Ainsworth®

INTERIM REPORT TO SHAREHOLDERS
FOR THE THREE AND SIX MONTH PERIODS ENDED
JUNE 30, 2012

LETTER TO SHAREHOLDERS

August 2, 2012

Dear Fellow Shareholders:

I am pleased to report positive results for the Company during the second quarter of 2012, as we continued to benefit from improving demand conditions and stronger pricing in our principal markets. Sales of $90.5 million in the second quarter of 2012 were $10.0 million higher compared to the same period last year due to an improvement in market prices, most notably in North American Western and North Central regions.

The Company recorded positive adjusted EBITDA of $17.1 million for the second quarter of 2012, which was $7.1 million higher than the first quarter of 2012 and $14.4 million higher than the second quarter of 2011. Adjusted EBITDA for the first six months of 2012 was $27.1 million, a threefold increase compared to the first half of 2011. Our strong operating results for the first half of this year enabled us to maintain our liquidity position relative to the end of 2011.

In the second quarter of 2012, the Western Canadian price for the benchmark 7/16” OSB averaged U.S. $232 per msf, a 54% increase relative to the second quarter of 2011. The North Central price for the benchmark 7/16” OSB averaged U.S. $235 per msf, a 35% increase relative to the second quarter of 2011.

While sales prices have strengthened, the costs of certain raw materials have also increased. Resin and wax prices increased 11% and 6% respectively in the second quarter of 2012 compared to the same period in 2011 due to market-related increases in key input variables for these products. In addition, log costs increased at Grande Prairie and 100 Mile House due to higher logging and hauling rates and increased competition from sawmills. These cost increases were mitigated by production efficiency gains and by log cost reductions at Barwick.

I am also proud to report that our operations at Barwick and Grande Prairie achieved a significant safety milestone in the second quarter of 2012, operating accident-free for one year for the first time in Ainsworth’s history.

Outlook

The U.S. housing market continues to show positive signs, with improvements in housing-related indicators compared to 2011. U.S. housing starts, building permits and single-family starts during the quarter were up sharply, from a low base, by 29%, 23% and 23%, respectively year-over-year. On a regional basis, the West experienced the largest year-over-year gains compared to all other regions, with housing starts, building permits and single-family starts up 37%, 30% and 32%, respectively.

Industry forecasts for 2012 US housing starts now range between 723,000 and 800,000, which is 19% to 27% higher than last year's 610,000 starts. Provided that improvements in U.S. housing starts continue, we expect demand to trend incrementally better for the remainder of the year, particularly in our key Western markets.

In Japan, we face increased competition from domestic plywood and, to some degree, from European OSB producers. Domestic plywood production has fully recovered from the 2011 tsunami, with some rebuilt facilities exceeding pre-tsunami production levels. European OSB producers are becoming increasingly competitive due to the devaluation of the Euro relative to Japanese and U.S. currencies. The tsunami rebuild effort is now expected to take place over a longer time span (three to five years) than originally anticipated and therefore demand is not expected to increase significantly for the remainder of 2012. As the leading OSB supplier in Japan, we are well positioned to benefit from any increases in panel demand in Japan for the years to come.

Although we are encouraged by our financial performance in the first half of the year, we continue to review alternatives to strengthen our balance sheet and to enhance our liquidity in order to ensure the Company is positioned to maintain operations and capacity during challenging economic conditions and to better position us for growth when the markets improve.

Overall, we continue to focus on strategically positioning the company to maximize shareholder value both now and as conditions improve in our key markets. These initiatives include cost reduction programs, market share expansion, and development of new markets and products. As always, I value and appreciate the contribution of our employees and am grateful for the support we receive from our shareholders, customers and suppliers.

Sincerely,

/s/ Jim Lake

President and Chief Operating Officer

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS For the Three and Six Month Period Ended June 30, 2012

This management's discussion and analysis is presented as at August 2, 2012. 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. Our financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board.

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 facilities 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 Company's active facilities have a current production capacity of 1.6 billion square feet (3/8-inch basis).

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

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

(1) The High Level mill was curtailed in December of 2007 and remains curtailed pending improved market conditions. The Company holds a 100% interest as a result of the acquisition of the remaining 50% interest from Grant Forest Products Inc. on February 17, 2011.

To meet potential future increases in demand for OSB, incremental capacity would come from restarting High Level. In addition, the Company continues to assess the remaining costs to complete the second production line at the Grande Prairie mill, which would further increase capacity by approximately 620 mmsf (3/8-inch basis) to over 3 billion square feet per year (3/8-inch basis).

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

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. 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 EBITDA", "adjusted EBITDA margin" "adjusted working capital" and "gross profit" to make strategic decisions and to provide investors with a basis to evaluate operating performance and ability to incur and service debt. Non-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 EBITDA, adjusted EBITDA margin, adjusted working capital, and narrative disclosures defining gross profit.

Outlook

Liquidity

At June 30, 2012, we had available liquidity, consisting of cash and cash equivalents, restricted cash and short-term investments, of approximately $59.4 million. This compares to available liquidity of $62.5 million at December 31, 2011. See "Liquidity and Capital Resources" for a more detailed description of working capital, available funds and cash flows.

While we have adequate financial liquidity to manage our business and maintain capacity in the near term, we continue to review various alternatives which could enhance liquidity, which could include the sale of non-core assets, cost reductions, refinancing or repayment of debt and issuance of new debt and equity.

Ainsworth is permitted, under the terms of its Senior Unsecured Notes and Senior Secured Term Loan, to borrow an additional U.S. $125 million of Senior Secured Debt and U.S. $75 million of Senior Unsecured Debt. The availability of additional sources of capital will depend on capital markets at the time and may not be available on acceptable terms.

We continue to leverage on Ainsworth's operational expertise, superior products and customer relationships to ensure the Company is well positioned, from both a liquidity and operational standpoint, to capitalize on a recovery in US home construction and increased demand from Asia.

