is defined as net (loss) income from continuing operations before amortization, loss on disposal of capital assets, finance expense, foreign exchange (gain) loss on long-term debt, other foreign exchange (gain) loss, income tax recovery and non-recurring items. See EBITDA calculation table below:

(in millions)		Q4-08		Q4-07		2008		2007
Net loss from continuing operations	**$**	**(79.9)**	$	(80.5)	**$**	**(233.5)**	$	(32.0)
Add:								
Amortization of capital assets		**6.7**		10.8		**35.8**		47.0
Write-down of capital assets		**-**		-		**0.8**		-
(Gain) loss on disposal of capital assets		**(0.1)**		-		**(3.4)**		-
Impairment of goodwill		**-**		51.0		**-**		51.0
Cost of class action lawsuit		**0.1**		1.6		**0.6**		15.1
Finance expense		**14.2**		17.9		**87.7**		77.1
Income tax expense (recovery)		**(7.1)**		(14.1)		**(13.3)**		(30.7)
Foreign exchange loss (gain) on long-term debt		**79.1**		(3.1)		**132.0**		(161.3)
Loss (gain) on derivative		**1.1**		-		**9.9**		-
Other foreign exchange loss (gain)		**(17.3)**		3.1		**(24.9)**		9.4
Adjusted EBITDA	**$**	**(3.2)**	$	(13.3)	**$**	**(8.3)**	$	(24.4)

In the fourth quarter of 2008, our net loss from continuing operations was $79.9 million, down $0.6 million from a net loss of $80.5 million in the fourth quarter of 2007. The main factors in the decreased loss from continuing operations were decreases in operating losses offset by an increase in foreign exchange losses.

For the full year 2008, despite certain improvements in our core OSB business, our net loss from continuing operations was $233.5 million, up $201.5 million from a net loss of $32.0 million a year earlier. The main factor in the increased loss from continuing operations was a $132.0 million unrealized foreign exchange loss on long-term debt in 2008, compared with a $161.3 million gain a year earlier partially offset by a $51.0 million goodwill impairment in 2007.

Adjusted EBITDA

Adjusted EBITDA was negative $3.2 million in the fourth quarter of 2008 compared with negative $13.3 million in the same period of 2007. The improvement was the result of higher realized prices and a decline in cost of goods sold, which increased our gross profit (sales less cost of products sold (exclusive of amortization)). The weaker Canadian dollar, which was an average of 19 cents lower in the fourth quarter of 2008 compared with the fourth quarter of 2007, also improved gross profit. The foreign exchange impact on adjusted EBITDA was an estimated $8.8 million improvement compared with the fourth quarter of 2007.

For the year 2008, adjusted EBITDA was negative $8.3 million compared with negative $24.4 million of EBITDA in 2007. This improvement was primarily due to improved gross profit, partially offset by a reduction in other income. The Canadian dollar, on average, was marginally stronger in 2008 compared with 2007, which reduced adjusted 2008 EBITDA by an estimated $1.3 million compared with 2007.

Sales

Total sales in the fourth quarter of 2008 did not change significantly compared to the fourth quarter of 2007, increasing from $88.6 million to $90.4 million. Total sales for the year 2008 were $359.3 million, down $101.6 million from $460.9 million in 2007. The decrease for the year is attributable to the decline in shipment volume due to reduced customer demand and the decline in realized prices.

OSB

In the fourth quarter of 2008, OSB sales were $78.9 million, up 17.8% from $67.0 million in the same period of 2007. The increase was entirely attributable to a 17.9% increase in realized prices, which rose in part because industry-wide capacity reductions exceeded demand reductions. Also contributing to the improvement in realized prices was a decline in the value of the Canadian dollar compared with the US dollar. Shipment volumes were slightly lower than the fourth quarter of 2007.

For the full year 2008, OSB sales were $290.3 million, down 20.5% from $365.0 million in 2007. The reduction is attributable to a 16.0% decline in shipment volume, as plants took market-related downtime, and a 4.5% decline in realized prices.

Specialty Overlaid Plywood and Other Products

Sales of specialty overlaid plywood and other products were $11.5 million in the fourth quarter of 2008, down 47% from $21.7 million in the fourth quarter of 2007. Plywood sales volumes were 44.2% lower than in the fourth quarter of 2007 and our average realized sale price dropped 3.3%.

For the full year 2008, specialty plywood and other product sales were $69.0 million, down 28% from $95.9 million in 2007. The decrease is primarily attributable to a 22% decrease in plywood sales volume and a 5.3% decline in realized prices.

Cost of Products Sold (Exclusive of Amortization)

For the fourth quarter of 2008, cost of products sold (excluding amortization) totaled $86.8 million, down 10.3% from $96.7 million in 2007. Gross profit for the fourth quarter of 2008 was $3.6 million compared with negative $8.1 million a year earlier. Ainsworth achieved a gross margin of 4.1% of sales in the fourth quarter of 2008, compared with a negative gross margin a year earlier.

On an annual basis, cost of products sold totaled $341.1 million in 2008, down 25.9% from $460.5 million in 2007. Gross profit for 2008 was $18.2 million compared with $0.4 million a year earlier. Ainsworth achieved a gross margin of 5.3% of sales in 2008, compared with gross margin of less than 1% a year earlier, due to lower input costs.

OSB

OSB cost of sales in the fourth quarter of 2008 was $75.3 million, down 0.4% from $75.6 million in 2007. The reduction is attributable to declining input costs and small decreases in shipment volumes.

For the full year 2008, cost of OSB sold was $272.9 million, down 26.2% from $369.9 million in 2007. OSB input costs decreased significantly during 2008. Wood, resin, and conversion costs were lower on a per unit basis in 2008 than in 2007 primarily due to cost reduction initiatives. Discretionary repairs and maintenance spending and contractor costs were closely monitored and reduced.

Also contributing to the reduction in OSB cost of sales was lower shipment volume, partially offset by a write-down of log inventories. The ongoing market downturn led to a reduction in the estimated net realizable value of our log inventories at some of our mills.

Specialty Overlaid Plywood and Other Products

Cost of sales of specialty plywood and other products in the fourth quarter of 2008 was $11.5 million, down 45.7% from $21.1 million in 2007. A 44.2% decrease in sales volume was the main factor responsible for this decrease.

For the full year 2008, cost of specialty plywood and other products was $68.3 million, down 24.7% from $90.7 million in 2007. The decrease was primarily attributable to a 22.0% decline in plywood volume shipped in 2008, compared with 2007.

Selling and Administration

Selling and administration expenses in the fourth quarter of 2008 were $8.0 million, up 17.6% from $6.8 million a year earlier. This increase was a result of higher legal costs due to the Potlatch lawsuit reaching the preparation for trial stage, partly offset by reductions in salaries and wages.

For the full year 2008, selling and administration expenses were $29.2 million, down 5.2% from $30.8 million in 2007. This decrease in expenses was primarily attributable to reductions in staffing levels and discretionary spending, partially offset by increase in costs incurred in relation to the Potlatch lawsuit.

Amortization of Capital Assets

Amortization expense in the fourth quarter of 2008 was $6.7 million, down 38% from $10.8 million in the fourth quarter of 2007. For the full year 2008 amortization expense was $35.8 million, down 23.8% from $47.0 million in 2007. Our OSB panel product mills are amortized using the units-of-production method. In 2008 amortization expense decreased as production volumes decreased due to the indefinite production curtailment at High Level. In addition, as a result of the recapitalization the OSB mills' cost base was reassessed, and their useful life was determined to be 15 years. This caused amortization expense in the fourth quarter of 2008 to be significantly lower than in the same period of 2007, despite the fact that production volume did not change significantly.

Non-core Asset Disposals

On March 26, 2008, we completed the sale of an unused finger-joint lumber facility for net proceeds of $3.4 million. The carrying value of the facility was $0.7 million). The sale was made as part of our strategy to enhance liquidity by monetizing non-core assets.

On June 25, 2008, the Company completed the sale of an electricity transmission line for proceeds of $2.8 million. The carrying value of the facility was $2.7 million and was included in OSB assets for the purpose of segmented disclosures.

Cost of Class Action Lawsuit

In 2006, the Company, along with other North American OSB producers, was named as a defendant in several lawsuits which alleged violations of United States anti-trust laws in relation to the pricing and supply of OSB from mid-2002 to 2006. In October 2007, the Company finalized a settlement agreement with the direct purchaser plaintiffs. Under the terms of the agreement, the Company paid $8.6 million (U.S.$8.6 million) into escrow to be distributed across the settlement class. In January 2008, the Company finalized a settlement agreement with the indirect purchaser plaintiffs. Under the terms of the agreement, the Company paid $1.3 million (U.S.$1.3 million) into escrow to be distributed across the settlement class. These settlement amounts, along with associated legal costs, were reflected in the Company's results as at December 31, 2007. The Company received final court approval of the settlements with the indirect and direct plaintiffs on July 17, 2008 and August 12, 2008, respectively. On November 3, 2008, the Company finalized a settlement agreement with four direct plaintiffs who opted out of the class settlement. The Company agreed to pay those direct plaintiffs collectively the amount of funds that, under the settlement agreement with the direct purchaser plaintiffs, had been placed in escrow for companies opting out of the settlement class, as well as an additional $118 thousand (U.S.$111 thousand). The Company anticipates no further claims under this lawsuit. The Company continues to believe the allegations against it in these claims are entirely without merit. The decision to enter into the settlement agreements was to avoid prolonged litigation.

Contingencies

In the normal course of its business activities, the Company is subject to a number of claims and legal actions that may be made by customers, suppliers and others. While the final outcome with respect to actions outstanding or pending as at December 31, 2008 cannot be predicted with certainty, the Company believes the resolution will not have a material effect on the Company's financial position, results of operations or cash flows.

Impairment of Goodwill

Goodwill is the excess of the purchase price over the fair value of the net identifiable assets acquired when the Company completed the acquisition of the 100% of the voting shares of Voyageur Panel Limited in 2004. At December 31, 2007, due to weakening business conditions in the fourth quarter of 2007 and management's consideration of revised market price forecasts published by RISI which reflected the substantial declines in U.S. housing starts and the prospect of prolonged reductions in customer demand, an impairment charge of $51.0 million was recorded.

Finance Expense

Finance expense in the fourth quarter of 2008 was $14.2 million, down 20.7% from $17.9 million in the fourth quarter of 2007. This decrease was the result of lower interest costs as the recapitalized company carries a much reduced debt obligation, partly offset by a higher interest rate on the new debt.

For the full year 2008, finance expense was $87.7 million, up 13.7% from $77.1 million in 2007. The increase was mainly attributable to $25.4 million of transaction costs incurred on the recapitalization, partially offset by lower interest costs resulting from a lower LIBOR rate, and a lower level of debt.

There was a significant reduction in finance expense recorded in five month period from July 30, 2008 to December 31, 2008 ($22.9 million) compared to the seven month period ended July 29, 2008 ($64.9 million). The seven month period finance expense included transaction costs of $25.4 million related to the recapitalization transaction, and were not repeated in the following five months of the year. In addition, after the recapitalization, interest expense was much reduced as a result of lower levels of debt.

Other Income

Other income in the fourth quarter of 2008 was $1.2 million, down 25% from $1.6 million in the fourth quarter of 2007. This decrease was primarily due to lower interest income earned on cash balances.

For the full year 2008, other income was $2.8 million, down 53.3% from $6.0 million in 2007. This reduction was primarily the result of lower income distributions from partnerships, a lower level of supplier discounts, and lower interest income earned on investments.

Foreign Exchange (Loss) Gain on Long-Term Debt

The unrealized foreign exchange loss on long-term debt in the fourth quarter of 2008 was $79.1 million compared with a gain of $3.1 million in the fourth quarter of 2007. The change is attributable to a weaker Canadian dollar as at December 31, 2008 than at September 30, 2008, resulting in a loss on the revaluation of our US dollar denominated long-term debt in Canadian dollars. For the full year 2008, the unrealized foreign exchange loss on long-term debt was $132.0 million, compared with a 2007 gain of $161.3 million. As with the fourth quarter, the difference is attributable to a 23% decline in the Canadian dollar against the U.S. dollar at December 31, 2008 compared to December 31, 2007.

Loss on Derivative Financial Instruments

On completion of the July 29, 2008 recapitalization, the Company recorded a derivative financial instrument related to the call options embedded in the new Senior Unsecured Notes. Changes in the value of this derivative financial asset are reflected in operations. Changes in the risk-free rate and the credit spread resulted in a $1.1 million loss on the derivative financial asset in the fourth quarter of 2008 and a $9.9 million loss for the period from July 30, 2008 to December 31, 2008.

Income Taxes

The income tax recovery in the fourth quarter of 2008 was $7.1 million compared with $14.1 million in the fourth quarter of 2007. For the full year 2008, the income tax recovery was $13.3 million on loss from continuing operations before income taxes of $246.8 million, compared with $30.7 million in income tax recovery on loss before income taxes of $62.7 million for 2007.

In the second quarter of 2008 the Company re-filed certain Canadian tax returns in order to recover provincial taxes previously paid. This resulted in the use of approximately $70.7 million of Canadian tax losses for which a future tax benefit was previously recorded, and expiry of $15.6 million of investment tax credits. As a result the Company recorded $7.8 million of income taxes recoverable and a provision for the realization of previously benefited future tax assets of $21.3 million. The income tax recovery in the seven month period ending July 29, 2008 and for the full year 2008 was reduced by the additional tax expense resulting from the difference between the tax rate at which these losses were previously benefited and the tax rate at which they were realized.

In addition, in light of poor OSB market conditions and economic outlook, for the seven month period ending July 29, 2008 the Company recorded a tax valuation allowance against its non-capital losses from continuing operations, resulting in a further reduction in tax expense recovery.

The implementation of the recapitalization plan resulted in a forgiveness of indebtedness of approximately $394 million for income tax purposes. The forgiven amount was applied to reduce capital losses available to the Company. The capital losses arose on the wind up of a foreign affiliate at the time of implementation of the recapitalization plan.

The benefit of the Predecessor's U.S. tax losses was not recorded as an asset during the application of fresh start accounting. The recapitalization also resulted in a restriction over the future application of U.S. non-capital loss carryforwards. As a result of the discontinuation of U.S. OSB operations, U.S. tax losses and the resulting valuation allowance are excluded from the temporary timing differences disclosed in the financial statements.

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

Net Loss from Discontinued Operations

The financial results of the OSB mills in Minnesota have been disclosed as discontinued operations. During the year ended December 31, 2008 the idled facilities generated a net loss of $88.3 million. The major components of the net loss from discontinued operations were an operating loss of $29.6 million and an impairment charge to capital assets of $69.9 million. At December 31, 2008, the capital assets associated with discontinued operations are valued at management’s best estimate of an exit market price for the residual assets of these facilities. In 2007 the facilities had generated a loss of $184.4 million, including $93.0 million relating to capital asset and intangible asset impairment charges.

Liquidity and Capital Resources

As of December 31, 2008, our adjusted working capital was $226.8 million, compared to $124.7 million as at December 31, 2007. We have presented adjusted working capital as we believe that it provides investors with a basis to evaluate our ability to fund operations and capital expenditures. Adjusted working capital is a non-GAAP measure, calculated as follows:

		2008		2007
(in millions)				
Current assets	**$**	**283.7**	$	184.0
Current portion of future income tax assets		**-**		(0.6)
Restricted cash		**(5.3)**		(7.1)
Current liabilities		**(60.1)**		(75.3)
Current portion of future income tax liabilities		**8.5**		23.7
Adjusted working capital	**$**	**226.8**	$	124.7
Adjusted working capital, discontinued operations		**5.3**		13.5
Adjusted working capital, continuing operations	**$**	**221.5**	$	111.2

Our primary adjusted working capital requirements in the short-term are: funding any shortfall from operations, interest payments, debt repayments and essential capital expenditures. All discretionary capital expenditures, including the expansion of the Grande Prairie facility, have been put on hold until market conditions improve.

