REPORT TO SHAREHOLDERS
FOR THE THREE MONTHS AND YEAR ENDED DECEMBER 31, 2010

LETTER TO SHAREHOLDERS

Dear Fellow Shareholders:

For Ainsworth and for the North American structural panel industry, the most significant impact in 2010 was the rapid rise in oriented strand board (OSB) prices in the first half of the year. In the second quarter of 2010, the average North Central price had more than doubled relative to the same period one year earlier, despite U.S. housing starts remaining below expected levels, and Ainsworth was able to capitalize on the opportunity. With the steps we have taken over the past two years to reduce our cost structure, focus on our core OSB producing assets and target growth in value-added products, we took full advantage of this steep but temporary upswing in price. Our ability to capitalize on opportunities was a major contributor to the company's strong performance for the year.

2010 Financial Highlights

In 2010, the Company recorded net income of $9.4 million compared to a net loss of $21.6 million in 2009. Sales from continuing operations also increased by 15% in 2010 to $329.5 million, despite a structural shift in the value of the Canadian dollar relative to the U.S. dollar. Adjusted EBITDA for 2010 was $53.7 million compared to adjusted EBITDA of $5.2 million in 2009.

In 2010, the average annual North Central market price for 7/16" oriented strand board (OSB) was U.S. $219 per msf, an increase of 35% from an average annual price of U.S. $162 per msf in 2009. The average annual Western Canadian market price for 7/16" OSB was U.S. $213 per msf in 2010, up 47% from U.S. $145 per msf in 2009.

OSB prices peaked in the second quarter of 2010 with an average annual benchmark North Central market price of U.S. $294 per msf. This dramatic spike in prices in the first half of the year was driven by a very tight balance between the supply and demand for structural panels, low dealer inventories, weather related supply disruptions in the southeastern U.S., and government policy that contributed to a modest short-term rise in new home construction. These conditions were not sustainable and prices fell toward the end of the second quarter.

Building Strength and Sustainability in the Business

I am proud of the way our people responded to the market conditions in the first six months of 2010. They kept our mills running efficiently without taking any unscheduled down time. I am, at the same time, just as encouraged by what we were able to accomplish in the second half of the year to improve our operations and position ourselves to respond to the next short term rise in the market as well as a return to normalized market conditions in the U.S.

As demand eased in the fourth quarter of 2010, a historically slow time for our business, we used this opportunity to make a number of strategic upgrades to our OSB mills. We completed the installation of new dryers at our mill in 100 Mile House, British Columbia, which will enhance the mill's ability to process trees infected by the Mountain Pine Beetle, a major press rebuild at our mill in Grand Prairie, Alberta, which will increase efficiency, and an extensive list of maintenance and improvement items at our Barwick, Ontario mill. This is downtime that comes with a low opportunity cost but adds significant strength to our operations. These investments are already providing a solid return.

Our business also benefited in 2010 from the introduction of new, valued-added products, such as pointSix Durastrand flooring, all of which have been well received by the construction industry. In early January 2011, we signed an exclusive Canadian distribution agreement with CanWel Broadleaf, a national building materials distributor, which will ensure our pointSix Durastrand flooring

product is available to builders across the country. Migrating a greater portion of our sales to value-added products and away from pure commodities, which are more subject to volatile pricing, will help us continue to improve our performance and create strong, sustainable value for our shareholders.

At the end of 2010, we successfully concluded negotiations to purchase the remaining 50% of the Footner Forest Products and its OSB mill in High Level, Alberta we did not previously own from Grant Forest Products. This acquisition, which closed February 17, 2011, gives us significant incremental OSB production capacity at a low cost. Moreover, it was funded from existing cash.

Ainsworth also signed long-term labour agreements with unionized employees at the Barwick and 100 Mile House facilities in 2010. This was an important development in that it solidified our labour costs, enabled our employees to focus on critical areas such as safety, efficiency and product innovation, and it put Ainsworth in an excellent position to drive improved value from its operations over the coming years.

In 2010, we continued to hold safety and environmental responsibilities as top priorities in our business. In this context, I am very proud to report that our Grand Prairie mill recently surpassed one million man-hours without a lost time accident. Across the organization, we successfully reduced our Medical Incident Rate (MIR) by 15% in 2010 relative to the previous year. With the implementation of new systems and additional employee training programs as part of our strategic plan, we were also able to reduce our MIR by 50% in the second half of 2010 compared to the first half of the year. These are significant accomplishments and they speak to the focus, skill and experience of our people. They have been and will continue to be the driving force behind our growth and success as a business.

Looking Ahead: Well Positioned to Deliver Value Now and When Market Conditions Return

Based on current macro-economic data, U.S. housing starts in 2011 are expected to be marginally better than 2010. I do not believe, however, that the U.S. housing market is poised for a substantial recovery and a return to normalized building levels in the next ten months. Demographic trends in the U.S. continue to support a housing recovery, but this growth is expected to be gradual. With that in mind, we will continue to manage our expenditures closely and take a conservative approach to growing the business.

Looking ahead, we see value in continuing to diversify our business geographically, particularly in Japan, where Ainsworth is the leading supplier of OSB, and in China, which is fast becoming a major global consumer of wood building products. In 2010 Ainsworth increased overseas sales by 40% over 2009 with the majority of those sales being to Japan. We plan to build on that success in 2011.

I am pleased with our performance and all that we were able to accomplish in 2010, particularly in light of the challenging market conditions we continue to face. We entered 2011 with a solid foundation in our business and a clear focus towards building strong, sustainable value for our shareholders. As always, we are grateful for the support we receive from our shareholders, our customers and our employees.

Sincerely,

/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, 2010

This management's discussion and analysis is presented as at February 25, 2011. 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 comparative balances have been reclassified to reflect the results of discontinued operations.

Overview

Ainsworth is a leading manufacturer and marketer of oriented strand board ("OSB") with a focus on value-added specialty products for markets in North America and Asia.

Our strategy is to be sustainable and profitable throughout the business cycle by diversifying sales geographically, expanding our value-added product offerings and leveraging a proven track record of operational excellence, innovation and technical product development. Financially, we remain focused on prudent balance sheet management.

The Company's active manufacturing portfolio has a production capacity of 1.6 billion square feet per year (3/8-inch basis) and includes three wholly-owned OSB manufacturing facilities located in Grande Prairie, Alberta, 100 Mile House, British Columbia, and Barwick, Ontario. All three mills are strategically located in terms of wood fibre and access to markets in North America and Asia.

The table below summarizes the estimated annual production capacity for each of our mills (in millions of square feet "mmsf", 3/8-inch basis):

100 Mile House, BC	440
Grande Prairie, AB	690
Barwick, ON	480
Operating capacity	1,610
High Level, AB (currently curtailed) [1, 2]	860
Total capacity	2,470

(1) Total annual design capacity is 860 mmsf, however maximum production achieved during the last full year of operation was 650 mmsf.
(2) Ainsworth purchased the second half of the High Level mill from its joint venture partner, completing the transaction on February 17, 2011. The High Level mill was curtailed in December of 2007.

To meet potential future increases in demand, our facilities provide for an increase in annual capacity of 1.48 billion square feet (3/8-inch basis). This incremental capacity would come from two facilities: High Level and Grande Prairie, Alberta. In Grande Prairie, where we have the option of completing the installation of a second production line. The Company is continuing to assess the costs to complete the mill with a design capacity of 620 mmsf, 3/8-inch basis.

All of our facilities utilize flexible mill technology and can manufacture products for domestic and overseas markets. Our facilities have excellent access to low cost, secure fibre sources, are energy efficient and have low sustaining capital requirements. Ainsworth employs an experienced, reliable workforce of approximately 600 workers. Safety and environmental responsibility is emphasized as a key value at all levels.

On May 11, 2010, Brookfield Special Situations II (OSB) L.P. ("BSS") acquired 14,905,712 common shares and warrants to acquire 10,094,288 common shares of Ainsworth in a privately negotiated transaction. As a result, BSS holds approximately 53.5% of the issued and outstanding common shares of Ainsworth on a fully diluted basis.

Capital Expenditures
Ainsworth completed a number of capital projects during the fourth quarter of 2010. At 100 Mile House we completed a major dryer improvement project, which will enhance the mill's ability to process trees infected by the Mountain Pine Beetle. Other projects included the replacement and improvement of certain press components at Grande Prairie, which will increase efficiency, as well as major maintenance and minor upgrades throughout Barwick. These projects cost approximately $8 million in total.

In order to complete these capital projects, the Company incurred maintenance shut-downs during the fourth quarter of 2010 for the mills as follows:

100 Mile House, BC	4 weeks
Grande Prairie, AB	3 weeks
Barwick, ON	4 weeks

Advisory Regarding Forward-Looking Statements

This document contains forward looking statements concerning future events or expectations of Ainsworth's future performance, OSB demand and pricing, and other expectations, intentions and plans that are not historical fact. These forward-looking statements appear under the heading "Outlook" and in a number of other places in this report and can be identified by words such as "may", "estimates", "projects", "expects", "intends", "believes", "plans", "anticipates", "continue", "growing", "expanding", or their negatives or other comparable words. Investors are cautioned that such forward-looking statements are not promises or guarantees of future performance but are only predictions that relate to future events, conditions or circumstances or our future results, performance, achievements or developments and are subject to substantial known and unknown risks, assumptions, uncertainties and other factors that could cause our actual results, performance or developments in our business or in our industry to differ materially from those expressed, anticipated or implied by such forward-looking statements. 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. Many of these factors are beyond Ainsworth's control.

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 therefore any 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 EBITDA margin" "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, adjusted EBITDA margin and adjusted working capital, and narrative disclosures defining gross profit.

Outlook

Liquidity

With respect to liquidity, we believe we have the necessary working capital to manage the Company effectively through all phases of our business cycle. We continue to take a disciplined approach to managing our cash and we are confident in our ability to fund any shortfall from operations, interest payments, debt principal repayments and essential capital expenditures.

Going forward, our strategic approach remains focused on leveraging Ainsworth's operational expertise, superior products and customer relationships to ensure the Company is well positioned to capitalize on a recovery in U.S. home construction.

Debt Maturities

Our debt principal repayments are scheduled to total $22 million in 2011, of which $20.1 million relates to our equipment loan. We currently have $6 million set aside in restricted cash for this repayment. Our U.S. dollar Senior Secured Term Loan is scheduled to mature in 2014 and our U.S. dollar Senior Unsecured Notes mature in 2015. Ainsworth is permitted, under the terms of the Company's indenture, to borrow an additional U.S.$125 million of senior secured debt and U.S.$75 million of senior unsecured debt. The availability of this funding is dependent on credit markets.

Summary of Operating and Financial Results from Continuing Operations

	2010	Q4-10	Q3-10	Q2-10 (1)	Q1-10 (1)	2009	Q4-09	Q3-09	Q2-09	Q1-09
(in millions, except volume, unless otherwise noted)										
Sales and EBITDA										
Sales	**$ 329.5**	**$ 55.0**	$ 81.1	$ 106.4	$ 87.0	$ 285.9	$ 67.1	$ 78.8	$ 70.8	$ 69.2
Adjusted EBITDA (2)	**53.7**	**(3.8)**	8.8	34.0	14.8	5.2	2.4	2.6	(0.9)	1.1
Adjusted EBITDA margin (3)	**16.3%**	**-6.9%**	10.9%	32.0%	17.0%	1.8%	3.6%	3.3%	-1.3%	1.6%
Shipment volume (mmsf 3/8")	**1,456.9**	**285.9**	392.0	379.0	400.0	1,546.8	361.6	413.0	408.9	363.3
Production volume (mmsf 3/8")	**1,460.9**	**282.5**	386.9	394.5	397.0	1,561.1	379.4	407.2	413.7	360.8

(1) Sales in Q1-10 and Q2-10 have been adjusted by $6.0 million and $10.3 million, respectively, with a corresponding adjustment to Cost of Products Sold, to reflect the change in presentation for inventory held at customer sites from a net to gross basis.

(2) Adjusted EBITDA, a non-GAAP financial measure, is defined as net (loss) income from continuing operations before amortization, gain on disposal of property, plant and equipment, costs of curtailed operations, stock option expense, finance expense, foreign exchange loss (gain) on long-term debt, other foreign exchange (gain) loss, income tax expense (recovery) and non-recurring items. Adjusted EBITDA has been recalculated for current and comparative periods to account for the costs of curtailed operations. See the detailed calculation of adjusted EBITDA by quarter on page 22.

(3) Adjusted EBITDA margin, a non-GAAP financial measure, is defined as adjusted EBITDA divided by sales.

