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**REPORT TO SHAREHOLDERS  
FOR THE THREE AND NINE MONTH PERIODS ENDED  
SEPTEMBER 30, 2014**

## **LETTER TO SHAREHOLDERS**

November 7, 2014

Dear Fellow Shareholders:

North American OSB market conditions were disappointing during the third quarter of 2014 as the pace of recovery in the US housing market fell short of expectations. We generated adjusted EBITDA of \$4.7 million in the third quarter compared to \$24.4 million during the same period last year when North American markets were considerably stronger.

From an operating perspective, our production volumes for the third quarter of 433 million square feet (3/8" basis) were 9% higher than the same period last year. The increase was mainly driven by incremental production from the High Level mill which only resumed operations in the latter part of the third quarter of 2013. On a sequential basis, however, our production was 11% lower than the second quarter as we took downtime to complete maintenance and other projects at High Level as well as 100 Mile House. I am pleased to report that during the quarter, we installed the steam pre-heater unit at High Level. This further positions the mill to efficiently manufacture an enhanced range of products for North American and Asian customers in 2015.

Notwithstanding the downtime taken, we were able to keep our product moving to our diversified customer base and shipped 472.3 million square feet (3/8" basis) during the quarter. This represented a 2% increase versus the second quarter and a 12% increase versus same period last year. Our year to date shipment volumes are also up 12%. Of note, over 50% of this increase has come from our export business, driven primarily by our new industrial core stock business in China, where our OSB acts as a substrate in various applications including decorative overlaid wood panels, laminated wood flooring and furniture components. The recent slower market environment in North America reinforces the strategic value of our traditional and emerging export markets.

While US housing starts in 2014 will end up lower than we expected at the outset of the year, they are still forecasted to increase by 8% versus 2013 to approximately 1 million. We remain optimistic that the recovery will gain further traction in 2015 resulting in increased demand for our products and absorption of industry supply. We continue to invest in our mills and our people, and are confident that we are well-positioned to capitalize on both the US housing recovery and growing demand in our export markets.

As always, I appreciate the continued efforts and contributions of our employees, and the trust and support of our shareholders and customers.

Sincerely,

/s/ Jim Lake  
President and Chief Executive Officer

## **MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS For the Three and Nine Months Ended September 30, 2014**

This management's discussion and analysis is presented as at November 7, 2014. Financial references are in Canadian dollars unless otherwise indicated. Additional information relating to Ainsworth Lumber Co. Ltd. (also referred to as Ainsworth, the Company, or we, or our), including our annual information form, is available on SEDAR at [www.sedar.com](http://www.sedar.com). Our financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS").

### **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. We remain focused on prudent balance sheet management and maximizing shareholder value.

The Company has a production capacity of 2.5 billion square feet per year (3/8-inch basis) and has four wholly-owned OSB manufacturing mills located in Grande Prairie, Alberta; High Level, Alberta; 100 Mile House, British Columbia; and, Barwick, Ontario. All four mills are strategically located in terms of wood supply 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          |
| Barwick, ON           | 510          |
| Grande Prairie, AB    | 730          |
| High Level, AB        | 860          |
| <b>Total capacity</b> | <b>2,540</b> |

The High Level mill was restarted in the latter part of the third quarter of 2013 in order to meet increases in customer demand for OSB from both North American and export markets. This mill had previously been on care and maintenance since being curtailed in December 2007.

In addition, the Company continues to assess the timing and the remaining costs to complete the second production line at the Grande Prairie mill, which would further increase capacity by approximately 600 mmsf (3/8-inch basis) to over 3.1 billion square feet per year (3/8-inch basis).

All of our mills utilize flexible mill technology and can manufacture products for domestic and overseas markets. Our mills have access to low cost fibre sources, are energy efficient and have low sustaining capital requirements. Ainsworth has an experienced, reliable workforce of over 700 employees. Safety and environmental responsibility is emphasized as a key value at all levels.

## **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, financial conditions, and other expectations, beliefs, 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](http://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-IFRS Measures**

In addition to IFRS measures, Ainsworth uses the non-IFRS measures "adjusted earnings", "adjusted earnings per share ("EPS")", "adjusted EBITDA", "adjusted EBITDA margin", 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-IFRS measures do not have a standardized meaning prescribed by IFRS and may not be comparable to similar measures used by other companies. Included in this report are tables calculating adjusted earnings, adjusted EPS, adjusted EBITDA, adjusted EBITDA margin, and narrative disclosures defining gross profit.

## **Termination of the LP Transaction**

On May 14, 2014, Louisiana-Pacific Corporation ("LP") and the Company announced the termination of the previously announced agreement dated September 4, 2013 in which LP was to acquire all of the outstanding common shares of Ainsworth.

## **Outlook**

While the pace of improvement in US housing starts in 2014 has thus far been slower than previously expected, we remain optimistic about the medium to long-term outlook as U.S. housing starts continue to recover to more historical levels. The recently restarted High Level mill will allow us to meet the growing requirements of our existing customer base in North America and Asia as well as service new market segments.

# Ainsworth® Third Quarter 2014

## Summary of Operating and Financial Results from Continuing Operations

|   | Q3-14    | Q2-14    | Q1-14    | Q4-13    | Q3-13    | Q2-13    | Q1-13    | Q4-12    |
|---|----------|----------|----------|----------|----------|----------|----------|----------|
| <i>(in millions, except volume, unless otherwise noted)</i> |          |          |          |          |          |          |          |          |
| Sales   | \$ 116.3 | \$ 117.4 | \$ 107.8 | \$ 104.4 | \$ 114.3 | \$ 127.5 | \$ 141.8 | \$ 117.9 |
| Adjusted EBITDA <sup>(1)</sup>                              | 4.7      | 13.1     | 10.2     | 11.3     | 24.4     | 50.7     | 62.5     | 42.0     |
| Adjusted EBITDA margin <sup>(2)</sup>                       | 4.0%     | 11.2%    | 9.5%     | 10.8%    | 21.3%    | 39.8%    | 44.1%    | 35.6%    |
| Shipment volume (mmsf 3/8")                                 | 472.3    | 461.2    | 404.2    | 409.2    | 422.3    | 380.4    | 397.0    | 398.2    |
| Production volume (mmsf 3/8")                               | 433.1    | 484.8    | 408.1    | 420.2    | 396.9    | 398.7    | 408.1    | 406.4    |

(1) Adjusted EBITDA, a non-IFRS financial measure, is defined as net income (loss) from continuing operations before amortization, loss (gain) on disposal of property, plant and equipment, cost of curtailed operations, stock option expense (recovery), finance expense, loss (gain) on derivative financial instrument, foreign exchange (gain) loss on long-term debt, other foreign exchange loss (gain), interest income earned on investments, income tax (recovery) expense and non-recurring items. See the detailed calculation of adjusted EBITDA by quarter on page 13. As a result of adopting the amendment to IAS19 – *Employee Benefits* (see "Changes in Accounting Standards"), adjusted EBITDA for the fourth quarter of 2012 has been restated to reflect the increase in pension expense. Adjusted EBITDA for all quarters presented has also been restated to exclude interest income earned on investments.

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

### Review of Financial Results

|  | Q3-14    | Q3-13    | YTD 2014 | YTD 2013 |
|--|----------|----------|----------|----------|
| <i>(in millions, except per share data and volume, unless otherwise noted)</i> |          |          |          |          |
| Sales  | \$ 116.3 | \$ 114.3 | \$ 341.5 | \$ 383.7 |
| Costs of products sold   | 108.0    | 86.0     | 302.3    | 234.1    |
| Net (loss) income from continuing operations                                   | (35.4)   | 10.7     | (37.7)   | 50.0     |
| Net (loss) income  | (36.4)   | 10.6     | (38.9)   | 49.6     |
| Adjusted (loss) earnings <sup>(1)</sup>  | (7.3)    | (0.1)    | (11.5)   | 59.4     |
| Adjusted EPS <sup>(2)</sup>  | (0.03)   | -        | (0.05)   | 0.24     |
| Adjusted EBITDA  | 4.7      | 24.4     | 28.0     | 137.6    |
| Adjusted EBITDA margin   | 4.0%     | 21.3%    | 8.2%     | 35.9%    |
| Shipment volume (mmsf 3/8")  | 472.3    | 422.3    | 1,337.7  | 1,199.7  |

(1) Adjusted earnings, a non-IFRS financial measure, is defined as net income (loss) from continuing operations before foreign exchange (gain) loss on long-term debt, loss (gain) on derivative financial instrument, and the related income tax effects.

(2) Adjusted EPS, a non-IFRS financial measure, is defined as adjusted earnings divided by the weighted average common shares outstanding.

The table below shows the calculation of adjusted earnings and adjusted EPS:

|  | Q3-14     | Q3-13    | YTD 2014  | YTD 2013 |
|--|-----------|----------|-----------|----------|
| <i>(in millions)</i>                           |           |          |           |          |
| Net (loss) income from continuing operations   | \$ (35.4) | \$ 10.7  | \$ (37.7) | \$ 50.0  |
| Adjustments to net (loss) income:              |           |          |           |          |
| Loss (Gain) on derivative financial instrument | 12.7      | (3.7)    | 9.3       | (4.3)    |
| Foreign exchange loss (gain) on long-term debt | 17.0      | (7.6)    | 18.1      | 13.1     |
| Related income tax effect                      | (1.6)     | 0.5      | (1.2)     | 0.6      |
| Adjusted (loss) earnings                       | \$ (7.3)  | \$ (0.1) | \$ (11.5) | \$ 59.4  |
| Adjusted basic EPS                             | \$ (0.03) | \$ -     | \$ (0.05) | \$ 0.24  |

Net (loss) income from operations includes several significant non-operational items identified in the table above. After taking into account these items, our adjusted loss for the third quarter of 2014 was \$7.3 million compared to adjusted loss of \$0.1 million in the third quarter of 2013. In the first nine months of 2014, adjusted loss was \$11.5 million compared to adjusted earnings of \$59.4 million for the same period in 2013.

## **Ainsworth** Third Quarter 2014

The table below shows the calculation of adjusted EBITDA:

|   |    | Q3-14  |    | Q3-13 |    | YTD 2014 |    | YTD 2013 |
|---|----|--------|----|-------|----|----------|----|----------|
| <i>(in millions)</i>                              |    |        |    |       |    |          |    |          |
| Net (loss) income from continuing operations      | \$ | (35.4) | \$ | 10.7  | \$ | (37.7)   | \$ | 50.0     |
| Add (deduct):                                     |    |        |    |       |    |          |    |          |
| Foreign exchange loss (gain) on long-term debt    |    | 17.0   |    | (7.6) |    | 18.1     |    | 13.1     |
| Loss (Gain) on derivative financial instrument    |    | 12.7   |    | (3.7) |    | 9.3      |    | (4.3)    |
| Amortization of property, plant and equipment     |    | 6.9    |    | 6.2   |    | 21.7     |    | 18.8     |
| Finance expense                                   |    | 6.6    |    | 6.7   |    | 20.0     |    | 21.0     |
| Stock-based compensation expense (recovery)       |    | 0.2    |    | 0.4   |    | (0.2)    |    | 1.5      |
| Other   |    | (0.1)  |    | 0.2   |    | (1.3)    |    | (2.9)    |
| Income tax (recovery) expense                     |    | (3.2)  |    | 0.7   |    | (4.3)    |    | 20.8     |
| Loss on repayment of long-term debt               |    | -      |    | 3.1   |    | -        |    | 3.1      |
| Costs related to LP acquisition                   |    | -      |    | 1.7   |    | 2.2      |    | 1.7      |
| Loss on disposal of property, plant and equipment |    | -      |    | 0.4   |    | 0.2      |    | 0.3      |
| Cost of curtailed operations                      |    | -      |    | 5.6   |    | -        |    | 10.7     |
| Write-down of property, plant and equipment       |    | -      |    | -     |    | -        |    | 3.8      |
| Adjusted EBITDA                                   | \$ | 4.7    | \$ | 24.4  | \$ | 28.0     | \$ | 137.6    |

Net loss from continuing operations in the third quarter of 2014 was \$35.4 million compared to net income of \$10.7 million in the third quarter of 2013. The \$46.1 million decrease in net income included a \$24.6 million variation in foreign exchange on long-term debt, a \$20.0 million decrease in gross profit (sales less cost of products sold (exclusive of amortization)), and a \$16.4 million variation in the value of the derivative financial instrument. These decreases to net income were partially offset by a \$5.6 million decrease in costs of curtailed operations, a \$3.9 million variation in income tax, a \$3.1 million loss on the repayment of 10% of our senior secured notes in 2013 that did not occur in 2014, a \$1.7 million decrease in selling and administration expense, and a total \$0.4 million decrease in items including amortization expense, foreign exchange gain/loss on operations and other income.

