INTERIM REPORT TO SHAREHOLDERS
FOR THE THREE MONTH PERIOD ENDED
MARCH 31, 2009

LETTER TO SHAREHOLDERS

The challenging market conditions that prevailed through 2008 continued in the first three months of 2009. The U.S., our principal geographic market for structural panels, remains in a deep recession and U.S. housing demand is not expected to recover in the near term, resulting in an oversupply of oriented strand board (“OSB”) products.

In the face of these severe economic and market challenges, we have taken a number of measures to limit our expenditures and reinforce our ability to weather this storm. This began with the recapitalization of the company in July 2008 and included mill closures in Minnesota in the second half of the year. In the first quarter of 2009, we implemented additional cost reduction programs. These initiatives have left us with an operating platform that focuses our resources on the lowest cost, best performing assets.

The benchmark price for 7/16” PRS FOB mill North Central averaged U.S.$154/msf, up 12% from U.S.$137 in the first quarter of 2008. While this price increase was not sufficient for a return to profitable operations, when combined with our sharp focus on cost reductions, operational efficiency and favourable exchange rates, it enabled us to trim our adjusted EBITDA loss from continuing operations for the first quarter of 2009 to $2.3 million. This was a marked improvement compared to the adjusted EBITDA loss from continuing operations of $18.0 million in the first quarter of 2008.

Looking ahead, we continue to believe that the market for engineered wood products will recover over the long term, a forecast supported by demographic trends such as U.S. immigration and the emphasis families continue to place on home ownership. We expect that structural panel demand will rebound as builders continue to identify new uses for engineered wood products in home construction. Ainsworth is also well positioned to capitalize on the increasing demand for sustainable building products, given the environmental advantages associated with OSB and other engineered wood products.

We continue to monitor our costs closely and to focus on maintaining sufficient working capital to sustain our operations and to fund essential capital expenditures. Should we require additional capital, we have the ability to borrow an additional U.S.$125.0 million in senior secured debt and U.S.$75.0 million in senior unsecured debt. We do not foresee a need to seek additional credit at this time.

We believe we have the people, the strategy and the financial discipline in place to weather the current conditions.

Thank you for your continued support.

Sincerely,

/s/ Jay Gurandiano
Chairman of the Board

/s/ Richard Huff
President and CEO

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS For the Three Month Period Ended March 31, 2009

This management's discussion and analysis is presented as at May 13, 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 quarter of 2008 have been reclassified to reflect the results of discontinued operations.

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" 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 and adjusted 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. 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 in the near term. 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 continue to closely monitor our operations and costs to maximize cash from operations. 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 continue to monitor our costs closely and to focus on maintaining sufficient working capital to sustain our operations and to fund essential capital expenditures.

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". The results for the first quarter of 2009, as discussed in this report, represent the results of the Company after the recapitalization and the results for the first quarter of 2008 represent the results of the Predecessor before the recapitalization. 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

The average of the market prices reported by Random Lengths during the first quarter of 2009 was U.S.$154 per msf (North Central region, on a 7/16th-inch basis) compared to U.S.$137 per msf in the first quarter of 2008.

OSB shipments from our continuing operations of 363,282 msf in the first quarter of 2009 were 16% higher than in the same period of 2008. Our Grande Prairie, Alberta and 100 Mile, British Columbia OSB facilities took temporary shutdowns totaling 38 days and 14.5 days of production time, respectively, during the first quarter of 2008.

Summary of Financial Results from Continuing Operations

Review of Financial Results

		Q1-2009		Q1-2008
(in millions)				
Sales	**$**	**81.0**	$	73.8
Costs and expenses		**92.0**		99.7
Operating loss		**(11.0)**		(25.9)
Net loss from continuing operations		**(34.8)**		(77.7)
Net loss		**(54.2)**		(88.2)
Adjusted EBITDA (1)		**(2.3)**		(18.0)

(1) Adjusted EBITDA, a non-GAAP financial measure, is defined as net (loss) income from continuing operations before amortization, (gain) 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:

		Q1-2009		Q1-2008
(in millions)				
Net loss from continuing operations	**$**	**(34.8)**	$	(77.7)
Add:				
Amortization of capital assets		**8.6**		8.7
Write-off of capital assets		**-**		0.8
Gain on disposal of capital assets		**(0.5)**		(2.8)
Cost of class action lawsuit		**-**		0.1
Finance expense		**14.5**		21.1
Income tax recovery		**(9.7)**		(3.7)
Foreign exchange loss on long-term debt		**21.7**		36.1
Other foreign exchange gain		**(2.1)**		(0.6)
Adjusted EBITDA	**$**	**(2.3)**	$	(18.0)

In the first quarter of 2009, our net loss from continuing operations was $34.8 million, down $42.9 million from a net loss of $77.7 million in the first quarter of 2008. The main factors causing the decrease in the loss from continuing operations were decreases in operating losses, a reduction in foreign exchange losses and a decrease in finance expense.