Debt Maturities

Our debt principal repayments are scheduled to total $2.4 million in the second half of 2012. Our U.S. dollar Senior Secured Term Loan is scheduled to mature in 2014 and our U.S. dollar Senior Unsecured Notes mature in 2015.

Summary of Operating and Financial Results from Continuing Operations

	Q2-12	Q1-12	Q4-11	Q3-11	Q2-11	Q1-11	Q4-10	Q3-10
(in millions, except volume, unless otherwise noted)								
Sales	**$ 90.5**	$ 85.1	$ 69.5	$ 71.8	$ 80.5	$ 71.5	$ 55.0	$ 81.1
Adjusted EBITDA (1)	**17.1**	10.0	2.7	0.7	2.7	6.4	(1.8)	9.8
Adjusted EBITDA margin (2)	**18.9%**	11.8%	3.9%	1.0%	3.4%	9.0%	-3.3%	12.1%
Shipment volume (mmsf 3/8")	**393.8**	405.1	374.3	393.4	422.0	350.8	285.9	392.0
Production volume (mmsf 3/8")	**398.0**	400.8	368.3	394.9	388.9	388.9	282.5	386.9

(1) Adjusted EBITDA, a non-IFRS financial measure, is defined as net income from continuing operations before amortization, gain on disposal of property, plant and equipment, cost of curtailed operations, stock option expense (recovery), finance expense, foreign exchange (gain) loss on long-term debt, other foreign exchange loss (gain), income tax (recovery) expense and non-recurring items. See the detailed calculation of adjusted EBITDA by quarter on page 11.

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

Review of Financial Results

	Q2-12	Q2-11	YTD 2012	YTD 2011
(in millions)				
Sales	**$ 90.5**	$ 80.5	**$ 175.6**	$ 151.9
Cost of products sold	**69.5**	73.9	**140.9**	134.8
Net (loss) income from continuing operations	**(11.3)**	(12.9)	**(10.6)**	64.8
Net (loss) income	**(11.5)**	(13.0)	**(10.9)**	64.7
Adjusted EBITDA	**17.1**	2.7	**27.1**	9.0
Adjusted EBITDA margin	**18.9%**	3.4%	**15.4%**	5.9%

The table below shows the calculation of adjusted EBITDA:

	Q2-12	Q2-11	YTD 2012	YTD 2011
(in millions)				
Net (loss) income from continuing operations	**$ (11.3)**	$ (12.9)	**$ (10.6)**	$ 64.8
Add (deduct):				
Amortization of property, plant and equipment	**6.1**	6.3	**12.3**	12.0
Gain on disposal of property, plant and equipment	**-**	(0.5)	**-**	(0.2)
Write-down of property, plant and equipment	**-**	-	**-**	0.9
Cost of curtailed operations	**0.7**	0.9	**1.7**	1.4
Stock option expense	**-**	0.2	**0.2**	0.4
Finance expense	**13.1**	11.8	**26.2**	24.2
Income tax recovery	**(2.0)**	(3.8)	**(3.6)**	(6.0)
Foreign exchange loss (gain) on long-term debt	**10.5**	(2.5)	**0.5**	(15.0)
(Gain) loss on derivative financial instrument	**(0.2)**	3.7	**(0.2)**	(0.8)
Gain on High Level acquisition	**-**	-	**-**	(72.5)
Other	**0.2**	(0.5)	**0.6**	(0.2)
Adjusted EBITDA	**$ 17.1**	$ 2.7	**$ 27.1**	$ 9.0

Net loss from continuing operations in the second quarter of 2012 was $11.3 million compared to $12.9 million in the second quarter of 2011. The $1.6 million decrease in net loss is primarily due to a $14.4 million increase in gross profit (sales less cost of products sold (exclusive of amortization)), partially offset by a $13.0 million increase in foreign exchange loss on long-term debt.

In the first six months of 2012, net loss from continuing operations was $10.6 million, compared to net income of $64.8 million in the first six months of 2011. The $75.4 million decrease in net income is primarily due to a one-time gain of $72.5 million on the High Level acquisition in 2011, combined with a $15.5 million increase in foreign exchange loss on long-term debt in 2012 compared to 2011, a $2.4 million decrease in income tax recovery, and a $2.0 million increase in finance expense, partially offset by a $17.5 million increase in gross profit.

Adjusted EBITDA

In the second quarter of 2012, adjusted EBITDA was $17.1 million compared to $2.7 million in the second quarter of 2011. EBITDA margin on sales was 18.9% compared to 3.4% in the same period of 2011. The increase is due to a $14.4 million increase in gross profit.

Adjusted EBITDA for the first six months of 2012 was $27.1 million compared to $9.0 million in the first six months of 2011. EBITDA margin on sales was 15.4% compared to 5.9% in the same period of 2011. The increase is primarily due to a $17.5 million increase in gross profit, combined with a $0.6 million decrease in selling and administration expenses.

Sales

Sales of $90.5 million in the second quarter of 2012 were $10.0 million higher than sales of $80.5 million for the same period in 2011. The increase in sales was due to a 20.4% increase in realized pricing partially offset by a 6.7% decrease in shipment volumes. The average benchmark price for the Western Canada region (our primary sales market) increased by U.S. $81 per msf (7/16-inch basis) in the second quarter of 2012 compared to the same period in 2011. The average benchmark price for the North Central region increased by 35% in the second quarter of 2012 compared to the same period in 2011.

Sales of $175.6 million for the first six months of 2012 were $23.7 million higher than sales of $151.9 million for the same period in 2011. The increase in sales was mainly due to an 11.8% increase in realized pricing combined with a 3.4% increase in shipment volumes.