Our cash flows for the fourth quarter and the year, which include cash flows related to discontinued operations, were as follows:

		Q4-08		Q4-07		2008		2007
(in millions)								
Cash used in operating activities	**$**	**(4.3)**	$	(64.2)	**$**	**(55.6)**	$	(127.3)
Cash (used in) provided by financing activities		**(4.6)**		(2.1)		**174.2**		100.9
Cash (used in) provided by investing activities		**(0.7)**		1.8		**3.8**		22.6
Additions to capital assets		**3.4**		4.4		**8.6**		70.1

Our operating activities did not generate positive cash flows in 2008 or 2007 as a result of poor OSB market conditions, which are not expected to improve in the short-term. We have taken actions to address the deficiency of cash from operating activities, such as temporarily curtailing production at certain facilities, discontinuing our Minnesota operations and undertaking cost reduction programs. This has left the Company with an operating platform that only includes the lowest cost, most cash efficient assets. With the potential for continued poor markets we will continue to preserve cash by closely monitoring all of our operations and our costs to determine if there are other areas where cash from operations could be maximized.

In 2008, in conjunction with our production curtailments, we took action to reduce our investment in operating working capital, a non-GAAP measure consisting of accounts receivable, inventory, and prepaid expenses less accounts payable and accrued liabilities:

	Continuing Operations				Discontinued Operations			
		2008		2007		2008		2007
(in millions)								
Accounts receivable	**$**	**19.9**	$	21.4	**$**	**0.5**	$	0.2
Inventory		**53.3**		60.7		**1.2**		12.3
Prepaid expenses		**5.7**		10.2		**0.8**		0.9
Accounts payable and accrued liabilities		**(27.5)**		(33.2)		**(8.9)**		(5.6)
Operating working capital	**$**	**51.4**	$	59.1	**$**	**(6.4)**	$	7.8

Operating working capital of our continuing operations was reduced by $7.7 million during the year, to $51.4 million at year-end compared to $59.1 million at December 31, 2007. Despite the current economic environment, ageing of our accounts receivable remains in line with prior periods. We are carefully monitoring our collections and have imposed tighter credit limits. The payment terms governing accounts payable have not changed compared to the prior year due to our favourable cash position. Operating working capital of our discontinued operation decreased from $7.8 million at December 31, 2007 to negative $6.4 million at December 31, 2008. This change reflects reductions in inventory plus increases in severance liabilities.

With a deteriorating liquidity position in the first half of 2008, the Company initiated a recapitalization of its balance sheet. The recapitalization reduced debt to more moderate and manageable levels while providing the financial strength and liquidity to withstand a prolonged market downturn. The critical elements of the recapitalization were a U.S.$200.0 million cash injection through the issuance of new Senior Unsecured Notes and the cancellation of all of the former Senior Unsecured Notes in exchange for the issuance of an additional U.S.$150.0 million of the new Senior Unsecured Notes and equity in the Company. In addition, debt maturities were extended to 2015 and a payment-in-kind (“PIK”) feature was attached to the interest. The PIK feature limits the annual cash interest to six percent of the note obligation with the remaining PIK interest of five percent being accrued and deferred to the final maturity date in 2015 in the form of new Senior Unsecured Notes. Permitted debt levels also increased under the new notes which allow the Company to borrow up to U.S.$125.0 million of senior secured debt and U.S.$75.0 million of senior unsecured debt. The availability of this funding source is dependent on the return of the credit market to normalized conditions. As a result of our improved cash position as at December 31, 2008, management does not foresee a significant risk of credit default or a need to seek additional credit in the current unfavourable credit market conditions. During the fourth quarter of 2008, as a result of the global economic crisis, the terms and availability of debt and equity capital have been materially restricted. As a result, should such conditions continue through to maturity of our senior unsecured notes in 2015 and should the Company require debt or equity financing, debt capital may not be available on acceptable terms, which may require management to explore strategic alternatives to improve its capital structure, enhance liquidity, refinance debt, sell non-core assets and reduce costs and expenditures. Cash used in financing activities in the fourth quarters of 2008 and 2007 represents the repayment of equipment financing loans and capital lease obligations.

Cash used in investing activities was $0.7 million in the fourth quarter of 2008 compared to cash provided by investing activities of $1.8 million in the fourth quarter of 2007. Capital expenditures were lower in the fourth quarter of 2008 than in 2007, but in the fourth quarter of 2007 capital expenditures were funded by the release of restricted cash. For the year, cash used in investing activities of $3.8 million in 2008 was $18.8 million less than cash used in investing activities in 2007. This change is primarily due to a reduction in capital expenditures in 2008 and the redemption of short-term investments to fund operations in 2007. Restricted cash decreased in 2007 upon payment of capital expenditures on the Grande Prairie expansion project and release of the related letters of credit. In 2008, cash used in investing activities included proceeds on the sale of an electricity transmission line ($2.8 million) and settlement of a warranty holdback claim related to the 2004 purchase of Voyageur Panel Ltd. ($2.9 million). These assets were sold as part of our strategy to divest non-core assets. In 2009, we are actively exploring opportunities to divest our specialty plywood and veneer mills in Savona and Lillooet, British Columbia.

Additions to capital assets in 2008 were limited to only essential projects, including the final outstanding committed payments related to the Grande Prairie expansion. As at December 31, 2008 we had committed $0.3 million for capital expenditures related to the Grande Prairie expansion (July 29, 2008: $3.7 million; December 31, 2007: $5.3 million). The estimated costs to complete the Grande Prairie expansion, which is on hold due to market conditions, are approximately $80.0 million.

Contractual Obligations

The following table summarizes the timing of payments for which we have contractual obligations as at December 31, 2008. Payments of senior unsecured notes, senior secured term loans and equipment loans include cash interest and principal repayments at the time of maturity.

	2009	2010 to 2011	2012 to 2013	Thereafter	Total
(In millions)					
Senior Unsecured Notes (1)	$ 26.7	$ 57.5	$ 63.6	$ 659.7	**$ 807.5**
Senior Secured Term Loan (2)	8.0	16.1	16.1	129.0	**169.2**
Merrill Lynch equipment loan (3)	11.1	36.4	-	-	**47.5**
Deutsche Bank equipment loan (4)	2.7	5.2	4.9	5.6	**18.4**
Capital lease obligations (5)	1.2	2.4	2.4	13.5	**19.5**
Operating lease obligations	5.4	0.9	-	-	**6.3**
Purchase commitments (6)	8.7	11.8	0.3	1.0	**21.8**
	$ 63.8	**$ 130.3**	**$ 87.3**	**$ 808.8**	**$ 1,090.2**

(1) Under the indentures governing our outstanding Senior Notes, we are required to make cash interest payments at 6% and payment-in-kind interest payments at 5% on June 30 and December 30. Our Senior Notes mature on July 29, 2015.

(2) Under the Senior Secured term loan agreement, we can elect to pay interest quarterly at a base rate or over an interest period of one to three months at LIBOR plus 3.0% per annum. For the purpose of the above table, we have calculated the interest rate at the December 31, 2008 month-end LIBOR rate of 1.42%. The Senior Secured term loan matures on June 26, 2014.

(3) Under the Merrill Lynch equipment loan agreement, we are required to pay interest at a rate per annum, reset monthly, equal to LIBOR plus 2.90%, payable monthly. For the purpose of the above table we have calculated the interest rate at the December 31, 2008 month-end LIBOR rate of 1.42%. Principal payments are made monthly with the final monthly payment and a balloon payment due October 1, 2011.

(4) Under the Deutsche Bank equipment loan agreement, we are required to pay interest at a rate per annum, reset semi-annually, equal to EURIBOR plus 0.65% payable semi-annually each March and September. For the purpose of the above table we have calculated the interest rate at the December 31, 2008 month-end EURIBOR rate of 2.89%. The loan is repayable in semi-annual installments of €630,855 on June 20 and December 20.

(5) Capital lease obligations are payable monthly.

(6) Purchase commitments include long-term purchase contracts with annual minimum volume commitments and agreements to purchase machinery, equipment and electrical engineering services in relation to the Grande Prairie expansion.

(7) Contractual obligations denominated in $U.S. are converted to Canadian dollars at the December 31, 2008 exchange rate posted by the Bank of Canada of U.S.$0.8210 = $1.00.

(8) Contractual obligations denominated in € are converted to Canadian dollars at the December 31, 2008 exchange rate posted by the Bank of Canada of €0.5885 = $1.00.

Outstanding Share Data

On June 17, 2008 we announced a proposed recapitalization, which was approved by shareholders and noteholders on July 24, 2008. The financial recapitalization was implemented on July 29, 2008. The following are key elements of the plan:

- Conversion of $834 million senior unsecured notes into $154 million (U.S.$150 million) rollover senior unsecured notes and equity of the Company.
- All outstanding common shares as at July 29, 2008 were cancelled and new common shares in the recapitalized company were issued.
- Noteholders received 96% of the new common shares and, for some noteholders, warrants exercisable into such shares: 46% of the new common shares were allocated pro rata to all noteholders, 35% of the new common shares were allocated to noteholders who subscribed for U.S.$200 million new senior unsecured notes, 15% of the new common shares were allocated to noteholders who backstopped new senior unsecured notes.
- Existing shareholders received 4% of the equity of the Company and 8,695,634 warrants to acquire common shares of the Company.

The issued share capital of the Company at December 31, 2008 and the Predecessor at December 31, 2007 are as follows:

	Shares	Warrants	Amount
At December 31, 2008:			
Common shares	89,905,712	-	$ 368.3
Shareholder warrants	-	8,695,634	-
Noteholder warrants	-	10,094,288	41.3
	89,905,712	18,789,922	409.6
At December 31, 2007:			
Common shares	14,649,140		$ 55.8

The shareholder warrants shall be deemed to be exercised and shall be converted without additional consideration into equal number of New Common Shares if the Company's equity market capitalization exceeds U.S.$1.2 billion on or before July 29, 2013. For accounting purposes, nominal value has been allocated to these warrants as the fair value is not reliably determinable due to their contingent nature.

Each noteholder warrant is exercisable at any time for one New Common Share without payment of further consideration. For financial reporting purposes, the noteholder warrants have been allocated a prorata share of the amount of capital stock on fresh start.

In November 2008 Ainsworth's Board of Directors approved the adoption of a stock option plan under which options to acquire a maximum of 9,000,000 common shares are issuable with terms of up to 10 years. The stock option plan is subject to approval by the shareholders of the Company at the annual general meeting in 2009.

Financial Instruments

Ainsworth does not use derivatives or participate in hedging activities. However, our senior unsecured notes include a call option which has been identified as an embedded derivative. The embedded call option derivative was recorded at fair value at issuance of the senior unsecured notes and is revalued at each reporting period based on current interest rates and the credit spread. As the risk-free interest rate and the credit spread increase, the value of the derivative financial asset decreases. Conversely, a decrease in the risk-free interest rate and the credit spread increases the value of the derivative financial asset. On issuance of the notes, the value of the derivative was determined to be $9.9 million and was disclosed in "Other Assets". Changes in the value of this derivative financial asset and like embedded derivatives issued as senior unsecured notes as payment-in-kind interest are reflected in operations as "Loss on derivative financial instrument".

Off-Balance Sheet Arrangements

We did not have any significant off-balance sheet arrangements other than letters of credit in the amount of $5.3 million ($7.0 million at July 31, 2008; $7.1 million at December 31, 2007)), for which cash has been pledged as collateral, and our co-venturer's share of the accounts payable and accrued liabilities of our High Level project in the amount of $1.0 million ($1.2 million at July 31, 2008, $1.8 million at December 31, 2007). By agreement with the co-venturer, if the co-venturer does not pay its share of accounts payable and accrued liabilities, we may pay such amounts and recover them from the co-venturer's share of production. We do not believe that we have any off-balance sheet arrangements that have, or are reasonably likely to have, a current or future material effect on our financial condition, results of operations, liquidity, capital expenditures or resources.

Related Party Transactions

In the seven months ended July 29, 2008, the Predecessor paid $126 thousand to a company owned by officers of the Predecessor for rental charges relating to mill equipment (year ended December 31, 2007: $136 thousand). Prior to July 29, 2008, the Predecessor sold two vehicles and two trailers to a director and officer of the Predecessor for $28 thousand. The Predecessor also sold plywood and a laptop computer totaling $7 thousand to an officer of the Predecessor in the second quarter of 2008. These transactions were conducted on normal commercial terms and prices. Subsequent to the change in directors and officers as part of the recapitalization on July 29, 2008, these payments are no longer considered related party transactions.

Quarterly Comparative Financial Information (Unaudited)

	2008 (1)	Q4-08	Q3-08	Q2-08	Q1-08	2007	Q4-07	Q3-07	Q2-07	Q1-07	2006
(in millions, except per share data, unless otherwise noted)											
Sales and earnings (loss)											
Sales	$ 359.3	$ 90.4	$ 98.0	$ 97.2	$ 73.8	$ 460.9	$ 88.6	$ 120.8	$ 130.5	$ 120.9	$ 601.0
Operating earnings (loss)	(44.9)	(11.0)	(8.9)	0.9	(25.9)	(143.5)	(78.4)	(26.5)	(22.8)	(15.9)	(9.2)
Foreign exchange gain (loss) on long-term debt	(132.0)	(79.1)	(23.6)	6.8	(36.1)	161.3	3.1	69.1	79.6	9.4	(7.9)
Net (loss) income from continuing operations	(233.4)	(79.9)	(42.3)	(33.5)	(77.7)	(32.0)	(80.5)	23.7	40.2	(15.5)	(47.2)
Net (loss) income from discontinued operations	(88.4)	(76.8)	(0.4)	(0.7)	(10.5)	(184.5)	(104.0)	(60.9)	(12.3)	(7.3)	(60.8)
Net (loss) income	(321.8)	(156.7)	(42.7)	(34.2)	(88.2)	(216.5)	(184.5)	(37.2)	27.9	(22.8)	(108.0)
Per common share:											
Net (loss) income from continuing operations (2)	(4.60)	(0.80)	(0.58)	(2.29)	(5.30)	(2.20)	(5.50)	1.62	2.74	(1.06)	(3.22)
Net (loss) income from discontinued operations (2)	(1.74)	(0.77)	-	(0.05)	(0.72)	(12.58)	(7.09)	(4.16)	(0.83)	(0.49)	(4.15)
Net (loss) income (2)	(6.33)	(1.57)	(0.58)	(2.33)	(6.02)	(14.78)	(12.59)	(2.54)	1.91	(1.55)	(7.37)
Balance sheet											
Total assets	983.7	983.7	1,010.1	1,040.7	1,050.5	1,100.7	1,100.7	1,331.2	1,459.0	1,435.9	1,504.2
Total long-term debt (3)	639.5	639.5	560.0	1,001.4	1,011.7	977.4	977.4	982.3	1,053.9	1,025.7	1,038.1
Cash dividends declared: $ per share	-	-	-	-	-	-	-	-	-	-	1.00
Key statistics											
OSB shipments (mmsf 3/8")	1,489.0	378.4	394.1	402.4	314.2	1,788.0	378.7	452.2	505.4	451.8	1,789.7
Average OSB price ($/msf)	194.9	208.5	202.5	188.9	176.7	204.1	176.9	215.9	207.8	211.1	335.8

(1) The results for the year 2008 include the results of the Predecessor for the period from January 1 to July 29, 2008 and the results of the Company for the period from July 30 to December 31, 2008 after the recapitalization.
(2) Basic and diluted net (loss) income per share. As at March 3, 2009, the Company had 100,000,000 issued common shares and noteholder warrants. Prior to July 29, 2008, the Predecessor had 14,649,140 issued common shares.
(3) Total long-term debt includes the current portion of long-term debt.

OSB demand and product pricing was the main factor causing fluctuations in our sales over the past eight quarters. Sales prices remained low throughout 2007 and 2008, causing a decline in operating earnings and net income from continuing operations. Discontinued operations, which include three OSB mills in Minnesota, generated additional losses in 2008 and 2007, particularly as a result of asset write-downs in the fourth quarters of 2008 and 2007 and an impairment charge of intangible assets in 2007. In 2008, we applied certain Canadian tax losses to prior taxation years and recovered taxes at lower rates. This significantly increased income tax expense in the first half of 2008, further increasing the net loss for the period. Net loss also fluctuated based on the strength of the Canadian dollar relative to the U.S. dollar as a result of unrealized foreign exchange loss on long-term debt. The strength of the Canadian dollar relative to the U.S. dollar throughout 2007 resulted in significant unrealized foreign exchange gains on our long-term debt in 2007, which reduced our net loss. In the fourth quarter of 2007, we recorded a $51.0 million impairment of goodwill, a $1.3 million legal settlement and a $57.2 million tax valuation allowance. Net loss in the third quarter of 2007 was also impacted by a $52.1 million tax valuation allowance and an $8.6 million charge related to a legal settlement. OSB shipment volumes have varied in the past eight quarters depending on market-related production curtailments. Production at the High Level

OSB facility was halted for an indefinite period effective December 20, 2007 and the remaining mills have taken more downtime in 2008 than in 2007.