Adjusted EBITDA

Adjusted EBITDA was negative $2.3 million in the first quarter of 2009 compared with negative $18.0 million in the same period of 2008. 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 first quarter of 2009 compared with the first quarter of 2008, also contributed to improving gross profit. The foreign exchange impact on adjusted EBITDA was an estimated $7.5 million improvement compared with the first quarter of 2008.

Sales

Total sales in the first quarter of 2009 increased markedly compared to the first quarter of 2008, from $73.8 million to $81.0 million. The increase is attributable to an increase in realized prices and shipment volume in combination with a favourable exchange rate relative to the U.S. dollar.

OSB

In the first quarter of 2009, OSB sales were $69.1 million, up 24.5% from $55.5 million in the same period of 2008. The increase was primarily attributable to a 15.6% increase in shipment volume, due to reduced downtime taken in the first quarter of 2009 compared to the first quarter of 2008. An increase in realized prices also contributed to the improvement in sales as the value of the Canadian dollar declined relative to the US dollar.

Specialty Overlaid Plywood and Other Products

Sales of specialty overlaid plywood and other products were $11.9 million in the first quarter of 2009, down 34.6% from $18.2 million in the first quarter of 2008. Plywood sales volumes were 30.4% lower than in the first quarter of 2008 and our average realized sale price dropped 6.2%, reflecting reduced customer demand.

Cost of Products Sold (Exclusive of Amortization)

For the first quarter of 2009, cost of products sold (excluding amortization) totaled $76.8 million, down 10.8% from $86.1 million in 2008. Gross profit for the first quarter of 2009 was $4.1 million compared with negative $12.3 million a year earlier. Ainsworth achieved a gross margin of 5.1% of sales in the first quarter of 2009, compared with a negative gross margin in the same period of 2008.

OSB

OSB cost of sales in the first quarter of 2009 was $64.0 million, down 6.2% from $68.2 million in 2008. Despite the 15.8% increase in shipment volume, there was a significant reduction in input costs due to pricing, resulting in a decrease in OSB cost of sales. OSB costs also declined as a result of a $1.1 million recovery in log inventory previously written down, compared to a $6.0 million write-down of log inventory in the first quarter of 2008. In addition, $1.8 million of scientific research and development tax credits were approved during the quarter and were applied to further reduce cost of products sold.

Specialty Overlaid Plywood and Other Products

Cost of sales of specialty plywood and other products in the first quarter of 2009 was $12.9 million, down 27.9% from $17.9 million in 2008. A 30.9% decrease in sales volume was the main factor responsible for this decrease.

Selling and Administration

Selling and administration expenses in the first quarter of 2009 were $7.1 million, up $0.4 million from $6.7 million in the first quarter of 2008. This increase was a result of higher legal costs, partly offset by reductions in discretionary spending in areas such as travel and other general spending.

Amortization of Capital Assets

Amortization expense in the first quarter of 2009 was $8.6 million, which was not significantly different from amortization expense of $8.7 million in the first quarter of 2008.

Gain on Disposal of Capital Assets

During the first quarter of 2009, we recorded insurance claims receivable to replace equipment damaged as a result of two fires and an equipment malfunction.

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.

Finance Expense

Finance expense in the first quarter of 2009 was $14.5 million, down $6.6 million from $21.1 million in the first quarter of 2008. 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. In addition, the first quarter of 2008 included transaction costs of $3.5 million which were incurred in an attempt to secure additional financing.

Other Income

Other income in the first quarter of 2009 was $0.6 million, down $0.5 million from $1.1 million in the first quarter of 2008. This decrease was primarily due to lower interest income earned on cash balances as a result of much lower interest rates.

Foreign Exchange Loss on Long-Term Debt

The unrealized foreign exchange loss on long-term debt in the first quarter of 2009 was $21.7 million compared with $36.1 million in the first quarter of 2008. The Canadian dollar weakened more in the first quarter of 2009 than in the first quarter of 2008, which increased the foreign exchange loss on long-term debt. The effect of the weaker Canadian dollar was partially offset by the decline in long-term debt principal as a result of the recapitalization.