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	Q2-12	Q1-12	Q4-11	Q3-11	Q2-11	Q1-11	Q4-10	Q3-10
North Central (7/16" basis)	**$ 235**	$ 203	$ 190	$ 184	$ 174	$ 199	$ 191	$ 180
Western Canada (7/16" basis)	**232**	201	149	137	151	182	166	164

Costs of Products Sold (Exclusive of Amortization)

In the second quarter of 2012, cost of products sold was $69.5 million, a $4.4 million decrease over the same period in 2011. The decrease in cost of products sold is primarily the result of decreased sales volumes.

Cost of products sold for the first six months was $140.9 million, a $6.1 million increase over the same period in 2011. The increase in cost of products sold is primarily the result of increased sales volumes as well as increases in wood costs and freight expense.

Selling and Administration

Selling and administration expense of $4.0 million was not significantly different from $4.1 million in the second quarter of 2011. Selling and administration expense for the first six months of 2012 was $8.0 million, down $0.6 million from the $8.6 million recorded in the first six months of 2011. This decrease was the result of lower salaries and benefits expense and lower professional fees.

Amortization of Property, Plant and Equipment and Intangible Assets

Amortization expense in the second quarter of 2012 of $6.1 million was not significantly different from $6.3 million in the second quarter of 2011. In the first six months of 2012, amortization expense was $12.3 million compared with $12.0 million in the first six months of 2011.

Finance Expense

Finance expense in the second quarter of 2012 was $13.1 million, an increase of $1.3 million compared to $11.8 million in the second quarter of 2011. For the first six months of 2012, finance expense was $26.2 million, an increase of $2.0 million compared to $24.2 million in the same period in 2011. The increase is attributable to a higher principal balance of Senior Unsecured Notes outstanding in 2012 due to the issue of new notes as payment-in-kind interest, in combination with the foreign exchange effects of a weaker Canadian dollar in 2012 as compared to 2011.

Foreign Exchange Loss (Gain) on Long-Term Debt

The unrealized foreign exchange loss on long-term debt in the second quarter of 2012 was $10.5 million compared with a gain of $2.5 million in the second quarter of 2011. The unrealized foreign exchange loss on long-term debt in the first six months of 2012 was $0.5 million compared with a gain of $15.0 million in the same period of 2011. The increase in foreign exchange loss is due to the effect of a weakening Canadian dollar on our U.S. dollar denominated debt in 2012 compared to 2011. Management estimates that a one cent weakening/strengthening of the Canadian dollar results in a $4.0 million increase/decrease in foreign exchange loss/gain on our U.S. dollar debt.

Gain (Loss) on Derivative Financial Instrument

In the second quarter and first six months of 2012, the Company recorded a gain of $217 thousand related to the call option embedded in the Senior Unsecured Notes. This compares to a loss of $3.7 million in the second quarter of 2011 (2011 year to date $804 thousand gain). The derivative financial asset is revalued quarterly (see “Financial Instrument”) and changes in value are reflected in operations.

Costs of Curtailed Operations

Costs of curtailed operations are comprised of costs directly attributable to the partially completed second production line at our Grande Prairie, Alberta mill and our idled High Level, Alberta mill.

Other Items

Other income of $101 thousand in the second quarter of 2012 was not significantly different than $643 thousand in the second quarter of 2011. For the first six months of 2012, other income was $280 thousand compared to $792 thousand for the same period in 2011.

Income Taxes

The income tax recovery in the second quarter of 2012 was $2.0 million on a loss before income taxes of $13.2 million compared with an income tax recovery of $3.8 million on loss before income taxes of $16.7 million in the second quarter of 2011. 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 recovery.

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.

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 Loss from Discontinued Operations

Net loss from discontinued operations includes expenses 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.

Liquidity and Capital Resources

As of June 30, 2012, our adjusted working capital was $93.6 million, compared to $90.1 million as at December 31, 2011. We have presented adjusted working capital as we believe that it provides investors with a basis to evaluate our ability to fund operations and capital expenditures. Adjusted working capital, a non-IFRS measure, is calculated as follows:

		June 30 2012		December 31 2011
(in millions)				
Current assets	**$**	**128.8**	$	123.8
Restricted cash not related to current liabilities		**(5.2)**		(4.9)
Current liabilities		**(30.0)**		(28.8)
Adjusted working capital	**$**	**93.6**	$	90.1
Adjusted working capital, discontinued operations		**(0.8)**		(0.2)
Adjusted working capital, continuing operations	**$**	**94.4**	$	90.3

Our working capital requirements in the short term are to fund any potential future shortfalls from operations, interest payments, debt principal repayments and essential capital expenditures. Most discretionary capital expenditures, including the expansion of the Grande Prairie facility, have been put on hold until market conditions improve.

The table below presents the total funds available:

		June 30 2012		December 31 2011
(in millions)				
Cash and cash equivalents	**$**	**12.9**	$	12.1
Restricted cash		**5.2**		4.9
Short-term investments		**41.3**		45.5
Total available funds	**$**	**59.4**	$	62.5

Our cash flows for the second quarter and first six months of 2012 and 2011 were as follows:

		Q2-12		Q2-11		YTD 2012		YTD 2011
(in millions)								
Cash provided by operating activities before interest and working capital	**$**	**14.6**	$	3.1	**$**	**23.8**	$	8.9
Cash used for interest		**(13.6)**		(13.3)		**(15.4)**		(15.0)
Cash provided by (used in) working capital		**7.4**		7.8		**(7.1)**		(11.3)
Cash provided by (used in) operating activities		**8.4**		(2.4)		**1.3**		(17.4)
Cash used in financing activities		**(1.6)**		(4.2)		**(2.4)**		(6.1)
Cash (used in) provided by investing activities		**(1.6)**		0.5		**2.2**		(15.0)

In the second quarter of 2012 we had a cash inflow of $14.6 million from operating activities before interest paid and working capital requirements compared to a $3.1 million cash inflow in the second quarter of 2011. For the year to date, the cash provided by operating activities before interest and working capital increased to $23.8 million from $8.9 million for the same period in 2011. The increase over quarter and year to date is due to improved pricing and margins.