Review of Financial Results

	Q4-10	Q4-09	YTD 2010	YTD 2009
(in millions)				
Sales	**$ 55.0**	$ 67.1	**$ 329.5**	$ 285.9
Cost of products sold	**56.5**	60.4	**259.6**	263.1
Net income (loss) from continuing operations	**1.8**	(2.2)	**10.3**	15.9
Net income (loss)	**1.8**	(12.4)	**9.4**	(21.6)
Adjusted EBITDA	**(3.8)**	2.4	**53.7**	5.2
Adjusted EBITDA margin	**-6.9%**	3.6%	**16.3%**	1.8%

The table below shows the calculation of adjusted EBITDA:

(in millions)	Q4-10	Q4-09	YTD 2010	YTD 2009
Net income (loss) from continuing operations	**$ 1.8**	$ (2.2)	**$ 10.3**	$ 15.9
Add:				
Amortization of property, plant and equipment	**5.5**	7.9	**29.3**	36.2
Gain on disposal of property, plant and equipment	**-**	-	**(0.4)**	(0.8)
Write-down of property, plant and equipment	**-**	2.2	**-**	2.2
Cost of curtailed operations	**0.4**	1.4	**2.2**	2.6
Stock option expense	**0.2**	0.1	**0.5**	0.9
Net legal proceeds	**-**	-	**(1.1)**	(4.5)
Cost related to potential acquisition [1]	**-**	-	**-**	0.5
Finance expense	**12.1**	12.3	**49.5**	53.0
Income tax (recovery) expense	**(4.6)**	(9.0)	**0.6**	(20.4)
Foreign exchange gain on long-term debt	**(18.2)**	(10.6)	**(30.4)**	(87.1)
Gain on derivative financial asset	**(0.8)**	-	**(6.2)**	-
Other	**(0.2)**	0.3	**(0.6)**	6.7
Adjusted EBITDA	**$ (3.8)**	$ 2.4	**$ 53.7**	$ 5.2

(1) The Company incurred costs related to a potential acquisition in 2009. Subsequently, a decision was made not to pursue the acquisition.

Net income from continuing operations was $1.8 million in the fourth quarter of 2010 compared to a loss of $2.2 million in the fourth quarter of 2009. This increase is primarily due to a $7.5 million increase in the unrealized foreign exchange gain on long-term debt, a $1.6 million increase in other income and a $2.4 million reduction in amortization expense, partially offset by a $4.4 million decrease in income tax recovery.

On an annual basis, net income from continuing operations was $10.3 million in 2010 compared to $15.9 million in 2009. A decrease in the unrealized foreign exchange gain on long-term debt and an increase in income tax expense were partially offset by an increase in sales, a decrease in amortization expense and a gain on a derivative financial instrument.

Adjusted EBITDA

Adjusted EBITDA was a loss of $3.8 million in the fourth quarter of 2010 compared to income of $2.4 million in the same period of 2009. EBITDA margin on sales was negative 6.9% compared to positive 3.6% in the fourth quarter of 2009. The decrease was primarily the result of an $8.2 million decrease in gross profit (sales less cost of products sold (exclusive of amortization)) as a result of the maintenance shutdowns at all three mills. The Canadian dollar was an average of four cents stronger than the U.S. dollar in the fourth quarter of 2010 compared to the same period in 2009 which had a negative impact on gross profit. The negative operating foreign exchange impact on adjusted EBITDA was an estimated $1.1 million reduction compared with the fourth quarter of 2009.

For the year, adjusted EBITDA was $53.7 million for 2010 compared to $5.2 million in 2009. EBITDA margin on sales increased to 16.3% for 2010 from 1.8% in 2009. The improvement was primarily the result of a $47.1 million increase in gross profit due to stronger OSB prices in 2010. The Canadian dollar, on average, was eleven cents stronger than the U.S. dollar in 2010 compared to 2009 which had a negative impact of approximately $16.4 million on adjusted EBITDA for 2010.

Sales

Sales of $55.0 million in the fourth quarter of 2010 were $12.1 million lower than sales of $67.1 million for the same period in 2009. The decrease in sales was due to a 21.7% decrease in volume compared to the same period in 2009 as a result of the maintenance shutdowns at all three mills in order to complete planned capital expenditures, offset partially by a 3.6% increase in our realized sales price.

Annual sales were $329.5 million, an increase of $43.6 million compared to $285.9 million in 2009. The increase in sales was the result of a 22.3% increase in realized sales prices, partially offset by a 7.1% decrease in volume.

The average benchmark prices reported by Random Lengths for each quarter of 2010 and 2009, as well as the annual averages for 2010 and 2009, are shown in the table below:

U.S. dollars	2010	Q4-10	Q3-10	Q2-10	Q1-10	2009	Q4-09	Q3-09	Q2-09	Q1-09
North Central (7/16" basis)	**$ 219**	**$ 191**	$ 180	$ 294	$ 214	$ 162	$ 171	$ 178	$ 147	$ 154
Western Canada (7/16" basis)	**213**	**166**	164	299	226	145	169	158	124	128

The average annual benchmark price in 2010 compared to 2009 for both the North Central region and Western Canada increased by $U.S. $57 and U.S. $68, respectively. Quarterly average market prices reached a high in the second quarter of 2010.

Costs of Products Sold (Exclusive of Amortization)

Costs of products sold were $56.4 million in the fourth quarter of 2010, representing a 6.6% decrease over costs of $60.4 million in the fourth quarter of 2009. The decrease for the quarter is the result of lower volume, a stronger Canadian dollar relative to the U.S. dollar, and savings in freight costs. These cost decreases were partially offset by increases in resin and wax pricing.

Costs of products sold for 2010 decreased 1.4% to $260.0 million from $263.1 million in 2009. A 6.1% decrease in volume was partially offset by an increase in resin and wax pricing.

Selling and Administration

Selling and administration expenses was $3.4 million in the fourth quarter of 2010, a decrease of $1.3 million from $4.7 million in the fourth quarter of 2009. The decrease is primarily as a result of lower compensation and severance expenses during the fourth quarter of 2010.

For the year 2010, selling and administration expenses were $18.6 million compared to $19.7 million in the year 2009. This decrease was the result of reductions in compensation and severance expenses partially offset by additional business development and advertising costs.

Amortization of Property, Plant and Equipment and Intangible Assets

Amortization expense in the fourth quarter of 2010 was $5.5 million, a decrease of 30.4% from $7.9 million in the fourth quarter of 2009. The decrease is primarily due to the increase in the estimate of the remaining expected useful lives of the OSB facilities that took effect July 1, 2010. Production volumes were also lower during the fourth quarter of 2010 compared to the same period in 2009, resulting in a further decrease in amortization as our OSB panel mills are amortized using the units-of-production method.

For the year 2010, amortization expense decreased by 19.2% to $29.3 million compared to the year 2009. The decrease is due to the increase in the estimate of the remaining expected useful lives of the OSB facilities that took effect July 1, 2010, applying a lower amortization rate to timber costs due to an increase in the annual allowable cut on certain timber licenses as well as lower production volumes during 2010 compared to 2009.

Finance Expense

Finance expense in the fourth quarter of 2010 was $12.1 million, which was not significantly different from $12.3 million in the fourth quarter of 2009.

For the year, finance expense decreased from $53.1 million in 2009 to $49.5 million in 2010. The decrease was the result of a substantially stronger Canadian dollar relative to the U.S. dollar in 2010 compared to 2009.

Foreign Exchange Gain on Long-Term Debt

The unrealized foreign exchange gain on long-term debt in the fourth quarter of 2010 was $18.2 million compared with a $10.6 million gain in the fourth quarter of 2009. For the year 2010, the unrealized foreign exchange gain on long-term debt was $30.4 million compared with an $87.1 million gain for the year 2009. The Canadian dollar strengthened against the U.S. dollar during 2010 but not to the same extent as in 2009.

Gain on Derivative Financial Instrument

During the fourth quarter of 2010, the Company recorded a gain of $0.8 million (year to date $6.2 million gain) related to the value of the derivative financial instrument related to the call options embedded in the Senior Unsecured Notes. The Company engaged an independent third party expert to perform the valuation of the call options as at December 31, 2010. Changes in the value of this derivative financial asset are reflected in operations.

The call options did not have any value in the fourth quarter or year of 2009.

Costs of Curtailed Operations

Costs of curtailed operations are comprised of costs directly attributable to the partially completed second production line at our Grande Prairie, Alberta mill and our idled High Level, Alberta mill. The costs of curtailed operations for 2010 was not substantially different as compared to 2009.

Other Items

Other income in the fourth quarter of 2010 was $1.8 million, up $1.6 million from the $237 thousand from the fourth quarter of 2009. For the year 2010, other income increased by $3.1 million to $3.7 million from the $611 thousand in the year 2009. These increases are primarily due to improved performance and cash management.

Income Taxes

The income tax recovery in the fourth quarter of 2010 was $4.6 million on loss before income taxes of $2.8 million compared with an income tax recovery of $9.0 million on loss before income taxes of $11.2 million in the fourth quarter of 2009. Income tax expense was $0.6 million for the year 2010, compared with a recovery of $20.3 million for the year 2009. During the second quarter of 2010, due to a change in shareholdings, a change of control occurred for tax purposes, resulting in the expiry of certain previously recognized tax assets and certain unrecognized net capital losses. In the fourth quarter of 2010, certain permanent differences, such as the non-taxable portion of the foreign exchange gain on our debt, and the expected reversal of certain future income tax assets and liabilities at lower effective tax rates also impacted the resulting income tax expense or recovery.

As a result of our 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

Net loss from discontinued operations includes residual income net of expenses associated with the OSB mills in Minnesota as well as the plywood and veneer operations in Lillooet and Savona that were disposed during the fourth quarter of 2009. The decrease in net loss from discontinued operations as compared to 2009 is primarily due to asset write-downs recorded in the first half of 2009.

Liquidity and Capital Resources

As of December 31, 2010, our adjusted working capital was $134.6 million, compared to $163.7 million as at December 31, 2009. 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, a non-GAAP measure, is calculated as follows:

	December 31 2010	December 31 2009
(in millions)		
Current assets	**$ 188.5**	$ 213.4
Restricted cash not related to current liabilities	**(4.8)**	(10.4)
Current liabilities	**(54.4)**	(46.9)
Current portion of future income tax liabilities	**5.3**	7.6
Adjusted working capital	**$ 134.6**	$ 163.7
Adjusted working capital (deficiency), discontinued operations	**(0.8)**	(3.1)
Adjusted working capital, continuing operations	**$ 135.4**	$ 166.8

Our working capital requirements in the short term are to fund any potential future shortfalls from operations, interest payments, debt principal repayments and essential capital expenditures. Most discretionary capital expenditures, including the expansion of the Grande Prairie facility, have been put on hold until market conditions improve. The decrease in adjusted working capital from December 31, 2009 was primarily due to cash used in financing activities.

The table below presents the total funds available:

	December 31 2010	December 31 2009
(in millions)		
Cash and cash equivalents	**$ 56.7**	$ 81.6
Restricted cash	**10.8**	10.4
Short-term investments	**59.4**	61.7
Total available funds	**$ 126.9**	$ 153.7

Our cash flows for the fourth quarters and the years of 2010 and 2009 were as follows:

	Q4-10	Q4-09	YTD 2010	YTD 2009
(in millions)				
Cash (used in) provided by operating activities before interest and working capital	**$ (2.9)**	$ (0.8)	**$ 43.2**	**$ (17.5)**
Cash used for interest	**(13.6)**	(13.5)	**(31.2)**	(31.8)
Cash (used in) provided by working capital	**(8.4)**	(1.3)	**(5.3)**	14.0
Cash (used in) provided by operating activities	**(24.9)**	(15.6)	**6.7**	(35.3)
Cash used in financing activities	**(12.1)**	(3.0)	**(23.2)**	(10.5)
Cash used in investing activities	**(4.7)**	(59.2)	**(7.6)**	(54.8)

In the fourth quarter of 2010 we used cash of $2.9 million from operating activities before interest paid and working capital requirements compared to negative $0.8 million in the fourth quarter of 2009. The increase in cash outflows in the fourth quarter 2010 is primarily the result of reduced shipments due to the maintenance shutdowns. On an annual basis, positive cash flows of $43.2 million were generated for 2010 compared to a use of $17.5 million for 2009.

The increase in cash used in financing activities in the fourth quarter of and for the year 2010 compared to the same periods in 2009 can be attributed to the reduction in long-term debt in the third and fourth quarters of 2010. Cash used in financing activities in all other periods presented represents the repayment of equipment financing loans and capital lease obligations. There were no debt maturities in 2010 or 2009.

The decrease in cash used in investing activities in the fourth quarter of and for the year 2010 compared to the same periods in 2009 is due primarily to the 2009 transfer of cash-on-hand into short-term investments. Additions to property, plant and equipment during 2010 and 2009 were primarily limited to essential projects.

On February 17, 2011, we completed the acquisition of the remaining 50% interest in the High Level mill from our joint venture partner, Footner Forest Products Inc., for which we paid $20 million in cash.

Contractual Obligations

The following table summarizes the timing of payments for which we have contractual obligations as at December 31, 2010. Payments of Senior Unsecured Notes, Senior Secured Term Loans and equipment loans include cash interest and principal repayments at the time of maturity.