Income Taxes

Income tax recovery for the quarter was $9.7 million compared to $3.7 million in the first quarter of 2008. During the quarter ended March 31, 2009, continued operational losses, along with certain permanent differences, such as the non-taxable portion of the foreign exchange loss on our U.S. debt, and the expected reversal of certain future income tax assets and liabilities at lower effected tax rates resulted in a tax recovery during the period. During the first quarter of 2008, we determined that, in light of poor OSB market conditions, continued operational losses and a bleak market outlook, the future income tax benefit of certain tax loss carryforwards should be provided for. As a result, we did not record the benefit of these losses, resulting in a lower recovery in the period.

Net Loss from Discontinued Operations

The financial results of the OSB mills in Minnesota have been disclosed as discontinued operations. During the first quarter of 2009, the idled facilities generated a net loss of $19.5 million compared to $10.5 million in 2008. The primary component of the net loss from discontinued operations was a $14.3 million asset impairment. At March 31, 2009, 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.

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 March 31, 2009 cannot be predicted with certainty, the Company believes their resolution will not have a material effect on the Company's financial position, results of operations or cash flows.

Liquidity and Capital Resources

As of March 31, 2009, our adjusted working capital was $211.7 million, compared to $226.8 million as at December 31, 2008. 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:

		March 31 2009		December 31 2008
(in millions)				
Current assets	**$**	**261.2**	$	283.7
Restricted cash		**(4.4)**		(5.3)
Current liabilities		**(50.1)**		(60.1)
Current portion of future income tax liabilities		**5.0**		8.5
Adjusted working capital	**$**	**211.7**	$	226.8
Discontinued operations		**3.3**		(3.6)
Continuing operations	**$**	**208.4**	$	230.4

Our primary adjusted working capital requirements in the short term are to fund: 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 first quarter, which include cash flows related to discontinued operations, were as follows:

		Q1-2009		Q1-2008
(in millions)				
Cash used in operating activities	**$**	**(35.2)**	$	(40.5)
Cash used in financing activities		**(1.8)**		(2.1)
Cash used in investing activities		**0.0**		(0.1)
Additions to capital assets		**1.3**		3.2

Our operating activities did not generate positive cash flows in the first three months of 2009 or 2008 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 closely monitor all of our operations and our costs to maximize cash from operations. The seasonal build up of log inventory in the first quarter of 2009 further increased cash used in operations. The increase in accounts receivable from December 31, 2008 to March 31, 2009 was primarily due to proceeds receivable from insurance claims.

Cash used in financing activities in the first quarters of 2009 and 2008 represents the repayment of equipment financing loans and capital lease obligations.

Cash used in investing activities was $3 thousand in the first quarter of 2009 compared to $128 thousand in the first quarter of 2008. Capital expenditures were lower in the first quarter of 2009 than in 2008, but this was offset by proceeds on the sale of an electricity transmission line ($2.8 million) in the first quarter of 2008.

Additions to capital assets in the first three months of 2009 were limited to only essential projects, including the final outstanding committed payments related to the Grande Prairie expansion. As at March 31, 2009 we had committed $87 thousand for capital expenditures related to the Grande Prairie expansion (December 31, 2008: $0.3 million). The estimated costs to complete the Grande Prairie expansion, which is on hold due to market conditions, are approximately $100.0 million.

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 March 31, 2009, 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 and the first quarter of 2009, as a result of the global economic crisis, the terms and availability of debt and equity capital have been materially restricted. 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.

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”. The derivative financial asset had no value as at March 31, 2009.

Off-Balance Sheet Arrangements

We did not have any significant off-balance sheet arrangements other than letters of credit in the amount of $4.4 million (December 31, 2008: $5.3 million), 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 (December 31, 2008: $1.0 million). 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.

Quarterly Comparative Financial Information (Unaudited)