Cash used in financing activities for all periods presented represents the repayment of equipment financing loans and capital lease obligations. There were no debt maturities in the second quarter of 2012 or 2011.

The increase in cash used by investing activities is primarily due to a reduction in short-term investments that matured in the second quarter of 2012 compared with the same period in 2011. In the first six months of 2012, cash provided by investing activities increased due to the High Level acquisition in the first quarter of 2011 that used cash of $20.0 million. Additions to property, plant and equipment during the second quarter and first six months of 2012 were primarily limited to essential projects or those with a quick payback.

Outstanding Share Data

The issued share capital of the Company at June 30, 2012 is as follows:

	Shares	Warrants		Value (in millions)
Common shares	100,768,888	-	$	412
Shareholder warrants	-	8,695,634		-
	100,768,888	8,695,634	$	412

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

The following table presents the exercise prices and expiry dates for the stock options outstanding at June 30, 2012:

Grant Date	Number of Options Outstanding	Exercise Price	Expiry Date
November 14, 2008 (1)	400,000	1.74	November 14, 2018
November 2, 2009	66,666	1.56	November 2, 2019
March 5, 2010	325,000	2.30	March 5, 2020
March 15, 2010	25,000	2.45	March 15, 2020
May 13, 2010	72,376	4.48	May 13, 2020
May 21, 2010	50,000	4.14	May 21, 2020
June 14, 2010	100,000	3.28	June 14, 2020
August 5, 2010	6,300	2.89	August 5, 2020
August 13, 2010	25,000	2.71	August 13, 2020
March 4, 2011	295,000	3.28	March 4, 2021
September 9, 2011	200,000	1.93	September 9, 2021
March 9, 2012	100,000	1.55	March 9, 2022
March 13, 2012	150,000	1.55	March 13, 2022

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

Financial Instruments

Ainsworth does not use derivatives or participate in hedging activities. However, our Senior Unsecured Notes include a call option which has been identified as an embedded derivative whereby we have the right to repurchase the Notes. The embedded call option derivative was recorded at fair value at issuance of the Senior Unsecured Notes and is revalued at each reporting period based on current interest rates and the credit spread. As the risk-free interest rate and the credit spread increase, the value of the derivative financial asset decreases. Conversely, a decrease in the risk-free interest rate and the credit spread increases the value of the derivative financial asset. Changes in the value of this derivative financial asset are reflected in operations as "Gain (loss) on derivative financial instrument". Management estimates that had interest rates been 1% higher and all other variables were constant, the value of the derivative financial asset would not have been substantially different. At June 30, 2012, the derivative financial asset had a value of $223 thousand (December 31, 2011: $6 thousand).

Off-Balance Sheet Arrangements

The Company does not have any significant off-balance sheet arrangements other than letters of credit in the amount of $5.2 million ($4.9 million at December 31, 2011), 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

Brookfield Private Equity and Finance Ltd. ("BPEF") beneficially owns or exercises control or direction over approximately 55.0% of the issued and outstanding common shares. The Company made interest payments with respect to Senior Unsecured Notes held by BPEF.

The Company also periodically sells goods to BPEF affiliates. During the three months ended June 30, 2012, these sales were approximately $1.1 million (three months ended June 30, 2011: $nil). During the six months ended June 30, 2012, these sales were approximately $2.4 million (six months ended June 30, 2011: $nil).

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

	Q2-12	Q2-11	YTD 2012	YTD 2011
(in thousands)				
Legal fees (1)	$ -	$ 10	$ 8	$ 74
Insurance (2)	133	134	133	134
Key management compensation (3)	889	913	1,734	1,764
	$ 1,022	$ 1,057	$ 1,875	$ 1,972

(1) Legal fees were paid to a law firm of which one of the Company's directors is also a partner.
(2) Insurance was paid to an entity related to BPEF.
(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.

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.

Selected Quarterly Financial Information (Unaudited)

	Q2-12	Q1-12	Q4-11	Q3-11	Q2-11	Q1-11	Q4-10	Q3-10
(in millions, except per share data, unless otherwise noted)								
Sales and (loss) earnings								
Sales	$ 90.5	$ 85.1	$ 69.5	$ 71.8	$ 80.5	$ 71.5	$ 55.0	$ 81.1
Operating income (loss)	11.0	3.4	(3.3)	(6.0)	(3.8)	0.3	(8.0)	3.4
Foreign exchange (loss) gain on long-term debt	(10.5)	10.0	16.4	(42.8)	2.5	12.5	18.2	17.7
Net (loss) income from continuing operations	(11.3)	0.7	1.7	(58.9)	(12.9)	77.7	2.8	10.5
Net (loss) income from discontinued operations	(0.2)	(0.1)	1.1	(0.3)	(0.1)	-	-	(0.1)
Net (loss) income	(11.5)	0.6	2.8	(59.2)	(13.0)	77.7	2.8	10.4
Adjusted EBITDA	17.1	10.0	2.7	0.7	2.7	6.4	(1.8)	9.8
Basic and diluted (loss) earnings per common share								
Net (loss) income continuing operations [1]	(0.11)	0.01	0.02	(0.59)	(0.13)	0.77	0.03	0.10
Net (loss) income [1]	(0.11)	0.01	0.03	(0.59)	(0.13)	0.77	0.03	0.10
Balance sheet								
Total assets	781.1	790.1	786.3	809.9	833.4	863.1	762.2	795.3
Total long-term debt [2]	532.3	517.9	523.2	535.8	497.1	498.6	507.9	534.1

(1) Basic and diluted net (loss) income per share. As at June 30, 2012, the Company had 100,768,888 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.