	2011	2012 to 2013	2014 to 2015	Thereafter	Total
(In millions)					
Senior Unsecured Notes [1]	$ 22.9	$ 49.5	$ 517.6	$ -	**$ 590.0**
Senior Secured Term Loan [2]	5.4	10.8	104.7	-	**120.9**
Equipment loan [3]	20.5	-	-	-	**20.5**
Deutsche Bank equipment loan [4]	1.8	3.6	3.5	0.8	**9.7**
Capital lease obligations [5]	1.0	1.9	1.9	9.1	**13.9**
Operating lease obligations	1.0	1.5	1.1	-	**3.6**
Purchase commitments [6]	3.0	2.4	2.4	5.5	**13.3**
	$ 55.6	**$ 69.7**	**$ 631.2**	**$ 15.4**	**$ 771.9**

(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 per annum. 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 5.0% per annum. For the purpose of the above table, we have calculated the interest rate at the December 31, 2010 month-end LIBOR rate of 0.303%. The Senior Secured term loan matures on June 26, 2014.
(3) Under the 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, 2010 month-end LIBOR rate of 0.303%. 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, 2010 month-end EURIBOR rate of 1.006%. 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 fixed payments and agreements to purchase certain machinery, equipment, engineering and management support services.
(7) Contractual obligations denominated in $U.S. are converted to Canadian dollars at the December 31, 2010 exchange rate posted by the Bank of Canada of $1.00 = U.S. $1.0054.
(8) Contractual obligations denominated in € are converted to Canadian dollars at the December 31, 2010 exchange rate posted by the Bank of Canada of $1.00 = €0.7508.

Outstanding Share Data

The issued share capital of the Company at December 31, 2010 is as follows:

	Shares	Warrants	Value (in millions)
Common shares	**100,502,222**	**-**	**$ 411**
Shareholder warrants	**-**	**8,695,634**	**-**
	100,502,222	**8,695,634**	**$ 411**

The shareholder warrants shall be deemed to be exercised and shall be converted without additional consideration into an 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.

The following table presents the exercise prices and expiry dates for the stock options outstanding at December 31, 2010:

Grant Date	Number of Options Outstanding	Exercise Price	Expiry Date
November 14, 2008 (1)	500,000	1.74	November 14, 2018
January 6, 2009 (1)	250,000	0.90	January 6, 2019
November 2, 2009	100,000	1.56	November 2, 2019
March 5, 2010	850,000	2.30	March 5, 2020
March 15, 2010	25,000	2.45	March 15, 2020
May 13, 2010	72,376	4.48	May 13, 2020
May 21, 2010	50,000	4.14	May 21, 2020
June 14, 2010	100,000	3.28	June 14, 2020
August 5, 2010	6,300	2.89	August 5, 2020
August 13, 2010	25,000	2.71	August 13, 2020

(1) These stock options were deemed to be granted on May 13, 2009 when the stock option plan was approved by the shareholders.

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 whereby we have the right to repurchase the Notes. 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. The Company engaged an independent third party expert to perform a valuation of the call options, using an Option-Adjusted-Spread ("OAS") model, specifically the Hull and White single factor interest rate term structure model. 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 as"Gain on derivative financial instrument". Management estimates that had interest rates been 1% higher and all other variables were constant, the value of the derivative financial asset would have been $32 thousand lower. At December 31, 2010, the derivative financial asset had a value of $6.2 million (December 31, 2009: $nil).

Off-Balance Sheet Arrangements

We did not have any significant off-balance sheet arrangements other than letters of credit in the amount of $10.8 million ($10.4 million at December 31, 2009), and our co-owner's share of the accounts payable and accrued liabilities of our High Level project in the amount of $1.0 million ($1.3 million at December 31, 2009). By agreement with the co-owner, if the co-owner does not pay its share of accounts payable and accrued liabilities, we may pay such amounts and recover them from the co-owner's share of production. The co-owner filed for CCAA protection in Ontario on June 25, 2009. At December 31, 2010, the co-owner had met all of its obligations to the joint venture. Subsequent to year end, we purchased the remaining 50% share of the High Level mill from the co-owner, completing the transaction on February 17, 2011. 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

During the year, legal fees were paid to a law firm of which one of the Company's directors is also a partner and the Company purchased insurance services from an entity related to BSS These transactions were measured and recorded at the exchange amount which is equivalent to fair value. Fair value is defined as the transaction amount with unrelated parties under similar terms and conditions.

	Q4-10	Q4-09	YTD 2010	YTD 2009
(in thousands)				
Legal fees	**$ 87**	$ 3	**$ 122**	$ 147
Insurance	**76**	-	**76**	-
	$ 163	$ 3	**$ 198**	$ 147

Selected Quarterly Financial Information (Unaudited)

	2010	Q4-10	Q3-10	Q2-10 (2)	Q1-10 (2)	2009	Q4-09	Q3-09	Q2-09	Q1-09	2008 (1)
(in millions, except per share data, unless otherwise noted)											
Sales and earnings (loss)											
Sales	329.5	$ 55.0	$ 81.1	$ 106.4	$ 87.0	$ 285.9	$ 67.1	$ 78.8	$ 70.8	$ 69.2	$ 290.7
Operating income (loss)	22.0	(10.1)	2.7	24.0	5.4	(32.6)	(9.4)	(7.9)	(5.4)	(9.9)	(42.9)
Foreign exchange gain (loss) on long-term debt	30.4	18.2	17.7	(24.8)	19.3	87.1	10.6	47.8	50.4	(21.7)	(131.9)
Net income (loss) from continuing operations	10.3	1.8	10.1	(17.3)	15.7	15.9	(2.2)	22.3	29.8	(34.0)	(232.0)
Net loss from discontinued operations	(0.9)	-	(0.1)	(0.5)	(0.3)	(37.5)	(10.2)	(2.0)	(5.1)	(20.2)	(89.9)
Net income (loss)	9.4	1.8	10.0	(17.8)	15.4	(21.6)	(12.4)	20.3	24.7	(54.2)	(321.8)
Basic and diluted earnings (loss) per common share											
Net income (loss) from continuing operations (3)	0.10	0.02	0.10	(0.17)	0.16	0.16	(0.02)	0.22	0.30	(0.34)	(4.64)
Net income (loss) (3)	0.09	0.02	0.10	(0.18)	0.15	(0.22)	(0.12)	0.20	0.24	(0.54)	(6.39)
Balance sheet											
Total assets	811.1	811.1	845.2	855.8	848.5	846.2	846.2	879.1	898.0	938.1	983.7
Total long-term debt (4)	523.5	523.5	550.4	570.1	544.5	561.3	561.3	570.6	615.8	664.8	639.5

(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) Sales in Q1-10 and Q2-10 have been adjusted by $6.0 million and $10.3 million, respectively, with a corresponding adjustment to Cost of Products Sold, to reflect the change in presentation for inventory held at customer sites from a net to gross basis.
(3) Basic and diluted net (loss) income per share. As at December 31, 2010, the Company had 100,502,222 issued common shares. Prior to July 29, 2008, the Predecessor had 14,649,140 issued common shares. For all periods presented the Company has not paid or declared any cash dividends.
(4) Total long-term debt includes the current portion of long-term debt.

OSB demand and product pricing were the main factors causing fluctuations in our sales over the past eight quarters. Sales prices remained low throughout the last half of 2008 and most of 2009, causing a decline in operating earnings and net income from continuing operations. OSB prices increased in the first two quarters of 2010 but dropped in the last half of 2010. Discontinued operations, which consist of our OSB mills in Minnesota as well as our plywood business, generated additional losses, particularly as a result of asset write-downs and impairment charges. 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 second half of 2008, further increasing the net loss for the period. Net loss also fluctuated as a result of unrealized foreign exchange gain (loss) on long-term debt caused by fluctuations in the strength of the Canadian dollar relative to the U.S. dollar. OSB shipment volumes have varied in the past eight quarters depending on production disruptions, maintenance requirements, product mix and demand-related production curtailments.

Segmented Information

Our geographic distribution of sales was as follows:

	Q4-10	Q4-09	YTD 2010	YTD 2009
(in millions)				
North America	**$ 48.8**	$ 58.4	**$ 280.7**	$ 250.4
Overseas	**6.1**	8.7	**48.8**	35.5
	$ 54.9	$ 67.1	**$ 329.5**	$ 285.9

Sales overseas decreased in the fourth quarter of 2010 but increased for the year as compared to the same periods in 2009 as we began to focus on selling more of our product outside of North America.

Property, plant and equipment are located within Canada.

Risks and Uncertainties

Liquidity. As global debt and equity markets can be volatile, we continue to monitor discretionary capital expenditures carefully. Our equipment loan matures on October 1, 2011, the U.S. dollar Senior Secured Term Loan matures in 2014 and our U.S. dollar Senior Unsecured Notes mature in 2015. Under the terms of the Company's indenture, the Company is permitted to borrow an additional U.S. $125 million of Senior Secured debt and U.S. $75 million of Senior Unsecured debt. The availability of this funding is dependent on credit markets. In the event that debt or equity capital is not available on acceptable terms to the Company in the future, the Company may need to explore other strategic alternatives.

Economic Uncertainty. Our core OSB business relies heavily on new home and renovation construction in North America which, although they have shown temporary improvements in the first six months of 2010, they have yet to show signs of a sustained recovery. Attempts to stabilize the financial and credit markets have been undertaken and economic activity in North America and elsewhere appears stabilized. Global financial and credit markets remain volatile. Increases in such volatility and its impact on economic growth would have an adverse effect on our business.

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. Should our competitors open new mills or reopen curtailed mills, this could increase market supply causing downward pressure on product prices and could result in an erosion of our profit margins.

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; geographic diversification through overseas sales, and developing specialty niche products where possible.

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. The impact of the foreign exchange sensitivity on sales is partially offset by our U.S. dollar denominated debt as well as U.S. dollar purchases of raw materials, supplies and services such as resin, waxes and transportation. At December 31, 2010 and December 31, 2009, 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 twenty-five years and are generally subject to regular renewals every five years. As the agreements come due, we rely on the assumption that we will be able to renew the agreements. The agreements incorporate commitments with respect to sustainable forest management, silvicultural work, forest and soil renewal, and cooperation with other forest users. The government reserves the right to revoke a forest management license for any mills that are not operating for greater than twelve months, as is the case with our mill at High Level, Alberta. We have not received any notice to this effect from the government at this time. 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. The results of these claims may adversely affect the supply of wood fibre and the commercial terms of supply agreements with provincial governments.

Other Input Costs. Rising petroleum prices can reduce our profitability indirectly by increasing the delivered cost of our domestic and offshore shipments through increased raw material input costs and directly by increased domestic and international freight charges.

Customer Dependence and Concentration. 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. In the event that these customers declare bankruptcy or cease to do business with the Company, a material adverse effect on our business, financial condition and results of operations and cash flows may result. Our sales are also dependent on purchasers of our products having access to adequate levels of credit.

Product Concentration. We manufacture a single product, OSB, and, as such, fluctuations in demand or prices for OSB will likely have a significant impact on our revenues and profitability. This product concentration increases our exposure to variability in demand for and/or prices of OSB, and a decline in demand for and/or prices of OSB may have a material adverse effect on our business, financial condition and results of operations.

International Sales. A significant portion of our sales are made to customers outside of Canada and the United States. Our international sales present us with a number of risks and challenges, including but not limited to the effective marketing of our products in other countries, collectability of accounts receivable, tariffs and other barriers to trade and recessionary environments in foreign economies. Insurance from Export Development Canada is used to mitigate collection risk on certain foreign accounts receivable.

Labour Relations. The Grande Prairie mill employees are non-unionized, while the Barwick and 100 Mile mills are unionized. During 2010, new union contracts were negotiated for 100 Mile House, due to expire on June 30, 2013, and Barwick, due to expire on July 31, 2013.

Human Resources. The Company's success depends, to a significant extent, upon its ability to attract and retain key senior management, and operations personnel, and to have sufficient skilled labour available. The Company's failure to recruit and maintain key personnel, and market conditions which cause shortages of skilled labour could have an adverse impact on the operation and management of the Company's facilities.

Energy Costs. The Company is a significant consumer of electrical power. In recent years, BC Hydro and Power Authority has sought, and to some extent received, rate increases above historical levels. BC Hydro rates may increase significantly in response to a new B.C. energy policy mandating self-sufficiency by 2016 and reflecting the higher cost of marginal resources.

Regulatory. Government regulations relating to forest management practices may adversely affect us and could increase our costs of doing business. Legislation in British Columbia, Alberta and Ontario empowers provincial regulatory agencies to develop regulations, set policies and establish and maintain all aspects of sustainable forest management. Changes to these regulations and policies could adversely affect our access to wood fiber for our OSB operations or could increase the cost of our wood fiber. Changes to these laws or regulations, or the implementation of new laws or regulations, could result in additional expenses, capital expenditures or impediments to our operations, which could impair our competitive position and have a material adverse effect on our business.

We are also subject to a wide range of general and industry specific product, environmental, health and safety laws, regulations and standards imposed by federal, provincial, and local authorities in Canada and other countries where we market our products. Changes to these laws, regulations, and standards could adversely affect our ability to sell products to certain jurisdictions or operate within certain jurisdictions. Such changes could have a material adverse effect on our business, financial condition, results of operations and cash flows.

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. No assurance can be given that changes to these laws and regulations or their application will not have a material adverse effect on the Company's business, operations, financial condition and operational results. Additionally, the Company may discover currently unknown environmental issues, contamination or conditions in relation to past or present operations in or at its current or former facilities, or may be faced with unforeseen environmental liabilities in the future. This may require site or other remediation costs to maintain compliance or correct violations or result in government or private claims for damage to persons, property or the environment.