Segmented Information

Sales and costs of products sold are discussed by product segment elsewhere in this document.

Our geographic distribution of sales was as follows:

	Q4-08	Q4-07	2008	2007
(in millions)				
United States	**$ 65.0**	$ 62.4	**$ 249.0**	$ 337.3
Canada	**13.5**	12.6	**50.6**	62.7
Overseas	**11.9**	13.7	**59.7**	60.9
	$ 90.4	$ 88.7	**$ 359.3**	$ 460.9

Capital assets attributed to countries based on location were as follows:

	2008	2007
(in millions)		
Canada	**$ 665.9**	$ 620.4
United States	**19.3**	209.7
	$ 685.2	$ 830.1

Goodwill of $Nil (2007: $51,970) is attributable to the acquisition of Voyageur Panel Canada Limited which is located in Canada.

Risks and Uncertainties

Economic Uncertainty. Our core OSB business relies heavily on new home and renovation construction in North America. The U.S. housing market has been in a severe and prolonged recession and the Canadian housing market has weakened during 2008. If attempts to stabilize the financial and credit markets are not successful, economic activity in North America and elsewhere is likely to recede, resulting in higher unemployment rates and shrinking credit availability. This would have an adverse effect on our business.

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

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. Ainsworth'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, access to markets, customer service, product quality, financial resources and currency exchange rates.

Foreign Exchange. The sales for all of our products, including those sold in Canada and overseas, are denominated in U.S. dollars. As a result, any decrease in the value of the U.S. dollar relative to the Canadian dollar reduces the amount of revenues realized. U.S. dollar purchases of raw materials, supplies and services such as resin, waxes and transportation provide a partial offset to the impact of the foreign exchange sensitivity on sales. At December 31, 2008 and December 31, 2007, Ainsworth did not hold any foreign exchange contracts.

Wood Fibre. Wood fibre represents the major raw material in the production of panels. In Canada, wood fibre is sourced primarily by agreements with provincial governments. The agreements are granted for various terms from five to 25 years and are generally subject to regular renewals every five years. The agreements incorporate commitments with respect to sustainable forest management, silvicultural work, forest and soil renewal, and cooperation with other forest users. We expect the agreements to be extended as they come up for renewal. Aboriginal groups have claimed substantial portions of land in various provinces over which they claim aboriginal title or in which they have a traditional interest and for which they are seeking compensation from various levels of government. Ainsworth has taken a proactive approach to enhance the economic participation of the First Nations in its operations wherever feasible.

Customer Dependence. Ainsworth sells its products primarily to major distributors, contractor supply yards, and wholesale distributors and faces strong competition for the business of significant customers. A significant change in our customer base could negatively affect sales and earnings. We have contracted approximately 50% of our commodity OSB production volume for 2009. Our sales are also dependent on purchasers of our products having access to adequate levels of credit.

Labour Relations. The Grande Prairie mill employees are non-unionized, while the Barwick, 100 Mile, Lillooet and Savona mills are unionized. The union contract covering members at the 100 Mile, Lillooet and Savona mills expires June 30, 2009 while the Barwick agreement expires July 31, 2009. In the past, we have always been able to successfully renegotiate union contracts with no labour disruptions.

Environmental. Ainsworth'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 production capacity or increase production 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 an insurable event.

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

Liquidity. During the fourth quarter of 2008, as a result of the global economic crisis, the terms and availability of debt and equity capital have been materially restricted. As a result, should such conditions continue through to maturity of our senior unsecured notes in 2015 and should the Company require debt or equity financing, debt capital may not be available on acceptable terms, which may require management to explore strategic alternatives to improve its capital structure, enhance liquidity, refinance debt, sell non-core assets and reduce costs and expenditures.

Significant Accounting Estimates and Judgments

Management has made certain judgments and estimates that affect the reported amounts and other disclosures in our financial statements. We have not made any changes in accounting policies since December 31, 2007 except as noted below.

Changes in Accounting Policies

Effective January 1, 2008 the Company adopted the new recommendations of the Canadian Institute of Chartered Accountants ("CICA") for general and capital disclosures, inventories and financial instruments presentation and disclosure.

Section 1400 – General standards of financial statement presentation.
The CICA revised Section 1400, "General Standards of Financial Statement Presentation." The revision to this section provides additional guidance related to management's assessment of the Company's ability to continue as a going concern. This revision became effective for the fiscal year beginning January 1, 2008.

Section 1535 – Capital Disclosures
This section establishes standards for disclosures about an entity's capital and how it is managed. Under this standard, the Company is required to disclose qualitative information about its objectives, policies and processes for managing capital; to disclose quantitative data about what it regards as capital; and to disclose whether it has complied with any externally imposed capital requirements and, if not, the consequences of such non-compliance.

Section 3031 - Inventories
The Company has applied Section 3031 on a prospective basis, with opening inventory adjustments recorded against opening retained earnings. Under the new requirements, inventory must be valued at the lower of cost and net realizable value. Inventory write-downs may be reversed (to the extent of the original write-down) if circumstances change in subsequent periods. In times of fluctuating OSB prices, write-downs and recoveries thereof may be material. Cost of panel products is defined as all costs that relate to bringing the inventory to its present location and condition under normal operating conditions and includes manufacturing costs, such as raw materials, labour and production overhead and amortization costs. Inventory cost is determined using the three month weighted average cost of production. Cost of logs is defined as all costs that relate to purchasing, harvesting and delivery of the logs to their present location, including labour, overhead and amortization. Materials, supplies and consumable spares are valued at the lower of cost and replacement cost, which approximates net realizable value, and are expensed when introduced into the production process. At January 1, 2008, capital spares of $1.2 million have been reclassified to capital assets and are amortized over the estimated remaining life of the related mill. The adjustment to opening inventory and retained earnings on adoption of Section 3031 was $6.5 million, net of tax of $1.2 million.

Section 3862 – Financial Instruments – Disclosures
This section requires entities to provide disclosure of quantitative and qualitative information that enables users to evaluate (a) the significance of financial instruments for the entity's financial position and performance; and (b) the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the balance sheet date, and management's objectives, policies and procedures for managing such risks.

Section 3863 – Financial Instruments – Presentation
This section establishes standards for presentation of financial instruments and non-financial derivatives.

Significant Accounting Estimates and Judgments

Fresh Start Accounting. The Company was required to perform a comprehensive balance sheet revaluation under the provisions of CICA 1625. Under fresh start accounting, the Company assessed the fair value of identifiable assets and liabilities, whether or not previously recorded. The adjustments are to revalue assets and liabilities that meet the recognition criteria under Canadian GAAP on a new cost basis. Under CICA 1625, if the fair market value of the enterprise as a whole exceeds the revalued net asset value, goodwill is not recorded.

For the purpose of the unaudited consolidated balance sheet on implementation of fresh start accounting as at July 29, 2008, the fair values ascribed to the assets and liabilities are estimated fair values as at July 29, 2008 and are based on the guidance provided in Canadian Institute of Chartered Accountants Handbook Section 1581 – Business Combinations.

Valuation of Inventory. We closely monitor conditions that could impact valuation of inventories or otherwise impair our assets. Inventories of logs and panel products are valued at the lower of average cost and net realizable value. Effective January 1, 2008, net realizable value of logs is determined based on estimated OSB selling prices less estimated costs of conversion. We base our estimate of selling price on sales orders that exist at balance sheet reporting dates and management's estimate for forecasted sales prices based on supply, demand and industry trends. Prices fluctuate over time and it is probable that market values at the time of eventual sale will differ from our estimates.

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

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

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

Amortization. Amortization of property, plant and equipment is principally based on the units of production method where the cost of equipment is amortized over the estimated units that will be produced during a conservative estimate of its useful life.

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

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

Asset Retirement Obligation. The Company recognizes the fair value of estimated asset retirement obligations when a reasonable estimate of fair value can be made. An asset retirement obligation is a legal obligation associated with the retirement of an owned or leased, tangible, long-lived asset. Such obligations are recognized in the consolidated balance sheet by recording an increase in the carrying value of the applicable long-lived assets and recognizing corresponding liabilities. The asset retirement obligations are accreted over the period to settlement with a corresponding charge to interest expense and the increase in the carrying value of long-lived assets is amortized over the useful life of the asset.

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

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

Changes in Internal Control over Financial Reporting

No changes were made in our internal control over financial reporting during the period covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Disclosure Controls and Procedures

As required by National Instrument 52-109 Certification of Disclosure in Issuer's Annual and Interim Filings, the Company's management, including the Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of Disclosure controls and procedures as at December 31, 2008. Disclosure controls and procedures are designed to provide reasonable assurance, that all necessary information is reported to the CEO and CFO on a timely basis to ensure that the necessary decisions can be made regarding annual and interim financial statement disclosure.

The certifying officers have evaluated the effectiveness of our disclosure controls and procedures as at December 31, 2008, and have concluded that such controls and procedures are adequate and effective to ensure accurate and complete disclosures in the annual filings.

Internal Controls over Financial Reporting

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Management of the Company, including the Chief Executive Officer and Chief Financial Officer, has performed an assessment of the effectiveness of the Company's internal control over financial reporting as at December 31, 2008 based on the provisions of Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based on this assessment, management has concluded that its internal controls over financial reporting are operating effectively as at December 31, 2008. Management determined that there were no material weaknesses in the Company's internal control over financial reporting as at December 31, 2008.

Canadian GAAP Developments

Goodwill and intangible assets. In February 2008, the CICA issued Section 3064, "Goodwill and Intangible Assets" which replaced existing section 3062, "Goodwill and Other Intangible Assets" and Section 3450, "Research and Development." The new standard provides guidance on the recognition, measurement, presentation and disclosure of goodwill and intangible assets. This standard is effective for interim and annual financial statements beginning January 1, 2009. The Company does not expect that the adoption of this new standard will have a significant impact on its financial statement disclosures or results of operations.

Business Combinations. In January 2009, the CICA issued Section 1582, *Business Combinations*, Section 1601, *Consolidations*, and Section 1602, *Non-controlling Interests*. These new standards are harmonized with International Financial Reporting Standards (IFRS). Section 1582 specifies a number of changes, including: an expanded definition of a business, a requirement to measure all business acquisitions at fair value, a requirement to measure non-controlling interests at fair value, and a requirement to recognize acquisition-related costs as expenses. Section 1601 establishes the standards for preparing consolidated financial statements. Section 1602 specifies that non-controlling interests be treated as a separate component of equity, not as a liability or other item outside of equity. The new standards will become effective in 2011. Early adoption is permitted.

International Financial Reporting Standards

In February 2008, the Canadian Accounting Standards Board confirmed that International Financial Reporting Standards will replace Canada's current generally accepted accounting principles for publicly accountable profit-oriented enterprises for interim and annual financial statements effective January 1, 2011. Ainsworth is presently considering the effect these standards will have on its financial statements. A project plan is being developed and resource and training requirements are being assessed. Over the next two years changes will be implemented and work performed to ensure the accuracy and effectiveness of the transition to IFRS. At this time it is not possible to determine how reporting according to IFRS will affect future financial statements.

AINSWORTH LUMBER CO. LTD.
Other Information
Unaudited

	Dec. 31, 2008	Dec. 31, 2007
Selected Balance Sheet Items ($000's)		
Cash	**$ 192,584**	$ 69,627
Short-term investments	**1,586**	835
Restricted cash	**5,344**	7,104
Adjusted working capital (Note 1)	**226,753**	124,643
Total assets	**983,678**	1,100,701
Total debt	**639,481**	977,372
Shareholders' equity	**226,151**	12,739

	Three months ended Dec. 31		Year ended Dec. 31	
	2008	2007	**2008**	2007
Reconciliation of Net Loss to Adjusted EBITDA ($000's)				
Net Loss from Continuing Operations	**$ (79,922)**	$ (80,497)	**$ (233,463)**	$ (32,010)
Add: Amortization of capital assets	**6,696**	10,845	**35,807**	46,989
Write-down of capital assets	**-**	-	**837**	-
(Gain) loss on disposal of capital assets	**(132)**	16	**(3,423)**	(39)
Impairment of goodwill	**-**	51,000	**-**	51,000
Cost of class action lawsuit	**64**	1,587	**591**	15,114
Finance expense	**14,162**	17,905	**87,710**	77,051
Income tax recovery	**(7,062)**	(14,085)	**(13,326)**	(30,688)
Foreign exchange loss (gain) on long-term debt	**79,132**	(3,149)	**131,981**	(161,315)
Loss on derivative financial asset	**1,144**	-	**9,857**	-
Other foreign exchange (gain) loss	**(17,281)**	3,072	**(24,871)**	9,464
Adjusted EBITDA (Note 2)	**$ (3,199)**	$ (13,306)	**$ (8,300)**	$ (24,434)
Product Sales ($000's)				
OSB	**$ 78,901**	$ 66,998	**$ 290,263**	$ 365,008
Plywood and Other	**11,517**	21,632	**69,042**	95,880
	$ 90,418	$ 88,630	**$ 359,305**	$ 460,888
Geographic Sales Distribution ($000's)				
USA	**$ 64,956**	$ 62,372	**$ 248,982**	$ 337,259
Canada	**13,554**	12,589	**50,629**	62,702
Overseas	**11,908**	13,669	**59,695**	60,927
	$ 90,418	$ 88,630	**$ 359,306**	$ 460,888
Product Shipment Volumes (Continuing Operations)				
OSB (msf-3/8")	**378,376**	378,707	**1,489,036**	1,788,035
Plywood (msf-3/8")	**19,974**	35,827	**116,745**	149,735
Veneer (msf-3/8")	**4,328**	6,035	**27,501**	27,153
Production Volumes (Continuing Operations)				
OSB (msf-3/8")	**376,811**	380,284	**1,486,445**	1,787,265
Plywood (msf-3/8")	**18,644**	37,372	**110,073**	146,529
Veneer (msf-3/8") (Note 3)	**25,198**	46,895	**148,783**	189,427

Note 1: Adjusted working capital is a non-GAAP financial measure defined as working capital (GAAP) excluding future income taxes and restricted cash.

Note 2: Adjusted EBITDA, a non-GAAP financial measure, is defined as sales less costs of products sold and selling and administrative expense plus other income.

Note 3: Includes transfer volumes to Savona (for plywood production).

About Ainsworth

Ainsworth Lumber Co. Ltd. is a leading Canadian forest products company, with a 50-year reputation for quality products and unsurpassed customer service. In Alberta, the company's operations include an oriented strand board (OSB) plant at Grande Prairie and a one-half interest in the Footner OSB plant at High Level. In British Columbia, the company's operations include an OSB plant at 100 Mile House, a veneer plant at Lillooet, and a plywood plant at Savona. In Ontario, the company's operations include an OSB plant at Barwick. The company's facilities have a total annual capacity of 1.6 billion square feet (3/8" basis) of OSB, 156 million square feet (3/8" basis) of specialty overlaid plywood, and 200 million square feet (3/8" basis) of veneer.

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

Visit our web-site: www.ainsworth.ca

Auditors' Report and Consolidated Financial Statements of

AINSWORTH LUMBER CO. LTD.

December 31, 2008, July 29, 2008 and December 31, 2007

AUDITORS' REPORT

To the Shareholders of
Ainsworth Lumber Co. Ltd.

We have audited the consolidated balance sheets of Ainsworth Lumber Co. Ltd. (the "Company") as at December 31, 2008 and July 29, 2008 and of the predecessor of Ainsworth Lumber Co. Ltd. (the "Predecessor") as at December 31, 2007 and the consolidated statements of operations, comprehensive loss, changes in shareholders' equity (deficiency) and cash flows for the five months to December 31, 2008 of the Company and of the Predecessor for the seven months to July 29, 2008 and for the year ended December 31, 2007. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2008 and July 29, 2008 and of the Predecessor as at December 31, 2007 and the results of their operations and their cash flows for the five months to December 31, 2008, the seven months to July 29, 2008 and for the year ended December 31, 2007 in accordance with Canadian generally accepted accounting principles.

/s/ Deloitte & Touche LLP
Chartered Accountants
Vancouver, Canada
March 3, 2009

AINSWORTH LUMBER CO. LTD.