OSB demand and product pricing were the main factors causing fluctuations in our sales over the past eight quarters. North American OSB prices dropped significantly in the fourth quarter of 2010 and fluctuated during 2011 but remained low. During the first two quarters of 2012, OSB prices in North America have increased, particularly in the Western region. The earthquake and tsunami in Japan in March 2011 resulted in higher overseas sales in the second quarter of 2011 due to an increase in demand. In the first quarter of 2011, the acquisition of the remaining 50% in the curtailed High Level OSB facility resulted in a $72.5 million gain, net of tax. Net income (loss) also fluctuated as a result of unrealized foreign exchange gain (loss) on long-term debt caused by fluctuations in the strength of the Canadian dollar relative to the U.S. dollar. OSB shipment volumes have varied in the past eight quarters depending on production disruptions, maintenance requirements and product mix.

Segmented Information

Our geographic distribution of sales was as follows:

	Three months ended June 30		Six months ended June 30	
	2012	2011	**2012**	2011
(in millions)				
United States	**$ 65.9**	$ 45.4	**$ 127.3**	$ 94.7
Canada	**12.9**	11.4	**26.3**	21.3
Japan	**10.5**	22.5	**19.1**	32.3
Overseas - other	**1.2**	1.2	**2.9**	3.6
	$ 90.5	$ 80.5	**$ 175.6**	$ 151.9

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 2011 Annual Report which can be found on SEDAR at 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.

Access to wood fibre represents a risk to the company, as described in the 2011 Annual Report referenced above. One of our fibre agreements in British Columbia expires in April 2015, and it will not be renewed. We are currently evaluating alternative sources of wood fibre and expect to replace the volume of timber currently harvested from the expiring agreement.

Significant Accounting Estimates and Judgments

Management has made certain judgments and estimates that affect the reported amounts and other disclosures in our financial statements. These judgments and estimates are described in the 2011 Annual Report, which can be found on SEDAR at www.sedar.com.

Disclosure Controls and Procedures and Internal Control over Financial Reporting

The President and Chief Operating Officer and the Corporate Controller and Secretary, as chief financial officer of the Company, 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 know 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 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 June 30, 2012 that would materially affect, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

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

AINSWORTH LUMBER CO. LTD.

Other Information

Unaudited

Selected Financial Data ($000's)	June 30, 2012	December 31, 2011
Cash, cash equivalents and restricted cash	**$ 18,120**	$ 17,029
Short-term investments	**41,295**	45,528
Adjusted working capital (Note 1)	**93,622**	90,147
Total assets	**781,059**	786,263
Total long-term debt	**532,267**	523,166
Shareholders' equity	**179,228**	190,060

	Three months ended June 30		Six months ended June 30	
	2012	2011	**2012**	2011
Geographic Sales Distribution ($000's)				
United States	**$ 65,823**	$ 45,366	**$ 127,268**	$ 94,727
Canada	**12,933**	11,446	**26,297**	21,302
Japan	**10,544**	22,447	**19,143**	32,353
Overseas - other	**1,169**	1,228	**2,874**	3,565
	$ 90,469	$ 80,487	**$ 175,582**	$ 151,947
Shipment Volumes (msf - 3/8 inch)	**393,803**	421,963	**798,898**	772,748

Reconciliation of Net (Loss) Income to Adjusted EBITDA

(in millions)	Q2-12	Q1-12	Q4-11	Q3-11	Q2-11	Q1-11	Q4-10	Q3-10
Net (Loss) Income from Continuing Operations	$ (11.3)	$ 0.7	$ 1.7	$ (58.9)	$ (12.9)	$ 77.7	$ 2.8	$ 10.5
Add (deduct):								
Amortization of property, plant and equipment	6.1	6.2	5.9	6.1	6.3	5.6	5.2	5.8
(Gain) loss on disposal of property, plant and equipment	-	-	(0.2)	(0.5)	(0.5)	0.3	-	(0.3)
Write-down of property, plant and equipment	-	-	-	-	-	0.9	-	-
Cost of curtailed operations	0.7	1.1	1.0	0.9	0.9	0.5	0.4	-
Stock option expense (recovery)	-	0.2	(0.2)	0.2	0.2	0.2	0.2	0.2
Finance expense	13.1	13.1	13.1	12.5	11.8	12.4	12.8	13.4
Income tax recovery	(2.0)	(1.6)	(2.4)	(8.3)	(3.8)	(2.2)	(4.0)	(2.6)
Foreign exchange loss (gain) on long-term debt	10.5	(10.0)	(16.4)	42.8	(2.5)	(12.5)	(18.1)	(17.7)
(Gain) loss on derivative financial instrument	(0.2)	-	-	7.0	3.7	(4.5)	(0.9)	0.3
Gain on High Level acquisition	-	-	-	-	-	(72.5)	-	-
Other	0.2	0.3	0.2	(1.1)	(0.5)	0.5	(0.2)	0.2
Adjusted EBITDA (Note 2)	$ 17.1	$ 10.0	$ 2.7	$ 0.7	$ 2.7	$ 6.4	$ (1.8)	$ 9.8

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

Note 2: Adjusted EBITDA, a non-IFRS financial measure, is defined as sales less costs of products sold (exclusive of amortization) and selling and administrative expense (exclusive of share-based compensation) plus other income.

About Ainsworth

Ainsworth Lumber Co. Ltd. is a leading Canadian forest products company, with a 50-year reputation for quality products and unsurpassed customer service. In Alberta, the Company's facilities include OSB plants at Grande Prairie and High Level. In British Columbia, the Company's facilities include an OSB plant at 100 Mile House. In Ontario, the Company's facilities include an OSB plant at Barwick. The Company's facilities have a total annual capacity of 2.5 billion square feet (3/8-inch basis) of OSB.

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

Contact:

Rob Feustel
Treasurer
Telephone: 604-661-3200
Facsimile: 604-661-3201
E-mail: Investors@ainsworth.ca

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

Visit our web-site: www.ainsworthengineered.com

AINSWORTH LUMBER CO. LTD.