In the first nine months of 2014, net loss from operations was \$37.7 million, compared to net income of \$50.0 million for the same period in 2013, representing a decrease of \$87.7 million. The decrease included a \$110.3 million decrease in gross profit (sales less cost of products sold (exclusive of amortization)), a \$13.6 million variation in the value of the derivative financial instrument, a \$5.0 million increase in foreign exchange loss on long-term debt, and a total \$3.6 million increase in items including amortization expense, foreign exchange gain/loss on operations and other income. These decreases to net income were partially offset by a \$25.1 million variation in income tax, a \$10.7 million decrease in costs of curtailed operations, a \$3.8 million decrease in write-down of property, plant and equipment, a \$3.1 million loss on the repayment of 10% of our senior secured notes in 2013 that did not occur in 2014, a \$1.3 million decrease in selling and administration expense, and a \$1.1 million decrease in finance expense.

### **Adjusted EBITDA**

In the third quarter of 2014, adjusted EBITDA was \$4.7 million compared to \$24.4 million in the third quarter of 2013. Adjusted EBITDA margin on sales was 4.0% compared to 21.3% in the same period of 2013. The decrease was largely related to the \$20.0 million decrease in gross profit.

Adjusted EBITDA in the first nine months of 2014 was \$28.0 million compared to \$137.6 million in the first nine months of 2013. Adjusted EBITDA margin on sales was 8.2% compared to 35.9% in the same period of 2013. The decrease was primarily related to the \$110.3 million decrease in gross profit.

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## Sales

Sales of \$116.3 million in the third quarter of 2014 were \$2.0 million higher than sales of \$114.3 million for the same period in 2013. The increase in sales was mainly due to an 12% increase in sales volume due to additional production from High Level (mill was previously curtailed until the latter part of the third quarter of 2013), offset partially by a 9% decrease in realized pricing. Sales volumes increased notwithstanding downtime taken at High Level and 100 Mile House during the third quarter to complete maintenance and other projects. During the third quarter of 2014, the average U.S. benchmark price for the North Central and Western Canada regions decreased by 14% and 19%, respectively, compared to the same period in 2013. The impact of the U.S. benchmark declines on our realized pricing was moderated by factors including the effect of a weaker Canadian dollar relative to the third quarter of 2013 and stable export pricing in Japan.

Sales in the first nine months of 2014 were \$341.5 million, representing a \$42.1 million decrease over the same period in 2013. The decrease was mainly due to a 20% decrease in realized pricing. The nine month average U.S. benchmark price for the North Central and Western Canadian regions decreased by 36% and 37%, respectively, compared to the same period in 2013. The impact of the U.S. benchmark declines on our realized pricing was moderated by factors including the effect of a weaker Canadian dollar in the first nine months of 2014 on average relative to the same period in 2013, and stable export pricing in Japan. In addition, sales volume increased by 12%, which was attributable to additional production from High Level. The increase in volume from High Level was partially offset downtime taken during the third quarter at our High Level and 100 Mile House mills to complete maintenance and other projects.

The average benchmark F.O.B. mill prices reported by Random Lengths for the last eight quarters are shown in the table below:

| U.S. dollars                 | Q3-14  | Q2-14  | Q1-14  | Q4-13  | Q3-13  | Q2-13  | Q1-13  | Q4-12  |
|------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|
| North Central (7/16" basis)  | \$ 216 | \$ 219 | \$ 219 | \$ 245 | \$ 252 | \$ 347 | \$ 417 | \$ 332 |
| Western Canada (7/16" basis) | 187    | 206    | 219    | 219    | 230    | 328    | 419    | 331    |

## Costs of Products Sold (Exclusive of Amortization)

In the third quarter of 2014, costs of products sold were \$108.0 million, a \$22.0 million increase over the same period in 2013. The increase in costs of products sold was primarily due to incremental shipment volumes from High Level. Unit costs also increased compared to the prior year, due to a number of factors including raw material price increases, such as resin and wax, and costs associated with the ramp-up phase of High Level. The raw material price increases were compounded by a weaker Canadian dollar in the third quarter of 2014 on average relative to the same period in 2013. Additional costs were also incurred as our High Level and 100 Mile House mills took downtime during the quarter for various maintenance and other projects.

Costs of products sold were \$302.3 million in the first nine months of 2014 compared to \$234.1 million in the same period in 2013. The \$68.2 million increase was related to higher raw material costs (partially due to the weaker Canadian dollar), costs associated with the ramp-up phase of High Level and product mix changes. We also incurred additional costs related to maintenance and other downtime taken during the first and third quarters of 2014.

## Selling and Administration

Selling and administration expense decreased by \$1.7 million in the third quarter of 2014 compared to the same periods in 2013. The decrease is primarily due to a reduction in costs incurred with respect to the LP transaction, which was terminated in the second quarter of 2014.

Selling and administration expense decreased by \$1.3 million in the first nine months of 2014 compared to the same period in 2013. The decrease is primarily related to lower salaries and benefits expense and a \$0.2 million share-based compensation recovery in the first nine months of the year compared to share-based compensation expense of \$1.5 million for the same period in 2013. These factors were partially offset by a \$0.5 million increase related to costs incurred with respect to the LP transaction during the first nine months of 2014 versus 2013.

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## ***Amortization of Property, Plant and Equipment and Intangible Assets***

Amortization expense increased by \$0.7 million in the third quarter of 2014 compared to the third quarter of 2013. Amortization expense increased by \$2.9 million for the first nine months of 2014 compared to the same period in 2013. The Company uses the units-of-production depreciation method for its production equipment. The fluctuation in depreciation expense for the quarter and for the first nine months of 2014 reflects relative changes in production levels by mill. In addition, amortization expense for the first nine months of 2014 includes a \$754 thousand write-down of intangible assets with respect to certain private wood contracts.

## ***Costs of Curtailed Operations***

Costs of curtailed operations are comprised of costs directly attributable to our High Level, Alberta mill, prior to restarting operations during the latter part of the third quarter of 2013. During the third quarter and first nine months of 2014, all costs attributable to the High Level mill were classified as costs of products sold rather than costs of curtailed operations.

## ***Finance Expense***

Finance expense decreased by \$0.1 million and \$1.1 million in the third quarter and first nine months of 2014, respectively, compared to the same periods in 2013. The reduction in both periods was due to a lower principal balance of long-term debt following the 10% principal repayment of our 7.5% Senior Secured Notes (the "Notes") during the third quarter of 2013, which resulted in a \$3.1 million loss on repayment being separately recognized. The reductions were partially offset by the foreign exchange effect of a weaker Canadian dollar, on average, relative to the U.S. dollar for the same periods in 2013.

## ***Foreign Exchange Gain (Loss) on Long-Term Debt***

The unrealized foreign exchange loss on long-term debt in the third quarter of 2014 was \$17.0 million compared to a gain of \$7.6 million in the third quarter of 2013. Year to date, the foreign exchange loss on long-term debt was \$18.1 million in 2014 compared to \$13.1 million in 2013. The majority of our debt is denominated in U.S. currency and is therefore subject to fluctuations in the exchange rate. The strengthening of the Canadian dollar, relative to the U.S. dollar, results in a foreign exchange gain, whereas a weakening of the Canadian dollar, relative to the U.S. dollar, results in a foreign exchange loss.

Management estimates that a one cent change of the Canadian dollar results in an after tax increase/decrease in foreign exchange loss/gain on our U.S. dollar debt of \$2.9 million on an annual basis.

## ***Gain (Loss) on Derivative Financial Instrument***

The derivative financial asset is revalued quarterly based on the market value of the Notes, the risk-free rate, current interest rates and the credit spread (see "Financial Instruments"), and changes in the value of this derivative financial asset are reflected in operations.

The derivative financial asset embedded in the Notes was revalued at September 30, 2014, resulting in a loss of \$12.7 million in the third quarter of 2014, compared to a gain of \$3.7 million in the third quarter of 2013. For the year to date, the revaluation resulted in losses of \$9.3 million in 2014 and gains of \$4.3 million in 2013.

## ***Other Items***

Other items for the third quarter and first nine months of 2014 include gains/losses on disposal of property, plant and equipment and other income.

## ***Income Taxes***

Income tax recovery in the third quarter of 2014 was \$3.2 million on loss before income taxes of \$38.7 million, compared with an income tax expense of \$0.7 million on income before income taxes of \$11.4 million in the third quarter of 2013. For the first nine months of 2014, income tax recovery was \$4.3 million on loss before income taxes of \$41.9 million, compared with income tax expense of \$20.8 million on income before income taxes of \$70.8 million. The majority of the income tax expense was related to temporary differences that increased the deferred income tax liability on the statement of financial position. Certain permanent differences, such as the non-taxable portion of the foreign exchange loss on our debt and expenses not deductible for tax purposes, impacted the resulting income tax expense.



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As a result of the discontinuation of our 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.

The Company has benefited Canadian non-capital tax loss carry-forwards of approximately \$155 million for financial statement purposes at December 31, 2013. The Company has U.S. net operating tax loss carry-forwards that are not benefited for financial statement purposes because the 2008 recapitalization resulted in a restriction of these loss carry-forwards. The Company also has unrecognized deferred tax assets relating to foreign exchange loss on long-term debt.

Tax filings 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 Income (Loss) from Discontinued Operations

Net loss from discontinued operations includes expenses, such as pension and actuarial costs, associated with the OSB mills in Minnesota, as well as from the plywood and veneer operations in Lillooet and Savona that were disposed in 2009. The increase in net loss from discontinued operations in 2014 compared to 2013 is primarily due to unrealized foreign exchange.

### Capital Resources and Liquidity

As of September 30, 2014, our working capital was \$153.6 million, compared to \$170.9 million as at December 31, 2013. 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.

At September 30, 2014, Ainsworth's available liquidity, consisting of cash and cash equivalents, was \$98.6 million, a reduction of \$38.8 million since December 31, 2013 resulting from our capital expenditures, interest payments and debt repayments combined with working capital requirements. Ainsworth is also permitted under the terms of the Notes to borrow at least an additional U.S.\$170 million of senior secured and unsecured debt subject to the limitations set forth in the indenture.