	Q1-09	Q4-08	Q3-08 (1)	Q2-08	Q1-08	Q4-07	Q3-07	Q2-07
(in millions, except per share data, unless otherwise noted)								
Sales and earnings (loss)								
Sales	$ 81.0	$ 90.4	$ 98.0	$ 97.2	$ 73.8	$ 88.6	$ 120.8	$ 130.5
Operating earnings (loss)	(11.0)	(11.0)	(8.9)	0.9	(25.9)	(78.4)	(26.5)	(22.8)
Foreign exchange gain (loss) on long-term debt	(21.7)	(79.1)	(23.6)	6.8	(36.1)	3.1	69.1	79.6
Net (loss) income from continuing operations	(34.8)	(79.9)	(42.3)	(33.5)	(77.7)	(80.5)	23.7	40.2
Net (loss) income from discontinued operations	(19.5)	(76.8)	(0.4)	(0.7)	(10.5)	(104.0)	(60.9)	(12.3)
Net (loss) income	(54.2)	(156.7)	(42.7)	(34.2)	(88.2)	(184.5)	(37.2)	27.9
Per common share:								
Net (loss) income from continuing operations (2)	(0.35)	(0.80)	(0.58)	(2.29)	(5.30)	(5.50)	1.62	2.74
Net (loss) income from discontinued operations (2)	(0.19)	(0.77)	-	(0.05)	(0.72)	(7.09)	(4.16)	(0.83)
Net (loss) income (2)	(0.54)	(1.57)	(0.58)	(2.33)	(6.02)	(12.59)	(2.54)	1.91
Balance sheet								
Total assets	938.1	983.7	1,010.1	1,040.7	1,050.5	1,100.7	1,331.2	1,459.0
Total long-term debt (3)	664.8	639.5	560.0	1,001.4	1,011.7	977.4	982.3	1,053.9
Cash dividends declared: $ per share	-	-	-	-	-	-	-	-
Key statistics								
OSB shipments (mmsf 3/8")	363.3	378.4	394.1	402.4	314.2	378.7	452.2	505.4
Average OSB price ($/msf)	190.3	208.5	202.5	188.9	176.7	176.9	215.9	207.8

(1) The results for the third quarter of 2008 include the results of the Predecessor for the period from July 1 to July 29, 2008 and the results of the Company for the period from July 30 to September 30, 2008 after the recapitalization.
(2) Basic and diluted net (loss) income per share. As at May 13, 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 2007 and 2008, particularly as a result of asset write-downs in the fourth quarters of 2007 and 2008 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 as a result of unrealized foreign exchange loss on long-term debt caused by fluctuations in the strength of the Canadian dollar relative to the U.S. dollar. 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 $44.4 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 took 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:

	Q1-2009	Q1-2008
(in millions)		
United States	**$ 55.6**	$ 48.1
Canada	**14.6**	10.3
Overseas	**10.8**	15.4
	$ 81.0	$ 73.8

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

	March 31 2009	December 31 2008
(in millions)		
Canada	**$ 657.3**	$ 665.9
United States	**4.9**	19.3
	$ 662.2	$ 685.2

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 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 continue 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. Our 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 March 31, 2009 and December 31, 2008, we did not hold any foreign exchange contracts.

Wood Fibre. Wood fibre represents the major raw material in the production of panels. In Canada, wood fibre is sourced primarily by 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. We have taken a proactive approach to enhance the economic participation of the First Nations in its operations wherever feasible.

Customer Dependence. The Company sells its products primarily to major distributors, contractor supply yards, and wholesale distributors and faces strong competition for the business of significant customers. 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. Our operations are subject to a range of general and industry-specific environmental laws and regulations relating to air emissions, wastewater discharges, solid and hazardous waste management, plant and wildlife protection, and site remediation. Failure to comply with applicable environmental laws and regulations could result in fines, penalties or other enforcement actions that could impact production capacity or increase production costs.

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

Liquidity. During the fourth quarter of 2008 and the first quarter of 2009, 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, 2008.

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. 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 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.

Disclosure Controls and Procedures and Internal Control over Financial Reporting

The Chief Executive Officer and the Chief Financial Officer, together with other members of management, have designed the Company’s disclosure controls and procedures in order to provide reasonable assurance that material information relating to the Company and its consolidated subsidiaries would have been known to them, and by others, within those entities.

Management have also designed internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with Canadian generally accepted accounting principles. There has been no change in the design of the Company’s internal control over financial reporting during the quarter ended March 31, 2009 that would materially affect, or is reasonably likely to materially affect, the Company’s internal control over financial reporting.

While the officers of the Company have designed the Company’s disclosure controls and procedures and internal control over financial reporting, they expect that these controls and procedures may not prevent all errors and fraud. A control system, no matter how well conceived or operated, can only provide reasonable, not absolute, assurance that the objectives of the control system are met.