Consolidated Balance Sheets

(In thousands of Canadian dollars)

	The Company		The Predecessor
	December 31 2008	**July 29 2008 (Note 1)**	December 31 2007
ASSETS			
Current Assets			
Cash and cash equivalents	**$ 192,584**	**$ 208,827**	$ 69,627
Short-term investments	**1,586**	**887**	835
Accounts receivable	**19,916**	**28,045**	21,355
Inventories (Note 4)	**53,251**	**46,848**	60,749
Income taxes receivable	**-**	**1,916**	-
Prepaid expenses	**5,681**	**7,545**	10,228
Restricted cash (Note 5)	**5,344**	**6,997**	7,104
Assets held for disposal (Note 6)	**5,337**	**10,693**	14,085
	283,699	**311,758**	183,983
Capital Assets, Net (Note 7)	**652,448**	**599,102**	594,755
Other Assets (Note 8)	**14,512**	**25,370**	22,272
Goodwill	**-**	**-**	51,970
Assets Held for Disposal (Note 6)	**33,019**	**94,447**	247,721
	$ 983,678	**$ 1,030,677**	$ 1,100,701
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current Liabilities			
Accounts payable and accrued liabilities	**$ 27,539**	**$ 47,213**	$ 33,176
Income taxes payable	**2,764**	**-**	2,689
Current portion of future income tax liabilities (Note 20)	**8,492**	**8,474**	23,682
Current portion of long-term debt (Note 11)	**12,366**	**10,600**	10,122
Liabilities related to assets held for disposal (Note 6)	**8,933**	**7,029**	5,614
	60,094	**73,316**	75,283
Accrued Pension Benefit Liability (Note 21)	**4,278**	**5,610**	-
Other Liabilities (Note 10)	**3,512**	**3,383**	4,451
Long-term Debt (Note 11)	**627,115**	**528,350**	967,250
Future Income Tax Liabilities (Note 20)	**60,160**	**3,183**	34,327
Liabilities Related to Assets Held for Disposal (Note 6)	**2,368**	**7,222**	6,651
	757,527	**621,064**	1,087,962
Commitments and Guarantees (Note 12)			
Contingencies (Note 13)			
SHAREHOLDERS' EQUITY			
Capital Stock (Note 14)	**409,613**	**409,613**	55,827
(Deficit) Retained Earnings	**(180,984)**	**-**	62,698
Accumulated Other Comprehensive Loss	**(2,478)**	**-**	(105,786)
	226,151	**409,613**	12,739
	$ 983,678	**$ 1,030,677**	$ 1,100,701

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

Approved by the Board:

/s/ Jay Gurandiano — **DIRECTOR**

/s/ Gordon Lancaster — **DIRECTOR**

AINSWORTH LUMBER CO. LTD.

Consolidated Statements of Operations

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

	The Company	The Predecessor	
	Five months to December 31 2008	Seven months to July 29 2008	Year ended December 31 2007
Sales	$ 156,232	$ 203,073	$ 460,888
Costs and Expenses			
Costs of products sold (exclusive of amortization)	146,228	194,919	460,524
Selling and administration	13,164	16,071	30,798
Amortization of capital assets (Note 7)	13,834	21,973	46,988
Gain on disposal of capital assets (Note 15)	(331)	(3,092)	(39)
Cost of class action lawsuit (Note 16)	273	318	15,114
Impairment of goodwill (Note 17)	-	-	51,000
Write-down of capital assets	-	837	-
	173,168	231,026	604,385
Operating Loss	(16,936)	(27,953)	(143,497)
Finance Expense			
Interest on long-term debt	22,811	39,536	74,154
Transaction costs (Note 18)	-	25,363	2,897
	22,811	64,899	77,051
Other Income	2,048	729	5,999
Foreign Exchange (Loss) Gain on Long-term Debt	(98,720)	(33,261)	161,315
Loss on Derivative Financial Instrument (Note 19)	(9,857)	-	-
Other Foreign Exchange Gain (Loss)	24,488	383	(9,465)
Loss Before Income Taxes	(121,788)	(125,001)	(62,699)
Income Tax (Recovery) Expense (Note 20)	(15,949)	2,623	(30,688)
Net Loss from Continuing Operations	(105,839)	(127,624)	(32,011)
Net Loss from Discontinued Operations (Note 6)	(75,145)	(13,176)	(184,444)
Net Loss	$ (180,984)	$ (140,800)	$ (216,455)
Basic and diluted net loss per common share:			
Continuing operations	$ (1.06)	$ (8.71)	$ (2.19)
Discontinued operations	(0.75)	(0.90)	(12.59)
Basic and diluted net loss per common share	$ (1.81)	$ (9.61)	$ (14.78)
Weighted average number of common shares outstanding	100,000,000	14,649,140	14,649,140

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

AINSWORTH LUMBER CO. LTD.

Consolidated Statements of Comprehensive Loss

(In thousands of Canadian dollars)

	The Company	The Predecessor	
	Five months to December 31 2008	Seven months to July 29 2008	Year ended December 31 2007
Net Loss	**$ (180,984)**	$ (140,800)	$ (216,455)
Other Comprehensive (Loss) Income			
Unrealized (loss) gain on translation of self-sustaining foreign operations	**(2,478)**	4,717	(60,244)
Realized currency translation loss (reclassified to net loss)	**-**	1,465	11,180
	(2,478)	6,182	(49,064)
Comprehensive Loss	**$ (183,462)**	$ (134,618)	$ (265,519)

Consolidated Statements of Changes in Shareholders' Equity (Deficiency)

(In thousands of Canadian dollars)

	The Company	The Predecessor	
	Five months to December 31 2008	Seven months to July 29 2008	Year ended December 31 2007
Capital Stock	**$ 409,613**	$ 55,827	$ 55,827
(Deficit) Retained Earnings			
Beginning of period	**-**	62,698	279,153
Transitional adjustment on adoption of new accounting policies (Note 3)	**-**	(6,468)	-
Net loss	**(180,984)**	(140,800)	(216,455)
	(180,984)	(84,570)	62,698
Accumulated Other Comprehensive Loss on Translation of Self-Sustaining Foreign Operations			
Beginning of period	**-**	(105,786)	(56,722)
Net unrealized gain (loss) on translation of self-sustaining foreign operations in the period	**(2,478)**	6,182	(49,064)
	(2,478)	(99,604)	(105,786)
Total (Deficit) Retained Earnings and Accumulated Other Comprehensive Loss	**(183,462)**	(184,174)	(43,088)
Total Shareholders' Equity (Deficiency)	**$ 226,151**	$ (128,347)	$ 12,739

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

AINSWORTH LUMBER CO. LTD.

Consolidated Statements of Cash Flows

(In thousands of Canadian dollars)

	The Company	The Predecessor	
	Five months to December 31 2008	Seven months to July 29 2008	Year ended December 31 2007
CASH FLOWS FROM OPERATING ACTIVITIES			
Net loss	**$ (180,984)**	$ (140,800)	$ (216,455)
Items not affecting cash			
Amortization of capital assets	**14,244**	27,152	65,859
Non-cash portion of interest expense	**7,899**	929	1,457
Foreign exchange loss (gain) on long-term debt	**98,720**	33,261	(161,315)
Impairment of intangible assets	**-**	-	12,226
Impairment of goodwill	**-**	-	51,000
Impairment of capital assets	**69,900**	837	80,780
(Gain) loss on disposal of capital assets	**(429)**	(3,264)	259
Loss on derivative financial instrument	**9,857**	-	-
Change in non-current reforestation obligation	**129**	(405)	(170)
Future income taxes	**(8,076)**	11,146	(9,577)
Adjustment to net accrued pension benefit asset	**(4,541)**	-	4,433
Realized currency translation loss	**-**	1,465	11,180
Change in non-cash operating working capital (Note 24)	**(16,118)**	23,520	32,980
Cash used in operating activities	**(9,399)**	(46,159)	(127,343)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of long-term debt	**-**	-	109,825
Repayment of long-term debt	**(5,926)**	(5,762)	(8,622)
Repayment of capital lease obligations	**(161)**	(179)	(283)
Cash (used in) provided by financing activities	**(6,087)**	(5,941)	100,920
CASH FLOWS FROM INVESTING ACTIVITIES			
Short-term investments	**(699)**	(51)	35,029
Restricted cash	**1,653**	107	55,080
Additions to capital assets	**(4,086)**	(4,530)	(70,077)
Decrease (increase) in other assets	**1,551**	(133)	1,332
Proceeds on disposal of capital assets	**382**	6,764	1,226
Settlement of warranty holdback (Note 25)	**-**	2,852	-
Cash (used in) provided by investing activities	**(1,199)**	5,009	22,590
Effect of foreign exchange rate changes on cash and cash equivalents	**442**	30	(852)
NET CASH (OUTFLOW) INFLOW	**(16,243)**	(47,061)	(4,685)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	**208,827**	69,627	74,312
CASH AND CASH EQUIVALENTS, END OF PERIOD	**$ 192,584**	$ 22,566	$ 69,627
Components of cash and cash equivalents:			
Cash balances with banks	**$ 192,584**	$ 22,566	$ 69,627
Investments with original maturities of three months or less	**-**	-	-
	$ 192,584	$ 22,566	$ 69,627
SUPPLEMENTAL INFORMATION			
Net proceeds of recapitalization (Note 1)	**$ -**	$ 186,261	$ -
Taxes paid	**2,377**	345	6,702
Interest paid	**15,448**	13,406	73,988

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

1. BASIS OF PRESENTATION

Plan of Arrangement

On June 17, 2008, Ainsworth Lumber Co. Ltd. (the "Predecessor") announced a proposed recapitalization transaction (the "Plan"). Details of the Plan were provided in an information circular dated June 24, 2008 distributed to noteholders and existing shareholders. On July 24, 2008, the Plan was approved by noteholders and existing shareholders.

On July 29, 2008, the Predecessor implemented the Plan having the following key elements:

All of the current outstanding common shares of the Predecessor (the "Existing Common Shares") were cancelled and new common shares in the recapitalized Ainsworth Lumber Co. Ltd. (the "Company") were issued (the "New Common Shares"), as described below.

All of the senior unsecured notes issued by the Predecessor and listed below (the "Existing Notes") were affected by the recapitalization:

Senior Unsecured Floating Rate Notes due October 1, 2010
7.25% Senior Unsecured Notes due October 1, 2012
Senior Unsecured Floating Rate Notes due April 1, 2013
6.75% Senior Unsecured Notes due March 15, 2014
6.75% Senior Unsecured Notes due March 15, 2014

Each holder of Existing Notes (the "Noteholders") received, in full and complete satisfaction of its Existing Notes, the following:

a) Such Noteholder's pro rata share (based on the face amount of Existing Notes held) of U.S.$150 million aggregate principal amount of new 11% senior unsecured notes due 2015 (the "New Rollover Notes");

b) For those Noteholders that were eligible under applicable securities laws, the right to subscribe to an offering of U.S.$200 million aggregate principal amount of new senior unsecured notes (the "New Notes"). HBK Master Fund L.P., Tricap Partners II L.P and Barclays Bank PLC (the "Initial Backstop Parties") and certain additional holders of Existing Notes agreed to backstop (the "Backstop") the offering of the New Notes.

   The New Notes and the New Rollover Notes contain identical economic terms, including that interest thereon will be payable 6% in cash, plus 5% payment-in-kind.

c) Payment in cash of all unpaid but accrued interest in respect of the Existing Notes as at March 31, 2008, to the extent not already paid; and

d) Such Noteholder's pro rata share of up to 96% of the New Common Shares and, for some Noteholders, warrants exercisable into such shares, on a fully diluted basis (based on the face amount of Existing Notes held): 46% was allocated pro rata, based on the amount of Existing Notes held, to all Noteholders; 35% was allocated pro rata, based on the number of New Notes subscribed for, to Noteholders that acquired New Notes; 10% was allocated to those Noteholders that agreed to participate in the Backstop; and 5% was allocated to the Initial Backstop Parties.

Accordingly, pursuant to the Plan, for every U.S.$1.0 million of face value of Existing Notes held by a Noteholder, such Noteholder was entitled to receive (i) approximately U.S.$182,000 in principal amount of New Rollover Notes and (ii) its pro rata share of up to 96% of the New Common Shares, as described above. In addition, if such Noteholder qualified under applicable securities laws, they could also (i) purchase no more than approximately U.S.$242,700 in principal amount of New Notes and (ii) subject to participation in the Backstop, purchase a pro rata share of any unsubscribed New Notes.

1. BASIS OF PRESENTATION (Continued)

The Company's balance sheet as at July 29, 2008 has been prepared under the provisions of the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 1625, "Comprehensive Revaluation of Assets and Liabilities" ("fresh start accounting"). Under fresh start accounting, the Company was required to determine its enterprise value. The enterprise value of $410 million was determined based on the fair value of the unsecured debt (based on market trading prices) converted into equity and of the issuance of common shares and cashless warrants to the shareholders of the Predecessor.

The Predecessor's financial information has been presented to provide additional information to the reader. In reviewing the Predecessor's financial information, readers are reminded that it does not reflect the effects of the financial reorganization or the application of its accounting described below.

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

1. BASIS OF PRESENTATION (Continued)

The following table summarizes the impact of adjustments required to implement the Plan and to reflect the adoption of fresh start accounting, as well as classification of discontinued operations following decisions made in the fourth quarter of 2008 (Note 6):

	July 29, 2008 Balance prior to Plan Implementation	Adjustments: Plan of Arrangement	Adjustments: Equity and Financing Transactions	Adjustments: Fresh Start Accounting	July 29, 2008 Balance after Plan Implementation	July 29, 2008 Balance after Discontinued Operations
ASSETS						(Note 6)
Current Assets						
Cash and cash equivalents	$ 22,566	$ -	$ 186,261 (f)	$ -	$ 208,827	$ 208,827
Short-term investments	887	-	-	-	887	887
Accounts receivable	28,375	-	-	-	28,375	28,045
Inventories	60,862	-	-	(4,373) (m)	56,489	46,848
Income taxes receivable	1,996	-	-	(1,996) (k)	-	1,916
Prepaid expenses	8,267	-	-	-	8,267	7,545
Restricted cash	6,997	-	-	-	6,997	6,997
Current portion of future income tax assets	659	-	-	(659) (j)	-	-
Current assets held for disposal (Note 6)	-	-	-	-	-	10,693
	130,609	-	186,261	(7,028)	309,842	311,758
Capital Assets, Net	808,101	-	-	(118,142) (g)	689,959	599,102
Other Assets	26,041	-	10,369 (f)	(10,450) (i)	25,960	25,370
Future Income Tax Assets	12,141	-	-	(9,141) (j)	3,000	-
Goodwill	51,970	-	-	(51,970) (h)	-	-
Assets Held for Disposal (Note 6)	-	-	-	-	-	94,447
	$ 1,028,862	$ -	$ 196,630	$ (196,731)	$ 1,028,761	$ 1,030,677
LIABILITIES AND SHAREHOLDERS' (DEFICIENCY) EQUITY						
Current Liabilities						
Accounts payable and accrued liabilities	$ 72,801	$ -	$ (21,675) (f)	$ 196 (i)	$ 51,322	$ 47,213
Income taxes payable	-	-	-	1,004 (k)	1,004	-
Current portion of future income tax liabilities	19,230	-	-	(10,756) (j)	8,474	8,474
Current portion of long-term debt	10,600	-	-	-	10,600	10,600
Current liabilities held for disposal (Note 6)	-	-	-	-	-	7,029
	102,631	-	(21,675)	(9,556)	71,400	73,316
Accrued Pension Benefit Liability	6,870	-	-	5,962 (i)	12,832	5,610
Other Liabilities	4,046	-	-	(663) (l)	3,383	3,383
Long-term Debt	995,020	(833,644) (e)	366,974 (f)	-	528,350	528,350
Future Income Tax Liabilities	48,642	-	-	(45,459) (j)	3,183	3,183
Liabilities Held for Disposal (Note 6)	-	-	-	-	-	7,222
	1,157,209	(833,644)	345,299	(49,716)	619,148	621,064
SHAREHOLDERS' (DEFICIENCY) EQUITY						
Capital Stock	55,827	-	-	353,786 (n)	409,613	409,613
Contributed Surplus	-	833,644 (e)	(148,669) (f)	(684,975) (o)	-	-
Deficit	(84,570)	-	-	84,570 (o)	-	-
Accumulated Other Comprehensive Loss	(99,604)	-	-	99,604 (o)	-	-
	(128,347)	833,644	(148,669)	(147,015)	409,613	409,613
	$ 1,028,862	$ -	$ 196,630	$ (196,731)	$ 1,028,761	$ 1,030,677

1. BASIS OF PRESENTATION (Continued)

Plan of Arrangement Adjustments

In conjunction with the Plan approved by the British Columbia Superior Court of Justice, certain amounts classified as "Long-term debt" were subject to recapitalization. Long-term debt subject to recapitalization recorded as at July 29, 2008 amounted to $834 million.