Our cash flows for the quarter and nine months ended September 30, 2014 were as follows:

|  | Q3-14    | Q3-13     | YTD 2014  | YTD 2013  |
|--|----------|-----------|-----------|-----------|
| <i>(in millions)</i>   |          |           |           |           |
| Cash provided by operating activities before interest, taxes and working capital | \$ 4.3   | \$ 16.4   | \$ 25.1   | \$ 125.3  |
| Cash used for interest payments  | (0.1)    | (0.5)     | (13.1)    | (15.5)    |
| Income taxes (paid) received, net  | (0.2)    | (0.1)     | 1.6       | (0.9)     |
| Cash provided by (used in) working capital                                       | 7.5      | 14.4      | (22.6)    | (1.5)     |
| Cash provided by (used in) operating activities                                  | \$ 11.5  | \$ 30.2   | \$ (9.0)  | \$ 107.4  |
| Cash used in financing activities  | \$ (6.8) | \$ (37.9) | \$ (10.3) | \$ (41.2) |
| Cash used in investing activities  | \$ (9.4) | \$ (12.2) | \$ (20.0) | \$ (23.6) |

In the third quarter of 2014 cash inflows from operating activities before interest and taxes paid and working capital requirements were \$4.3 million compared to \$16.4 million in the third quarter of 2013. Decreases in OSB pricing and cost increases resulted in lower cash generated by operations quarter over quarter. The decrease in cash provided by working capital in the third quarter of 2014 compared to the same period in 2013 was due primarily to the timing of accounts payables and accounts receivable.

In the first nine months of 2014, cash generated by operating activities was \$25.1 million before interest and taxes paid and working capital requirements, which was significantly lower than 2013 due to lower OSB prices. The increase in cash used in working capital in the first nine months of 2014 compared to 2013 was primarily related to the timing of accounts payable combined with an increase in inventories, particularly at High Level.

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Cash used in financing activities during the third quarter and first nine months of 2014 includes repayment of equipment financing loans, combined with capital lease obligations. In the third quarter of 2013, we repaid 10% of the Notes, which totaled U.S.\$36.1 million including a premium of U.S.\$1.1 million. Our debt principal repayments are scheduled to total \$37 thousand in the last quarter of 2014.

Cash used in investing activities decreased in the third quarter and first nine months of 2014 compared with the same periods in 2013 due primarily to a decrease in capital spending. Capital spending of \$9.5 million and \$22.2 million in the third quarter and first nine months of 2014, respectively, included maintenance and other capital projects at our operating mills. Capital spending of \$11.2 million and \$25.2 million during the third quarter and first nine months of 2013, respectively, included expenditures associated with the restart of the High Level mill as well as maintenance and other capital projects at our other operating mills, and was partially offset by \$1.0 million of proceeds received on the sale of non-core property located in Savona, British Columbia.

### Outstanding Share Data

The issued share capital of the Company at September 30, 2014 is as follows:

|               | Shares      | Value<br>(in millions) |
|---------------|-------------|------------------------|
| Common shares | 240,941,309 | \$ 583                 |

### Outstanding Stock Options

The following table presents the exercise prices and expiry dates for the 2,705,676 stock options outstanding at September 30, 2014:

| Grant Date                       | Number of Options<br>Outstanding | Exercise Price | Expiry Date       |
|----------------------------------|----------------------------------|----------------|-------------------|
| November 14, 2008 <sup>(1)</sup> | 400,000                          | 1.16           | November 14, 2018 |
| March 5, 2010                    | 175,000                          | 1.53           | March 5, 2020     |
| March 15, 2010                   | 25,000                           | 1.63           | March 15, 2020    |
| May 13, 2010                     | 72,376                           | 2.99           | May 13, 2020      |
| May 21, 2010                     | 50,000                           | 2.76           | May 21, 2020      |
| June 14, 2010                    | 100,000                          | 2.19           | June 14, 2020     |
| August 5, 2010                   | 6,300                            | 1.93           | August 5, 2020    |
| March 4, 2011                    | 250,000                          | 2.19           | March 4, 2021     |
| September 9, 2011                | 200,000                          | 1.29           | September 9, 2021 |
| March 9, 2012                    | 100,000                          | 1.03           | March 9, 2022     |
| March 13, 2012                   | 87,000                           | 1.03           | March 13, 2022    |
| March 15, 2013                   | 375,000                          | 3.73           | March 15, 2023    |
| June 13, 2014                    | 865,000                          | 2.80           | June 13, 2024     |

(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 Notes include call options which have been identified as embedded derivatives whereby we have the right to repurchase the Notes. A derivative financial asset was recorded at fair value at issuance of the Notes and is revalued at each reporting period based on the market value of the Notes, the current interest rates, and the credit spread. Changes in the value of this derivative financial asset are reflected in operations as "Gain (loss) on derivative financial instrument". Management estimates that, had interest rates been 1% higher at September 30, 2014 and all other variables were constant, the value of the derivative financial asset would have increased by \$3.0 million. At September 30, 2014, the derivative financial asset had a value of \$10.4 million (December 31, 2013: \$19.6 million).

## Off-Balance Sheet Arrangements

The Company does not have any significant off-balance sheet arrangements other than letters of credit in the amount of \$2.5 million (December 31, 2013: \$5.1 million), for which restricted cash is held as collateral. Further, there are no off-balance sheet arrangements that have, or are reasonably likely to have, a current or future material effect on the Company's financial condition, results of operations, liquidity, capital expenditures or resources.

## Related Party Transactions

The Company is controlled by Brookfield Capital Partners Ltd. ("BCP"), which beneficially owns or exercises control or direction over approximately 54.4% of the issued and outstanding common shares.

The Company periodically sells goods to BCP affiliates. There were no such sales during the three and nine months ended September 30, 2014 (three months ended September 30, 2013: \$nil; nine months ended September 30, 2013: \$2.5 million).

The following table includes amounts that were paid to other related parties:

|  | Q3-14 | Q3-13  | YTD 2014 | YTD 2013 |
|--|-------|--------|----------|----------|
| <i>(in thousands)</i>                      |       |        |          |          |
| Legal fees <sup>(1)</sup>                  | \$ 91 | \$ 544 | \$ 431   | \$ 640   |
| Other services <sup>(2)</sup>              | 84    | 84     | 395      | 389      |
| Key management compensation <sup>(3)</sup> | 895   | 847    | 2,457    | 2,613    |

(1) Legal fees were paid to a law firm of which one of the Company's directors is also a partner.

(2) Includes amounts paid to BCP and its affiliates for services provided to the Company.

(3) Key management compensation includes total compensation for the Board of Directors and the executive management team. No person on the Board of Directors or the executive management team had any material interest during the period in a contract of significance (except as disclosed above with respect to a service contract for legal services rendered) with the Company or any subsidiary company.

Sales to overseas markets are handled by Interex Forest Products Ltd. ("Interex"), a cooperative sales company over which Ainsworth, as a shareholder, has significant influence. At September 30, 2014, \$5.9 million was included in trade receivables with respect to Interex (December 31, 2013: \$2.9 million).

All transactions with related parties 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.

# Ainsworth® Third Quarter 2014

## Selected Quarterly Financial Information

|  | Q3-14    | Q2-14    | Q1-14    | Q4-13    | Q3-13    | Q2-13    | Q1-13    | Q4-12    |
|--|----------|----------|----------|----------|----------|----------|----------|----------|
| <i>(in millions, except per share data and volume, unless otherwise noted)</i> |          |          |          |          |          |          |          |          |
| <b>Sales and earnings (loss)</b>   |          |          |          |          |          |          |          |          |
| Sales  | \$ 116.3 | \$ 117.4 | \$ 107.8 | \$ 104.4 | \$ 114.3 | \$ 127.5 | \$ 141.8 | \$ 117.9 |
| Operating (loss) income  | (3.2)    | 6.0      | 0.5      | 2.4      | 10.0     | 36.2     | 54.4     | 33.6     |
| Foreign exchange (loss) gain   |          |          |          |          |          |          |          |          |
| on long-term debt  | (17.0)   | 12.5     | (13.6)   | (10.9)   | 7.6      | (13.1)   | (7.6)    | (7.6)    |
| Net (loss) income from continuing operations                                   | (35.4)   | 12.3     | (14.5)   | (10.6)   | 10.7     | 2.8      | 36.5     | 6.7      |
| Net (loss) income from discontinued operations                                 | (0.9)    | 0.5      | (0.8)    | -        | (0.1)    | (0.2)    | (0.2)    | -        |
| Net (loss) income  | (36.4)   | 12.8     | (15.3)   | (10.7)   | 10.6     | 2.6      | 36.3     | 6.7      |
| Adjusted (loss) earnings   | (7.3)    | 0.3      | (4.4)    | (3.0)    | (0.1)    | 22.5     | 37.0     | (1.7)    |
| Adjusted EBITDA <sup>(3)</sup>   | 4.7      | 13.1     | 10.2     | 11.3     | 24.4     | 50.7     | 62.5     | 42.0     |
| Shipment volume (mmsf 3/8")  | 472.3    | 461.2    | 404.2    | 409.2    | 422.3    | 380.4    | 397.0    | 398.2    |
| <b>Basic and diluted earnings (loss) per common share</b>                      |          |          |          |          |          |          |          |          |
| Net income (loss)  |          |          |          |          |          |          |          |          |
| continuing operations <sup>(1)</sup>   | (0.15)   | 0.05     | (0.06)   | (0.04)   | 0.04     | 0.01     | 0.15     | 0.06     |
| Net income (loss) <sup>(1)</sup>   | (0.15)   | 0.05     | (0.06)   | (0.04)   | 0.04     | 0.01     | 0.15     | 0.06     |
| Adjusted earnings  | (0.03)   | -        | (0.02)   | (0.01)   | -        | 0.09     | 0.15     | (0.01)   |
| <b>Balance sheet</b>   |          |          |          |          |          |          |          |          |
| Total assets   | 845.8    | 868.8    | 890.8    | 882.0    | 892.5    | 911.0    | 898.8    | 835.2    |
| Total long-term debt <sup>(2)</sup>  | 351.4    | 341.2    | 356.1    | 343.3    | 334.8    | 379.1    | 368.3    | 361.4    |

(1) Basic and diluted net income (loss) per share. As at September 30, 2014, the Company had 240,941,309 issued common shares outstanding. For all periods presented the Company has not paid or declared any cash dividends.

(2) Total long-term debt includes the current portion of long-term debt.

(3) As a result of adopting the amendment to IAS19 – *Employee Benefits* (see “Accounting Policy Adoption”), adjusted EBITDA for the fourth quarter of 2012 has been restated to reflect the increase in pension expense. Adjusted EBITDA for all quarters presented has also been restated to exclude interest income earned on investments.

OSB demand and product pricing were the main factors causing fluctuations in our sales and adjusted EBITDA over the past eight quarters. North American OSB prices have declined versus the levels of late 2012 and early 2013 as demand growth has moderated. OSB shipment volumes have varied in the past eight quarters depending on production disruptions, maintenance requirements and product mix. Shipment volumes also reflect the start up of the High Level mill in the third quarter of 2013.

Net income (loss) fluctuated as a result of changes in operating income and was also impacted by items such as unrealized foreign exchange gain (loss) on long-term debt caused by changes in the strength of the Canadian dollar relative to the U.S. dollar, gain (loss) on derivative financial asset related to changes in the value of the call option embedded in the Notes, and changes in capital structure and related costs.