AINSWORTH LUMBER CO. LTD.
Other Information
Unaudited

	Mar. 31, 2009	Dec. 31, 2008
Selected Balance Sheet Items ($000's)		
Cash	**$ 156,433**	$ 192,584
Short-term investments	**1,601**	1,586
Restricted cash	**4,423**	5,344
Adjusted working capital (Note 1)	**211,620**	226,753
Total assets	**938,064**	983,678
Total debt	**664,849**	639,481
Shareholders' equity	**171,914**	226,151

	Three months ended Mar. 31	
	2009	2008
Reconciliation of Net Loss to Adjusted EBITDA ($000's)		
Net Loss from Continuing Operations	**$ (34,782)**	$ (77,711)
Add: Amortization of capital assets	**8,587**	8,699
Write-down of capital assets	**-**	837
Gain on disposal of capital assets	**(535)**	(2,750)
Cost of class action lawsuit	**-**	146
Finance expense	**14,513**	21,073
Income tax recovery	**(9,695)**	(3,655)
Foreign exchange loss on long-term debt	**21,727**	36,081
Other foreign exchange gain	**(2,148)**	(609)
Adjusted EBITDA (Note 2)	**$ (2,333)**	$ (17,889)
Product Sales ($000's)		
OSB	**$ 69,124**	$ 55,537
Plywood and Other	**11,871**	18,227
	$ 80,995	$ 73,764
Geographic Sales Distribution ($000's)		
USA	**$ 55,638**	$ 48,071
Canada	**14,602**	10,317
Overseas	**10,755**	15,376
	$ 80,995	$ 73,764
Product Shipment Volumes (Continuing Operations)		
OSB (msf-3/8")	**363,282**	314,241
Plywood (msf-3/8")	**20,829**	29,920
Veneer (msf-3/8")	**1,258**	2,589
Production Volumes (Continuing Operations)		
OSB (msf-3/8")	**360,767**	309,251
Plywood (msf-3/8")	**22,696**	29,521
Veneer (msf-3/8") (Note 3)	**29,936**	40,998

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

AINSWORTH LUMBER CO. LTD.

Interim Consolidated Balance Sheets

(In thousands of Canadian dollars)
(Unaudited)

		March 31 2009		December 31 2008
ASSETS				
Current Assets				
Cash and cash equivalents	$	**156,433**	$	192,584
Short-term investments		**1,601**		1,586
Accounts receivable		**21,369**		19,916
Inventories (Note 3)		**66,939**		53,251
Prepaid expenses		**5,196**		5,681
Restricted cash		**4,423**		5,344
Assets held for disposal (Note 4)		**5,224**		5,337
		261,185		283,699
Capital Assets, Net		**643,730**		652,448
Other Assets		**14,673**		14,512
Assets Held for Disposal (Note 4)		**18,476**		33,019
	$	**938,064**	$	983,678
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current Liabilities				
Accounts payable and accrued liabilities	$	**28,283**	$	27,539
Income taxes payable		**2,196**		2,764
Current portion of future income tax liabilities		**4,997**		8,492
Current portion of long-term debt		**12,706**		12,366
Liabilities related to assets held for sale (Note 4)		**1,957**		8,933
		50,139		60,094
Accrued Pension Benefit Liability		**4,278**		4,278
Other Liabilities (Note 5)		**3,254**		3,512
Long-term Debt		**652,143**		627,115
Future Income Tax Liabilities		**53,885**		60,160
Liabilities Related to Assets Held for Disposal (Note 4)		**2,451**		2,368
		766,150		757,527
Commitments and Guarantees (Note 6)				
Contingencies (Note 7)				
SHAREHOLDERS' EQUITY				
Capital Stock		**409,613**		409,613
Deficit		**(235,221)**		(180,984)
Accumulated Other Comprehensive Loss		**(2,478)**		(2,478)
		171,914		226,151
	$	**938,064**	$	983,678

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

Approved by the Board:

/s/ Jay Gurandiano	/s/ Gordon Lancaster
DIRECTOR	**DIRECTOR**

AINSWORTH LUMBER CO. LTD.

Interim Consolidated Statements of Operations

For the three months ended March 31
(In thousands of Canadian dollars, except share data)
(Unaudited)

	The Company	The Predecessor
	2009	2008
Sales	**$ 80,995**	$ 73,764
Costs and Expenses		
Costs of products sold (exclusive of amortization)	**76,849**	86,113
Selling and administration	**7,093**	6,655
Amortization of capital assets	**8,587**	8,699
Gain on disposal of capital assets (Note 8)	**(535)**	(2,750)
Write-off of capital assets	**-**	837
Cost of class action lawsuit	**-**	146
	91,994	99,700
Operating Loss	**(10,999)**	(25,936)
Finance Expense		
Interest	**14,513**	17,619
Transaction costs	**-**	3,454
	14,513	21,073
Other Income	**614**	1,115
Foreign Exchange Loss on Long-term Debt	**(21,727)**	(36,081)
Other Foreign Exchange Gain	**2,148**	609
Loss Before Income Taxes	**(44,477)**	(81,366)
Income Tax Recovery (Note 10)	**(9,695)**	(3,655)
Net Loss from Continuing Operations	**(34,782)**	(77,711)
Net Loss from Discontinued Operations (Note 4)	**(19,455)**	(10,472)
Net Loss	**$ (54,237)**	$ (88,183)
Basic and diluted net loss per common share (Note 11):		
Continuing operations	**$ (0.35)**	$ (5.30)
Discontinued operations	**(0.19)**	(0.72)
Basic and diluted loss per common share	**$ (0.54)**	$ (6.02)
Weighted average number of common shares outstanding	**100,000,000**	14,649,140