Condensed Interim Consolidated Statements of Financial Position

(In thousands of Canadian dollars)
(Unaudited)

		June 30 2012		December 31 2011
ASSETS				
Current Assets				
Cash and cash equivalents	**$**	**18,120**	$	17,029
Short-term investments		**41,295**		45,528
Trade and other receivables		**24,585**		17,802
Inventories (Note 3)		**36,875**		36,408
Prepaid expenses		**7,967**		6,553
Assets held for disposal		**-**		509
Total Current Assets		**128,842**		123,829
Property, Plant and Equipment (Note 4)		**639,274**		648,766
Intangible Assets		**10,785**		11,678
Other Assets		**2,158**		1,990
Total Assets	**$**	**781,059**	$	786,263
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current Liabilities				
Trade and other payables	**$**	**22,907**	$	21,686
Income taxes payable		**1,503**		1,521
Current portion of long-term debt (Note 5)		**4,803**		4,895
Liabilities related to discontinued operations		**769**		719
Total Current Liabilities		**29,982**		28,821
Accrued Pension Benefit Liability		**13,103**		13,103
Reforestation Obligation		**3,290**		2,936
Long-term Debt (Note 5)		**527,464**		518,271
Deferred Income Tax Liabilities		**26,112**		31,194
Liabilities Related to Discontinued Operations		**1,880**		1,878
Total Liabilities		**601,831**		596,203
SHAREHOLDERS' EQUITY				
Capital Stock		**411,509**		411,509
Contributed Surplus		**1,561**		1,484
Deficit		**(233,842)**		(222,933)
Total Shareholders' Equity		**179,228**		190,060
Total Liabilities and Shareholders' Equity	**$**	**781,059**	$	786,263

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

Contingencies (Note 6)

Approved by the Board on August 2, 2012:

/s/ Peter Gordon	/s/ Gordon Lancaster
DIRECTOR	**DIRECTOR**

AINSWORTH LUMBER CO. LTD.

Condensed Interim Consolidated Statements of Operations and Comprehensive Income

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

	Three months ended June 30		Six months ended June 30	
	2012	2011	**2012**	2011
Sales (Note 18)	**$ 90,469**	$ 80,487	**$ 175,582**	$ 151,947
Costs and Expenses				
Costs of products sold	**69,459**	73,861	**140,908**	134,809
Selling and administration	**3,975**	4,080	**8,012**	8,639
Amortization of property, plant and equipment and intangible assets	**6,085**	6,337	**12,335**	11,984
Total Costs and Expenses	**79,519**	84,278	**161,255**	155,432
Income (Loss) before Other Items	**10,950**	(3,791)	**14,327**	(3,485)
Finance Expense (Note 8)	**(13,140)**	(11,830)	**(26,210)**	(24,210)
Foreign Exchange (Loss) Gain (Note 9)	**(10,682)**	2,364	**(1,032)**	14,420
Gain (Loss) on Derivative Financial Instrument (Note 10)	**217**	(3,724)	**217**	804
Costs of Curtailed Operations (Note 11)	**(657)**	(899)	**(1,736)**	(1,389)
Gain on Acquisition of High Level (Note 12)	**-**	-	**-**	72,544
Other Items (Note 13)	**70**	1,161	**250**	95
(Loss) Income Before Income Taxes	**(13,242)**	(16,719)	**(14,184)**	58,779
Income Tax Recovery (Note 15)	**1,990**	3,832	**3,627**	6,024
(Loss) Income from Continuing Operations	**(11,252)**	(12,887)	**(10,557)**	64,803
Net Loss from Discontinued Operations	**(244)**	(143)	**(352)**	(142)
Net (Loss) Income, being Total Comprehensive (Loss) Income	**(11,496)**	(13,030)	**(10,909)**	64,661
Basic and diluted net (loss) income per common share (Note 16):				
Continuing operations	**$ (0.11)**	$ (0.13)	**$ (0.10)**	$ 0.64
Discontinued operations	**0.00**	0.00	**0.00**	0.00
Basic and diluted net (loss) income per common share	**$ (0.11)**	$ (0.13)	**$ (0.10)**	$ 0.64
Weighted average number of common shares outstanding - basic	**100,768,888**	100,602,222	**100,768,888**	100,591,172
Effect of dilutive stock options on continuing operations	**-**	-	**-**	550,556
Weighted average number of common shares outstanding - diluted	**100,768,888**	100,602,222	**100,768,888**	101,141,728

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)

	Capital Stock	Contributed Surplus	Deficit	Total Shareholders' Equity
Balance, January 1, 2011	$ 410,950	$ 1,350	$ (226,345)	$ 185,955
Total comprehensive income	-	-	64,661	64,661
Fair value of share-based payments (Note 7)	-	420	-	420
Stock options exercised (Note 7)	211	(37)	-	174
Balance, June 30, 2011	**$ 411,161**	**$ 1,733**	**$ (161,684)**	**$ 251,210**

	Capital Stock	Contributed Surplus	Deficit	Total Shareholders' Equity
Balance, January 1, 2012	$ 411,509	$ 1,484	$ (222,933)	$ 190,060
Total comprehensive income	-	-	(10,909)	(10,909)
Fair value of share-based payments (Note 7)	-	77	-	77
Balance, June 30, 2012	**$ 411,509**	**$ 1,561**	**$ (233,842)**	**$ 179,228**