Under the Plan of Arrangement, the capital reorganization provided for the following:

(e) All of the Existing Notes and Indentures and all entitlements relating to the Existing Notes and Indentures were irrevocably and finally cancelled and settled by the issuance by the Company to Noteholders of the following securities (which securities were allocated first towards the repayment of principal in respect of the Existing Notes):
   (i) $154 million (U.S.$150 million) aggregate principal amount of Rollover Notes, which were allocated among the Noteholders Pro Rata; and
   (ii) 96% of the New Common Shares on a Fully Diluted Basis: 46% of the New Common Shares on a Fully Diluted Basis were allocated Pro Rata to Noteholders, 35% of the New Common Shares on a Fully Diluted Basis were allocated to Qualifying Noteholders based on their Qualifying Noteholder Pro Rata Share, 5% of the New Common Shares on a Fully Diluted Basis were allocated to the Initial Backstop Parties and 10% of the New Common Shares on a Fully Diluted Basis were allocated to the Backstop Parties in accordance with their Backstop Party Pro Rata Share.

Equity and Other Financing Transactions Adjustments

(f) As part of the Plan of Arrangement, Noteholders received 96% of the New Common Shares on a Fully Diluted Basis having a fair value of $393 million of the total enterprise value of $410 million in partial settlement of the Existing Notes. Of this 96%, 15% of the New Common Shares on a Fully Diluted Basis having a fair value of $59 million were issued to the Backstop Parties in their capacity as such. Other financing transactions took place as follows:
   (i) The Company issued $205 million (U.S.$200 million) aggregate principal amount of New Notes. The Company recognized a $9.9 million premium on the New and Rollover Notes and consent fees of $1.2 million.
   (ii) Call options on the New and Rollover Notes were valued at $9.9 million and recorded in other assets.
   (iii) Cash proceeds of $186 million on issuance of the New Notes were net of commitment fees of $6.1 million, consent and other fees of $2.3 million and accrued and unpaid interest at March 31, 2008 of $10.6 million on the Existing Notes that was paid in connection with the recapitalization.
   (iv) Accrued and unpaid interest at July 29, 2008 of $19.2 million on the Existing Notes was settled in connection with the recapitalization. Severance payments at market terms to senior executives were $8.2 million (U.S.$8 million).

Fresh Start Accounting Adjustments

As a result of the substantial realignment of equity and non-equity interests, the identifiable assets and liabilities of the Company have been recorded at a new cost basis, being the value established by the equity and non-equity interests, which may not exceed fair value, if determinable, as required under the Canadian Institute of Chartered Accountants Handbook Section 1625-Comprehensive Revaluation of Assets and Liabilities ("CICA 1625"). The process of undertaking such a comprehensive revaluation is commonly referred to as "fresh start accounting."

The Company was required to perform a comprehensive balance sheet revaluation under the provisions of CICA 1625. Under fresh start accounting, the Company assessed the fair value of identifiable assets and liabilities, whether or not previously recorded. The adjustments are to revalue assets and liabilities that meet the recognition criteria under Canadian GAAP on a new cost basis. Under CICA 1625, if the fair market value of the enterprise as a whole exceeds the revalued net asset value, goodwill is not recorded.

1. BASIS OF PRESENTATION (Continued)

For the purpose of this consolidated balance sheet, the fair values ascribed to the assets and liabilities are management's best estimates of fair values as at July 29, 2008 and are based on the guidance provided in Canadian Institute of Chartered Accountants Handbook Section 1581—Business Combinations.

The fair value adjustments are as follows:

(g) The carrying value of "capital assets" is adjusted to reflect the excess of net assets over the fair value of the enterprise as determined on fresh start;
(h) "Goodwill" is adjusted to nil;
(i) "Pension liabilities" are adjusted to reflect the accrued benefit obligation based on management's best estimate assumptions on a going forward basis; plan assets are adjusted to fair value;
(j) "Future income taxes" have been adjusted to reflect the tax effects of differences between the fair value of identifiable assets and liabilities and their estimated tax bases and the benefits of any unused tax losses and other deductions to the extent that these amounts are more likely than not to be realized. The resulting future income tax amounts have been measured based on the rates substantively enacted that are expected to apply when the temporary differences reverse or the unused tax losses and other reductions are realized. In addition, Ainsworth has reflected a valuation allowance against certain of its estimated future income tax assets. Any reversal of this valuation allowance in future periods will result in a credit to shareholders' equity. The estimated future income tax assets are based on numerous assumptions and dependent upon complex tax issues including the quantum of debt forgiveness that must be recognized by the Company (Note 20);
(k) "Income taxes payable" are adjusted to reflect taxes expected to arise as a result of the recapitalization;
(l) "Other liabilities" are adjusted to reflect the estimated reforestation and asset retirement obligations associated with the Company's operations; and
(m) The carrying value of "inventories" relating to slow moving spare parts are adjusted to reflect estimated fair value.

Shareholders' (deficiency) equity adjustments relate to:

(n) the net fair value adjustment to assets and liabilities; and
(o) the reclassification of the "Contributed Surplus", "(Deficit) Retained Earnings" and "Accumulated Other Comprehensive Loss" that arose prior to the fresh start to capital stock.

Following its review of documentation and further analysis of an independent valuation completed in the fourth quarter of 2008, the Company finalized its assessment of the fair values of the assets and liabilities and recorded an additional $68.6 million in future income tax liabilities and capital assets.

2. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of the Company and the Predecessor have been reported in Canadian dollars in accordance with Canadian GAAP. The accounting policies of the Company are consistent with those of the Predecessor, with the exception of fair value adjustments applied under fresh start accounting. The significant accounting policies are:

(a) Basis of valuation

The Company was required to perform a comprehensive balance sheet revaluation under the provisions of CICA 1625 as described in Note 1. Under fresh start accounting, the Company assessed the fair value of identifiable assets and liabilities, whether or not previously recorded. The adjustments are to revalue assets and liabilities that meet the recognition criteria under Canadian GAAP on a new cost basis. Under CICA 1625, if the fair market value of the enterprise as a whole exceeds the revalued net asset value, goodwill is not recorded.

(b) Basis of consolidation

These consolidated financial statements include the accounts of Ainsworth Lumber Co. Ltd. and all of its wholly-owned subsidiaries and partnerships which include Ainsworth Engineered Corp., Ainsworth Engineered, LLC, Ainsworth Corp., Ainsworth Engineered New York, Inc. (formerly Chatham Forest Products, Inc.), Ainsworth Engineered Canada Limited Partnership, Ainsworth GP Ltd. and The Ainsworth Charitable Trust. The Company follows the recommendations in Accounting Guideline 15, *Consolidation of Variable Interest Entities,* which establishes the application of consolidation principles to entities that are subject to control on a basis other than ownership of voting interests. The Company has determined that it does not have any variable interest entities.

The Company accounts for its 50% interest in the High Level Project (Note 9) on a proportionate consolidation basis.

(c) Foreign currency translation

The monetary assets and liabilities of the Company which are denominated in foreign currencies are translated at the year end exchange rates. Revenues and expenses are translated at rates of exchange prevailing on the transaction dates. All exchange gains or losses are recognized currently in earnings except those relating to the translation of self-sustaining foreign operations.

The U.S. OSB operations were considered to be a self-sustaining foreign operation and the financial statements were translated using the current rate method. Assets and liabilities were translated at the rate of exchange in effect at the balance sheet date and revenue and expense items were translated at average exchange rates prevailing during the year. At December 31, 2008, as a result of the decision to discontinue these operations, the U.S. OSB operations were no longer considered a self-sustaining foreign operation. Unrealized translation gains and losses previously included within accumulated other comprehensive income will remain as a separate component of shareholders' equity until disposal of the related net investment.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and other disclosures in these consolidated financial statements. Actual results may differ from these estimates.

The significant areas requiring management estimates include valuation of inventory, loss contingencies, valuation of long-lived assets, amortization, determination of enterprise value and asset and liability fair values resulting from the fresh start, other assets, reforestation obligations, employee benefit plans, future income tax assets and liabilities and management's estimates of capital requirements and liquidity.

(e) Cash and cash equivalents

Cash and cash equivalents generally consist of cash balances with banks and investments with original maturities of three months or less at the time of purchase.

(f) Short-term investments

Short-term investments consist of investments with market values closely approximating book values and original maturities between four and twelve months at the time of purchase.

(g) Inventories

Inventory is valued at the lower of cost and net realizable value. Inventory write-downs may be reversed (to the extent of the original write-down) if circumstances change in subsequent periods. Cost of panel products is defined as all costs that relate to bringing the inventory to its present location and condition under normal operating conditions and includes manufacturing costs, such as raw materials, labour and production overhead and amortization costs. Inventory cost is determined using the three month weighted average cost of production. Cost of logs is defined as all costs that relate to purchasing, harvesting and delivery of the logs to their present location, including labour, overhead and amortization. Materials, supplies and consumable spares are valued at the lower of cost and replacement cost, which approximates net realizable value, and are expensed when introduced into the production process.

(h) Capital assets

Property, plant and equipment are stated at cost, including interest incurred for major projects during the period of construction, and start-up costs. The cost of renewals and betterments that extend the useful life of the property, plant and equipment are also capitalized. The costs of repairs and replacements are charged to expense as incurred. OSB facilities are amortized on the units-of-production method based on the estimated useful life of the assets at normal production levels over 15 years. Other panel product mills and other assets are amortized on the declining balance basis at annual rates based on the estimated useful lives of the assets as follows:

Asset	Rate
Buildings	5%
Machinery and equipment	12%-20%
Office equipment	15%

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets under capital leases are amortized on a straight line basis over the term of the lease. Timber rights and logging roads are stated at cost and are amortized on the basis of the volume of timber cut. The Company reviews the useful lives and the carrying values of its capital assets if events or changes in circumstances indicate that the assets might be impaired, by reference to estimated future operating results and undiscounted net cash flows. If the undiscounted future cash flows expected to result from the use and eventual disposition of an asset are less than their carrying amount, the assets are considered to be impaired. An impairment loss is measured at the amount by which the carrying amount of the assets exceeds their fair value, which is estimated as the expected future cash flows discounted at a rate commensurate with the risks associated with the recovery of the asset.

(i) Derivative financial instruments

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

(j) Intangible assets

Intangible assets are recorded at cost. The assets have an indefinite life and are not subject to amortization. The assets are tested for impairment annually, or more frequently if events or changes in circumstances indicate that the assets might be impaired, by comparing the fair value of the intangible assets with their carrying amount. When the carrying amount of the intangible assets exceeds their fair value, an impairment loss is recognized in an amount equal to the excess.

(k) Disposal of long-lived assets and discontinued operations

Long-lived assets are classified as held for sale when specific criteria are met, in accordance with CICA 3475, *Disposal of Long-lived Assets and Discontinued Operations*. Assets held for sale are measured at the lower of their carrying amounts and fair values less costs to dispose and are no longer amortized. Long-lived assets classified as held for sale are reported separately on the balance sheet.

A component of the Company held for sale or disposed of by other than sale is reported as a discontinued operation if the operations and the cash flows of the component will be eliminated from the ongoing operations as a result of the disposal transaction and the Company will not have a significant continuing involvement in the operations after the disposal transaction.

(l) Reforestation obligation

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

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) Asset retirement obligation

The Company recognizes the fair value of estimated asset retirement obligations when a reasonable estimate of fair value can be made. An asset retirement obligation is a legal obligation associated with the retirement of an owned or leased, tangible, long-lived asset. Such obligations are recognized in the consolidated balance sheet by recording an increase in the carrying value of the applicable long-lived assets and recognizing corresponding liabilities. The asset retirement obligations are accreted over the period to settlement with a corresponding charge to interest expense and the increase in the carrying value of long-lived assets is amortized over the useful life of the asset.

(n) Revenue recognition

Revenue is recognized when the risks and rewards of ownership pass to the purchaser. The following criteria are used to determine that title has passed: (1) the goods are shipped; (2) the price to the buyer is fixed or determinable; and (3) collectibility is reasonably assured. Freight costs are included in cost of products sold.

(o) Transaction and financing costs

Consent fees and debt discount costs relating to long-term debt are deferred and amortized using the effective interest rate method. The Company's long-term debt is recorded net of discounts and consent fees. Transaction costs are expensed as incurred.

(p) Income taxes

Income taxes are accounted for using the asset and liability method. Future income taxes reflect the tax effect, using substantively enacted tax rates, of differences between the financial statement carrying amount and their respective tax bases of assets and liabilities and the anticipated benefit of losses carried forward for income tax purposes.

The Company's research and development activities may be eligible to earn Investment Tax Credits. When there is reasonable assurance that the Investment Tax Credits will be received, they are accounted for using the cost reduction method whereby such credits are deducted from the expenditures or assets to which they relate.

(q) Loss per share

Basic earnings per share is calculated by dividing net income by the weighted average number of voting common shares outstanding during the period. Diluted earnings per share is based on the weighted average number of voting common shares and exchangeable shares and stock options outstanding at the beginning of or granted during the period, calculated using the treasury stock method.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(r) *Employee future benefits*

The Company has two defined benefit plans providing pension benefits to its British Columbia salaried employees and employees of the Minnesota OSB facilities. The Company also sponsors and administers an individual pension plan established for a former director of the Company. The Company accrues the costs and related obligations for the defined benefit plans using the projected benefit actuarial method prorated based on service and management's best estimates of expected plan investment performance, salary escalation, and other relevant factors. The difference between costs of employee benefits charged against earnings and the Company's contributions to the plans, which are made in accordance with actuarial recommendations and pension commission regulations, is included in accrued pension benefit asset on the balance sheet. In determining pension expense, the unrecognized pension surplus or liability, adjustments arising from changes in actuarial assumptions, and the excess of net actuarial gains or losses over 10% of the greater of the benefit obligation and the market value of the plan assets is amortized on a straight-line basis over the expected average remaining service life of the employee group. The plan assets are valued at market values.

(s) *Stock-based compensation*

The Company accounts for stock options using the fair value method. Under this method, the compensation expense for stock options is measured at fair value at the grant date using the Black-Scholes option pricing model and recognized over the vesting period. When stock options are exercised, any consideration paid by employees, as well as the related stock-based compensation are credited to capital stock.

(t) *Canadian GAAP adoptions*

Effective January 1, 2008 the Predecessor adopted the new recommendations of the CICA for general and capital disclosures, inventories and financial instruments presentation and disclosure.

(i) *General standards of financial statement presentation.* The CICA revised Section 1400, "General Standards of Financial Statement Presentation." The revision to this section provides additional guidance related to management's assessment of the Company's ability to continue as a going concern. This revision became effective for the fiscal year beginning January 1, 2008. The Company did not have a substantial change to its disclosure as a result of the adoption of the revised standards.

(ii) *Section 1535 – Capital Disclosures.* This section establishes standards for disclosures about an entity's capital and how it is managed. Under this standard, the Company is required to disclose qualitative information about its objectives, policies and processes for managing capital; to disclose quantitative data about what it regards as capital; and to disclose whether an entity has complied with any externally imposed capital requirements and, if not, the consequences of such non-compliance.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(t) Canadian GAAP adoptions (Continued)

(iii) *Section 3031 – Inventories.* The Predecessor applied Section 3031 on a prospective basis, with opening inventory adjustments recorded against opening retained earnings at January 1, 2008. Under the new requirements, inventory must be valued at the lower of cost and net realizable value. Inventory write-downs may be reversed (to the extent of the original write-down) if circumstances change in subsequent periods. Cost of panel products is defined as all costs that relate to bringing the inventory to its present location and condition under normal operating conditions and includes manufacturing costs, such as raw materials, labour and production overhead and amortization costs. Inventory cost is determined using the three month weighted average cost of production. Cost of logs is defined as all costs that relate to purchasing, harvesting and delivery of the logs to their present location, including labour, overhead and amortization. Materials, supplies and consumable spares are valued at the lower of cost and replacement cost, which approximates net realizable value, and are expensed when introduced into the production process. As at January 1, 2008, capital spares in the amount of $1.2 million were reclassified to capital assets and are amortized over the estimated remaining life of the related mill. The adjustment to opening inventory and retained earnings on adoption of Section 3031 was $6.5 million, net of tax of $1.2 million.