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

Interim Consolidated Statements of Comprehensive Loss

For the three months ended March 31
(In thousands of Canadian dollars)
(Unaudited)

	The Company 2009	The Predecessor 2008
Net Loss	$ (54,237)	$ (88,183)
Other Comprehensive Income (Loss)		
Unrealized gain on translation of self-sustaining foreign operations	-	5,271
Realized currency translation adjustments (reclassified to net loss)	-	1,465
	-	6,736
Comprehensive Loss	$ (54,237)	$ (81,447)

Interim Consolidated Statements of Changes in Shareholders' Equity (Deficiency)

For the three months ended March 31
(In thousands of Canadian dollars)
(Unaudited)

	The Company 2009	The Predecessor 2008
Capital Stock	$ 409,613	$ 55,827
(Deficit) Retained Earnings		
Beginning of period	(180,984)	56,230
Net loss	(54,237)	(88,183)
	(235,221)	(31,953)
Accumulated Other Comprehensive Loss on Translation of Self-Sustaining Foreign Operations		
Beginning of period	(2,478)	(105,786)
Net unrealized gain on translation of self-sustaining foreign operations in the period	-	6,736
	(2,478)	(99,050)
Total Deficit and Accumulated Other Comprehensive Loss	(237,699)	(131,003)
Total Shareholders' Equity (Deficiency)	$ 171,914	$ (75,176)

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

AINSWORTH LUMBER CO. LTD.

Interim Consolidated Statements of Cash Flows

For the three months ended March 31
(In thousands of Canadian dollars)
(Unaudited)

	The Company	The Predecessor
	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	**$ (54,237)**	$ (88,183)
Items not affecting cash		
Amortization of capital assets	**8,587**	11,221
Non-cash portion of interest expense	**5,450**	334
Foreign exchange loss on long-term debt	**21,727**	36,081
Gain on disposal of capital assets	**(180)**	(2,750)
Impairment of capital assets of discontinued operations	**14,303**	-
Write-off of capital assets	**-**	837
Change in non-current reforestation obligation	**(258)**	(70)
Future income taxes	**(9,770)**	(3,832)
Unrealized foreign exchange	**(764)**	-
Realized currency translation adjustments	**-**	1,465
Change in non-cash operating working capital (Note 12)	**(20,052)**	4,427
Cash used in operating activities	**(35,194)**	(40,470)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of long-term debt	**(1,708)**	(2,047)
Repayment of capital lease obligations	**(100)**	(75)
Cash used in financing activities	**(1,808)**	(2,122)
CASH FLOWS FROM INVESTING ACTIVITIES		
Short-term investments	**(15)**	(45)
Restricted cash	**921**	(640)
Additions to capital assets	**(1,273)**	(3,206)
Decrease in other assets	**81**	371
Proceeds on disposal of capital assets	**289**	3,392
Cash provided by (used in) investing activities	**3**	(128)
Effect of foreign exchange rate changes on cash and cash equivalents	**848**	(8)
NET CASH OUTFLOW	**(36,151)**	(42,728)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	**192,584**	69,627
CASH AND CASH EQUIVALENTS, END OF PERIOD	**$ 156,433**	$ 26,899
Components of cash and cash equivalents:		
Cash balances with banks	**$ 156,433**	$ 26,899
Investments with original maturities of three months or less	**-**	-
	$ 156,433	$ 26,899
SUPPLEMENTAL INFORMATION		
Taxes paid	**$ 6**	$ 60
Interest paid	**2,004**	8,226

The accompanying Notes to the Interim 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:

- 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 Company's balance sheet as at July 29, 2008 was prepared under the provisions of the Canadian Institute of Chartered Accountants ("CICA") Handbook Section "HB") 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 they do not reflect the effects of the financial reorganization or the application of its accounting. Detailed information on the plan of arrangement, the impact of adjustments and fresh start accounting is available in the most recent annual audited financial statements.