## Segmented Information

Our geographic distribution of sales revenue was as follows:

|                      | Q3-14    | Q3-13    | YTD 2014 | YTD 2013 |
|----------------------|----------|----------|----------|----------|
| <i>(in millions)</i> |          |          |          |          |
| 2014                 |          |          |          |          |
| United States        | \$ 85.6  | \$ 84.1  | \$ 251.6 | \$ 290.2 |
| Japan                | 14.3     | 15.6     | 43.2     | 41.9     |
| Canada               | 9.9      | 12.1     | 27.3     | 45.6     |
| Overseas - other     | 6.5      | 2.5      | 19.4     | 6.0      |
|                      | \$ 116.3 | \$ 114.3 | \$ 341.5 | \$ 383.7 |

## **Ainsworth** Third Quarter 2014

Our geographic distribution of sales volume was as follows:

|                    | Q3-14        | Q3-13 | YTD 2014       | YTD 2013 |
|--------------------|--------------|-------|----------------|----------|
| <i>(mmsf 3/8")</i> |              |       |                |          |
| 2014               |              |       |                |          |
| United States      | <b>337.5</b> | 295.0 | <b>948.4</b>   | 849.2    |
| Japan              | <b>58.8</b>  | 64.7  | <b>176.9</b>   | 176.2    |
| Canada             | <b>42.1</b>  | 50.5  | <b>112.1</b>   | 149.3    |
| Overseas - other   | <b>33.9</b>  | 12.1  | <b>100.4</b>   | 25.0     |
|                    | <b>472.3</b> | 422.3 | <b>1,337.8</b> | 1,199.7  |

Property, plant and equipment, intangible assets and other assets are located within Canada.

### **Risks and Uncertainties**

The Company is subject to a number of risks and uncertainties, including those described in the 2013 Annual Management Discussion and Analysis, which can be found on SEDAR at [www.sedar.com](http://www.sedar.com). Any of the risks and uncertainties described in the above-mentioned document could have a material adverse effect on our results and financial position and cash flows and, accordingly, should be carefully considered when evaluating the Company's results.

### **Significant Accounting Estimates and Judgments**

Management has made certain estimates and judgments that affect the reported amounts and other disclosures in our financial statements. These estimates and judgments are described in our 2013 audited consolidated financial statements, which can be found on SEDAR at [www.sedar.com](http://www.sedar.com).

### **Disclosure Controls and Procedures and Internal Control over Financial Reporting**

The President and Chief Executive Officer and the Vice President, Finance and Chief Financial Officer, together with other members of management, have designed the Company's disclosure controls and procedures in order to provide reasonable assurance that material information relating to the Company and its consolidated subsidiaries would have been known to them, and by others, within those entities. Management has also designed internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the financial statements in accordance with IFRS. There has been no material change in the design of the Company's internal control over financial reporting, for the quarter ended September 30, 2014, that would materially affect, or is reasonably likely to materially affect, the Company's internal control over financial reporting and management has determined that there were no material weaknesses in the Company's internal control over financial reporting for the period in which the interim filings are being prepared. Management's evaluation of the effectiveness of internal control over financial reporting is based on the provisions of the 1992 Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

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

# Ainsworth® Third Quarter 2014

## AINSWORTH LUMBER CO. LTD.

### Other Information

|  | September 30 | December 31, 2013 |
|--|--------------|-------------------|
| <b>Selected Financial Data (\$000's)</b> |              |                   |
| Cash and cash equivalents                | \$ 98,601    | \$ 137,444        |
| Restricted cash                          | 2,464        | 5,109             |
| Working capital                          | 152,880      | 170,905           |
| Total assets                             | 845,824      | 881,957           |
| Total long-term debt                     | 351,428      | 343,298           |
| Shareholders' equity                     | 390,106      | 428,567           |

### Reconciliation of Net Income (Loss) to Adjusted EBITDA

| (in millions)  | Q3-14            | Q2-14          | Q1-14            | Q4-13            | Q3-13          | Q2-13          | Q1-13          | Q4-12          |
|--|------------------|----------------|------------------|------------------|----------------|----------------|----------------|----------------|
| <b>Net (Loss) Income from Continuing Operations</b>                | <b>\$ (35.4)</b> | <b>\$ 12.3</b> | <b>\$ (14.5)</b> | <b>\$ (10.6)</b> | <b>\$ 10.7</b> | <b>\$ 2.8</b>  | <b>\$ 36.5</b> | <b>\$ 6.7</b>  |
| Add (deduct):  |                  |                |                  |                  |                |                |                |                |
| Amortization of property, plant and equipment                      | 6.9              | 7.5            | 7.3              | 6.7              | 6.2            | 6.2            | 6.4            | 6.9            |
| Loss (gain) on disposal of property, plant and equipment           | -                | -              | 0.2              | 0.1              | 0.4            | -              | -              | 0.2            |
| Write-down of property, plant and equipment, intangibles and other | -                | -              | -                | -                | -              | 3.8            | -              | 1.5            |
| Finance expense  | 6.6              | 6.7            | 6.7              | 6.5              | 6.7            | 7.4            | 6.9            | 11.3           |
| Costs of curtailed operations                                      | -                | -              | -                | -                | 5.6            | 3.5            | 1.6            | 1.1            |
| Stock-based compensation expense (recovery)                        | 0.2              | (0.4)          | -                | 0.3              | 0.4            | 1.0            | 0.1            | 0.5            |
| Loss on early repayment of long-term debt                          | -                | -              | -                | -                | 3.1            | -              | -              | 22.9           |
| Income tax (recovery) expense                                      | (3.2)            | (0.6)          | (0.4)            | 0.2              | 0.7            | 6.6            | 13.5           | 2.5            |
| Foreign exchange loss (gain) on long-term debt                     | 17.0             | (12.5)         | 13.6             | 10.9             | (7.6)          | 13.1           | 7.6            | 7.6            |
| Loss (gain) on derivative financial instrument                     | 12.7             | 0.6            | (4.0)            | (3.8)            | (3.7)          | 7.5            | (8.1)          | (18.3)         |
| (Recovery) costs related to LP acquisition                         | -                | (0.2)          | 2.4              | 1.9              | 1.7            | -              | -              | -              |
| Other  | (0.1)            | (0.3)          | (1.1)            | (0.9)            | 0.2            | (1.2)          | (2.0)          | (0.9)          |
| <b>Adjusted EBITDA (Note 1)</b>                                    | <b>\$ 4.7</b>    | <b>\$ 13.1</b> | <b>\$ 10.2</b>   | <b>\$ 11.3</b>   | <b>\$ 24.4</b> | <b>\$ 50.7</b> | <b>\$ 62.5</b> | <b>\$ 42.0</b> |

(1) Adjusted EBITDA, a non-IFRS financial measure, is defined as net income (loss) from continuing operations before amortization, loss (gain) on disposal of property, plant and equipment, cost of curtailed operations, stock option expense (recovery), finance expense, loss (gain) on derivative financial instrument, foreign exchange (gain) loss on long-term debt, other foreign exchange loss (gain), interest income earned on investments, income tax (recovery) expense and non-recurring items. As a result of adopting the amendment to IAS19R, adjusted EBITDA for the fourth quarter of 2012 has been restated to reflect the increase in pension expense that is included in cost of products sold, and selling and administrative expense. Adjusted EBITDA for all quarters presented has also been restated to exclude interest income earned on investments.

## **About Ainsworth**

Ainsworth Lumber Co. Ltd. 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. Ainsworth's four OSB manufacturing mills, located in Alberta, British Columbia and Ontario, have a combined annual capacity of 2.5 billion square feet (3/8-inch basis). Ainsworth is a publicly traded company listed on the Toronto Stock Exchange under the symbol ANS.

### **Ainsworth Lumber Co. Ltd.**

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

Visit our web-site: [www.ainsworthengineered.com](http://www.ainsworthengineered.com)

# AINSWORTH LUMBER CO. LTD.

## Condensed Interim Consolidated Statements of Financial Position

(In thousands of Canadian dollars)

(Unaudited)

|   | September 30<br>2014 | December 31<br>2013 |
|---|----------------------|---------------------|
| <b>ASSETS</b>   |                      |                     |
| <b>Current Assets</b>                                 |                      |                     |
| Cash and cash equivalents                             | \$ 98,601            | \$ 137,444          |
| Restricted cash                                       | 2,464                | 5,109               |
| Trade and other receivables                           | 24,009               | 23,680              |
| Inventories (Note 3)                                  | 63,004               | 52,471              |
| Prepaid expenses                                      | 6,998                | 5,414               |
| <b>Total Current Assets</b>                           | <b>195,076</b>       | <b>224,118</b>      |
| <b>Property, Plant and Equipment (Note 4)</b>         | <b>631,966</b>       | <b>628,701</b>      |
| <b>Intangible Assets</b>                              | <b>5,911</b>         | <b>7,601</b>        |
| <b>Other Assets</b>                                   | <b>12,871</b>        | <b>21,537</b>       |
| <b>Total Assets</b>                                   | <b>\$ 845,824</b>    | <b>\$ 881,957</b>   |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>           |                      |                     |
| <b>Current Liabilities</b>                            |                      |                     |
| Trade and other payables                              | \$ 39,656            | \$ 42,133           |
| Income taxes payable                                  | 2,284                | 805                 |
| Current portion of long-term debt (Note 5)            | 114                  | 10,001              |
| Liabilities related to discontinued operations        | 142                  | 274                 |
| <b>Total Current Liabilities</b>                      | <b>42,196</b>        | <b>53,213</b>       |
| <b>Accrued Pension Benefit Liability</b>              | <b>7,541</b>         | <b>7,542</b>        |
| <b>Reforestation Obligation</b>                       | <b>3,959</b>         | <b>4,390</b>        |
| <b>Long-term Debt (Note 5)</b>                        | <b>351,314</b>       | <b>333,297</b>      |
| <b>Deferred Income Tax Liabilities</b>                | <b>48,360</b>        | <b>52,719</b>       |
| <b>Liabilities Related to Discontinued Operations</b> | <b>2,348</b>         | <b>2,229</b>        |
| <b>Total Liabilities</b>                              | <b>455,718</b>       | <b>453,390</b>      |
| <b>SHAREHOLDERS' EQUITY</b>                           |                      |                     |
| <b>Capital Stock</b>                                  | <b>582,825</b>       | <b>582,738</b>      |
| <b>Contributed Surplus</b>                            | <b>2,337</b>         | <b>2,030</b>        |
| <b>Deficit</b>  | <b>(195,056)</b>     | <b>(156,201)</b>    |
| <b>Total Shareholders' Equity</b>                     | <b>390,106</b>       | <b>428,567</b>      |
| <b>Total Liabilities and Shareholders' Equity</b>     | <b>\$ 845,824</b>    | <b>\$ 881,957</b>   |