(iv) *Section 3862 – Financial Instruments – Disclosures.* This section requires entities to provide disclosure of quantitative and qualitative information that enables users to evaluate (a) the significance of financial instruments for the entity's financial position and performance; and (b) the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the balance sheet date, and management's objectives, policies and procedures for managing such risks.

(v) *Section 3863 – Financial Instruments – Presentation.* This section establishes standards for presentation of financial instruments and non-financial derivatives.

3. CANADIAN GAAP DEVELOPMENTS

Goodwill and intangible assets. In February 2008, the CICA issued Section 3064, "Goodwill and Intangible Assets" which replaced existing section 3062, "Goodwill and Other Intangible Assets" and Section 3450, "Research and Development." The new standard provides guidance on the recognition, measurement, presentation and disclosure of goodwill and intangible assets. This standard is effective for interim and annual financial statements beginning January 1, 2009.

Business Combinations. In January 2009, the CICA issued Section 1582, *Business Combinations*, Section 1601, *Consolidations*, and Section 1602, *Non-controlling Interests*. These new standards are harmonized with International Financial Reporting Standards (IFRS). Section 1582 specifies a number of changes, including: an expanded definition of a business, a requirement to measure all business acquisitions at fair value, a requirement to measure non-controlling interests at fair value, and a requirement to recognize acquisition-related costs as expenses. Section 1601 establishes the standards for preparing consolidated financial statements. Section 1602 specifies that non-controlling interests be treated as a separate component of equity, not as a liability or other item outside of equity. The new standards will become effective in 2011. Early adoption is permitted.

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

3. CANADIAN GAAP DEVELOPMENTS (Continued)

International Financial Reporting Standards. In February 2008, the Canadian Accounting Standards Board confirmed that International Financial Reporting Standards will replace Canada's current generally accepted accounting principles for publicly accountable profit-oriented enterprises for interim and annual financial statements effective January 1, 2011. The Company is presently assessing the effect these standards will have on its financial statements.

4. INVENTORIES

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

	The Company		The Predecessor
	December 31 2008	**July 29 2008**	December 31 2007
Logs	**$ 17,112**	**$ 8,854**	$ 17,771
Panel products	**14,157**	**14,944**	17,234
Materials, supplies and spares	**21,982**	**23,050**	25,744
	$ 53,251	**$ 46,848**	$ 60,749

During the five month period ended December 31, 2008, log inventory write-downs of $1,185 and panel product inventory write-downs of $2,425 were recorded. During the seven month period ended July 29, 2008, log inventory write-down recoveries of $11,927 and panel product inventory recoveries of $887 were recorded.

All inventories, including inventory related to discontinued operations (Note 6), are pledged as security for loans. Inventory of $14,972 related to long-lived assets held for sale (July 29, 2008: $12,241; December 31, 2007: $20,509).

5. CREDIT FACILITIES AND RESTRICTED CASH

As at December 31, 2008, the Company had outstanding letters of credit of $5.3 million (July 29, 2008: $7.0 million; December 31, 2007: $7.1 million) to support the Company's ongoing business operations. Under the terms of the commercial letters of credit facility, $5.3 million (July 29, 2008: $7.0 million; December 31, 2007: $7.1 million) in cash is held in a separate account as collateral for the letters of credit outstanding, which has been classified as restricted cash. The total credit available to the Company under this agreement is $15.0 million.

The Company had an unutilized U.S.$2.5 million foreign exchange and future contract credit facility at December 31, 2008 which, if utilized, would be secured by cash collateral.

6. DISPOSAL OF LONG-LIVED ASSETS AND DISCONTINUED OPERATIONS

Following a strategic review of market and operational factors, in the third quarter of 2008 the Company announced the permanent closure of the OSB mill located in Grand Rapids, Minnesota, and during the fourth quarter of 2008 management committed to a plan to permanently close and dispose of its OSB mills located in Minnesota. Accordingly, the Company used management's best estimate of an exit market price for the residual assets of these facilities, and recorded an impairment charge $69,900 related to capital assets and $5,288 related to other assets. In 2007 the Company recorded an $80,780 write-down of the carrying value of the Grand Rapids, Minnesota OSB facility using both a discounted cash flow model and management's best estimate of an exit market price for the residual assets and a $12.2 million impairment charge related to intangible assets held by the discontinued operations. The financial results of these facilities have been reclassified as discontinued operations.

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

6. DISPOSAL OF LONG-LIVED ASSETS AND DISCONTINUED OPERATIONS (Continued)

In the fourth quarter of 2008, the Company also commenced a process to sell its specialty plywood business and proceed with the sale of a forest license to harvest pine beetle killed timber in the Quesnel, British Columbia region. The long-lived assets of the specialty plywood segment and the carrying value of the license ($1.27 million) have been classified as held for sale as at December 31, 2008 and have been included in the results of operations in continuing operations. The Company believes that the carrying value of these assets is recoverable.

The following table presents selected financial information related to discontinued operations and long-lived assets held for sale:

	The Company		The Predecessor
	December 31 2008	**July 29 2008**	December 31 2007
ASSETS			
Current Assets of Discontinued Operations			
Accounts receivable	**$ 505**	**$ 330**	$ 182
Inventories	**1,190**	**9,641**	12,301
Income taxes receivable	**2,799**	**-**	82
Prepaid expenses	**843**	**722**	885
Current portion of future income tax assets	**-**	**-**	635
	5,337	**10,693**	14,085
Capital Assets - Discontinued Operations	**19,280**	**76,982**	209,691
Capital Assets - Held for Sale	**13,497**	**13,875**	25,656
Other Assets - Discontinued Operations	**242**	**590**	615
Future Income Tax Assets	**-**	**3,000**	11,759
	33,019	**94,447**	247,721
Total Assets Held for Disposal	**$ 38,356**	**$ 105,140**	$ 261,806
LIABILITIES			
Current Liabilities of Discontinued Operations			
Accounts payable and accrued liabilities	**$ 8,933**	**$ 4,109**	$ 5,614
Income taxes payable (receivable)	**-**	**2,920**	-
	8,933	**7,029**	5,614
Accrued Pension Benefit Liability	**2,368**	**7,222**	6,651
	$ 11,301	**$ 14,251**	$ 12,265

	The Company	The Predecessor	
	Five months to December 31 2008	Seven months to July 29 2008	Year ended December 31 2007
Sales	**$ 14,416**	$ 34,154	$ 83,343
Impairment of Capital Assets	**69,900**	-	80,780
Impairment of Other Assets	**5,288**	-	12,226
Loss Before Income Taxes	**(75,145)**	(13,170)	(163,451)
Income Tax Expense (Recovery)	**-**	6	20,993
Net Loss from Discontinued Operations	**$ (75,145)**	$ (13,176)	$ (184,444)

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

7. CAPITAL ASSETS

	December 31, 2008			The Company July 29, 2008
	Cost	**Accumulated Amortization**	**Net Book Value**	**Net Book Value**
Property, plant and equipment				
Panel product mills	**$ 532,358**	**$ 11,341**	**$ 521,017**	**$ 463,766**
Land	**1,649**	**-**	**1,649**	**1,649**
Asset under capital lease	**9,500**	**211**	**9,289**	**9,500**
Other	**206**	**9**	**197**	**-**
Construction in progress	**49,726**	**-**	**49,726**	**50,822**
	593,439	**11,561**	**581,878**	**525,737**
Timber and logging roads				
Timber rights and development costs	**73,055**	**2,909**	**70,146**	**73,039**
Logging roads	**457**	**33**	**424**	**326**
	73,512	**2,942**	**70,570**	**73,365**
	$ 666,951	**$ 14,503**	**$ 652,448**	**$ 599,102**

	The Predecessor December 31, 2007		
	Cost	Accumulated Amortization	Net Book Value
Property, plant and equipment			
Panel product mills	$ 684,534	$ 397,869	$ 286,665
Land	2,443	-	2,443
Asset under capital lease	11,499	758	10,741
Other	26,276	21,554	4,722
Construction in progress	274,987	-	274,987
	999,739	420,181	579,558
Timber and logging roads			
Timber rights and development costs	25,693	10,867	14,826
Logging roads	1,232	861	371
	26,925	11,728	15,197
	$ 1,026,664	$ 431,909	$ 594,755

	The Company	The Predecessor	
	Five months to December 31 2008	Seven months to July 29 2008	Year ended December 31 2007
Amortization expense for the period:			
Property, plant and equipment	**$ 11,388**	$ 20,600	$ 43,731
Timber and logging roads	**2,238**	1,039	2,652
Asset under capital lease	**208**	334	605
	$ 13,834	$ 21,973	$ 46,988

For all periods presented, no interest has been capitalized in construction in progress.

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

8. OTHER ASSETS

	The Company		The Predecessor
	December 31 2008	July 29 2008	December 31 2007
Advances and deposits	$ 14,512	$ 15,513	$ 11,762
Derivative financial instrument (Note 27)	-	9,857	-
Accrued pension benefit asset (Note 21)	-	-	10,510
	$ 14,512	$ 25,370	$ 22,272

9. THE HIGH LEVEL PROJECT

The Company jointly operates an OSB facility in High Level, Alberta. The Company's proportionate (50%) share of major assets, including plant and equipment, is held by a bare trustee corporation, on behalf of the Company, together with the 50% interest of a co-venturer in such assets. The agreement includes certain buy-sell provisions.

Production is allocated to the respective venturers at cost. Each respective venturer then sells its respective production to third parties. The venture does not generate revenue or net income and as a result the Company's proportionate share of operating, financing, and investing cash flows are not disclosed. Production at the High Level facility was curtailed in December 2007 and the facility did not operate in 2008.

The following is a summary of the Company's proportionate interest in the financial position of the High Level Project, which is included in these consolidated financial statements:

	The Company		The Predecessor
	December 31 2008	July 29 2008	December 31 2007
Assets			
Accounts receivable	$ 147	$ 221	$ 283
Inventories	5,191	5,229	6,825
Prepaid expenses	2,751	2,990	3,786
Capital assets	58,445	58,528	102,495
Liabilities			
Excess of cheques issued over cash in bank	25	74	276
Accounts payable and accrued liabilities	991	1,167	1,771

By agreement between the Company and its co-venturer, if the co-venturer does not pay its share of accounts payable and accrued liabilities, the Company may pay such amounts and recover them from the co-venturer's share of production.

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

10. OTHER LIABILITIES

	The Company	The Company	The Predecessor
	December 31 2008	**July 29 2008**	December 31 2007
Reforestation obligation	**$ 2,512**	**$ 2,383**	$ 4,451
Asset retirement obligation	**1,000**	**1,000**	-
	$ 3,512	**$ 3,383**	$ 4,451

The Company identified an asset retirement obligation relating to future site remediation costs of a veneer facility located on leased property in Lillooet, British Columbia. These obligations relate to a long-lived asset held for sale and will be payable at the termination of the lease in 2010.

The Company's reforestation obligations are as follows:

	The Company	The Predecessor	The Predecessor
	Five months to December 31 2008	Seven months to July 29 2008	Year ended December 31 2007
Balance, beginning of period	**$ 3,599**	$ 5,478	$ 6,026
Expense	**181**	487	712
Paid during the period	**(129)**	(703)	(1,260)
	$ 3,651	$ 5,262	$ 5,478

	The Company	The Company	The Predecessor
	December 31 2008	**July 29 2008**	December 31 2007
Current portion, included in accounts payable and accrued liabilities	**$ 1,139**	**$ 1,216**	$ 1,027
Long-term portion	**2,512**	**2,383**	4,451
	$ 3,651	**$ 3,599**	$ 5,478

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

11. LONG-TERM DEBT

	The Company		The Predecessor
	December 31 2008	July 29 2008	December 31 2007
U.S. $357,340 (July 29, 2008: U.S.$350,000) Senior Unsecured Notes due July 29, 2015 with cash interest payable semi-annually at 6% per annum and 5% payment-in-kind interest per annum due at maturity	$ 435,240	$ 358,400	$ -
U.S.$275,000 Senior Unsecured Notes due October 1, 2012 with interest payable semi-annually at 7.25% per annum	-	-	272,608
U.S.$210,000 Senior Unsecured Notes due March 15, 2014 with interest payable semi-annually at 6.75% per annum	-	-	208,173
U.S.$153,540 Senior Unsecured Notes due October 1, 2010 with interest payable quarterly at LIBOR plus 3.75% per annum	-	-	152,204
U.S.$110,000 Senior Unsecured Notes due March 15, 2014 with interest payable semi-annually at 6.75% per annum	-	-	109,043
U.S.$75,000 Senior Unsecured Notes due April 1, 2013 with interest payable quarterly at LIBOR plus 4% per annum	-	-	74,348
U.S.$102,637 Senior Secured Term Loan due June 26, 2014 with interest payable monthly, bi-monthly, quarterly or semi-annually at LIBOR plus 5% per annum or quarterly at base rate plus 4%	125,012	105,101	101,744
U.S.$35,620 (July 29, 2008: U.S.$39,673; 2007: U.S.$44,392) equipment financing loan due October 1, 2011 with principal and interest payable monthly at LIBOR plus 2.90% per annum	43,391	40,623	44,006
€9,463 (July 29, 2008: €10,094; 2007: €10,725) equipment financing loan due December 20, 2016 with interest payable semi-annually at EURIBOR plus 0.65% per annum	16,079	16,124	15,504
U.S.$9,548 (July 29, 2008: U.S.$9,703; 2007: U.S.$9,853) capital lease obligation maturing May 29, 2025 with interest at 6.81%	11,629	9,909	9,768
	631,351	530,157	987,398
Consent fees	(1,141)	(1,213)	(2,165)
Accrued payment-in-kind interest on Senior Unsecured Notes	-	149	-
Unamortized deferred debt premium (discount)	9,271	9,857	(7,861)
	639,481	538,950	977,372
Current portion	(12,366)	(10,600)	(10,122)
	$ 627,115	$ 528,350	$ 967,250

On December 30, 2008 the Company issued $8,962 (U.S.$7,340) new Senior Unsecured Notes due July 29, 2015 representing settlement of semi-annual payment-in-kind interest.

As part of the recapitalization, certain credit facilities in place prior to the recapitalization were amended. The Senior Secured Term Loan credit facility was amended to increase the interest rate by 2% per annum.

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

11. LONG-TERM DEBT (Continued)

The Company's term loan of $109.8 million (U.S.$102.6 million) is secured by inventory and accounts receivable. The Company can elect to pay interest at a base rate plus 2.0% or at LIBOR plus 3.0%. Interest at the base rate plus 2.0%, which is derived from the prime rate and the federal funds effective rate, is payable quarterly. Interest at LIBOR plus 3.0% is payable on a monthly, bi-monthly, quarterly or semi-annual basis, depending on the interest period election made by the Company. The interest rate and interest period are elected by the Company at the end of the previous interest period. As at December 31, 2008 the Company elected to pay monthly interest at LIBOR plus 3.0%. There are no scheduled principal payments until maturity on June 26, 2014.

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

2009	$	12,366
2010		12,394
2011		27,158
2012		2,633
2013		2,667
And thereafter		744,383
	$	801,601

12. COMMITMENTS AND GUARANTEES

The Company is committed to operating lease payments in respect of premises and equipment and capital lease payments in respect of an aircraft as follows:

		Operating Leases		Capital Lease
2009	$	2,654	$	1,178
2010		866		1,178
2011		65		1,178
2012		9		1,179
2013		-		1,179
Total minimum lease payments	$	3,594	$	5,892
Imputed interest (6.81%)				(3,598)
Capital lease obligation			$	2,294

Rent expense was $1,857 in the five months ended December 31, 2008 (seven months ended July 29, 2008: $2,663; year ended December 31, 2007: $4,674).

The Company has long-term purchase contracts with annual minimum volume commitments. All contracts are at market prices and on normal business terms.

The Company is a party to contracts in which it agrees to indemnify third parties for product liabilities that arise out of or relate to sales contracts. The Company cannot estimate the potential amount of future payments under these agreements until events arise that would trigger the liability.