2. SIGNIFICANT ACCOUNTING POLICIES

These unaudited interim consolidated financial statements do not include all disclosures normally provided in annual financial statements and accordingly, should be read in conjunction with the Company's audited financial statements for the year ended December 31, 2008. The Company's accounting policies are in accordance with Canadian generally accepted accounting principles and are consistent with those outlined in the 2008 audited financial statements. In management's opinion, these unaudited interim consolidated financial statements include all adjustments (consisting solely of normal recurring adjustments) necessary to present fairly such information. The results of operations for the interim periods are not necessarily indicative of the results to be expected in future periods.

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

3. 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:

	March 31 2009	December 31 2008
Logs	$ 30,878	$ 17,112
Panel products	14,411	14,157
Materials, supplies and consumable spares	21,650	21,982
	$ 66,939	$ 53,251

During the three-month period ended March 31, 2009, a $794 log inventory recovery of carrying value and a $363 panel product inventory recovery of carrying value was recorded (three-month period ended March 31, 2008: log inventory write-downs of $7,502 and panel product inventory write-downs of $525).

All inventories, including inventory related to discontinued operations (Note 4), are pledged as security for loans. Inventory of $14,771 related to long-lived assets held for sale (December 31, 2008: $14,972).

4. 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. The financial results of these facilities have been reclassified as discontinued operations. In the first quarter of 2009, the Company recorded a $14.3 million impairment of capital assets based on updated estimates of the market exit price.

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 licence 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 licence ($1.27 million) have been classified as held for sale as at December 31, 2008 and March 31, 2009 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 tables present selected financial information related to discontinued operations and long-lived assets held for sale:

	The Company	The Predecessor
Three months ended March 31	2009	2008
Sales	$ 204	$ 14,744
Impairment of Capital Assets	14,303	-
Loss Before Income Taxes	(19,455)	(10,472)
Income Tax Expense (Recovery)	-	-
Net Loss from Discontinued Operations	$ (19,455)	$ (10,472)

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

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

	March 31 2009	December 31 2008
ASSETS		
Current Assets of Discontinued Operations		
Accounts receivable	$ 212	$ 505
Inventories	912	1,190
Income taxes receivable	2,900	2,799
Prepaid expenses	1,200	843
	5,224	5,337
Capital Assets - Discontinued Operations	4,904	19,280
Capital Assets - Held for Sale	13,572	13,497
Other Assets - Discontinued Operations	-	242
	18,476	33,019
Total Assets Held for Disposal	$ 23,700	$ 38,356
LIABILITIES		
Current Liabilities of Discontinued Operations		
Accounts payable and accrued liabilities	$ 1,957	$ 8,933
Accrued Pension Benefit Liability	2,451	2,368
	$ 4,408	$ 11,301

5. OTHER LIABILITIES

	March 31 2009	December 31 2008
Reforestation obligation	$ 2,254	$ 2,512
Asset retirement obligation	1,000	1,000
	$ 3,254	$ 3,512

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 will be payable at the termination of the lease in 2010.

6. COMMITMENTS AND GUARANTEES

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)

7. 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 March 31, 2009 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.

8. GAIN ON DISPOSAL OF CAPITAL ASSETS

During the first quarter of 2009, the Company recorded insurance claims receivable to replace equipment damaged as a result of fire and an equipment malfunction.

9. PENSION EXPENSE

Pension expense and contributions related to the Company's defined benefit plans was as follows:

	The Company	The Predecessor
Three months ended March 31	**2009**	2008
Continuing Operations:		
Pension expense	**$ 428**	$ 802
Contributions	**1,080**	1,691
Discontinued Operations:		
Pension expense	**56**	851
Contributions	**1,928**	-

10. INCOME TAXES

During the quarter ended March 31, 2009, continued operational losses resulted in a future income tax recovery for the period. Certain permanent differences, such as the non-taxable portion of the foreign exchange loss on our U.S. debt, and the expected reversal of certain future income tax assets and liabilities at lower effected tax rates somewhat reduced the recorded income tax recovery.

11. LOSS PER SHARE

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

Noteholder warrants were included in the computation of basic and diluted earnings 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.