Capital Intensity. The production of wood-based panels is capital intensive and it is likely that key pieces of equipment will 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.

Periodic Litigation. The Company may from time to time become party to claims and litigation proceedings that arise in the ordinary course of business. Such matters are subject to many uncertainties and the Company cannot predict with assurances the outcomes and ultimate financial impacts of them. There can be no guarantees that actions that may be brought against the Company in the future will be resolved in its favour or that the insurance the Company carries will be available or paid to cover any litigation exposure. Any losses from settlements or adverse judgments arising out of these claims could be materially adverse to the Company.

Barwick Facility. The Barwick facility was acquired through a share transaction in 2004. As a result, there is a potential that we may have acquired undisclosed or unknown liabilities or other undisclosed detrimental issues concerning the Barwick facility. The existence of such undisclosed liabilities or other detrimental issues related to the Barwick facility could have a material adverse effect on our business, financial condition, results of operations and cash flows.

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.

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 adopted certain changes in accounting policies as noted below.

Significant Accounting Estimates and Judgments

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. The 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.

Determination of Fair Value on Purchased Business Combinations. Fair value on purchased business combinations is determined based on valuations performed by independent third party specialists. Details related to forecast cash flows, discount rates, capital expenditures and other assumptions used in developing these valuations require considerable use of judgments, assumptions and estimates by management. As a result, we may be required to record impairment charges should the markets for our products deteriorate to levels significantly below current forecasts or should capital not be available to fund operations or expenditures.

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, intangible assets 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. Effective July 1, 2010, the Company increased the remaining useful lives of the OSB facilities from 15 to 25 years based on a revised estimate of the expected units of production. The impact of this change has been applied prospectively as a change in an estimate and resulted in a reduction in depreciation for 2010.

Employee Benefit Plans. Most of our 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.

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.

Stock-Based Compensation. We account for stock options using the fair value method. Under this method, compensation expense for options is measured at the grant date using the Black-Scholes option pricing model based on certain estimates and assumptions and is recognized over the vesting period. If estimates or assumptions change in the future, we could be required to reduce or increase contributed surplus, resulting in compensation expense or recovery.

Disclosure Controls and Procedures and Internal Control over Financial Reporting

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, 2010. 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, 2010, and have concluded that such controls and procedures are adequate and effective to ensure accurate and complete disclosures in the annual filings.

Management has 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 material change in the design of the Company's internal control over financial reporting for the quarter and year ended December 31, 2010 that would materially affect, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

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, 2010 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, 2010. Management determined that there were no material weaknesses in the Company's internal control over financial reporting as at December 31, 2010.

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.

International Financial Reporting Standards

In February 2008, the Canadian Accounting Standards Board confirmed that International Financial Reporting Standards ("IFRS") will replace Canada's current generally accepted accounting principles for publicly accountable profit-oriented enterprises for interim and annual periods in fiscal years beginning on or after January 1, 2011.

With an adoption date of January 1, 2011, the Company's first financial statements prepared under IFRS will be the interim financial statements for the three months ended March 31, 2011, which will include comparative information for the three months ended March 31, 2010 and full disclosure of all new IFRS policies.

The tables below illustrate updates to the key elements of our IFRS changeover plan, significant milestones and progress to date or expected completion.

Financial Reporting

Milestones	*Progress to Date/Expected Completion*
Development of IFRS financial statement format, including disclosures	Financial statement note disclosure has been reviewed by senior management and the Audit Committee, with finalization expected in the first quarter of 2011
Preparation and review of Canadian GAAP / IFRS reconciliation of financial results for 2010	Completed. Implementation completed in the first quarter of 2010 and internal testing completed by December 31, 2010
MD&A disclosure quantifying the effects of conversion on the 2010 comparative period	Completed. See quantified impacts in this MD&A for: • January 1, 2010 and December 31, 2010 consolidated statements of financial position; • 2010 consolidated statements of income and other comprehensive income

Training and Communication

Milestones	*Progress to Date/Expected Completion*
Training key finance and operational staff directly engaged in the changeover	Substantially completed. Impacts of IFRS changeover were communicated in mid-2010. Training was complete by December 31, 2010 with finalization of IFRS/CGAAP adjustments planned for Q1 2011
Provide education and communicate progress of IFRS conversion to management and Audit Committee	Communication and education have been provided on IFRS conversion issues relevant to the Company throughout 2010
Provide education to external stakeholders	Ongoing

Information Technology, Systems and Processes

Milestones	*Progress to Date/Expected Completion*
Identify, implement and test changes to systems and processes (i.e. changes to chart of accounts, new fixed asset software module)	Completed as follows: • Identification - first quarter of 2010 • Implementation and operational testing of new fixed asset software and stock option software –fourth quarter of 2010
Prepare statement of opening financial position under IFRS and compile dual reporting records during 2010	Opening financial position under IFRS has been reviewed by senior management and the Audit Committee. Finalization is expected during the first quarter of 2011 Dual accounting reconciliation complete
Implement financial planning and forecasting under IFRS standards	All significant IFRS adjustments were considered and incorporated in the 2011 budgeting process

Control Environment and Internal Control Over Financial Reporting

Milestones	*Progress to Date/Expected Completion*
Approval of initial IFRS 1 elections and accounting policy choices	Completed - approved by senior management and the Audit Committee Ongoing - periodic review of implementation progress, impacts of outstanding IFRS exposure drafts, and IFRS policy decisions
Testing of controls for 2010 comparatives	Substantially completed by December 31, 2010. Remainder of tests to be completed in early 2011.

Disclosure Controls and Procedures

Milestones	*Progress to Date/Expected Completion*
Review by senior management and the Audit Committee of expected conversion effects on fiscal 2010	Completed. See expected quantified impacts in this MD&A for: • January 1 and December 31, 2010 consolidated statements of financial position; • 2010 consolidated statements of income and other comprehensive income
Provide updated disclosure of expected conversion effects on fiscal 2010 as necessary	Any remaining items where quantification could not be assessed initially will be finalized in early 2011, as considered necessary
Prepare first quarter 2011 financial results with 2010 comparatives in accordance with IFRS. Provide MD&A disclosure of final changeover impacts.	Planned for completion in the first quarter of 2011

The transition to IFRS requires the Company to apply IFRS 1 which applies only at the time of changeover and includes a requirement for retrospective application of each IFRS standard. IFRS 1 also mandates certain exceptions to retrospective application and provides a series of optional exemptions from retrospective application to ease the transition to the full set of IFRSs.

IFRS mandatory exception

The mandatory IFRS 1 exception that is relevant to the Company relates to the use of estimates. Specifically, hindsight cannot be used to create or revise estimates previously made under Canadian GAAP ("CGAAP"), except where necessary to reflect any difference in accounting policies or where there is objective evidence that those estimates were in error.

IFRS 1 optional exemptions

Set forth below are the IFRS 1 optional exemptions that are relevant to the Company at January 1, 2010 (the "Transition Date")

- *Business combinations* - IFRS 1 provides the option to apply IFRS 3: Business Combinations, retrospectively or prospectively - either from the Transition Date or a particular date prior to the Transition Date. The Company has elected to apply IFRS 3 prospectively on business combinations that occur after transition date. Accordingly, business combinations prior to this date have not been restated.

- *Fair value of property, plant and equipment as deemed cost* – IFRS 1 includes an optional exemption for the Company to record property, plant and equipment at the date of transition at either i) fair value as deemed cost; or ii) its carrying value. This option can be applied separately to each asset or class of assets. The Company has elected to use a measure of deemed cost for all of its major categories of property, plant and equipment.

  This exemption is also available for intangible assets that meet the recognition and revaluation criteria. The Company is currently assessing whether its intangible assets meet the stated criteria and may elect this exemption if the requirements are met.

- *Employee benefits* - IFRS 1 provides the option to retrospectively apply International Accounting Standard (IAS) 19: Employee Benefits for the recognition of unamortized actuarial gains and losses, past service costs and transitional obligations and assets or to recognize these balances previously deferred under CGAAP in opening retained earnings at the transition date. The Company has elected to recognize all unamortized cumulative actuarial losses and past service costs at transition date as an adjustment to opening retained earnings for all of its employee benefit plans.

- *Share-based payment* – IFRS 1 provides an optional exemption to the application of IFRS 2: Share-based payment for those stock options granted subsequent to November 7, 2002 that have fully vested as at January 1, 2010. The Company has elected this exemption and will exclude all such stock options from the application of IFRS 2.

- *Borrowing costs* - IAS 23: Borrowing Costs requires an entity to capitalize borrowing costs related to all qualifying assets for which the commencement date for capitalization is on or after January 1, 2009. IFRS 1 permits all borrowing costs prior to its Transition Date to be expensed. The Company has elected to apply this exemption and will expense all borrowing costs on qualifying assets prior to January 1, 2010.

There are additional optional exemptions under IFRS 1; however, the Company does not expect any other exemptions to be significant to the Company's adoption of IFRS.

IFRS accounting policy decisions

While the conceptual framework of IFRS is similar to CGAAP, significant differences exist in certain matters of recognition, measurement and disclosure. The Company has identified specific areas where changes in accounting policies are expected to impact the Company's consolidated balance sheet and statement of

operations and deficit. The adoption of IFRS is not expected to have a material impact on the Company's cash flow from operations. The significant IFRS accounting policies the Company will apply upon adoption of IFRS are as follows:

i. *IAS 39 Transaction costs of financial instruments* – Under CGAAP, the Company chose to expense transaction costs in respect of long-term debt at the initial measurement date. IFRS, however, requires transaction costs of all financial instruments to be included in the initial measurement unless they are categorized at fair value through profit or loss. Accordingly, this will result in a decrease to long-term debt and an increase to shareholder's equity by approximately $19 million on January 1, 2010. The Company expects higher amortization of finance costs in future period subsequent to the date of transition to IFRS since the transaction costs are amortized over the term of the underlying financial instrument.

ii. *IAS 19 Employee benefits* – IAS 19 provides three options for recognizing actuarial gains or losses after the transition date: i) the corridor approach, which amortizes gains or losses outside the corridor over an amortization period; ii) adoption of a more systematic method that would result in faster recognition of the gains or losses in income; or iii) recognition of 100% of gains or losses in the period in which they occur in other comprehensive income. The Company has recorded 100% of the actuarial gains or losses in other comprehensive income, thereby allowing pension assets and liabilities to be reflected at their fair values. The election of IFRS 1 to clear all unamortized actuarial gains and losses against deficit results in an decrease to shareholders' equity of approximately $1.4 million on January 1, 2010.

   The Company currently makes solvency funding contributions to its pension plans to cover its solvency deficit. Based on the preliminary interpretation and application of IFRIC 14, management does not expect a material adjustment to its pension obligations and deficit arising from the application of IFRIC 14 as at January 1, 2010.

iii. *IAS 16 Property, plant and equipment* – Consistent with CGAAP, IFRS requires separable components of property, plant and equipment to be recognized initially at cost. Under IAS 16, an entity is required to choose to account for each class of property, plant and equipment, using either the cost model or the revaluation model. The cost model is generally consistent with CGAAP where an item of property, plant and equipment is carried at its cost less accumulated depreciation and accumulated impairment losses. Under the revaluation model an item of property, plant and equipment is carried at its revalued amount, being its fair value at the date of the revaluation less any accumulated depreciation and accumulated impairment losses. The Company expects to use the cost model to account for all classes of property, plant and equipment.

   When classifying capital leases (or "finance leases") under IFRS, more judgment is applied and additional qualitative indicators are used to determine lease classification due to the lack of quantitative threshold indicators as specified in CGAAP. After our review during the detailed assessment phase, the Company identified certain leases with classification differences between CGAAP and IFRS, which results in an increase to the carrying value of property, plant and equipment and lease obligations of approximately $0.6 million on January 1, 2010. The classification difference did not have a material impact to deficit. An IFRS exposure draft on leases was issued in August 2010, which if adopted, would result in all leases as well as all expected payments being recognized on the balance sheet, however, we are not expecting the new standard to be effective before the Company's changeover date.

   In addition, unlike CGAAP which is silent on these matters, IFRS specifically requires capitalization of major replacement costs, major inspection costs and borrowing costs of qualifying assets. Management is currently quantifying the effects of additional capitalization required and expects an increase in property, plant and equipment and a decrease to deficit as at January 1, 2010.

iv. *IAS 38 Intangible Assets* - IFRS 1 includes an optional exemption for the Company to record intangible assets at the date of transition at fair value as deemed cost if certain requirements were met. Management is continuing to assess whether the Company meets these requirements. If it is concluded that the Company does not qualify for the IFRS 1 deemed cost election for intangible assets, the pre-tax adjustment on January 1, 2010 would be to increase the deficit by approximately $60 million.

v. *IFRS 2 Share-based payment* – The Company issues stock-based awards in the form of stock options that vest evenly over a three-year period. Under CGAAP, Ainsworth recognizes the fair value of the award, determined at the time of the grant, on a straight-line basis over the vesting period. Under IFRS 2, the fair value of each tranche of the award is considered to be a separate grant based on the vesting period with the fair value of each tranche determined separately and recognized as compensation expense over the term of its respective vesting period. The use of the graded vesting model as required by IFRS results in an increase to contributed surplus and a decrease to deficit by approximately $82 thousand as at January 1, 2010. While the application of IFRS 2 resulted in a higher amount of each grant being recognized in operations at a faster rate under IFRS compared to CGAAP, there is no overall impact expected in the stock based compensation expense over the three year vesting period.

vi. *IAS 12 Income taxes* – The IFRS transitional adjustments as described above have a cumulative income tax impact to deficit of approximately $10 million on January 1, 2010. The application of differences in accounting for timber rights and transaction costs accounted for most of the tax impact.