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

13. CONTINGENCIES

In the normal course of its business activities, the Company is subject to claims and legal actions that may be made by customers, suppliers and others. While the final outcome with respect to actions outstanding or pending as at December 31, 2008 cannot be predicted with certainty, the Company believes the resolution will not have a material effect on the Company's financial position, results of operations or cash flows.

14. CAPITAL STOCK

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

The Company's issued share capital is as follows:

		The Company December 31, 2008	
	Shares	**Warrants**	**Amount**
Common shares	89,905,712	-	$ 368,265
Shareholder warrants	-	8,695,634	-
Noteholder warrants	-	10,094,288	41,348
	89,905,712	18,789,922	$ 409,613

The shareholder warrants shall be deemed to be exercised and shall be converted without additional consideration into equal number of New Common Shares if the Company's equity market capitalization exceeds U.S.$1.2 billion on or before July 29, 2013. For accounting purposes, nominal value has been allocated to these warrants as the fair value is not reliably determinable due to their contingent nature.

Each noteholder warrant is exercisable at any time for one New Common Share without payment of further consideration. For financial reporting purposes, the noteholder warrants have been allocated a prorata share of the amount of capital stock on fresh start.

The authorized capital of the Predecessor consisted of:

(i) 100,000,000 common shares without par value;
(ii) 1,500,000 Class B non-voting common shares without par value, of which 350,000 shares were designated Series 1, 180,000 were designated Series 2 and 187,500 were designated Series 3. 717,500 Class B common shares were designated for an employee participation share plan; and
(iii) 100,000,000 preferred shares without par value, of which 300,000 were designated Series 1, 4,000,000 were designated Series 2 and 5,000,000 were designated as Series 3. The Series 1 preferred shares were non-voting, redeemable at the issue price of $10 and were entitled to a 6% non-cumulative dividend. The Series 2 preferred shares were non-voting with a cumulative dividend rate equal to 72% of bank prime rate and were redeemable by the Company at any time or retractable by the holder any time after five years from the date of issue. The Series 3 preferred shares were non-voting, redeemable, retractable, and were entitled to a non-cumulative dividend as may be declared from time to time. As at December 31, 2007, the Company had 100,000 Series 3 preferred shares outstanding which were held by a subsidiary and were eliminated on consolidation in these consolidated financial statements.

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

14. CAPITAL STOCK (Continued)

The Predecessor's issued share capital was as follows:

	The Predecessor December 31, 2007	
	Shares	**Amount**
Common shares	14,649,140	$ 55,827

(b) *Loss per share*

Noteholder warrants were included in the computation of basic and diluted loss per share because they are convertible to common shares for no additional consideration and without condition. The shareholder warrants were not included in the computation of diluted loss per share because to do so would have been anti-dilutive for the periods presented.

(c) *Stock-based compensation*

In November 2008 the Company's Board of Directors approved the adoption of a stock option plan under which options to acquire a maximum of 9,000,000 common shares are issuable with terms of up to 10 years. The stock option plan is subject to approval by the shareholders of the Company at the annual general meeting in 2009.

Effective on November 14, 2008, an aggregate of 1,002,222 options were granted to directors and the Chief Financial Officer of the Company at an exercise price of $1.74 per share and a ten year term. The weighted average fair value of these options at the grant date was $0.72. The options granted to the directors represent their equity-based compensation for 2008 and 2009, with 50% of the options vested in 2008 and 50% vesting in 2009. These options, and any additional options granted prior to the annual general meeting in 2009, are conditional upon shareholder approval and, in accordance with the policy of the Toronto Stock Exchange, may not be exercised prior to that time. Under Canadian GAAP, stock options granted under a plan that is subject to shareholder approval are not deemed to be granted until approval is obtained. Therefore, no compensation expense was recorded in 2008 in respect of stock-based compensation.

On January 6, 2009, an additional 250,000 options were granted to the Chief Executive Officer of the Company, representing equity-based compensation for 2009. The options have an exercise price of $0.90, a weighted average fair value at the grant date of $0.58, vesting over three years and expiring in ten years.

15. NON-CORE ASSET DISPOSALS

On March 26, 2008, the Predecessor completed the sale of an unused finger-joint lumber facility for net proceeds of $3.4 million. The carrying value of the facility was $650 and was previously included in Corporate assets for the purpose of segmented disclosures.

On June 25, 2008, the Predecessor completed the sale of an electricity transmission line for proceeds of $2.8 million. The carrying value of the facility was $2.7 million and was included in OSB assets for the purpose of segmented disclosures.

16. SETTLEMENT OF CLASS ACTION LAWSUIT

In 2006, the Company, along with other North American OSB producers, was named as a defendant in several lawsuits which alleged violations of United States anti-trust laws in relation to the pricing and supply of OSB from mid-2002 to 2006. In October 2007, the Company finalized a settlement agreement with the direct purchaser plaintiffs. Under the terms of the agreement, the Company paid $8.6 million (U.S.$8.6 million) into escrow to be distributed across the settlement class. In January 2008, the Company finalized a settlement agreement with the indirect purchaser plaintiffs. Under the terms of the agreement, the Company paid $1.3 million (U.S.$1.3 million) into escrow to be distributed across the settlement class. These settlement amounts, along with associated legal costs, were reflected in the Company's results as at December 31, 2007. The Company received final court approval of the settlements with the indirect and direct plaintiffs on July 17, 2008 and August 12, 2008, respectively. On November 3, 2008, the Company finalized a settlement agreement with four direct plaintiffs who opted out of the class settlement. The Company agreed to pay those direct plaintiffs collectively the amount of funds that, under the settlement agreement with the direct purchaser plaintiffs, had been placed in escrow for companies opting out of the settlement class, as well as an additional $118 (U.S.$111). The Company anticipates no further claims under this lawsuit. The Company continues to believe the allegations against it in these claims are entirely without merit. The decision to enter into the settlement agreements was to avoid prolonged litigation.

17. IMPAIRMENT OF GOODWILL

Goodwill resulted from the excess of the purchase price over the fair value of the net identifiable assets acquired when the Company completed the acquisition of the 100% of the voting shares of Voyageur Panel Limited in 2004. At December 31, 2007, due to weakening business conditions in the fourth quarter of 2007 and management's consideration of revised market forecasts reflecting the substantial declines in U.S. housing starts and the prospect of prolonged reductions in customer demand, the Predecessor determined that the goodwill related to these operations was impaired and recorded a charge of $51.0 million.

18. TRANSACTION COSTS

Transaction costs of $25.3 million in the seven month period ended July 29, 2008 represent professional fees and filing fees associated with the recapitalization transaction as well as the exchange offer and consent solicitation, which expired in March 2008. Transaction costs of $2.9 million in the year ended December 31, 2007 were incurred on the issue of a U.S.$102.6 million secured term loan.

19. LOSS ON DERIVATIVE FINANCIAL INSTRUMENT

The Company recorded a derivative financial instrument related to the call options embedded in the Senior Unsecured Notes. Changes in the value of this derivative financial asset are reflected in operations. Changes in the risk-free rate and the credit spread resulted in a $1.1 million loss on the derivative financial asset in the fourth quarter of 2008 and a $9.9 million loss for the period ended December 31, 2008.

20. INCOME TAXES

In the second quarter of 2008 the Company refiled certain Canadian tax returns in order to recover provincial taxes previously paid. This resulted in the use of approximately $70.7 million of Canadian tax losses for which a future tax benefit was previously recorded, and expiry of $15.6 million of investment tax credits. As a result the Company recorded $7.8 million of income taxes recoverable and a provision for the realization of previously benefited future tax assets of $21.3 million. The income tax recovery in the seven month period ending July 29, 2008 was reduced by the additional tax expense resulting from the difference between the tax rate at which these losses were previously benefited and the tax rate at which they were realized.

In addition, in light of poor OSB market conditions and economic outlook, for the seven month period ending July 29, 2008 the Company recorded a tax valuation allowance against its non-capital losses from continuing operations, resulting in a further reduction in tax expense recovery.

At July 29, 2008, the implementation of the recapitalization plan resulted in a forgiveness of indebtedness of approximately $394 million for income tax purposes. The forgiven amount was applied to reduce capital losses available to the Company. The capital losses arose on the wind up of a foreign affiliate at the time of implementation of the recapitalization plan.

The benefit of the Predecessor's U.S. tax losses was not recorded as an asset during the application of fresh start accounting. As a result of the discontinuation of U.S. OSB operations, such losses and the resulting valuation allowance are excluded from the temporary timing differences disclosed in this note.

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

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

20. INCOME TAXES (Continued)

Reconciliation of the Company's effective income tax rate to the Canadian statutory tax rate is as follows:

	The Company		The Predecessor			
	Five months to December 31, 2008		Seven months to July 29, 2008		Year ended December 31, 2007	
	Amount	**%**	Amount	%	Amount	%
Income tax (recovery) expense at statutory rate	**$ (37,279)**	**30.6**	$ (38,200)	30.6	$ (17,118)	33.4
Large corporation tax	**-**	**-**	-	-	275	(0.5)
Non-taxable foreign exchange loss (gain) on long-term debt	**15,020**	**(12.3)**	5,148	(4.1)	(27,031)	52.7
Reduction in statutory income tax rates	**2,516**	**(2.1)**	3,231	(2.6)	(4,167)	8.1
Rate differentials between jurisdictions	**(250)**	**0.2**	(22)	0.0	110	(0.2)
Rate differential on loss carried back	**-**	**-**	13,853	(11.1)	-	-
Non-taxable loss on derivative	**1,508**	**(1.2)**	-	-	-	-
Non-taxable write-down of goodwill	**-**	**-**	-	-	17,029	(33.2)
Valuation allowance	**-**	**-**	20,328	(16.3)	-	-
Other non-deductible items	**2,536**	**(2.1)**	(1,715)	1.4	214	(0.4)
Tax (recovery) expense	**$ (15,949)**	**13.1**	$ 2,623	(2.1)	$ (30,688)	59.9
Comprised of:						
Current taxes	**$ -**		$ (8,448)		$ 41	
Future income taxes	**(15,949)**		11,071		(30,729)	
	$ (15,949)		$ 2,623		$ (30,688)	

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

20. INCOME TAXES (Continued)

Temporary timing differences and tax loss carryforwards which give rise to the net future income tax liability are as follows:

	The Company		The Predecessor
	December 31 2008	July 29 2008	December 31 2007
Future income tax assets:			
Accruals not currently deductible	$ 913	$ 1,637	$ 1,460
Deferred pension costs	882	901	-
Loss on repurchase of long-term debt	27	27	47
Foreign exchange loss on long-term debt	12,998	280	-
Tax loss carryforwards	18,425	26,880	24,151
Financing costs	8,076	12,146	2,925
Investment tax credits	4,953	4,956	4,658
Other tax credits	918	-	-
Eligible capital expenditures	-	2,049	2,083
Income not currently subject to tax	-	-	13,385
	$ 47,192	$ 48,876	$ 48,709
Future income tax liabilities:			
Eligible capital expenditures	(7)	-	-
Depreciable capital assets	(115,205)	(58,669)	(63,094)
Land	(632)	(592)	-
Embedded derivative	-	(1,272)	-
Foreign exchange gain on long-term debt	-	-	(39,130)
Deferred pension costs	-	-	(4,494)
	$ (115,844)	$ (60,533)	$ (106,718)
Future income tax liability, net	$ (68,652)	$ (11,657)	$ (58,009)
As reported in the consolidated balance sheet:			
Current portion of future income tax liabilities	$ (8,492)	$ (8,474)	$ (23,682)
Long-term future income tax liabilities	(60,160)	(3,183)	(34,327)
	$ (68,652)	$ (11,657)	$ (58,009)

The Company has certain non-capital tax loss carryforwards, as follows:

	Canada	United States
2025 to 2027	$ -	$ 226,507
2028	67,846	-
Unlimited	880	-

U.S. non-capital loss carryforwards relate to discontinued operations and have not been benefited for financial statement purposes. The recapitalization resulted in a restriction of the use of U.S. non-capital loss carryforwards.

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

21. EMPLOYEE FUTURE BENEFITS

The Company maintains two defined benefit pension plans for certain salaried and certain hourly employees in British Columbia and Minnesota. The pension liability of the Minnesota plan was reclassified to discontinued operations (Note 6). In addition, during 2007 the Predecessor transferred existing pension benefit entitlements totaling $1.1 million to an individual pension plan established for a director of the Predecessor. The plan is sponsored and administered by the Company.

The Company measures its accrued benefit obligations and the fair value of plan assets of its defined benefit pension plans for accounting purposes as at December 31 of each year. The most recent actuarial valuation of the British Columbia pension plan for funding purposes was as of December 31, 2006, and the next required valuation will be as of December 31, 2009. The most recent actuarial valuation of the Minnesota pension plan was as of January 1, 2008. As a result of the recapitalization on July 29, 2008, the Company requested updated accounting results for pension benefits at the date of the fresh start and on December 31, 2008. The plan assets, accrued benefit obligation and net accrued benefit liabilities have been recorded at their fair values at July 29, 2008. The net accrued benefit liability related to the Company's U.S. operations has been classified separately as a result of the decision to discontinue these operations.

The Company also participates in a multi-employer defined contribution pension plan for hourly employees who are subject to a collective bargaining agreement and sponsors a Group Registered Retirement Savings Plan (RRSP) at three of its Canadian operations, including the jointly-owned High Level operation. In Minnesota, the Company sponsors two 401(k) savings plans. Contributions to these plans were as follows:

	The Company	The Predecessor	
	December 31 2008	July 29 2008	December 31 2007
Multi-employer pension plan	**$ 422**	$ 792	$ 1,512
Group RRSP	**496**	827	1,648
401(k) savings plans	**216**	281	717
	$ 1,134	$ 1,900	$ 3,877

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

21. EMPLOYEE FUTURE BENEFITS (Continued)

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

	The Company	The Predecessor	
	December 31 2008	July 29 2008	December 31 2007
PLAN ASSETS			
Fair value at beginning of period	**$ 39,985**	$ 41,667	$ 46,482
Expected return on plan assets	**1,169**	1,689	3,089
Employer contributions	**2,045**	3,074	322
Benefits paid	**(1,883)**	(3,685)	(5,035)
Experience (loss) gain	**(5,803)**	(2,760)	(3,191)
Fair value at end of period	**$ 35,513**	$ 39,985	$ 41,667
Fair value of plan assets at end of period, discontinued operations	**$ 8,319**	$ 5,161	$ 4,995
ACCRUED BENEFIT OBLIGATION			
Balance at beginning of period	**45,595**	51,773	51,327
Current service cost	**701**	1,471	2,469
Interest cost	**1,181**	1,717	2,795
Benefits paid	**(1,883)**	(3,685)	(5,035)
Plan improvement cost	**-**	-	1,836
Adjustment to discount rate	**(6,931)**	(7,628)	(4,407)
Actuarial (gain) loss	**-**	1,947	2,788
Balance at end of period	**38,663**	45,595	51,773
NET DEFICIT, END OF PERIOD	**$ (3,150)**	$ (5,610)	$ (10,106)
Accrued benefit obligation at end of period, discontinued operations	**$ 10,687**	$ 12,384	$ 17,288
Net deficit at end of period, discontinued operations	**$ (2,368)**	$ (7,223)	$ (12,293)
PENSION EXPENSE			
Accrual for current services	**$ 701**	$ 1,471	$ 2,469
Interest on accrued benefits	**1,181**	1,717	2,795
Interest on pension fund assets	**(1,169)**	(1,689)	(3,089)
Amortization of unrecognized:			
Net transition obligation	**-**	(101)	(173)
Net actuarial loss	**-**	550	931
Past service costs	**-**	162	277
	$ 713	$ 2,110	$ 3,210
Pension expense, discontinued operations	**$ (1,351)**	$ 1,493	$ 3,343

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

21. EMPLOYEE FUTURE BENEFITS (Continued)

	The Company		The Predecessor
	December 31 2008	**July 29 2008**	December 31 2007
NET ACCRUED PENSION BENEFIT ASSET			
Funded status - plan deficit	**$ (3,150)**	**$ (5,610)**	$ (10,106)
Unamortized net actuarial loss	**(1,128)**	**-**	18,348
Unamortized net transition obligation	**-**	**-**	(1,380)
Unamortized past service cost	**-**	**-**	3,648
Net accrued pension benefit (liability) asset	**$ (4,278)**	**$ (5,610)**	$ 10,510
Net accrued pension benefit liability, discontinued operations	**$ (2,368)**	**$ (7,222)**	$ (6,651)

	The Company		The Predecessor
	December 31 2008	**July 29 2008**	December 31 2007
PLAN ASSETS			
Cash	**$ 187**	**$ 108**	$ 72
Canadian short-term investments	**215**	**-**	436
Canadian bonds and debentures	**14,030**	**13,760**	13,490
Canadian common shares	**10,132**	**12,636**	13,495
Canadian pooled equity funds	**1,836**	**2,803**	982
Global bonds and debentures	**216**	**224**	221
Global pooled equity funds	**4,450**	**5,376**	7,033
U.S. common shares	**4,447**	**5,078**	5,938
	$ 35,513	**$ 39,985**	$ 41,667
Plan assets, discontinued operations	**$ 8,319**	**$ 5,161**	$ 4,995

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

	The Company		The Predecessor
	December 31 2008	**July 29 2008**	December 31 2007
Discount rate on accrued benefit obligation	**7.25%**	**6.25%**	5.50%
Discount rate on benefit costs	**6.25%**	**5.50%**	5.00%
Expected long-term rate of return on plan assets	**7.00%**	**7.00%**	7.00%
Rate of compensation increase	**3.00%**	**3.00%**	4.00%

Total cash payments for employee future benefits for the five months ended December 31, 2008, consisting of cash contributed by the Company to its defined benefit pension plans and cash payments directly to beneficiaries, was $3,842 (seven months ended July 29, 2008: $3,074; year ended December 31, 2007: $2,220).