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

12. CHANGE IN NON-CASH OPERATING WORKING CAPITAL

	The Company	The Predecessor
Three months ended March 31	**2009**	2008
Accounts receivable	**$ (1,160)**	$ (2,691)
Inventories	**(12,341)**	(2,335)
Income taxes receivable/payable	**(669)**	(356)
Prepaid expenses	**128**	1,395
Accounts payable and accrued liabilities	**(6,010)**	8,414
	$ (20,052)	$ 4,427

13. SEGMENTED INFORMATION

	OSB	Plywood	Corporate	Consolidated
The Company				
Three months ended March 31, 2009				
Sales to external customers	**$ 69,124**	**$ 11,871**	**$ -**	**$ 80,995**
Operating loss	**3,536**	**1,076**	**6,387**	**10,999**
Loss from discontinued operations	**19,455**	**-**	**-**	**19,455**
The Predecessor				
Three months ended March 31, 2008				
Sales to external customers	$ 55,537	$ 18,227	$ -	$ 73,764
Operating loss	19,290	238	6,408	25,936
Loss from discontinued operations	10,472	-	-	10,472

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

	The Company	The Predecessor
Three months ended March 31	**2009**	2008
United States	**$ 55,638**	$ 48,071
Canada	**14,602**	10,317
Overseas	**10,755**	15,376
	$ 80,995	$ 73,764

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

	March 31 2009	December 31 2008
Canada	**$ 657,302**	$ 665,945
United States	**4,904**	19,280
	$ 662,206	$ 685,225

14. MANAGEMENT OF CAPITAL

The Company defines capital as working capital, long-term debt and equity, as reflected in these interim financial statements. The Company manages capital by adjusting the amount of dividends paid to shareholders, purchasing shares for cancellation pursuant to normal course issuer bids, issuing new shares and warrants, issuing new debt, and/or issuing new debt to replace existing debt with different characteristics. Under its existing debt indentures, the Company is restricted in managing capital and must conform with the indentures' provisions, which govern capital components such as dividends, asset sales and debt incurrence.

15. FINANCIAL INSTRUMENTS AND RISKS

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 interim financial statements. As at March 31, 2009, the amount of accounts receivable past due was nominal. Accounts receivable of $2.3 million related to a long-lived asset held for sale (December 31, 2008: $2.7 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 obligations associated with financial liabilities. 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, including seasonal log inventory builds in the first and fourth quarters, and capital expenditures. During the fourth quarter of 2008 and the first quarter of 2009, 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 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)

15. FINANCIAL INSTRUMENTS AND RISKS (Continued)

The contractual maturity of the Company's liabilities, long-term debt and commitments 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	$ -	$ 13,667	$ 14,013	$ 161,147
Senior Secured Term Loan	659	1,340	6,039	31,953
Equipment loan	995	1,982	8,774	34,707
Deutsche Bank equipment loan	-	-	2,467	9,413
Capital lease obligations	102	203	915	4,881
Operating lease obligations	630	1,251	2,092	701
Accounts payable and accrued liabilities (a)	22,969	385	2,421	-
Reforestation obligation	-	-	-	2,254
Asset retirement obligation	-	-	-	1,000
Purchase commitments	738	1,475	7,429	9,433
	$ 26,093	$ 20,303	$ 44,150	$ 255,491

(a) As at March 31, 2009, accounts payable and accrued liabilities of $2.8 million related to a long-lived asset held for sale (December 31, 2008: $2.5 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 March 31, 2009, 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 decrease/increase by approximately $0.6 million on an annual basis (December 31, 2008: $0.8 million).

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. The value of the derivative financial instrument as at March 31, 2009 and December 31, 2008 was $Nil.

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.

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

15. FINANCIAL INSTRUMENTS AND RISKS (Continued)

At March 31, 2009, 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 $5.2 million higher/lower on an annual basis (December 31, 2008: $5.4 million). The increased sensitivity of after-tax net loss to foreign currency rate changes in the first quarter of 2009 is due to the reclassification of the Company's U.S. subsidiary operations from self-sustaining to integrated at December 31, 2008.

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.

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 March 31, 2009 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:

	March 31, 2009		December 31, 2008	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Senior notes	**$ 464,365**	**$ 181,432**	$ 443,370	$ 281,765
Term loan	**129,456**	**129,456**	125,012	125,012
Equipment financing	**59,087**	**59,087**	59,470	59,470
Capital leases	**11,941**	**11,941**	11,629	11,629
	$ 664,849	**$ 381,916**	$ 639,481	$ 477,876

The term loan is secured by accounts receivable and inventory having a carrying value of $____ 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.$34.3 million is secured by certain capital assets.

16. SUBSEQUENT EVENTS

On May 13, 2009 the Company's shareholders 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 following options were granted subject to shareholder approval of the stock option plan:

- 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.
- 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.

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 or in the first quarter of 2009 in respect of stock-based compensation. The compensation expense related to options that vested at December 31, 2008 is $361 and the compensation expense of options expected to vest at December 31, 2009, assuming no forfeitures, is $409.