Under CGAAP, an entity is required to present both current and long-term future income taxes on its balance sheet. Under IFRS, all future income taxes are presented as long-term. This presentation difference has no impact on deficit as at January 1, 2010.

vii. *IAS 36 Impairment of Assets* – Under CGAAP, for assets other than financial assets, an impairment loss is recognized if the undiscounted expected future cash flows from an asset are less than the carrying amount. IFRS, however, requires the recognition of an impairment loss if the recoverable amount, defined as the higher of the asset's fair value less costs to sell and its value in use, is less than the carrying amount. While CGAAP prohibits the reversals of impairment losses recognized in prior periods, IFRS requires such reversals to be recognized for assets other than goodwill if certain criteria are met. The accounting standard difference on impairment did not have an impact on the Company's reported results as at January 1, 2010 and for the year ended December 31, 2010. Whether or not this will have a material impact on the Company in future financial reporting periods depends on the facts at the time of each impairment test.

Quantified effects on consolidated statements of financial position

The following tables summarize by topic, the expected IFRS transition impacts on the Company's consolidated statements of financial position as at January 1 and December 31, 2010.

Consolidated statement of financial position – as at January 1, 2010 (unaudited):

(In '000s of Cdn dollars)	Notes	Total assets	Total Liabilities	Shareholders' Equity
Canadian GAAP		$ 846,245	$ 638,108	$ 208,137
IFRS adjustments				
Transaction costs	i	-	(19,103)	19,103
Pension	ii	-	1,375	(1,375)
Property, plant and equipment	iii	624	651	(27)
Intangible assets	iv	-	-	-
Taxes	vi	-	(10,222)	10,222
IFRS		$ 846,870	$ 610,809	$ 236,060

Consolidated statement of financial position – as at December 31, 2010 (unaudited):

(In '000s of Cdn dollars)	Notes	Total assets	Total Liabilities	Shareholders' Equity
Canadian GAAP		$ 811,130	$ 592,346	$ 218,784
IFRS adjustments				
Transaction costs	i	-	(15,993)	15,993
Pension	ii	(11,763)	642	(12,406)
Property, plant and equipment	iii	296	319	(23)
Intangible assets	iv	-	-	-
Taxes	vi	-	(11,019)	11,019
IFRS		$ 799,663	$ 566,295	$ 233,367

Reconciliation of Net Income and Shareholders' Equity

The following tables provides a reconciliation of net income for the year ended December 31, 2010 as well as the CGAAP to IFRS adjustments to shareholders' equity on January 1 and December 31, 2010 .

Reconciliation of Net Income – Year ended December 31, 2010 (unaudited):

(In '000s of Cdn dollars)	Notes		Year ended December 31, 2010
Net Income per Canadian GAAP		$	9,440
IFRS adjustments			
Transaction costs	i		(2,927)
Property, plant and equipment	iii		5
Intangible assets	iv		-
Stock-based compensation	v		(254)
Taxes	vi		797
IFRS		$	7,061

Reconciliation of Shareholders' Equity – As at January 1 and December 31, 2010 (unaudited):

		December 31, 2010				January 1, 2010		
(In '000s of Cdn dollars)	Notes	Capital Stock	Contributed Surplus	Deficit	Total Shareholders' Equity	Capital Stock	Contributed Surplus	Deficit
Canadian GAAP		$ 410,950	$ 1,013	$ (193,179)	$ 218,784	$ 409,880	$ 876	$ (202,619)
IFRS adjustments								
Transaction costs	i	-	-	15,993	15,993	-	-	19,103
Pension	ii	-	-	(12,406)	(12,406)	-	-	(1,375)
Property, plant and equipment	iii	-	-	(23)	(23)	-	-	(27)
Intangible assets	iv	-	-	-	-	-	-	-
Stock-based compensation	v	-	320	(320)	-	-	82	(82)
Taxes	vi	-	-	11,019	11,019	-	-	10,222
IFRS		$ 410,950	$ 1,333	$ (178,915)	$ 233,367	$ 409,880	$ 958	$ (174,778)

The amounts presented in the tables above were prepared using the procedures and assumptions that the Company is following in preparing its opening balance sheet upon adoption of IFRS. While IFRS adjustments that are mandatory at the changeover date have been finalized, the IASB's work plan currently has projects underway that are expected to result in new pronouncements that continue to evolve IFRS. Standards undergoing potential changes relevant to the Company include the following:

- IAS 12 *Income Tax* - The IASB is expected to review standard for income taxes and develop proposals for changes. While the existing IAS 12 standard is applicable to the Company's transition, any near-term projects initiated for income taxes will be monitored and identified in assessing potential future impacts.

- IAS 19 *Employee Benefits* – The April 2010 exposure draft issued by the IASB proposes to eliminate the corridor method for recognition of actuarial gains or losses. The Company's elected accounting policy choice of recognizing ongoing actuarial gains or losses in OCI is consistent with this exposure draft. The exposure draft also proposes improvements to the recognition, presentation and

disclosures of defined benefit plans for finalization expected in mid-2011, with an unknown effective date for the Company.

- IAS 17 *Leases* - The IASB issued an exposure draft in August 2010 with an aim to develop a new single approach to lease accounting that would ensure that all assets and liabilities arising under lease contracts are recognized in the statement of financial position (balance sheet). Review and finalization of the proposed change is expected in mid-2011, with an unknown effective date for the Company.

AINSWORTH LUMBER CO. LTD.

Other Information

Unaudited

	December 31, 2010	December 31, 2009
Selected Financial Data ($000's)		
Cash, cash equivalents and restricted cash	**$ 67,577**	$ 92,075
Short-term investments	**59,413**	61,654
Adjusted working capital (Note 1)	**134,574**	163,776
Total assets	**811,130**	846,245
Total long-term debt	**523,541**	561,325
Shareholders' equity	**218,784**	208,137

	Three months ended December 31		Year ended December 31	
	2010	2009	**2010**	2009
Geographic Sales Distribution ($000's)				
North America	**$ 48,841**	$ 58,426	**$ 280,693**	$ 250,458
Overseas	**6,133**	8,695	**48,793**	35,457
	$ 54,974	$ 67,121	**$ 329,486**	$ 285,915
Shipment Volumes (msf - 3/8 inch)	**285,881**	361,598	**1,456,986**	1,546,825

	2010	Q4-10	Q3 - 10	Q2-10	Q1-10	2009	Q4-09	Q3-09	Q2-09	Q1-09
Reconciliation of Net Income (Loss) to Adjusted EBITDA (in millions)										
Net Income (Loss) from Continuing Operations	**$ 10.3**	**$ 1.8**	$ 10.1	$ (17.3)	$ 15.7	$ 15.9	$ (2.2)	$ 22.3	$ 29.8	$ (34.0)
Add:										
Amortization of capital assets	**29.3**	**5.5**	6.0	8.9	9.0	36.2	7.9	9.8	9.9	8.6
Gain on disposal of capital assets	**(0.4)**	**-**	(0.4)	-	-	(0.8)	-	-	(0.3)	(0.5)
Write-down of property, plant and equipment	**-**	**-**	-	-	-	2.2	2.2	-	-	-
Cost of curtailed operations	**2.2**	**0.4**	-	0.5	1.3	2.6	1.4	0.4	0.5	0.3
Stock option expense	**0.5**	**0.2**	0.1	0.1	0.1	0.9	0.1	0.1	0.7	-
(Net proceeds) cost of lawsuits	**(1.1)**	**-**	-	-	(1.1)	(4.5)	-	-	(6.5)	2.0
Cost related to potential acquisition	**-**	**-**	-	-	-	0.5	-	0.4	0.1	-
Finance expense	**49.5**	**12.1**	12.6	12.2	12.6	53.0	12.3	12.8	13.4	14.5
Income tax expense (recovery)	**0.6**	**(4.6)**	(2.4)	7.2	0.4	(20.4)	(9.0)	0.1	(2.0)	(9.4)
Foreign exchange loss (gain) on long-term debt	**(30.4)**	**(18.2)**	(17.7)	24.8	(19.3)	(87.1)	(10.6)	(47.8)	(50.4)	21.7
(Gain) Loss on derivative financial asset	**(6.2)**	**(0.8)**	0.3	(0.7)	(5.0)	-	-	-	-	-
Other	**(0.6)**	**(0.2)**	0.2	(1.7)	1.1	6.7	0.3	4.5	3.9	(2.1)
Adjusted EBITDA (Note 2)	**$ 53.7**	**$ (3.8)**	$ 8.8	$ 34.0	$ 14.8	$ 5.2	$ 2.4	$ 2.6	$ (0.9)	$ 1.1

Note 1: Adjusted working capital is a non-GAAP financial measure defined as working capital 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 (exclusive of amortization) and selling and administrative expense plus other income.

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 facilities include an oriented strand board (OSB) plant at Grande Prairie and High Level. In British Columbia, the Company's facilities include an OSB plant at 100 Mile House. In Ontario, the Company's facilities include an OSB plant at Barwick. As at February 25, 2011, the Company's facilities have a total annual capacity of 2.5 billion square feet (3/8-inch basis) of OSB.

Ainsworth Lumber Co. Ltd.
Suite 3194, Bentall 4
P.O. Box 49307
1055 Dunsmuir Street
Vancouver, B.C. V7X 1L3
Telephone: 604-661-3200

Contact:

Chris Davies
Chief Financial Officer
Telephone: 604-661-3200
Facsimile: 604-661-3201
E-mail: chris.davies@ainsworth.ca

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

Visit our web-site: www.ainsworthengineered.com

Auditors' Report and Consolidated Financial Statements of

AINSWORTH LUMBER CO. LTD.

December 31, 2010 and December 31, 2009

Independent Auditor's Report

To the Shareholders of Ainsworth Lumber Co. Ltd.

We have audited the accompanying consolidated financial statements of Ainsworth Lumber Co. Ltd., which comprise the consolidated balance sheets as at December 31, 2010 and 2009, and the consolidated statements of operations, comprehensive income (loss), changes in shareholders' equity (deficiency) and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Ainsworth as at December 31, 2010 and 2009 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

/s/ Deloitte & Touche LLP

Chartered Accountants
February 25, 2011
Vancouver, Canada

AINSWORTH LUMBER CO. LTD.

Consolidated Balance Sheets

(In thousands of Canadian dollars)

		December 31 2010		December 31 2009
ASSETS				
Current Assets				
Cash and cash equivalents (Note 2)	**$**	**67,577**	$	92,075
Short-term investments		**59,413**		61,654
Accounts receivable		**15,537**		13,730
Inventories (Note 4)		**39,400**		39,182
Income taxes receivable		**-**		509
Prepaid expenses		**6,557**		4,429
Assets held for disposal (Note 5)		**7**		1,868
		188,491		213,447
Property, Plant and Equipment (Note 6)		**525,707**		538,787
Intangible Assets (Note 7)		**78,519**		75,602
Other Assets		**11,371**		11,276
Assets Held for Disposal (Note 5)		**7,042**		7,133
		811,130	$	846,245
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current Liabilities				
Accounts payable and accrued liabilities	**$**	**24,833**	$	23,475
Income taxes payable		**1,302**		-
Current portion of future income tax liabilities (Note 23)		**5,324**		7,649
Current portion of long-term debt (Note 9)		**22,107**		10,743
Liabilities related to assets held for disposal (Note 5)		**834**		5,009
		54,400		46,876
Accrued Pension Benefit Liability (Note 24)		**-**		2,484
Reforestation Obligation (Note 10)		**2,076**		2,072
Long-term Debt (Note 9)		**501,434**		550,582
Future Income Tax Liabilities (Note 23)		**33,400**		35,209
Liabilities Related to Assets Held for Disposal (Note 5)		**1,036**		885
		592,346		638,108
Commitments and Guarantees (Notes 11 and 29)				
Contingencies (Note 12)				
SHAREHOLDERS' EQUITY				
Capital Stock (Note 13)		**410,950**		409,880
Contributed Surplus		**1,013**		876
Deficit		**(193,179)**		(202,619)
		218,784		208,137
		811,130	$	846,245

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

Approved by the Board:

/s/ Peter Gordon — **DIRECTOR**

/s/ Gordon Lancaster — **DIRECTOR**

AINSWORTH LUMBER CO. LTD.