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

**Commitments (Note 6)**

**Contingencies (Note 7)**

Approved by the Board on November 7, 2014

/s/ Peter Gordon

**DIRECTOR**

/s/ Gordon Lancaster

**DIRECTOR**



# AINSWORTH LUMBER CO. LTD.

## Condensed Interim Consolidated Statements of Income and Comprehensive Income

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

(Unaudited)

|  | Three months ended September 30 |                   | Nine months ended September 30 |                   |
|--|---------------------------------|-------------------|--------------------------------|-------------------|
|  | 2014                            | 2013              | 2014                           | 2013              |
| <b>Sales (Note 20)</b>   | <b>\$ 116,268</b>               | <b>\$ 114,341</b> | <b>\$ 341,499</b>              | <b>\$ 383,697</b> |
| <b>Costs and Expenses</b>  |                                 |                   |                                |                   |
| Costs of products sold (Note 9)  | 108,028                         | 86,043            | 302,347                        | 234,113           |
| Selling and administration (Note 9)  | 4,449                           | 6,104             | 14,063                         | 15,325            |
| Amortization of property, plant and equipment and intangible assets (Note 4) | 6,949                           | 6,202             | 21,705                         | 22,599            |
| Costs of curtailed operations (Note 14)                                      | -                               | 5,646             | -                              | 10,743            |
| <b>Total Costs and Expenses</b>  | <b>119,426</b>                  | <b>103,995</b>    | <b>338,115</b>                 | <b>282,780</b>    |
| <b>(Loss) Income from Operations</b>   | <b>(3,158)</b>                  | <b>10,346</b>     | <b>3,384</b>                   | <b>100,917</b>    |
| <b>Finance Expense (Note 10)</b>   | <b>(6,615)</b>                  | <b>(6,705)</b>    | <b>(20,041)</b>                | <b>(21,081)</b>   |
| <b>Loss on Early Repayment of Long-Term Debt (Note 11)</b>                   | <b>-</b>                        | <b>(3,088)</b>    | <b>-</b>                       | <b>(3,088)</b>    |
| <b>Foreign Exchange (Loss) Gain (Note 12)</b>                                | <b>(16,540)</b>                 | <b>7,129</b>      | <b>(17,030)</b>                | <b>(11,139)</b>   |
| <b>(Loss) Gain on Derivative Financial Instrument (Note 13)</b>              | <b>(12,654)</b>                 | <b>3,656</b>      | <b>(9,258)</b>                 | <b>4,258</b>      |
| <b>Other Items (Note 15)</b>   | <b>292</b>                      | <b>42</b>         | <b>1,041</b>                   | <b>954</b>        |
| <b>(Loss) Income Before Income Taxes</b>                                     | <b>(38,675)</b>                 | <b>11,380</b>     | <b>(41,904)</b>                | <b>70,821</b>     |
| <b>Income Tax Recovery (Expense) (Note 17)</b>                               | <b>3,234</b>                    | <b>(690)</b>      | <b>4,252</b>                   | <b>(20,803)</b>   |
| <b>(Loss) Income from Continuing Operations</b>                              | <b>(35,441)</b>                 | <b>10,690</b>     | <b>(37,652)</b>                | <b>50,018</b>     |
| <b>Net Loss from Discontinued Operations</b>                                 | <b>(927)</b>                    | <b>(62)</b>       | <b>(1,203)</b>                 | <b>(450)</b>      |
| <b>Net (Loss) Income and Total Comprehensive (Loss) Income</b>               | <b>\$ (36,368)</b>              | <b>\$ 10,628</b>  | <b>\$ (38,855)</b>             | <b>\$ 49,568</b>  |
| Basic and diluted net (loss) income per common share (Note 18)               |                                 |                   |                                |                   |
| Continuing operations  | \$ (0.15)                       | \$ 0.04           | \$ (0.16)                      | \$ 0.21           |
| Discontinued operations  | 0.00                            | 0.00              | 0.00                           | 0.00              |
| Basic and diluted net (loss) income per common share                         | \$ (0.15)                       | \$ 0.04           | \$ (0.16)                      | \$ 0.21           |
| Weighted average number of common shares outstanding - basic                 | 240,921,907                     | 240,889,568       | 240,911,565                    | 240,857,871       |
| Effect of dilutive stock options on continuing operations                    | -                               | 771,392           | -                              | 787,487           |
| Weighted average number of common shares outstanding - diluted               | 240,921,907                     | 241,660,960       | 240,911,565                    | 241,645,358       |

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

## AINSWORTH LUMBER CO. LTD.

### Condensed Interim Consolidated Statements of Changes in Shareholders' Equity

(In thousands of Canadian dollars)

(Unaudited)

|   | <b>Capital Stock</b> | <b>Contributed<br/>Surplus</b> | <b>Deficit</b>      | <b>Total<br/>Shareholders'<br/>Equity</b> |
|---|----------------------|--------------------------------|---------------------|---|
| Balance, January 1, 2013                  | \$ 582,626           | \$ 1,808                       | \$ (199,160)        | \$ 385,274                                |
| Net income and total comprehensive income | -                    | -                              | 49,568              | 49,568                                    |
| Share-based payments (Note 8)             | -                    | 141                            | -                   | 141                                       |
| Stock options exercised (Note 8)          | 112                  | (45)                           | -                   | 67  |
| Balance, September 30, 2013               | <b>\$ 582,738</b>    | <b>\$ 1,904</b>                | <b>\$ (149,592)</b> | <b>\$ 435,050</b>                         |

|                                       | <b>Capital Stock</b> | <b>Contributed<br/>Surplus</b> | <b>Deficit</b>      | <b>Total<br/>Shareholders'<br/>Equity</b> |
|---------------------------------------|----------------------|--------------------------------|---------------------|---|
| Balance, January 1, 2014              | \$ 582,738           | \$ 2,030                       | \$ (156,201)        | \$ 428,567                                |
| Net loss and total comprehensive loss | -                    | -                              | (38,855)            | (38,855)                                  |
| Share-based payments (Note 8)         | -                    | 338                            | -                   | 338                                       |
| Stock options exercised (Note 8)      | 87                   | (31)                           | -                   | 56  |
| Balance, September 30, 2014           | <b>\$ 582,825</b>    | <b>\$ 2,337</b>                | <b>\$ (195,056)</b> | <b>\$ 390,106</b>                         |

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

# AINSWORTH LUMBER CO. LTD.

## Condensed Interim Consolidated Statements of Cash Flows

(In thousands of Canadian dollars)

(Unaudited)

|  | Three months ended September 30 |                   | Nine months ended September 30 |                   |
|--|---------------------------------|-------------------|--------------------------------|-------------------|
|  | 2014                            | 2013              | 2014                           | 2013              |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>  |                                 |                   |                                |                   |
| Net (Loss) Income  | \$ (36,368)                     | \$ 10,628         | \$ (38,855)                    | \$ 49,568         |
| Items not affecting cash   |                                 |                   |                                |                   |
| Amortization of property, plant and equipment and equipment and intangible assets (Note 4) | 6,949                           | 6,202             | 21,705                         | 22,599            |
| Finance expense (Note 10)  | 6,615                           | 6,705             | 20,041                         | 21,081            |
| Loss on early repayment of long-term debt (Note 11)  | -                               | 3,088             | -                              | 3,088             |
| Share-based payments (Note 8)  | 152                             | 440               | (202)                          | 1,530             |
| Foreign exchange (gain) loss on long-term debt (Note 12)                                   | 16,972                          | (7,647)           | 18,098                         | 12,999            |
| Loss (gain) on derivative financial instrument (Note 13)                                   | 12,654                          | (3,656)           | 9,258                          | (4,258)           |
| Loss (gain) on disposal of property, plant and equipment (Note 15)                         | (37)                            | 361               | 226                            | 346               |
| Change in non-current reforestation obligation   | 35                              | 269               | (486)                          | 122               |
| Deferred taxes   | (2,703)                         | 104               | (4,356)                        | 19,547            |
| Pension and other  | (6)                             | 68                | (308)                          | (1,267)           |
| Cash flows from operating activities before working capital, interest and income taxes     | 4,263                           | 16,562            | 25,121                         | 125,355           |
| Change in non-cash operating working capital (Note 19)                                     | 7,480                           | 14,354            | (22,575)                       | (1,543)           |
| Interest paid  | (63)                            | (546)             | (13,110)                       | (15,505)          |
| Income taxes (paid) received, net  | (180)                           | (140)             | 1,570                          | (906)             |
| Cash provided by (used in) operating activities  | 11,500                          | 30,230            | (8,994)                        | 107,401           |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>  |                                 |                   |                                |                   |
| Repayment of long-term debt (Note 5)   | (6,731)                         | (37,842)          | (9,945)                        | (40,842)          |
| Proceeds from issue of shares (Note 8)   | 56                              | 26                | 56                             | 68                |
| Reduction in finance lease obligations (Note 5)  | (105)                           | (126)             | (365)                          | (388)             |
| Cash used in financing activities  | (6,780)                         | (37,942)          | (10,254)                       | (41,162)          |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>  |                                 |                   |                                |                   |
| (Increase) decrease in restricted cash   | (71)                            | (833)             | 2,645                          | 646               |
| Additions to property, plant and equipment and intangible assets (Note 4)                  | (9,453)                         | (11,203)          | (22,242)                       | (25,163)          |
| Proceeds on disposal of property, plant and equipment                                      | 142                             | 2                 | 167                            | 1,008             |
| Increase in other assets   | (49)                            | (127)             | (591)                          | (111)             |
| Cash used in investing activities  | (9,431)                         | (12,161)          | (20,021)                       | (23,620)          |
| Effect of foreign exchange rate changes on cash and cash equivalents                       | 117                             | (126)             | 426                            | 1,355             |
| <b>NET CASH (OUTFLOW) INFLOW</b>   | <b>(4,594)</b>                  | <b>(19,999)</b>   | <b>(38,843)</b>                | <b>43,974</b>     |
| <b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>                                      | <b>103,195</b>                  | <b>170,750</b>    | <b>137,444</b>                 | <b>106,777</b>    |
| <b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>  | <b>\$ 98,601</b>                | <b>\$ 150,751</b> | <b>\$ 98,601</b>               | <b>\$ 150,751</b> |
| Cash   | 16,394                          | 11,794            | 16,394                         | 11,794            |
| Cash equivalents   | 82,207                          | 138,957           | 82,207                         | 138,957           |
| <b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>  | <b>\$ 98,601</b>                | <b>\$ 150,751</b> | <b>\$ 98,601</b>               | <b>\$ 150,751</b> |

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

# AINSWORTH LUMBER CO. LTD.

## Notes to the Condensed Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2014

(Figures are in thousands of Canadian dollars except share and per share amounts - Unaudited)

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### 1. CORPORATE INFORMATION

Ainsworth Lumber Co. Ltd. ("the Company") is a manufacturer and marketer of oriented strand board ("OSB") with a focus on value-added specialty products for markets in North America and Asia. The Company owns four Canadian OSB manufacturing facilities in Alberta, British Columbia, and Ontario. The Company's registered address is 1055 Dunsmuir Street, Suite 3194, Bentall 4, P.O. Box 49307, Vancouver, British Columbia, Canada, V7X 1L3.

Ainsworth Lumber Co. Ltd. is a publicly listed company incorporated under the laws of British Columbia. The Company's shares are listed on the Toronto Stock Exchange under the symbol ANS. The Company is controlled by Brookfield Capital Partners ("BCP"), which beneficially owns or exercises control or direction over approximately 54.4% of the issued and outstanding common shares.

### 2. SIGNIFICANT ACCOUNTING POLICIES

#### a) *Statement of compliance*

These condensed interim consolidated financial statements have been prepared in accordance with IAS 34 *Interim Financial Reporting*. Accordingly, certain disclosures included in the audited consolidated annual financial statements, prepared in accordance with International Financial Reporting Standards ("IFRS"), have been condensed or omitted. These condensed interim consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2013.

The accounting policies applied in these condensed interim consolidated financial statements are consistent with those applied and disclosed in the Company's audited consolidated financial statements for the year ended December 31, 2013. The Company's interim results are not necessarily indicative of its results for a full year.