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 June 30		Six months ended June 30	
	2012	2011	**2012**	2011
CASH FLOWS FROM OPERATING ACTIVITIES				
Net (Loss) Income	**$ (11,496)**	$ (13,030)	**$ (10,909)**	$ 64,661
Items not affecting cash				
Amortization of property, plant and equipment and intangible assets	**6,085**	6,337	**12,335**	11,984
Finance expense (Note 8)	**13,140**	11,830	**26,210**	24,210
Non-cash share based compensation (Note 7)	**47**	223	**202**	444
Foreign exchange loss (gain) on long-term debt (Note 9)	**10,470**	(2,468)	**498**	(14,984)
(Gain) loss on derivative financial instrument (Note 10)	**(217)**	3,724	**(217)**	(804)
Loss (gain) on disposal of property, plant and equipment (Note 13)	**30**	(5)	**30**	268
Write-down of property, plant and equipment (Note 13)	**-**	571	**-**	1,614
Change in non-current reforestation obligation	**(430)**	(499)	**354**	(475)
Deferred taxes	**(3,242)**	(3,833)	**(4,879)**	(6,035)
Gain on acquisition of High Level (Note 12)	**-**	-	**-**	(72,544)
Other	**192**	235	**215**	486
Cash flows from operating activities before working capital, interest and income taxes	**14,579**	3,085	**23,839**	8,825
Change in non-cash operating working capital (Note 17)	**7,357**	7,803	**(7,111)**	(11,290)
Interest paid	**(13,553)**	(13,332)	**(15,377)**	(14,995)
Income taxes paid	**-**	(1)	**(26)**	(3)
Cash provided by (used in) operating activities	**8,383**	(2,445)	**1,325**	(17,463)
CASH FLOWS FROM FINANCING ACTIVITIES				
Repayment of long-term debt (Note 5)	**(1,495)**	(2,824)	**(2,165)**	(5,015)
Exercise of stock options (Note 7)	**-**	-	**-**	174
Reduction in finance lease obligations (Note 5)	**(151)**	(1,330)	**(279)**	(1,219)
Cash used in financing activities	**(1,646)**	(4,154)	**(2,444)**	(6,060)
CASH FLOWS FROM INVESTING ACTIVITIES				
(Purchase) redemption of short-term investments	**(84)**	2,089	**4,233**	9,072
Acquisition of High Level (Note 12)	**-**	-	**-**	(20,000)
Additions to property, plant and equipment	**(1,567)**	(1,513)	**(2,111)**	(3,845)
Proceeds on disposal of property, plant and equipment and intangible assets	**30**	40	**30**	103
Decrease (increase) in other assets	**41**	(75)	**48**	(309)
Cash (used in) provided by investing activities	**(1,580)**	541	**2,200**	(14,979)
Effect of foreign exchange rate changes on cash and cash equivalents	**69**	(244)	**10**	(564)
NET CASH INFLOW (OUTFLOW)	**5,226**	(6,302)	**1,091**	(39,066)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	**12,894**	34,813	**17,029**	67,577
CASH AND CASH EQUIVALENTS, END OF PERIOD	**$ 18,120**	$ 28,511	**$ 18,120**	$ 28,511
Cash and cash equivalents	**12,882**	18,409	**12,882**	18,409
Restricted cash	**5,238**	10,102	**5,238**	10,102
CASH AND CASH EQUIVALENTS, END OF PERIOD	**$ 18,120**	$ 28,511	**$ 18,120**	$ 28,511

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

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 OSB facility located in High Level, Alberta has been curtailed since December of 2007. 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 Canada. The Company's shares are listed on the Toronto Stock Exchange.

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* as issued by the International Accounting Standards Board ("IASB"). Accordingly, certain disclosures included in the audited consolidated annual financial statements, prepared in accordance with the International Financial Reporting Standards as issued by the IASB, 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, 2011.

The accounting policies applied in these condensed interim consolidated financial statements are consistent with those applied and disclosed in the Company's consolidated financial statements for the year ended December 31, 2011, with the exception of certain amendments to accounting standards issued by the IASB, which were applicable from January 1, 2012. These amendments did not have a significant impact on the Company's condensed interim consolidated financial statements. 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 August 2, 2012.

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 the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The Company's principal subsidiaries include Ainsworth Corp. and Ainsworth Engineered Canada Limited Partnership. Intercompany balances, revenues, and expenses, between subsidiaries are eliminated upon consolidation.

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

(Figures are in thousands of Canadian dollars, except option and deferred share unit data - Unaudited)

3. INVENTORIES

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

	June 30 2012	December 31 2011
Logs	**$ 8,824**	$ 8,734
Panel products	**11,273**	10,627
Materials, supplies and spares	**16,778**	17,047
	$ 36,875	$ 36,408

All inventories are pledged as security for loans.

4. PROPERTY, PLANT AND EQUIPMENT

Deemed Cost	**Land**	**Building**	**Machinery and Equipment** (1)	**Assets under Finance Lease**	**Other Assets** (2)	**Construction in Progress** (3)	**Total**
Cost, December 31, 2011	$4,334	$223,118	$ 442,252	$1,818	$ 8,057	$ 55,513	$735,092
Additions	-	-	35	-	76	2,000	2,111
Disposals	-	(5)	(34)	-	-	(20)	(59)
Investment tax credits on capital expenditures	-	-	(203)	-	-	-	(203)
Transfers	-	-	2,172	-	42	(2,369)	(155)
Cost, June 30, 2012	$4,334	$223,113	$ 444,222	$1,818	$ 8,175	$ 55,124	$736,786
Accumulated Amortization							
Accumulated amortization, December 31, 2011	$ -	$ (19,493)	$ (64,389)	$ (449)	$(1,995)	$ -	$ (86,326)
Amortization for the period	-	(3,514)	(7,051)	(297)	(332)	-	(11,194)
Disposals	-	-	8	-	-	-	8
Accumulated amortization, June 30, 2012	$ -	$ (23,007)	$ (71,432)	$ (746)	$(2,327)	$ -	$ (97,512)
Carrying amount							
Balance, Dec. 31, 2011	$4,334	$203,625	$ 377,863	$1,369	$ 6,062	$ 55,513	$648,766
Balance, Jun. 30, 2012	4,334	200,106	372,790	1,072	5,848	55,124	639,274

(1) Certain property, plant and equipment have been secured as collateral against equipment financing of $12.6 million. In addition, there is a security charge against an OSB facility, to the maximum of U.S. $50 million.