Consolidated Statements of Operations

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

		Year ended December 31 2010		Year ended December 31 2009
Sales	**$**	**329,486**	$	285,915
Costs and Expenses				
Costs of products sold		**259,555**		263,131
Selling and administration		**18,590**		19,717
Amortization of property, plant and equipment and intangible assets (Note 15)		**29,302**		36,268
		307,447		319,116
Income (Loss) before other items		**22,039**		(33,201)
Finance expense (Note 16)		**(49,502)**		(53,061)
Foreign exchange gain (Note 17)		**28,965**		80,623
Gain on derivative financial instrument (Note 22)		**6,234**		-
Costs of curtailed operations (Note 18)		**(2,108)**		(2,532)
Other items (Note 19)		**5,275**		3,756
Income (Loss) before income taxes		**10,903**		(4,415)
Income tax expense (recovery) (Note 23)		**597**		(20,322)
Net income from continuing operations		**10,306**		15,907
Net loss from discontinued operations (Note 5)		**(866)**		(37,542)
Net income (loss)	**$**	**9,440**		(21,635)
Basic and diluted net income (loss) per common share (Note 13):				
Continuing operations	**$**	**0.10**	$	0.16
Discontinued operations		**(0.01)**		(0.38)
Basic and diluted net income (loss) per common share	**$**	**0.09**	$	(0.22)
Weighted average number of common shares outstanding		**100,252,341**		100,013,151
Effect of dilutive stock options on continuing operations		**412,233**		61,375
		100,664,574		100,074,526

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

AINSWORTH LUMBER CO. LTD.

Consolidated Statements of Comprehensive Income (Loss)

(In thousands of Canadian dollars)

	Year ended December 31 2010	Year ended December 31 2009
Net Income (Loss)	**$ 9,440**	$ (21,635)
Other Comprehensive Income (Loss)		
Realized currency translation adjustment on disposal of foreign operations	**-**	2,478
Comprehensive Income (Loss)	**$ 9,440**	$ (19,157)

Consolidated Statements of Changes in Shareholders' Equity

(In thousands of Canadian dollars)

	Year ended December 31 2010	Year ended December 31 2009
Capital Stock		
Beginning of period	**$ 409,880**	$ 409,613
Capital stock issued in the year (Note 14)	**1,070**	267
	410,950	409,880
Contributed Surplus		
Beginning of period	**$ 876**	$ -
Fair value of stock options recorded in the year (Note 14)	**508**	968
Stock options exercised in the year (Note 14)	**(371)**	(92)
	1,013	876
Deficit		
Beginning of period	**(202,619)**	(180,984)
Net income (loss)	**9,440**	(21,635)
	(193,179)	(202,619)
Accumulated Other Comprehensive Loss on Translation of Self-Sustaining Foreign Operations		
Beginning of period	**-**	(2,478)
Realized currency translation adjustment on disposal of foreign operations in the period	**-**	2,478
	-	-
Total Deficit and Accumulated Other Comprehensive Loss	**(193,179)**	(202,619)
Total Shareholders' Equity	**$ 218,784**	$ 208,137

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)

		Year ended December 31 2010		Year ended December 31 2009
CASH FLOWS USED IN OPERATING ACTIVITIES				
Net income (loss)	**$**	**9,440**	$	(21,635)
Items not affecting cash				
Amortization of property, plant and equipment and intangible assets		**29,302**		36,268
Non-cash portion of interest expense (Note 16)		**18,351**		19,684
Non-cash stock based compensation (Note 14)		**508**		968
Foreign exchange gain on long-term debt (Note 17)		**(30,368)**		(87,141)
Gain on derivative financial instrument (Note 22)		**(6,234)**		-
Gain on disposal of property, plant and equipment		**(470)**		(3,382)
Write-down of long-term wood deposits		**648**		-
Impairment of property, plant and equipment		**-**		2,152
Impairment of property, plant and equipment held for sale		**-**		25,391
Impairment of other assets of discontinued operations		**-**		207
Change in non-current reforestation obligation		**4**		(167)
Future income taxes		**(4,134)**		(23,593)
Adjustment to accrued pension benefit liability		**(3,651)**		(3,276)
Other		**(1,373)**		5,308
		12,023		(49,216)
Change in non-cash operating working capital (Note 27)		**(5,250)**		13,965
Cash provided by (used in) operating activities		**6,773**		(35,251)
CASH FLOWS USED IN FINANCING ACTIVITIES				
Reduction in long-term debt		**(23,503)**		(10,326)
Exercise of stock-options (Note 14)		**700**		174
Repayment of capital lease obligations		**(362)**		(377)
Cash used in financing activities		**(23,165)**		(10,529)
CASH FLOWS USED IN INVESTING ACTIVITIES				
Short-term investments		**2,241**		(60,068)
Additions to property, plant and equipment		**(10,186)**		(6,838)
Proceeds on disposal of property, plant and equipment		**612**		8,870
Decrease (increase) in other assets		**(243)**		3,271
Cash used in investing activities		**(7,576)**		(54,765)
Effect of foreign exchange rate changes on cash and cash equivalents		**(530)**		(5,308)
NET CASH OUTFLOW		**(24,498)**		(105,853)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR		**92,075**		197,928
CASH AND CASH EQUIVALENTS, END OF YEAR	**$**	**67,577**	$	92,075
Cash and cash equivalents		**56,736**		81,631
Restricted cash		**10,841**		10,444
	$	**67,577**	$	92,075
SUPPLEMENTAL INFORMATION				
Taxes paid		**23**		112
Interest paid		**31,218**		31,764

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

1. BASIS OF CONSOLIDATION

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, 0737562 B.C. Ltd., 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 30) on a proportionate consolidation basis.

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 new common 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 new common shares 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.

2. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of the Company have been reported in Canadian dollars in accordance with Canadian GAAP. The significant accounting policies are:

(a) 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.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Prior to December 31, 2008, 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 exchange rate 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 were classified as a separate component of shareholders' equity until the related net investments were disposed as at December 31, 2009.

(b) 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, other assets, valuation of intangible assets, reforestation obligations, employee benefit plans, future income tax assets and liabilities and management's estimates of capital requirements and liquidity.

(c) 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. Also included is restricted cash of $10.8 million (December 31, 2009: $10.4 million). Restricted cash is held in a separate account as collateral for the $10.8 million (December 31, 2009: $10.4 million) outstanding letters of credit to support the Company's ongoing business operations. The Company can issue up to $15.0 million in letters of credit using the same collateral agreement.

The Company had an unutilized U.S.$2.5 million future foreign exchange contract credit facility at December 31, 2010 which, if utilized, would be secured by cash collateral.

(d) Short-term investments

Short-term investments consist of redeemable investments with market values closely approximating book values and maturities greater than three months at the time of purchase.

(e) 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.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Property, plant and equipment

Property, plant and equipment are stated at cost, including interest incurred for major projects during the period of construction, costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management, 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.

Oriented strand board ("OSB") facilities are amortized on the units-of-production method based on the estimated useful life of the assets at normal production levels over 25 years. 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	15%-20%
Office equipment	15%

Assets under capital leases are amortized on a straight line basis over the term of the lease. 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.

(g) Intangible assets

Intangible assets consist of timber rights. The assets are initially recorded at cost. Non-renewable pulpwood agreements are amortized over the life of the agreement, and the remaining assets are amortized on the basis of the volume of timber cut. The Company reviews useful lives and carrying values of its intangible assets if events or changes in circumstances indicate that their carrying amount may not be recoverable. When the carrying amount of the intangible assets exceeds their fair value, an impairment loss is recognized in an amount equal to the excess.

(h) *Other assets*

Other assets consist primarily of long-term advances and deposits which are recorded at cost.

(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.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) 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.

(k) Reforestation obligation

Timber is harvested under various licenses issued by the Provinces of British Columbia and Alberta, which include future requirements for reforestation. The fair value of 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, fair value being the present value of estimated future cash flows using a credit adjusted risk free rate. Subsequent changes to fair value resulting from the passage of time and revisions to fair value calculations are recognized into income as they occur.

(l) Revenue recognition

Revenue is recognized when persuasive evidence of an arrangement exists, the delivery of goods has occurred, the price to the buyer is fixed or determinable and collection is reasonably assured. Freight costs are included in cost of products sold.

(m) 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.

(n) 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.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(o) Earnings (loss) per share

Basic earnings (loss) per share is calculated by dividing net income by the weighted average number of voting common shares outstanding during the period. Diluted earnings (loss) 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. Under this method, the proceeds from the exercise of the options are assumed to be used to repurchase the Company's shares on the open market. The difference between the number of shares assumed purchased and the number of options assumed exercised is added to the actual number of shares outstanding to determine diluted shares outstanding for purposes of calculating diluted earnings per share. Therefore, the number of shares in the diluted earnings per share calculation will increase as the average share price increases.

(p) 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 expected return on plan assets is based on the fair value of plan assets. When a transaction gives rise to both a settlement and a curtailment resulting in a gain or loss, the curtailment is accounted for prior to the settlement.

Effective April 1, 2010, all new Canadian employees have been enrolled into a Canadian defined contribution plan. Payments to the defined contribution plan are expensed as incurred, which is as the related employee service is rendered.

(q) 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.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(r) Financial instruments

The Company classifies its cash and cash equivalents as assets held for trading which are measured at fair market value with gains and losses included in net income in the period in which they arise. Short-term investments are classified as assets available for sale which are measured at fair market value with gains and losses included in other comprehensive income in the period in which they arise. Accounts receivable and long-term advances are classified as loans and receivables which are accounted for at amortized cost. Accounts payable and accrued liabilities, long-term debt and other liabilities are measured at amortized cost. The Company measures derivatives and embedded derivatives at fair value and has not elected to use hedge accounting.

Financial instruments recognized at fair value are classified in fair value hierarchy levels as follows:

- Level 1 – valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 – valuation techniques based on inputs that are other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (prices) or indirectly (derived from prices);
- Level 3 – valuation techniques with unobservable market inputs (involves assumptions and estimates by management of how market participants would price the assets or liabilities).

The Company has not designated any financial instruments as held to maturity.

3. ACCOUNTING STANDARDS DEVELOPMENTS

International Financial Reporting Standards. The Company has adopted International Financial Reporting Standards effective January 1, 2011.

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:

		2010		2009
Logs	**$**	**11,429**	$	12,046
Panel products		**10,740**		9,786
Materials, supplies and spares		**17,231**		17,350
	$	**39,400**	$	39,182

Inventory (write-downs) recoveries of carrying value were recorded as follows:

		2010		2009
Log inventory	**$**	**(123)**	$	1,108
Panel inventory		**(288)**		111

All inventories are pledged as security for loans.

5. LONG-LIVED ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

During 2009, the Company completed sales of its Minnesota OSB mills and its specialty plywood business. The resulting net gains (losses) have been included in net loss from discontinued operations. Liabilities relate to costs associated with terminating the Minnesota defined benefit pension plan and settling outstanding employee claims.

In the fourth quarter of 2009, management committed to a plan to sell the Company's airplane. During 2010, the Company continued to market the airplane. As a result, the plane remains classified as held for sale as at December 31, 2010 and 2009.

The following table presents selected financial information related to discontinued operations:

		2010		2009
ASSETS				
Current Assets of Discontinued Operations				
Accounts receivable	**$**	**-**	$	819
Inventories		**-**		262
Income taxes receivable		**7**		557
Prepaid expenses		**-**		230
		7		1,868
Property, Plant and Equipment		**-**		91
Property, Plant and Equipment Under Lease and Held for Sale		**7,042**		7,042
		7,042		7,133
Total Assets Held for Disposal	**$**	**7,049**	$	9,001
LIABILITIES				
Current Liabilities of Discontinued Operations				
Accounts payable and accrued liabilities	**$**	**834**	$	5,009
Accrued Pension Benefit Liability [(1)]		**1,036**		885
Total Liabilities Held for Disposal	**$**	**1,870**	$	5,894

		2010		2009
Sales	**$**	**426**	$	29,093
Impairment of Property, Plant and Equipment		**-**		25,391
Impairment of Other Assets		**10**		5,762
Gain on Disposal of Property, Plant and Equipment		**(85)**		(2,688)
Loss Before Income Taxes		**918**		42,705
Income Tax (Recovery)		**(52)**		-
Net Loss from Discontinued Operations	**$**	**(866)**	$	(37,542)

(1) During the year, the Company took out a letter of credit in the amount of $1.1 million USD to mitigate possible future liabilities to the members of the Minnesota plan upon termination of the defined benefit pension plan. The Company intends to wind up the Minnesota plan with an expected termination date in 2014.

6. PROPERTY, PLANT AND EQUIPMENT

				2010
		Cost	**Accumulated Amortization**	**Net Book Value**
Panel product mills		**$ 537,834**	**$ 65,088**	**$ 472,746**
Land		**3,849**	**-**	**3,849**
Construction in progress		**47,803**	**-**	**47,803**
Logging roads		**681**	**220**	**461**
Other		**1,404**	**556**	**848**
		$ 591,571	**$ 65,864**	**$ 525,707**

			2009
	Cost	Accumulated Amortization	Net Book Value
Panel product mills	$ 525,939	$ 41,831	$ 484,108
Land	3,849	-	3,849
Construction in progress	50,071	-	50,071
Logging roads	593	102	491
Other	333	65	268
	$ 580,785	$ 41,998	$ 538,787

No interest has been capitalized in construction in progress.