These condensed interim consolidated financial statements were authorized for issuance by the Board of Directors of the Company on November 7, 2014.

#### b) *Basis of consolidation*

The condensed interim consolidated financial statements of the Company include the accounts of the Company and all of its wholly-owned subsidiaries, which are the entities over which the Company has control. Control exists when the Company has power over an investee, when the Company is exposed, or has rights, to variable returns from the investee and when the Company has the ability to affect those returns through its power over the investee. The Company's principal subsidiaries include Ainsworth Corp. and Ainsworth Engineered Canada Limited Partnership. Intercompany balances, transactions, revenues, and expenses, between subsidiaries are eliminated upon consolidation.

The accounting policies of its subsidiaries are consistent with the policies adopted by the Company.

# AINSWORTH LUMBER CO. LTD.

## Notes to the Condensed Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2014

(Figures are in thousands of Canadian dollars except share and per share amounts - Unaudited)

### 3. INVENTORIES

The carrying value of logs and panel products, valued at lower of cost and net realizable value, and materials, supplies and spares, valued at lower of cost and replacement cost, is summarized below:

|                                | September 30<br>2014 | December 31<br>2013 |
|--------------------------------|----------------------|---------------------|
| Logs                           | \$ 23,401            | \$ 18,690           |
| Panel products                 | 17,452               | 16,032              |
| Materials, supplies and spares | 22,151               | 17,749              |
|                                | <b>\$ 63,004</b>     | <b>\$ 52,471</b>    |

All inventories are pledged as security for the 7.5% Senior Secured Notes due in 2017 (the "Notes").

During the three months ended September 30, 2014, \$86.6 million (three months ended September 30, 2013: \$69.0 million) of inventory was charged to costs of products sold. During the nine months ended September 30, 2014, \$240.5 million (nine months ended September 30, 2013: \$187.0 million) of inventory was charged to costs of products sold.

There were no inventory write-downs or recoveries of previous write-downs during the three and nine months ended September 30, 2014 and September 30, 2013.

### 4. PROPERTY, PLANT AND EQUIPMENT

| Cost  | Land     | Building    | Machinery<br>and<br>Equipment | Assets<br>under<br>Finance<br>Lease | Other<br>Assets<br>(1) | Construction<br>in Progress<br>(2) | Total (3)    |
|---|----------|-------------|-------------------------------|-------------------------------------|------------------------|------------------------------------|--------------|
| Cost, December 31, 2013                           | \$ 2,135 | \$ 224,249  | \$ 460,230                    | \$ 2,077                            | \$ 10,385              | \$ 62,726                          | \$ 761,802   |
| Additions   | -        | -           | -                             | -                                   | 372                    | 23,289                             | 23,661       |
| Disposals   | -        | -           | (426)                         | -                                   | (98)                   | (15)                               | (539)        |
| Investment tax credits on<br>capital expenditures | -        | -           | (3)                           | -                                   | -                      | -                                  | (3)          |
| Transfers   | -        | 42          | 8,717                         | -                                   | 2,671                  | (11,430)                           | -            |
| Cost, September 30, 2014                          | \$ 2,135 | \$ 224,291  | \$ 468,518                    | \$ 2,077                            | \$ 13,330              | \$ 74,570                          | \$ 784,921   |
| <b>Accumulated Amortization</b>                   |          |             |                               |                                     |                        |                                    |              |
| Accumulated amortization,<br>December 31, 2013    | \$ -     | \$ (33,666) | \$ (94,412)                   | \$ (1,622)                          | \$ (3,401)             | \$ -                               | \$ (133,101) |
| Amortization for the period                       | -        | (5,688)     | (13,003)                      | (345)                               | (990)                  | -                                  | (20,026)     |
| Disposals   | -        | -           | 112                           | -                                   | 60                     | -                                  | 172          |
| Accumulated amortization,<br>September 30, 2014   | \$ -     | \$ (39,354) | \$ (107,303)                  | \$ (1,967)                          | \$ (4,331)             | \$ -                               | \$ (152,955) |
| <b>Carrying amount</b>                            |          |             |                               |                                     |                        |                                    |              |
| Balance, Dec. 31, 2013                            | \$ 2,135 | \$ 190,583  | \$ 365,818                    | \$ 455                              | \$ 6,984               | \$ 62,726                          | \$ 628,701   |
| Balance, Sep. 30, 2014                            | 2,135    | 184,937     | 361,215                       | 110                                 | 8,999                  | 74,570                             | 631,966      |

(1) Other assets includes office equipment, computer hardware, computer software, vehicles, forklifts, loaders and skidders, roads and storage, prepaid roads, leasehold improvements and plantations.

(2) Included in construction in progress is \$52.1 million related to our second production line at Grande Prairie, which is currently curtailed. No interest has been capitalized in construction in progress for the periods presented as construction has been put on hold indefinitely.

(3) All property, plant and equipment are pledged as security for the Notes.

# AINSWORTH LUMBER CO. LTD.

## Notes to the Condensed Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2014

(Figures are in thousands of Canadian dollars except share and per share amounts - Unaudited)

### 5. LONG-TERM DEBT

|  | September 30<br>2014 | December 31<br>2013 |
|--|----------------------|---------------------|
| Balance, beginning of period   | \$ 343,298           | \$ 361,436          |
| Repayments   | (10,310)             | (43,817)            |
| Amortization of bond premium, transaction costs and consent fees (Note 10) | 342                  | 460                 |
| Cost of early repayment of long-term debt                                  | -                    | 1,297               |
| Unrealized foreign exchange loss on long-term debt (Note 12)               | 18,098               | 23,922              |
| Balance, end of period   | \$ 351,428           | \$ 343,298          |
| Current portion  | (114)                | (10,001)            |
| Long-term portion  | \$ 351,314           | \$ 333,297          |

### 6. COMMITMENTS

At September 30, 2014, the Company had contractual commitments to purchase property, plant and equipment of approximately \$0.5 million (December 31, 2013: \$4.5 million). The Company has certain long-term purchase contracts with minimum fixed payment commitments. All contracts are at market prices and on normal business terms.

### 7. CONTINGENCIES

In the normal course of its business activities, the Company is subject to claims and legal actions that may be made by its customers, suppliers and others. While the final outcome with respect to actions outstanding or pending as at September 30, 2014 cannot be predicted with certainty, the Company believes the resolution will not have a material effect on the Company's financial position, financial performance, or cash flows.

### 8. SHARE-BASED PAYMENTS

#### *Stock Option Plan*

The Company has a single stock option plan designed to provide equity-based compensation to directors, executives and key senior management. The stock options granted vest evenly over a three to five year period. 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.

# AINSWORTH LUMBER CO. LTD.

## Notes to the Condensed Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2014

(Figures are in thousands of Canadian dollars except share and per share amounts - Unaudited)

### 8. SHARE-BASED PAYMENTS (continued)

No options were granted during the three months ended September 30, 2014 or September 30, 2013. The table below outlines the significant assumptions used to estimate the fair value of options granted during the nine months ended September 30, 2014 and September 30, 2013, and the resulting fair value per option granted:

|  | Nine months ended September 30 |        |
|--|--------------------------------|--------|
|  | 2014                           | 2013   |
| Risk-free interest rate                        | 1.58%                          | 1.26%  |
| Expected volatility <sup>(1)</sup>             | 56.00%                         | 50.00% |
| Dividend yield                                 | 0%                             | 0%     |
| Expected option life (years)                   | 5.00                           | 4.00   |
| Share price                                    | \$2.71                         | \$4.17 |
| Weighted average fair value per option granted | \$1.30                         | \$1.81 |

<sup>(1)</sup> Expected volatility is based on the historical share price volatility over the past five years (four years for the nine months ended September 30, 2013), taking into consideration the volatility of similar entities over a comparable period.

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

|  | Three months ended September 30 |                                 |                         |                                 |
|--|---------------------------------|---------------------------------|-------------------------|---------------------------------|
|  | 2014                            |                                 | 2013                    |                                 |
|  | Number of Share Options         | Weighted Average Exercise Price | Number of Share Options | Weighted Average Exercise Price |
| Outstanding at beginning of period         | 2,930,676                       | \$ 2.32                         | 2,060,676               | \$ 2.11                         |
| Exercised during the period <sup>(1)</sup> | (35,000)                        | 1.59                            | (14,000)                | 1.86                            |
| Forfeited during the period <sup>(2)</sup> | (190,000)                       | 3.03                            | (56,000)                | 2.55                            |
| Outstanding at end of period               | 2,705,676                       | \$ 2.28                         | 1,990,676               | \$ 2.12                         |
| Options exercisable at end of period       | 1,246,676                       | \$ 1.76                         | 1,073,676               | \$ 1.65                         |

|  | Nine months ended September 30 |                                 |                         |                                 |
|--|--------------------------------|---------------------------------|-------------------------|---------------------------------|
|  | 2014                           |                                 | 2013                    |                                 |
|  | Number of Share Options        | Weighted Average Exercise Price | Number of Share Options | Weighted Average Exercise Price |
| Outstanding at beginning of period         | 1,990,676                      | \$ 2.11                         | 1,588,676               | \$ 1.60                         |
| Granted during the period                  | 965,000                        | 2.80                            | 500,000                 | 3.73                            |
| Exercised during the period <sup>(1)</sup> | (35,000)                       | 1.59                            | (42,000)                | 1.60                            |
| Forfeited during the period <sup>(2)</sup> | (215,000)                      | 3.11                            | (56,000)                | 2.55                            |
| Outstanding at end of period               | 2,705,676                      | \$ 2.28                         | 1,990,676               | \$ 2.11                         |
| Options exercisable at end of period       | 1,246,676                      | \$ 1.76                         | 1,073,676               | \$ 1.65                         |

# AINSWORTH LUMBER CO. LTD.

## Notes to the Condensed Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2014

(Figures are in thousands of Canadian dollars except share and per share amounts - Unaudited)

### 8. SHARE-BASED PAYMENTS (continued)

- (1) During the three and nine months ended September 30, 2014, \$87 was credited to capital stock with respect to stock options that were exercised. This includes \$56 consideration received on exercise, plus \$31 representing the vested fair value of the stock options.

During the three months ended September 30, 2013, \$42 was credited to capital stock with respect to stock options that were exercised (nine months ended September 30, 2013: \$112). This includes \$26 consideration received on exercise (nine months ended September 30, 2013: \$67), plus \$16 representing the vested fair value of the stock options (nine months ended September 30, 2013: \$45).

- (2) During the three months ended September 30, 2014, \$79 was reversed from contributed surplus with respect to unvested options forfeited (nine months ended September 30, 2014: \$101).  
During the three and nine months ended September 30, 2013, \$12 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 September 30, 2014:

| Range of Exercise Prices | Options Outstanding |   |                                 | Options Exercisable |                                 |
|--------------------------|---------------------|---|---------------------------------|---------------------|---------------------------------|
|                          | Number of Options   | Weighted Average Remaining Contractual Life (yrs) | Weighted Average Exercise Price | Number of Options   | Weighted Average Exercise Price |
| \$0 - 2                  | 993,300             | 5.59  | \$ 1.24                         | 799,300             | \$ 1.27                         |
| 2.01 - 4                 | 1,712,376           | 8.43  | 2.89                            | 447,376             | 2.64                            |
|                          | 2,705,676           | 7.39  | \$ 2.28                         | 1,246,676           | \$ 1.76                         |

The following table outlines the Company's share-based compensation expense with respect to the stock option plan:

|                      | Three months ended September 30 |        | Nine months ended September 30 |        |
|----------------------|---------------------------------|--------|--------------------------------|--------|
|                      | 2014                            | 2013   | 2014                           | 2013   |
| Stock option expense | \$ 132                          | \$ 105 | \$ 338                         | \$ 141 |

#### **Deferred Share Unit Plan**

The Company has a Deferred Share Units ("DSU") plan for directors. Under the DSU plan, directors may elect to receive up to 100% of their fees in the form of DSUs. The number of DSUs awarded is determined by dividing the dollar portion of the fees by the volume weighted average price ("VWAP") of the Company's common shares for the five business days prior to the grant date. DSUs must be retained until the director leaves the Board, at which time the cash value of the DSUs is paid out.