Plan Investment Strategies and Policies

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

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

21. EMPLOYEE FUTURE BENEFITS (Continued)

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

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

Diversification: The Company's strategy for equity security investments is to be broadly diversified across individual securities, industry sectors and geographical regions. A meaningful portion (no more than 65% of the total plans' assets) of the investment in equity securities is allocated to foreign equity securities with the intent of further increasing the diversification of the plans' assets. The remaining Canadian equities may be as high as 50% of the total portfolio but can never fall below 15%. No more than 10% of Canadian or U.S. equities shall be invested in any one company. Fixed income can comprise up to 50% of the portfolio but never less than 30% at one time. All fixed incomes are invested in corporate issues and no more than 20% of the total market value of the bond section shall be invested in any one generally recognized industry group, except utilities (40%) and finance (40%). The portfolio may contain from 0% - 20% of cash and cash equivalents.

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

	Allowable Range	Actual
Canadian equities	15 - 50%	34%
US equities	5% - 35%	13%
International equities	0% - 30%	13%
Bonds	30 - 50%	40%
Short-term and cash	0 - 20%	1%

At December 31, 2008, there were no shares of the Company held in the pension and other benefit trusts administered by the Company.

22. RELATED PARTY TRANSACTIONS

In the seven months ended July 29, 2008, the Predecessor paid $126 to a company owned by officers of the Predecessor for rental charges relating to mill equipment (year ended December 31, 2007: $136). Prior to July 29, 2008, the Predecessor sold two vehicles and two trailers to a director and officer of the Predecessor for $28. The Predecessor also sold plywood and a laptop computer totaling $7 to an officer of the Predecessor in the second quarter of 2008. These transactions were conducted on normal commercial terms and prices. Subsequent to the change in directors and officers as part of the recapitalization on July 29, 2008, these payments are no longer considered related party transactions.

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

23. SEGMENTED INFORMATION

The Company manages its operations, and accordingly determines operating segments, on a product basis. Operating segments are defined as components of an enterprise for which separate financial information is available that is regularly evaluated by the chief operating decision maker or decision making group in deciding how to allocate resources and in assessing performance. The performance of the Company's product-based operating segments is monitored based on operating earnings. Working capital, liabilities, administration costs, interest revenue, interest expense, and income taxes are not allocated to the reportable segments for the purpose of providing information to the chief operating decision maker. The following is a breakdown of continuing operations by reporting segment:

	OSB	Plywood (a)	Corporate	Consolidated
Five months ended December 31, 2008 (b)				
Sales to external customers	$ 133,755	$ 22,477	$ -	$ 156,232
Operating loss	(2,459)	(896)	(13,581)	(16,936)
Loss from discontinued operations	(75,145)	-	-	(75,145)
Amortization of capital assets	12,787	827	220	13,834
Capital expenditures	3,173	479	267	3,919
Identifiable assets (c)	641,266	12,227	12,452	665,945
Seven months ended July 29, 2008 (b)				
Sales to external customers	$ 156,509	$ 46,564	$ -	$ 203,073
Operating loss	(9,031)	(1,113)	(17,809)	(27,953)
Loss from discontinued operations	(13,176)			(13,176)
Amortization of capital assets	17,327	1,526	3,120	21,973
Write-down of capital assets	837	-	-	837
Capital expenditures	2,230	286	29	2,545
Identifiable assets (c)	589,202	12,605	11,170	612,977
Year ended December 31, 2007				
Sales to external customers	$ 365,008	$ 95,880	$ -	$ 460,888
Operating loss	(89,105)	(2,638)	(51,754)	(143,497)
Loss from discontinued operations	(184,444)	-	-	(184,444)
Amortization of capital assets	36,630	3,715	6,643	46,988
Impairment of goodwill	51,000	-	-	51,000
Capital expenditures	68,762	438	877	70,077
Identifiable assets (c)	625,476	24,386	22,519	672,381

(a) The long-lived assets of the plywood segment were classified as held for sale as at December 31, 2008.

(b) Income statement balances for the periods ended July 29, 2008 and December 31, 2007 are those of the Predecessor. Identifiable assets presented as at July 29, 2008 and December 31, 2008 are those of the Company and reflect fresh start accounting.

(c) Identifiable assets of continuing operations include capital assets and goodwill. Identifiable assets of the OSB segment include goodwill of $Nil (July 29, 2008: $Nil; December 31, 2007: $51,970) resulting from the acquisition of Voyageur Panel Canada Limited which is located in Canada.

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

23. SEGMENTED INFORMATION (Continued)

Geographic Information

Sales of continuing operations attributed to countries based on location of customer are as follows:

	The Company	The Predecessor	
	December 31 2008	July 29 2008	December 31 2007
United States	**$ 112,343**	$ 136,242	$ 337,259
Canada	**20,728**	29,588	62,702
Overseas	**23,161**	37,243	60,927
	$ 156,232	$ 203,073	$ 460,888

Capital assets, including long-lived assets held for sale and assets related to discontinued operations attributed to the countries based on location are as follows:

	The Company		The Predecessor
	December 31 2008	**July 29 2008**	December 31 2007
Canada	**$ 665,945**	**$ 612,977**	$ 620,412
United States (Note 6)	**19,280**	**76,982**	209,690
	$ 685,225	**$ 689,959**	$ 830,102

24. CHANGE IN NON-CASH OPERATING WORKING CAPITAL

	The Company	The Predecessor	
	December 31 2008	July 29 2008	December 31 2007
Accounts receivable	**$ (9,432)**	$ (9,492)	$ 16,371
Inventories	**5,406**	3,736	19,614
Income taxes receivable/payable	**(1,592)**	(4,600)	(61)
Prepaid expenses	**1,791**	(391)	5,157
Accounts payable and accrued liabilities	**(12,291)**	34,267	(8,101)
	$ (16,118)	$ 23,520	$ 32,980

25. SETTLEMENT OF WARRANTY HOLDBACK

On April 10, 2008, the Predecessor finalized a settlement of a claim under a warranty holdback relating to the Predecessor's purchase of Voyageur Panel Ltd. in May 2004. Under the terms of the settlement agreement, the Predecessor received cash proceeds of $2.9 million. The settlement was recorded as a reduction of the related capital assets.

26. MANAGEMENT OF CAPITAL

The Company defines capital as working capital, long-term debt and equity, as reflected in these consolidated financial statements. The Company manages capital by issuing new shares and warrants, issuing new debt, and/or issuing new debt to replace existing debt with different characteristics. Under its existing debt indentures, the Company is restricted in managing capital and must conform with the indentures' provisions, which govern capital components such as dividends, asset sales and debt incurrence. During the fourth quarter of 2008, as a result of the global economic crisis, the terms and availability of debt and equity capital have been materially restricted. As a result, should the Company require debt or equity financing (Notes 11 and 27), debt capital may not be available on acceptable terms, which may require management to explore strategic alternatives to improve its capital structure, enhance liquidity, refinance debt, sell non-core assets and reduce costs and expenditures.

27. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Company undertakes transactions in a range of financial instruments including cash, short-term investments, trade and other receivables, trade and other payables and various forms of borrowings, including senior unsecured notes with an embedded derivative arising from call options, bank loans and a capital lease.

a) Financial Risks

The Company's activities result in exposure to a number of financial risks, including credit risk, liquidity risk and market risk. Management's policies for minimizing these risks are set out below.

Credit Risk

Credit risk is the risk that a contracting entity will not complete its obligations under a financial instrument and cause a financial loss. The Company is exposed to credit risk on accounts receivable and short-term investments. The Company's maximum exposure to credit risk related to receivables and short-term investments is the gross carrying amount of these assets net of any allowance for doubtful accounts or impairment loss as reflected in these consolidated financial statements. As at December 31, 2008, the amount of accounts receivable past due was nominal. Accounts receivable of $2.7 million related to a long-lived asset held for sale (July 29, 2008: $1.5 million; December 31, 2007: $2.0 million).

Credit risk associated with short-term investments is minimized by ensuring that commercial paper investments have the highest rating obtainable and that certificates of deposit are placed with well-capitalized financial institutions and other creditworthy counterparties. Concentration of credit risk with respect to trade receivables is limited due to the Company's credit evaluation process and the dispersion of a large number of customers across many geographic areas.

Liquidity Risk

Liquidity risk is the risk that the Company encounters difficulty in meeting its financial obligations as they come due. Liquidity risk includes the risk that, as a result of operational liquidity requirements, the Company: will not have sufficient funds to settle a transaction on the due date; will be forced to sell financial assets at a value which is less than what they are worth; or may be unable to settle or recover a financial asset at all. Liquidity risk arises from accounts payable, long-term debt, commitments and financial guarantees. Under current market conditions, the Company believes that, based on current and forecasted product pricing, it has adequate liquidity to meet cash interest and principal repayments, operating working capital requirements and capital expenditures. During the fourth quarter of 2008, as a result of the global economic crisis, the terms and availability of debt and equity capital have been materially restricted. As a result, should such conditions continue through to maturity of our senior unsecured notes in 2015 and should the Company require debt or equity financing, debt capital may not be available on acceptable terms, which may require management to explore strategic alternatives to improve its capital structure, enhance liquidity, refinance debt, sell non-core assets and reduce costs and expenditures.

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

27. FINANCIAL INSTRUMENTS (Continued)

On March 26, 2008, as a result of cash balances falling below U.S.$75.0 million, under the terms of the U.S.$42.3 million equipment financing facility the Predecessor received a prepayment notification from the lender requiring prepayment of interest for a period of twelve months, which was paid on April 2, 2008.

The contractual maturity of the Company's liabilities, long-term debt and commitments for the next five years are shown in the following table. These amounts represent the future undiscounted principal and interest cash flows and therefore do not equate to the carrying values shown in the balance sheet.

	Less than 1 month	1 to 3 months	4 to 12 months	1 to 5 years
Senior Unsecured Notes	$ -	$ -	$ 26,730	$ 121,312
Senior Secured Term Loan	660	1,342	6,052	32,128
Equipment loan	819	1,637	8,615	36,425
Deutsche Bank equipment loan	-	-	2,695	8,833
Capital lease obligations	98	196	884	4,714
Operating lease obligations	634	1,264	3,494	941
Accounts payable and accrued liabilities (a)	33,940	445	2,087	-
Reforestation obligation	-	-	-	2,512
Asset retirement obligation	-	-	-	1,000
Purchase commitments	713	1,530	7,265	12,913
	$ 36,864	$ 6,414	$ 57,822	$ 220,778

(a) As at December 31, 2008, accounts payable and accrued liabilities of $2.5 million related to a long-lived asset held for sale (July 29, 2008: $7.0 million; December 31, 2007: $3.6 million).

Market Risk

Interest rate risk
Interest rate risk refers to the risk that the value of a financial instrument or cash flows associated with the instrument will fluctuate due to changes in market interest rates. The Company is exposed to interest risk on its floating rate debt. Unfavourable changes in the applicable interest rates may result in an increase in interest expense. The Company manages its exposure to interest rate risk by maintaining a combination of floating rate debt and fixed rate debt. The Company does not use derivative instruments to reduce its exposure to interest rate risk.

At December 31, 2008, if interest rates had been 50 basis points higher/lower and all other variables were held constant, the Company's after-tax net loss would increase/decrease by approximately $0.8 million on an annual basis (July 29, 2008: $0.7 million; December 31, 2007: $1.3 million). The reduced sensitivity of after-tax net loss to interest rate changes in 2008 is due to the recapitalization of the Company with fixed rate Senior Unsecured Notes.

The Company is also exposed to interest risk on the derivative financial instrument that arises from the call option embedded in the Senior Unsecured Notes. As the risk-free interest rate and the credit spread increase, the value of the derivative financial asset decreases. Conversely, a decrease in the risk-free interest rate and the credit spread increases the value of the derivative financial asset. Changes in the value of this derivative financial asset are reflected in operations. During the five month period ended December 31, 2008, changes in the risk-free rate and the credit spread resulted in a $9.9 million unrealized loss on the derivative financial asset.

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

27. FINANCIAL INSTRUMENTS (Continued)

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

Foreign currency risk also arises on translation of the net assets of the Company's self-sustaining U.S. subsidiary. This foreign currency translation risk exposure is partially offset by sales contracts and borrowings denominated in U.S. dollars. The U.S. dollar is the only foreign currency to which the Company has significant exposure. The Company does not use derivative instruments to reduce its exposure to foreign currency risk.

At December 31, 2008, if the Canadian dollar had weakened/strengthened one cent against the U.S. dollar with all other variables held constant, after-tax net loss for the year would have been $5.4 million higher/lower on an annual basis (July 29, 2008: $4.2 million; December 31, 2007: $5.3 million). The increased sensitivity of after-tax net loss to foreign currency rate changes in 2008 is due to reduced U.S. dollar denominated long-term debt after the recapitalization in combination with the Company's decision to stop recording the benefit of currently incurred tax losses.

Commodity price risk
The Company's financial performance is principally dependent on the demand for and selling prices of its products. Both are subject to significant fluctuations. The markets for panel products are cyclical and are affected by factors such as global economic conditions including the strength of the U.S. housing market, changes in industry production capacity, changes in world inventory levels and other factors beyond the Company's control. At this time, the Company has elected not to actively manage its exposure to commodity price risk.

b) Fair Values
The fair value of financial instruments, with the exception of senior notes, is estimated to approximate their carrying value at December 31, 2008 due to the immediate or short-term maturity of these financial instruments.

The fair value of long-term debt is determined using quoted ask prices for the Company's senior unsecured notes. The estimated fair value may differ from the amount which could be realized in an immediate settlement. The carrying values and fair values of the long-term debt are as follows:

	The Company				The Predecessor	
	December 31, 2008		**July 29, 2008**		December 31, 2007	
	Carrying Value	**Fair Value**	**Carrying Value**	**Fair Value**	Carrying Value	Fair Value
Senior notes	**$ 443,370**	**$ 281,765**	**$ 367,193**	**$ 367,193**	$ 806,350	$ 534,164
Term loan	**125,012**	**125,012**	**105,101**	**105,101**	101,744	101,744
Equipment financing	**59,470**	**59,470**	**56,747**	**56,747**	59,510	59,510
Capital leases	**11,629**	**11,629**	**9,909**	**9,909**	9,768	9,768
	$ 639,481	**$ 477,876**	**$ 538,950**	**$ 538,950**	$ 977,372	$ 705,186

The term loan is secured by accounts receivable and inventory having a carrying value of $74.9 million. In the event that the accounts receivable and inventory security for the term loan is deficient, the term loan holders have an additional security charge (the "floating deficiency charge") in an OSB facility. The maximum of the floating deficiency charge is U.S.$50 million, which is less than the carrying value of the asset. Equipment financing of U.S.$35.6 million is secured by certain capital assets.