Effective July 1, 2010, the Company increased the remaining useful lives of the OSB facilities from 15 to 25 years based on a revised estimate of the expected units of production. The impact of this change has been applied prospectively as a change in an estimate and resulted in a reduction of $5.7 million in amortization for 2010.

7. INTANGIBLE ASSETS

Intangible assets consist of timber rights. The following table provides details of cost, accumulated amortization and net book value:

	2010	2009
Cost	**$ 86,023**	$ 78,841
Accumulated amortization	**7,504**	3,239
Net book value	**$ 78,519**	$ 75,602

During the year ended December 31, 2010, management decided to utilize certain timber rights for current production. While these timber rights can be utilized for the companion operating mill in Grande Prairie, they were originally intended to be used for the second production line at Grande Prairie. As the Company has not re-commenced construction of the second line, the unamortized balance of $7.0 million has been re-classified from long term deposits to intangible assets and will be amortized as the volume of timber is cut.

Effective July 1, 2010, the Company began amortizing certain non-renewable pulpwood agreements over the remaining life of the agreements rather than based on the volume of timber harvested. Given the decline in log prices, it is expected that volume harvested under these agreements will be lower than originally anticipated. The impact of this change has been applied prospectively as a change in an estimate and resulted in an increase of $1.3 million in depreciation for 2010.

8. THE HIGH LEVEL PROJECT

The Company jointly owns 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-owner in such assets. The agreement includes certain buy-sell provisions. Subsequent to year end, the Company purchased the co-owner's 50% interest in the High Level facility for $20 million (Note 30).

Production at the High Level facility was curtailed in December 2007 and the facility did not operate in 2010 or 2009. Production is allocated to the respective owners at cost. Each respective owner then sells its respective production to third parties. This venture does not currently generate revenue or net income and as a result the Company's proportionate share of operating, financing, and investing cash flows are not disclosed.

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:

		2010		2009
Assets				
Cash	**$**	**51**	$	18
Accounts receivable		**464**		148
Inventories		**4,862**		4,866
Prepaid expenses		**2,453**		2,869
Property, plant and equipment		**48,616**		49,337
Intangible assets		**15,762**		15,762
Liabilities				
Accounts payable and accrued liabilities		**975**		1,314

By agreement between the Company and the co-owner, if the co-owner does not pay its share of accounts payable and accrued liabilities, the Company may pay such amounts and recover them from the co-owner's share of production. The co-owner's share of accounts payable and accrued liabilities as at December 31, 2010 is $1.0 million (December 31, 2009: $1.3 million). The co-owner filed for CCAA protection in Ontario on June 25, 2009. At December 31, 2010, the co-owner had met all of its obligations to the joint venture.

9. LONG-TERM DEBT

		2010		2009
U.S. $379,260 (December 31, 2009: U.S.$375,431) Senior Unsecured Notes due July 29, 2015 with cash interest payable semi-annually at 6% per annum and 5% payment-in-kind interest per annum due at maturity	**$**	**377,212**	$	394,579
U.S.$102,637 (December 31, 2009: 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%		**102,083**		107,872
U.S.$20,162 (December 31, 2009: U.S.$28,227) equipment financing loan due October 1, 2011 with principal and interest payable monthly at LIBOR plus 2.90% per annum		**20,053**		29,667
€6,939 (December 31, 2009: €8,201) equipment financing loan due December 20, 2016 with interest payable semi-annually at EURIBOR plus 0.65% per annum		**9,243**		12,339
U.S.$8,870 (December 31, 2009: U.S.$9,220) capital lease obligation maturing May 29, 2025 with interest at 6.81%		**8,822**		9,689
		517,413		554,146
Consent fees		**(860)**		(1,007)
Unamortized deferred debt premium		**6,988**		8,186
		523,541		561,325
Current portion		**(22,107)**		(10,743)
	$	**501,434**	$	550,582

The Company's term loan of $102.1 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 4.0% or at LIBOR plus 5.0%. Interest at the base rate plus 4.0%, which is derived from the prime rate and the federal funds effective rate, is payable quarterly. Interest at LIBOR plus 5.0% 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, 2010 the Company elected to pay monthly interest at LIBOR plus 5.0%. 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:

2011	$	22,107
2012		2,080
2013		2,108
2014		104,221
2015		476,925
And thereafter		7,516
	$	614,957

10. REFORESTATION OBLIGATION

The Company's reforestation obligations are as follows:

		2010		2009
Current portion, included in accounts payable and accrued liabilities	**$**	**426**	$	297
Long-term portion		**2,076**		2,072
	$	**2,502**	$	2,369

		2010		2009
Balance, beginning of year	**$**	**2,369**	$	2,525
Expense		**405**		266
Fair value adjustment		**12**		-
Paid during the year		**(284)**		(422)
	$	**2,502**	$	2,369

11. 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 classified as held for sale as follows:

		Operating Leases		Capital Lease
2011	$	993	$	962
2012		780		962
2013		766		962
2014		742		962
2015		360		962
Total minimum lease payments	$	3,641	$	4,810
Imputed interest (6.81%)				(2,665)
Capital lease obligation			$	2,145

The Company has entered into agreements to purchase certain machinery, equipment and engineering services totaling approximately $0.9 million (December 31, 2009: $4.2 million).

The Company provides a limited product warranty to purchasers of its products. The Company cannot estimate the amounts of future payments, if any, under its product warranties unless and until events arise that could result in a claim.

12. 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, 2010 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.

13. CAPITAL STOCK AND WARRANTS

(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:

		2010				2009
	Shares	**Warrants**	**Amount**	Shares	Warrants	Amount
Outstanding, beginning of year	**90,005,712**	**18,789,922**	**$ 409,880**	89,905,712	18,789,922	$ 368,265
Stock options exercised (Note 14)	**402,222**	**-**	**1,070**	100,000	-	267
Noteholder warrants exercised	**10,094,288**	**(10,094,288)**	**-**	-	-	41,348
Outstanding, end of year	**100,502,222**	**8,695,634**	**$ 410,950**	90,005,712	18,789,922	$ 409,880

The shareholder warrants shall be deemed to be exercised and shall be converted without additional consideration into equal number of 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.

On May 11, 2010, Brookfield Special Situations II (OSB) L.P. ("BSS") acquired 14,905,712 common shares and warrants to acquire 10,094,288 common shares of Ainsworth in a privately negotiated transaction. These warrants were subsequently converted into common shares. As a result, BSS holds approximately 53.5% of the issued and outstanding common shares of Ainsworth on a fully diluted basis.

13. CAPITAL STOCK AND WARRANTS (Continued)

(b) *Earnings per share*

The shareholder warrants were not included in the computation of diluted earnings (loss) per share because to do so would have been anti-dilutive for the periods presented.

At December 31, 2010 there were 1,816,324 (December 31, 2009: 1,022,222) stock options which were not taken into account in the calculation of diluted earnings per share for each period presented because their effect was anti-dilutive.

		2010		2009
Net income (loss) from continuing operations	$	10,306	$	15,907
Net income (loss) from discontinued operations		(866)		(37,542)
Net income (loss)	$	9,440	$	(21,635)
Weighted average common shares outstanding		100,252,341		100,013,151
Dilutive effect of stock options		412,233		61,375
		100,664,574		100,074,526
Basic and diluted earnings (loss) per share:				
Continuing operations	$	0.10	$	0.16
Discontinued operations		(0.01)		(0.38)
Net income (loss)	$	0.09	$	(0.22)

14. STOCK-BASED COMPENSATION

The Company has a single stock option plan designed to provide equity-based compensation to directors, executives and key senior management. The plan provides for the issuance of options to acquire a maximum of 9,000,000 common shares with terms of up to 10 years. The fair value of options granted is calculated using the Black-Scholes model on the date of grant. Adoption of the plan was approved by the Company's shareholders on May 13, 2009.

The table below outlines the significant assumptions used during the period to estimate the fair value of options granted:

	2010	2009
Weighted average assumptions:		
Risk-free interest rate	3.06%	2.98%
Expected volatility	51%	40%
Dividend yield	-	-
Expected option life (years)	4.00	9.41

14. STOCK-BASED COMPENSATION (Continued)

The table below outlines the status of the Company's stock option plan:

		2010			2009		
		Number of Options		**Weighted Average Exercise Price**	Number of Shares		Weighted Average Exercise Price
Stock options at beginning of the year		**1,252,222**	**$**	**1.56**	-	$	-
Stock options granted during the year		**1,231,234**		**2.69**	1,352,222		1.57
Stock options exercised during the year (a)		**(402,222)**		**1.74**	(100,000)		1.74
Stock options forfeited during the year		**(102,558)**		**3.42**	-		-
Stock options outstanding at end of the year		**1,978,676**	**$**	**2.13**	1,252,222	$	1.56
Options exercisable at year end		**583,333**			985,555		
Weighted average fair value per option during the year	**$**	**1.03**			$ 0.94		

(a) During the year ended December 31, 2010, $1.1 million was credited to capital stock with respect to stock options that were exercised. This includes $700 consideration received on exercise, plus $370 representing the vested fair value of the stock options.

During the year ended December 31, 2009, $267 was credited to capital stock with respect to stock options that were exercised. This included $174 consideration received on exercise date, plus $92 representing the vested fair value of the stock options.

(b) During the year ended December 31, 2010, $14 (December 31, 2009: $nil) was reversed from contributed surplus with respect to unvested options forfeited .

The following table summarizes the weighted average exercise prices and weighted average remaining contractual life of the stock options outstanding at December 31, 2010:

					Options Exercisable		
Range of Exercise Prices	**Number Outstanding at 12/31/2010**	**Weighted Average Remaining Contractual Life**		**Weighted Average Exercise Price**	**Number Exercisable at 12/31/2010**		**Weighted Average Exercise Price**
$0 - 2	850,000	8.28	$	1.47	583,333	$	1.62
2 - 4	1,006,300	9.47		2.41	-		-
4 - 6	122,376	9.63		4.34	-		-
	1,978,676	8.97	$	2.13	583,333	$	1.62

The table below outlines the Company's stock based compensation expense:

		2010		2009
Stock-based compensation expense	**$**	**508**	$	968

15. AMORTIZATION OF PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

		2010		2009
Amortization expense for the period:				
Property, plant and equipment	**$**	**24,515**	$	31,091
Logging roads		**244**		235
Asset under capital lease		**-**		495
		24,759		31,821
Timber rights		**4,543**		4,447
	$	**29,302**	$	36,268

16. FINANCE EXPENSE

		2010		2009
Cash interest	**$**	**(31,151)**	$	(33,377)
Payment-in-kind interest		**(19,403)**		(20,636)
Amortization of bond premium and consent fees		**1,052**		952
	$	**(49,502)**	$	(53,061)

17. FOREIGN EXCHANGE GAIN (LOSS)

		2010		2009
Foreign exchange gain on long-term debt	**$**	**30,368**	$	87,141
Other foreign exchange loss		**(1,403)**		(6,518)
	$	**28,965**	$	80,623

18. COSTS OF CURTAILED OPERATIONS

Costs of curtailed operations includes costs associated with the High Level OSB facility as well as costs associated with the Grande Prairie expansion.

19. OTHER ITEMS

		2010		2009
Gain on disposal of property, plant and equipment (Note 20)	**$**	**409**	$	862
Write-down of property, plant and equipment		**-**		(2,152)
Net legal proceeds (Note 21)		**1,149**		4,435
Other income		**3,717**		611
	$	**5,275**	$	3,756

20. GAIN ON DISPOSAL OF PROPERTY, PLANT AND EQUIPMENT

In the third quarter of 2010, the Company recorded a gain of $373 on the sale of excess equipment.

In 2009, the Company recorded gains of $535 for insurance claims receivable to replace equipment damaged as a result of fire and an equipment malfunction and $450 on the sale of a forest license to harvest pine beetle killed timber.

21. LEGAL SETTLEMENT

During the first quarter of 2010, the Company reached a settlement of claim relating to a dispute over discrepancies in the pricing calculation outlined in a chip agreement.

In 2009, the Company settled a claim against Potlatch Corporation ("Potlatch") for $6.7 million (U.S.$5.75 million) relating to the reimbursement of repair and related costs at the three Minnesota mills purchased from Potlatch in 2004.

22. GAIN ON DERIVATIVE FINANCIAL INSTRUMENT

The Company has a derivative financial instrument related to the call options embedded in the Senior Unsecured Notes, whereby the Company has the right to repurchase the Notes. Changes in the value of this derivative are reflected in operations and within other assets on the balance sheet. The Company engaged an independent third party expert to perform a valuation of the call options, using an Option-Adjusted-Spread ("OAS") model, specifically the Hull and White single factor interest rate term structure model. Changes in the risk-free rate, the credit spread and cash interest rate resulted in a gain on the derivative financial asset for the year ended December 31, 2010 of $6.2 million (December 31, 2009: $nil).

The table below outlines the significant assumptions used during the period to estimate the fair value of the derivative financial instrument:

		2010
Hull-White model assumptions:		
Short-rate volatility		1.174%
Mean reversion constant		0.005%
Indicative market price	$	0.93
Implied credit spread		10.40%

23. INCOME TAXES

During the second quarter of 2010, as a result of a change in shareholdings, a change of control occurred for tax purposes, resulting in the expiry of certain previously recognized tax assets and certain unrecognized net capital losses. Certain permanent differences, such as the non-taxable portion of the foreign exchange (loss) gain on debt and the expected reversal of certain future income tax assets and liabilities at lower effected tax rates also impacted the resulting income tax expense or recovery.