The initial fair value of the DSUs is the amount of fees payable to the director, and is recognized immediately. The liability is subsequently re-measured to fair value using the VWAP for the last five business days of each reporting period until settlement. The initial fair value of amounts granted and any subsequent changes in fair value are recorded within compensation expense in the period.



## AINSWORTH LUMBER CO. LTD.

### Notes to the Condensed Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2014

(Figures are in thousands of Canadian dollars except share and per share amounts - Unaudited)

#### 8. SHARE-BASED PAYMENTS (continued)

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

|                                    | Three months ended September 30 |            |                   |            |
|------------------------------------|---------------------------------|------------|-------------------|------------|
|                                    | 2014                            |            | 2013              |            |
|                                    | Number of<br>DSUs               | Fair Value | Number of<br>DSUs | Fair Value |
| Outstanding at beginning of period | 532,129                         | \$ 1,485   | 452,399           | \$ 1,539   |
| Granted during the period          | 25,135                          | 70         | 23,138            | 70         |
| Change in value                    | -                               | (50)       | -                 | 265        |
| Outstanding at end of period       | 557,264                         | \$ 1,505   | 475,537           | \$ 1,874   |

  

|                                    | Nine months ended September 30 |            |                   |            |
|------------------------------------|--------------------------------|------------|-------------------|------------|
|                                    | 2014                           |            | 2013              |            |
|                                    | Number of<br>DSUs              | Fair Value | Number of<br>DSUs | Fair Value |
| Outstanding at beginning of period | 494,022                        | \$ 2,045   | 415,958           | \$ 485     |
| Granted during the period          | 63,242                         | 210        | 59,579            | 138        |
| Change in value                    | -                              | (750)      | -                 | 1,251      |
| Outstanding at end of period       | 557,264                        | \$ 1,505   | 475,537           | \$ 1,874   |

#### 9. EMPLOYEE BENEFITS

The table below summarizes the employee benefits included in cost of products sold, and selling and administration expenses:

|                                 | Three months ended September 30 |           | Nine months ended September 30 |           |
|---------------------------------|---------------------------------|-----------|--------------------------------|-----------|
|                                 | 2014                            | 2013      | 2014                           | 2013      |
| Short-term employee benefits    | \$ 17,641                       | \$ 17,159 | \$ 53,032                      | \$ 48,247 |
| Long-term employee benefits     | 1,350                           | 1,374     | 4,506                          | 4,584     |
| Share-based payments (recovery) | 152                             | 440       | (202)                          | 1,530     |
|                                 | \$ 19,143                       | \$ 18,973 | \$ 57,336                      | \$ 54,361 |

#### 10. FINANCE EXPENSE

|   | Three months ended September 30 |            | Nine months ended September 30 |             |
|---|---------------------------------|------------|--------------------------------|-------------|
|   | 2014                            | 2013       | 2014                           | 2013        |
| Interest expense  | \$ (6,496)                      | \$ (6,569) | \$ (19,679)                    | \$ (20,664) |
| Interest on finance leases  | (4)                             | (18)       | (20)                           | (65)        |
| Amortization of bond premium,<br>transaction costs and consent fees | (115)                           | (118)      | (342)                          | (352)       |
|   | \$ (6,615)                      | \$ (6,705) | \$ (20,041)                    | \$ (21,081) |

# AINSWORTH LUMBER CO. LTD.

## Notes to the Condensed Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2014

(Figures are in thousands of Canadian dollars except share and per share amounts - Unaudited)

### 11. LOSS ON EARLY REPAYMENT OF LONG-TERM DEBT

On August 14, 2013, the Company redeemed U.S.\$35 million (or 10%) in principal amount of Notes, pursuant to the terms of the indenture governing the Notes, at a price equal to 103% of the principal amount of the Notes redeemed, plus accrued and unpaid interest to, but excluding the redemption date.

|  | Three months ended September 30 |            | Nine months ended September |            |
|--|---------------------------------|------------|-----------------------------|------------|
|  | 2014                            | 2013       | 2014                        | 2013       |
| Extinguishment of derivative<br>embedded in Senior Notes | \$ -                            | \$ (1,791) | \$ -                        | \$ (1,791) |
| Premium paid   | -                               | (1,082)    | -                           | (1,082)    |
| Write off transaction costs<br>and bond premium          | -                               | (215)      | -                           | (215)      |
|  | \$ -                            | \$ (3,088) | \$ -                        | \$ (3,088) |

### 12. FOREIGN EXCHANGE (LOSS) GAIN

|   | Three months ended September 30 |          | Nine months ended September 30 |             |
|---|---------------------------------|----------|--------------------------------|-------------|
|   | 2014                            | 2013     | 2014                           | 2013        |
| Foreign exchange gain (loss)<br>on long-term debt | \$ (16,972)                     | \$ 7,647 | \$ (18,098)                    | \$ (12,999) |
| Other foreign exchange gain                       | 432                             | (518)    | 1,068                          | 1,860       |
|   | \$ (16,540)                     | \$ 7,129 | \$ (17,030)                    | \$ (11,139) |

### 13. (LOSS) GAIN ON DERIVATIVE FINANCIAL INSTRUMENT

The Notes issued on November 27, 2012 have embedded call options, whereby the Company has the right to repurchase 10% of the original principal of the Notes each year in the first two years, and the right to redeem the Notes after two years. The derivative financial asset was recorded at fair value at issuance of the Notes and is revalued at each reporting period based on the market value of the Notes, the current interest rates, and the credit spread. The fair value of this instrument is included in other assets on the consolidated statement of financial position. Changes in the fair value are reflected in net income.

Changes in the market value of the Notes, the risk-free rate, the credit spread and the cash interest rate resulted in a \$12.7 million loss on the derivative financial asset for the three months ended September 30, 2014 (three months ended September 30, 2013: \$3.7 million gain). The loss on derivative financial asset for the nine months ended September 30, 2014 was \$9.3 million (nine months ended September 30, 2013: \$4.3 million gain).

### 14. COSTS OF CURTAILED OPERATIONS

Costs of curtailed operations primarily include costs associated with the High Level OSB facility up until the Company restarted production at this mill in the latter part of the third quarter of 2013.

### 15. OTHER ITEMS

|   | Three months ended September 30 |          | Nine months ended September 30 |          |
|---|---------------------------------|----------|--------------------------------|----------|
|   | 2014                            | 2013     | 2014                           | 2013     |
| Gain (Loss) on disposal of property,<br>plant and equipment | \$ 37                           | \$ (361) | \$ (226)                       | \$ (346) |
| Other income  | 255                             | 403      | 1,267                          | 1,300    |
|   | \$ 292                          | \$ 42    | \$ 1,041                       | \$ 954   |

# AINSWORTH LUMBER CO. LTD.

## Notes to the Condensed Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2014

(Figures are in thousands of Canadian dollars except share and per share amounts - Unaudited)

### 16. PENSION EXPENSE

The Company maintains two defined benefit pension plans for certain salaried and hourly employees in British Columbia and Minnesota. The Minnesota pension plan is included in discontinued operations. Pension expense and contributions related to the Company's defined benefit pension plans during the period were as follows:

|                          | Three months ended September 30 |        | Nine months ended September 30 |          |
|--------------------------|---------------------------------|--------|--------------------------------|----------|
|                          | 2014                            | 2013   | 2014                           | 2013     |
| Continuing Operations:   |                                 |        |                                |          |
| Pension expense          | \$ 562                          | \$ 621 | \$ 1,603                       | \$ 2,272 |
| Contributions            | 2,013                           | 722    | 6,194                          | 2,250    |
| Discontinued Operations: |                                 |        |                                |          |
| Pension expense          | 82                              | 77     | 248                            | 230      |
| Contributions            | 75                              | 62     | 275                            | 203      |

The table below outlines the Company's total defined contribution plan cost:

|                                | Three months ended September 30 |        | Nine months ended September 30 |        |
|--------------------------------|---------------------------------|--------|--------------------------------|--------|
|                                | 2014                            | 2013   | 2014                           | 2013   |
| Defined contribution plan cost | \$ 215                          | \$ 174 | \$ 701                         | \$ 429 |

### 17. TAXATION

Certain permanent differences, such as the non-taxable portion of the foreign exchange gain on debt and expenses not deductible for tax purposes, impact the resulting income tax expense (recovery).

The Company has benefited Canadian non-capital tax loss carry-forwards of approximately \$155 million for financial statement purposes at December 31, 2013. The Company has U.S. non-capital tax loss carry-forwards that are not benefited for financial statement purposes because the 2008 recapitalization resulted in a restriction of these loss carry-forwards. The Company also has unrecognized deferred tax assets relating to foreign exchange loss on long-term debt.

Tax filings 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, management's assessments involve judgments, estimates and assumptions about current and future events. Although management believes these estimates and assumptions are reasonable and appropriate, the final determination could be materially different than that which is reflected in the Company's provision for income taxes and recorded current and deferred income tax assets and liabilities.

### 18. EARNINGS PER SHARE

At September 30, 2014, there were 1,362,376 stock options (September 30, 2013: 475,000) that were not taken into account in the calculation of diluted earnings per share because their effect was anti-dilutive.

## AINSWORTH LUMBER CO. LTD.

### Notes to the Condensed Interim Consolidated Financial Statements

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(Figures are in thousands of Canadian dollars except share and per share amounts - Unaudited)

#### 19. CHANGES IN NON-CASH OPERATING WORKING CAPITAL

|                             | Three months ended September 30 |           | Nine months ended September 30 |            |
|-----------------------------|---------------------------------|-----------|--------------------------------|------------|
|                             | 2014                            | 2013      | 2014                           | 2013       |
| Inventories                 | \$ 3,957                        | \$ 5,795  | (10,522)                       | (6,414)    |
| Trade and other receivables | 3,531                           | (1,701)   | (354)                          | (2,381)    |
| Prepaid expenses            | 2,164                           | 1,890     | (1,602)                        | (1,484)    |
| Income taxes payable        | 187                             | 108       | (91)                           | (175)      |
| Trade and other payables    | (2,359)                         | 8,262     | (10,006)                       | 8,911      |
|                             | \$ 7,480                        | \$ 14,354 | \$ (22,575)                    | \$ (1,543) |

#### 20. SEGMENTED REPORTING

The Company operates principally in one operating segment, oriented strand board. Sales from continuing operations attributed to geographic areas based on location of customer are as follows:

|                  | Three months ended September 30 |            | Nine months ended September 30 |            |
|------------------|---------------------------------|------------|--------------------------------|------------|
|                  | 2014                            | 2013       | 2014                           | 2013       |
| United States    | \$ 85,608                       | \$ 84,090  | \$ 251,578                     | \$ 290,189 |
| Japan            | 14,264                          | 15,569     | 43,161                         | 41,943     |
| Canada           | 9,856                           | 12,121     | 27,254                         | 45,577     |
| Overseas - other | 6,540                           | 2,561      | 19,506                         | 5,988      |
|                  | \$ 116,268                      | \$ 114,341 | \$ 341,499                     | \$ 383,697 |

Property, plant and equipment, intangible assets and other assets are located in Canada.

#### 21. FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS

##### Management of capital

The Company's objectives for managing capital (defined as working capital, long-term debt and equity excluding accumulated other comprehensive income) are to safeguard its ability to continue as a going concern in order to provide returns to shareholders and benefits for other stakeholders. 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 indenture, the Company is restricted in managing capital and must conform to the indenture's provisions, which govern capital components such as dividends, asset sales and debt incurrence. At September 30, 2014, the Company is in compliance with the provisions of this indenture.

# AINSWORTH LUMBER CO. LTD.

## Notes to the Condensed Interim Consolidated Financial Statements

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### 21. FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (Continued)

The accounting classification of each category of financial instruments, and the level within the fair value hierarchy in which they have been classified are set out below:

|  | Fair Value<br>Hierarchy<br>Level | September 30<br>2014 | December 31<br>2013 |
|--|----------------------------------|----------------------|---------------------|
| <b>FINANCIAL ASSETS</b>                    |                                  |                      |                     |
| Held for trading                           |                                  |                      |                     |
| Cash and cash equivalents                  | Level 1                          | \$ 98,601            | \$ 137,444          |
| Loans and receivables                      |                                  |                      |                     |
| Trade and other receivables <sup>(1)</sup> | n/a                              | 24,009               | 23,680              |
| Derivative financial asset <sup>(2)</sup>  | Level 2                          | 10,375               | 19,632              |
|  |                                  | <b>\$ 132,985</b>    | <b>\$ 180,756</b>   |
| <b>FINANCIAL LIABILITIES</b>               |                                  |                      |                     |
| Other financial liabilities                |                                  |                      |                     |
| Trade and other payables <sup>(1)</sup>    | n/a                              | \$ 39,656            | \$ 42,133           |
| Long-term debt, including current portion  | n/a                              | 351,314              | 342,819             |
|  |                                  | <b>\$ 390,970</b>    | <b>\$ 384,952</b>   |

(1) The carrying value of trade and other receivables and trade and other payables approximates fair value due to the short-term nature of these items.

(2) The Company applies a Black-Scholes model for the 10% repurchase option and a standard Option-Adjusted Spread model for the remaining call options. The current bid price for the bonds of 103.5 at September 30, 2014 (December 31, 2013: 107.25) is used as the market value input.

The Company's policy for determining the timing of transfers between levels of the fair value hierarchy is based on the date of the event or change in circumstances that caused the transfer. There were no transfers between level 1 and level 2 for the three or nine months ended September 30, 2014 and September 30, 2013. There were no financial instruments classified as level 3 at September 30, 2014 or December 31, 2013.

#### Financial risk factors

The Company's activities result in exposure to a number of financial risks, including credit risk, liquidity risk and market risk. The Company's objectives, policies and processes for measuring and managing these risks are described 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 trade and other receivables, cash and cash equivalents. The Company's maximum exposure to credit risk 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. At September 30, 2014, the amount of accounts receivable past due or impaired was nominal.

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## Notes to the Condensed Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2014

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### 21. FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (Continued)

#### *Credit risk (continued)*

Credit risk associated with cash equivalents is minimized by ensuring that the Company only invests in liquid securities and with counterparties that have a high credit rating. Credit risk associated with trade receivables is minimized through the use of pre-determined credit limits, continuous monitoring of payments, and credit insurance. The Company uses credit ratings and internal financial evaluations of counterparties to determine credit-worthiness and to set credit limits. Concentration of credit risk with respect to trade receivables is limited due to the dispersion of a large number of customers across many geographic areas as well as the use of credit insurance.

#### *Liquidity risk*

Liquidity risk is the risk that the Company encounters difficulty in meeting its financial obligations as they come due. Liquidity risk includes the risk that, as a result of operational liquidity requirements, the Company will not have sufficient funds to settle a transaction on the due date; will be forced to sell financial assets at a value which is less than what they are worth; or may be unable to settle or recover a financial asset at all. Liquidity risk arises from trade and other payables, long-term debt, commitments and financial guarantees. 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.

We continue to monitor discretionary capital expenditures carefully as global debt and equity markets, as well as operating results, can be volatile. Under the terms of the Company's senior note indenture, we are permitted to borrow at least an additional U.S.\$170 million of senior secured and unsecured debt subject to the limitations set forth in the indenture. The availability of this funding, or other sources of capital, is dependent on capital markets at the time and may not be available on acceptable terms.

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 statement of financial position.

|                                       | Less than<br>1 month | 1 to 3<br>months | Less than<br>1 year | 1 to 5<br>years | More than<br>5 years | Total      |
|---------------------------------------|----------------------|------------------|---------------------|-----------------|----------------------|------------|
| Senior Secured Notes                  | \$ -                 | \$ 13,230        | \$ 13,230           | \$ 418,950      | \$ -                 | \$ 445,410 |
| Finance lease obligations             | 14                   | 24               | 78                  | -               | -                    | 116        |
| Operating lease obligations           | 68                   | 136              | 607                 | 2,203           | -                    | 3,014      |
| Trade payable and accrued liabilities | 29,523               | 291              | 2,198               | -               | -                    | 32,012     |
| Reforestation obligation              | -                    | -                | -                   | 2,942           | 1,017                | 3,959      |
| Purchase commitments                  | -                    | 118              | 504                 | 320             | 800                  | 1,742      |
|                                       | \$ 29,605            | \$ 13,799        | \$ 16,617           | \$ 424,415      | \$ 1,817             | \$ 486,253 |

#### *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. 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. During the quarter, the Company repaid its floating rate debt and is no longer exposed to interest risk on its floating rate debt.

# AINSWORTH LUMBER CO. LTD.

## Notes to the Condensed Interim Consolidated Financial Statements

### For the three and nine months ended September 30, 2014

(Figures are in thousands of Canadian dollars except share and per share amounts - Unaudited)

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#### 21. FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (Continued)

##### *Market risk (Continued)*

The Company is also exposed to interest rate risk on the derivative financial instrument that arises from the call option embedded in the 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 September 30, 2014 was \$10.4 million (December 31, 2013: \$19.6 million) and was included in other assets. At September 30, 2014, if interest rates had been 1% higher and all other variables were constant, the value of the derivative financial asset would increase by approximately \$3.0 million (December 31, 2013: \$2.5 million).

##### *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, trade and other receivables and trade and other payables. 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 September 30, 2014, the impact on the after tax net income of a one cent weakening/strengthening of the Canadian dollar, all other variables remaining constant, on the revaluation of the Company's monetary assets and liabilities would have been \$2.9 million on an annual basis (December 31, 2013: \$2.7 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. and Japanese housing markets, changes in industry production capacity, changes in world inventory levels and other factors beyond the Company's control. The Company reduces its exposure to commodity price risk through product and geographic diversification.

##### **Fair value of financial instruments**

The fair value of financial instruments, with the exception of the Notes, is estimated to approximate their carrying value at September 30, 2014 due to the immediate or short-term maturity of these financial instruments.

# AINSWORTH LUMBER CO. LTD.

## Notes to the Condensed Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2014

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### 21. FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (Continued)

The carrying values and fair values of the long-term debt are as follows:

|                                     | September 30, 2014 |                   | December 31, 2013 |                   |
|-------------------------------------|--------------------|-------------------|-------------------|-------------------|
|                                     | Carrying Value     | Fair Value        | Carrying Value    | Fair Value        |
| Senior Secured Notes <sup>(1)</sup> | \$ 351,314         | \$ 365,148        | \$ 333,245        | \$ 352,699        |
| Equipment financing <sup>(2)</sup>  | -                  | -                 | 9,574             | 9,574             |
|                                     | <b>\$ 351,314</b>  | <b>\$ 365,148</b> | <b>\$ 342,819</b> | <b>\$ 362,273</b> |

(1) Fair value is determined using quoted ask prices for the Notes. The estimated fair value may differ from the amount which could be realized in an immediate settlement.

(2) Carrying value approximates fair value as the equipment financing bears floating interest rates that approximate market rates.

The fair value of the call option embedded in the Notes as at September 30, 2014 was \$10.4 million (December 31, 2013: \$19.6 million).

### 22. RELATED PARTY TRANSACTIONS

#### **Brookfield Capital Partners**

The Company periodically sells goods to BCP affiliates. There were no such sales during the three and nine months ended September 30, 2014 (three months ended September 30, 2013: \$nil; nine months ended September 30, 2013: \$2.5 million).

#### **Subsidiaries**

Transactions with subsidiaries (listed in Note 2(b)), which have been eliminated on consolidation, are carried out in the normal course of business on an arm's length basis and are not disclosed in this note. Outstanding balances are placed on inter-company accounts with no specified credit period. Long-term loans owed to the Company by subsidiary undertakings are non-interest bearing in accordance with the inter-company loan agreements.

#### **Compensation of the executive management team and directors**

No person on the Board of Directors of Ainsworth Lumber Co. Ltd. or its executive management team had any material interest during the period in a contract of significance (except as disclosed below with respect to a service contract for legal services rendered) with the Company or any subsidiary company. The total compensation for the Board of Directors and the executive management team is as follows:

|                              | Three months ended September 30 |               | Nine months ended September 30 |                 |
|------------------------------|---------------------------------|---------------|--------------------------------|-----------------|
|                              | 2014                            | 2013          | 2014                           | 2013            |
| Short-term employee benefits | \$ 485                          | \$ 674        | \$ 1,705                       | \$ 2,084        |
| Long-term employee benefits  | 16                              | 16            | 65                             | 80              |
| Share-based payments         | 147                             | 157           | 440                            | 449             |
| Termination benefits         | 247                             | -             | 247                            | -               |
|                              | <b>\$ 895</b>                   | <b>\$ 847</b> | <b>\$ 2,457</b>                | <b>\$ 2,613</b> |



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### Notes to the Condensed Interim Consolidated Financial Statements

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(Figures are in thousands of Canadian dollars except share and per share amounts - Unaudited)

#### 22. RELATED PARTY TRANSACTIONS (Continued)

##### *Other*

|                               | Three months ended September 30 |        | Nine months ended September 30 |          |
|-------------------------------|---------------------------------|--------|--------------------------------|----------|
|                               | 2014                            | 2013   | 2014                           | 2013     |
| Legal fees <sup>(1)</sup>     | \$ 91                           | \$ 544 | \$ 431                         | \$ 640   |
| Other services <sup>(2)</sup> | 84                              | 84     | 395                            | 389      |
|                               | \$ 175                          | \$ 628 | \$ 826                         | \$ 1,029 |

<sup>(1)</sup> Legal fees were paid to a law firm of which one of the Company's directors is also a partner.

<sup>(2)</sup> Includes amounts paid to BCP and its affiliates for services provided to the Company.

Sales to overseas markets are handled by Interex Forest Products Ltd. ("Interex"), a cooperative sales company over which Ainsworth, as a shareholder, has significant influence. At September 30, 2014, \$5.9 million was included in trade receivables with respect to Interex (December 31, 2013: \$2.9 million).

All transactions with related parties were measured and recorded at fair value. Fair value is defined as the transaction amount with unrelated parties under similar terms and conditions.