Tax filings resulting from the change in control 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.

23. INCOME TAXES (Continued)

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

		2010	%		2009	%
Income tax (recovery) expense at statutory rate	$	3,094	28	$	(1,317)	30
Non-taxable foreign exchange loss (gain) on long-term debt		(4,198)	(39)		(13,987)	317
Reduction in statutory income tax rates		(845)	(8)		(1,104)	25
Valuation allowance		(428)	(4)		(960)	22
Other		2,974	27		(2,954)	67
Tax expense (recovery)	$	597	4	$	(20,322)	461
Comprised of:						
Current taxes	$	118			(3,548)	
Future income taxes		479			(16,774)	
	$	597		$	(20,322)	

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

		2010		2009
Future income tax assets:				
Accruals not currently deductible	$	824	$	1,060
Deferred pension costs		(664)		431
Financing costs		3,225		5,523
Foreign exchange (gain) loss on long-term debt		(1,716)		2,276
Investment tax credits		9,038		5,886
Tax loss carryforwards		36,241		39,648
Other tax credits		918		918
	$	47,866	$	55,742
Future income tax liabilities:				
Depreciable capital assets		(86,378)		(98,481)
Other		(212)		(119)
	$	(86,590)	$	(98,600)
Future income tax liability, net	$	(38,724)	$	(42,858)
As reported in the consolidated balance sheet:				
Current portion of future income tax liabilities	$	(5,324)	$	(7,649)
Long-term future income tax liabilities		(33,400)		(35,209)
	$	(38,724)	$	(42,858)

23. INCOME TAXES (Continued)

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

	Canada	United States
2026 to 2030	$ 139,804	$ 356,210
Unlimited	267	-

U.S. non-capital loss carry-forwards relate to discontinued operations and have not been benefited for financial statement purposes. The 2008 recapitalization resulted in a restriction of the use of U.S. non-capital loss carry-forwards.

24. 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 5).

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, 2009. The most recent actuarial valuation of the Minnesota pension plan was as of January 1, 2010. 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.

24. EMPLOYEE FUTURE BENEFITS (Continued)

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

		2010		2009
PLAN ASSETS				
Fair value at beginning of year	$	37,353	$	35,513
Actual return on plan assets		2,596		2,392
Employer contributions		5,145		3,483
Benefits paid		(5,666)		(6,173)
Actuarial (loss) gain		(206)		2,138
Fair value at end of year	$	39,222	$	37,353
Fair value of plan assets at end of year, discontinued operations	$	4,970	$	5,678
ACCRUED BENEFIT OBLIGATION				
Balance at beginning of year		40,704		38,663
Current service cost		1,387		1,400
Interest cost		2,552		2,681
Benefits paid		(5,666)		(6,173)
Adjustment to discount rate		-		5,198
Actuarial loss		10,690		-
Curtailments		-		(1,065)
Balance at end of year [1]		49,667		40,704
NET DEFICIT, END OF YEAR	$	(10,445)	$	(3,351)
Accrued benefit obligation at end of year, discontinued operations	$	6,006	$	6,563
Net deficit at end of year, discontinued operations	$	(1,036)	$	(885)
PENSION EXPENSE				
Accrual for current services	$	1,387	$	1,400
Interest on accrued benefits		2,552		2,681
Actual return on pension fund assets		(2,596)		(2,392)
	$	1,343	$	1,689
Pension expense, discontinued operations	$	293	$	467

1. Accrued benefit obligation includes liabilities of $1.9 million (December 31, 2009: $2.3 million) related to the Lillooet and Savona discontinued operations.

		2010		2009
NET ACCRUED PENSION BENEFIT LIABILITY				
Funded status - plan deficit	$	(10,445)	$	(3,351)
Unamortized net actuarial gain		11,763		867
Net accrued pension benefit asset (liability)	$	1,318	$	(2,484)
Net accrued pension benefit liability, discontinued operations	$	(1,036)	$	(885)

24. EMPLOYEE FUTURE BENEFITS (Continued)

Based on the fair value of assets held at December 31, the defined benefit pension plan assets were comprised of the following:

	2010	2009
PLAN ASSETS		
Cash	**0.1%**	0.1%
Canadian short-term investments	**1.4%**	4.3%
Canadian bonds and debentures	**36.2%**	37.9%
Canadian common shares	**28.3%**	28.8%
Canadian pooled equity funds	**2.8%**	2.0%
Global bonds and debentures	**0.4%**	0.5%
Global pooled equity funds	**14.9%**	11.6%
U.S. bonds and debentures	**0.3%**	0.0%
U.S. common shares	**15.6%**	14.8%
	100.0%	100.0%

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

	2010	2009
Discount rate on accrued benefit obligation at end of year	**5.50%**	6.50%
Discount rate on benefit costs	**6.50%**	7.25%
Expected long-term rate of return on plan assets	**6.75%**	7.00%
Rate of compensation increase	**3.00%**	3.00%

Total cash payments for employee future benefits for the year ended December 31, 2010, consisting of cash contributed by the Company to its defined benefit pension plans and cash payments directly to beneficiaries, was $4,322 (December 31, 2009: $2,404).

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.

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' design, 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.

24. EMPLOYEE FUTURE BENEFITS (Continued)

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 55% 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, U.S. or International equities shall be invested in any one company, respectively. 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%	31%
US equities	5% - 35%	16%
International equities	0% - 30%	15%
Bonds	30 - 50%	37%
Short-term and cash	0 - 20%	2%

At December 31, 2010, there were no shares of the Company held in the pension and other benefit trusts administered by the Company.

During the second quarter of 2010, all new Canadian employees were enrolled into a new Canadian defined contribution pension plan. The Company also sponsors a Group Registered Retirement Savings Plan (RRSP) at three of its Canadian operations, including the jointly-owned High Level operation.

Prior to the sale of the plywood operation, the Company also participated in a multi-employer defined contribution pension plan for hourly employees who were subject to a collective bargaining agreement. In Minnesota, the Company sponsored two 401(k) savings plans.

Contributions to these plans were as follows:

	2010	2009
Group RRSP	**$ 1,500**	$ 1,387
Defined contribution pension plan	**38**	-
401(k) savings plans	**3**	36
Multi-employer pension plan	**-**	434
	$ 1,541	$ 1,857

25. RELATED PARTY TRANSACTIONS

During the year ended December 31, 2010, the Company paid legal fees of $122 (2009: $147) to a law firm of which a director of the Company is a Partner. The Company also paid $76 (2009: $nil) to an entity related to BSS to provide insurance services. These transactions were measured and recorded at the exchange amount which is equivalent to fair value. Fair value is defined as the transaction amount with unrelated parties under similar terms and conditions.

26. SEGMENTED INFORMATION

The Company operates principally in Canada and the United States in one business segment, manufacturing wood panel products. Sales from continuing operations attributed to countries based on location of customer are as follows:

		2010		2009
North America	**$**	**280,693**	$	250,458
Overseas		**48,793**		35,457
	$	**329,486**	$	285,915

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

		2010		2009
Canada	**$**	**532,749**	$	545,829
United States (Note 5)		**-**		91
	$	**532,749**	$	545,920

27. CHANGE IN NON-CASH OPERATING WORKING CAPITAL

		2010		2009
Accounts receivable	**$**	**(988)**	$	5,850
Inventories		**(234)**		14,656
Income taxes receivable/payable		**2,361**		(1,031)
Prepaid expenses		**(1,898)**		1,897
Accounts payable and accrued liabilities		**(4,491)**		(7,407)
	$	**(5,250)**	$	13,965

28. MANAGEMENT OF CAPITAL

Capital is defined as working capital, long-term debt and equity, as reflected in these consolidated financial statements. The Company manages capital by adjusting the amount of dividends paid to shareholders, purchasing shares for cancellation pursuant to normal 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.

29. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Company undertakes transactions in a range of financial instruments including cash and cash equivalents, 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.

29. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

The following table summarizes the classification of the financial instruments as designated by the Company:

2010

	Loans and receivables / Other financial liabilities	Assets (liabilities) at fair value through earnings	Total
ASSETS			
Cash and cash equivalents	**$ -**	**$ 67,577**	**$ 67,577**
Short-term investments	**-**	**59,413**	**59,413**
Trade and other receivables	**15,537**	**-**	**15,537**
LIABILITIES			
Trade and other payables	**24,833**	**-**	**24,833**
Current portion of long-term debt	**22,107**	**-**	**22,107**
Long-term debt	**501,434**	**-**	**501,434**

2009

	Loans and receivables / Other financial liabilities	Assets (liabilities) at fair value through earnings	Total
ASSETS			
Cash and cash equivalents	$ -	$ 92,075	$ 92,075
Short-term investments	-	61,654	61,654
Trade and other receivables	13,730	-	13,730
LIABILITIES			
Trade and other payables	23,475	-	23,475
Current portion of long-term debt	10,743	-	10,743
Long-term debt	550,582	-	550,582

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, 2010, the amount of accounts receivable past due was nominal.

29. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

Credit risk associated with short-term investments is minimized by ensuring that the Company only invests in liquid securities and with counterparties that have a high credit rating. 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 continues to focus on maintaining 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.

As global debt and equity markets can be volatile, we continue to monitor discretionary capital expenditures carefully. The Company's equipment loan matures on October 1, 2011, the U.S. dollar Senior Secured Term Loan matures in 2014 and the U.S. dollar Senior Unsecured Notes mature in 2015. Under the terms of the Company's indenture, the Company is permitted to borrow an additional U.S. $125 million of Senior Secured debt and U.S. $75 million of Senior Unsecured debt. The availability of this funding is dependent on credit markets. In the event that debt or equity capital is not available on acceptable terms, the Company may need to explore other strategic alternatives.

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	$ -	$ -	$ 22,948	$ 567,087
Senior Secured Term Loan	460	875	4,078	115,549
Equipment loan	722	1,439	18,348	-
Deutsche Bank equipment loan	-	-	1,827	7,028
Capital lease obligations	80	160	722	3,848
Operating lease obligations	93	184	716	2,648
Accounts payable and accrued liabilities	20,807	269	4,591	-
Reforestation obligation	-	-	-	2,076
Purchase commitments	465	1,530	917	4,888
	$ 22,627	$ 4,457	$ 54,147	$ 703,124

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.

29. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

At December 31, 2010, 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 $0.5 million on an annual basis (December 31, 2009: $0.5 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 December 31, 2010 was $6.2 million (December 31, 2009: $nil). At December 31, 2010, if interest rates had been 1% higher and all other variables were constant, the value of the derivative financial asset would have been $32 lower.

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.

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, 2010, if the Canadian dollar had weakened/strengthened one cent against the U.S. dollar with all other variables held constant, after-tax net income for the year would have been $3.6 million higher/lower on an annual basis (December 31, 2009: $3.7 million).

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.

Fair Values

The fair value of financial instruments, with the exception of the Senior Unsecured Notes and Senior Secured Term Loan, is estimated to approximate their carrying value at December 31, 2010 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 and Senior Secured term loan. 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:

29. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

		2010		2009
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Senior notes	**$ 383,340**	**$ 348,903**	$ 401,758	$ 236,726
Term loan	**102,083**	**99,021**	107,872	107,872
Equipment financing	**29,296**	**29,296**	42,006	42,006
Capital leases	**8,822**	**8,822**	9,689	9,689
	$ 523,541	**$ 486,042**	$ 561,325	$ 396,293

The term loan is secured by accounts receivable and inventory having a carrying value of $55 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.$20.2 million is secured by certain capital assets.

The fair value of the Company’s financial assets and liabilities classified by level within the fair value hierarchy are as follows:

				2010
	Level 1	**Level 2**	**Level 3**	**Total**
ASSETS				
Cash and cash equivalents	**$ 67,577**	**$ -**	**$ -**	**$ 67,577**
Short-term investments	**59,413**	**-**	**-**	**59,413**
Trade and other receivables	**-**	**15,537**	**-**	**15,537**
LIABILITIES				
Trade and other payables	**-**	**24,833**	**-**	**24,833**
Current portion of long-term debt	**-**	**22,107**	**-**	**22,107**
Long-term debt	**447,924**	**16,011**	**-**	**463,935**

				2009
	Level 1	**Level 2**	**Level 3**	**Total**
ASSETS				
Cash and cash equivalents	$ 92,075	$ -	$ -	$ 92,075
Short-term investments	61,654	-	-	61,654
Trade and other receivables	-	13,730	-	13,730
LIABILITIES				
Trade and other payables	-	23,475	-	23,475
Current portion of long-term debt	-	10,743	-	10,743
Long-term debt	344,598	40,952	-	385,550

30. SUBSEQUENT EVENT

The Company entered into an agreement with Grant Forest Products Inc. on December 20, 2010 to indirectly acquire the remaining 50% interest in Footner Forest Products Inc. for $20 million (Note 8). The transaction closed on February 17, 2011.