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

(3) No interest has been capitalized in construction in progress for the periods presented. Included in construction in progress is $52,185 related to our second production line at Grande Prairie, which is currently curtailed. A portion of this amount has been secured as collateral on an equipment loan.

(Figures are in thousands of Canadian dollars, except option and deferred share unit data - Unaudited)

5. LONG-TERM DEBT

		June 30 2012		December 31 2011
Balance, beginning of period	$	**523,166**	$	507,895
Repayments		**(2,444)**		(17,125)
Payment-in-kind interest (Note 8)		**10,013**		18,990
Amortization of bond discount, transaction costs and consent fees (Note 8)		**1,034**		2,053
Foreign exchange loss on long-term debt (Note 9)		**498**		11,353
Balance, end of period	$	**532,267**	$	523,166
Current portion		**(4,803)**		(4,895)
Long-term portion	$	**527,464**	$	518,271

6. CONTINGENCIES

In the normal course of its business activities, the Company is subject to claims and legal actions that may be made against its customers, suppliers and others. While the final outcome with respect to actions outstanding or pending as at June 30, 2012 cannot be predicted with certainty, the Company believes the resolution will not have a material effect on the Company's financial position, results of operations or cash flows.

7. SHARE-BASED PAYMENTS

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. Adoption of the plan was approved by the Company's shareholders on May 13, 2009.

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

	Three months ended June 30		Six months ended June 30	
	2012	2011	**2012**	2011
Weighted average assumptions:				
Risk-free interest rate	**n/a**	2.28%	**1.41%**	2.20%
Expected volatility[(1)]	**n/a**	54.00%	**54.00%**	50.00%
Dividend yield	**n/a**	0%	**0%**	0%
Expected option life (years)	**n/a**	4.00	**4.00**	4.00
Share price	**n/a**	2.95	**1.51**	3.36

[(1)] Expected volatility is based on the historical share price volatility over the past four years.

(Figures are in thousands of Canadian dollars, except option and deferred share unit data - Unaudited)

7. SHARE-BASED PAYMENTS (Continued)

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

	Three months ended June 30			
	2012		2011	
	Number of Share Options	**Weighted Average Exercise Price**	Number of Share Options	Weighted Average Exercise Price
Outstanding at beginning of period	**2,028,676**	**$ 2.37**	2,453,676	$ 2.41
Granted during the period	**-**	**-**	25,000	3.13
Exercised during the period (1)	**-**	**-**	-	-
Forfeited during the period (2)	**(213,334)**	**2.38**	(16,667)	2.30
Outstanding at end of period	**1,815,342**	**$ 2.37**	2,462,009	$ 2.42
Options exercisable at end of period	**995,335**		1,014,043	
Weighted average fair value per option granted during the period	**$ -**		$ 1.24	

	Six months ended June 30			
	2012		2011	
	Number of Share Options	**Weighted Average Exercise Price**	Number of Share Options	Weighted Average Exercise Price
Outstanding at beginning of period	**1,753,676**	**$ 2.52**	1,978,676	$ 2.13
Granted during the period	**300,000**	**1.55**	600,000	3.27
Exercised during the period (1)	**-**	**-**	(100,000)	1.74
Forfeited during the period (2)	**(238,334)**	**2.46**	(16,667)	2.30
Outstanding at end of period	**1,815,342**	**$ 2.37**	2,462,009	$ 2.42
Options exercisable at period end	**995,335**		1,014,043	
Weighted average fair value per option granted during the period	**$ 0.64**		$ 1.40	

(1) No stock options were exercised during the three and six months ended June 30, 2012, and the three months ended June 30, 2011. During the six months ended June 30, 2011 $211 was credited to capital stock with respect to stock options that were exercised.

(2) During the three and six months ended June 30, 2012, $116 and $125 respectively was reversed from contributed surplus with respect to unvested options forfeited (three and six months ended June 30, 2011: $8).

(Figures are in thousands of Canadian dollars, except option and deferred share unit data - Unaudited)

7. SHARE-BASED PAYMENTS (Continued)

The following table summarizes the weighted average exercise prices and weighted average remaining contractual life of the stock options outstanding at June 30, 2012:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number of Options	Weighted Average Remaining Contractual Life (yrs)	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
$0 - 2	916,666	7.97	$ 1.72	466,666	$ 1.71
2.01 - 4	776,300	8.12	2.82	422,961	2.65
4.01 - 6	122,376	7.88	4.34	105,708	4.37
	1,815,342	8.03	$ 2.37	995,335	$ 2.39

The following table outlines the Company's share-based compensation (recovery) expense:

	Three months ended June 30		Six months ended June 30	
	2012	2011	**2012**	2011
Share-based compensation (recovery) expense	**$ (27)**	$ 198	**$ 77**	$ 420

Effective May 13, 2011, the Company implemented 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 weighted average price 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 liability is calculated as of the grant date using the Black-Scholes option-pricing model and is recognized immediately. The liability is subsequently re-measured to fair value at 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.

The table below outlines the significant assumptions used as at June 30, 2012 to estimate the fair value of DSUs:

Weighted average assumptions:	
Risk-free interest rate	1.17%
Expected volatility	54.00%
Dividend yield	0%
Expected life (years)	4.00
Share price	1.70

(Figures are in thousands of Canadian dollars, except option and deferred share unit data - Unaudited)

7. SHARE-BASED PAYMENTS (Continued)

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

	Three months ended June 30					
	2012			2011		
	Number of DSUs		**Fair Value**	Number of DSUs		Fair Value
Outstanding at beginning of period	**161,160**	**$**	**98**	-	$	-
Granted during the period	**56,809**		**28**	22,468		28
Change in value			**46**			(3)
Outstanding at end of period	**217,969**	**$**	**172**	22,468	$	25

	Six months ended June 30					
	2012			2011		
	Number of DSUs		**Fair Value**	Number of DSUs		Fair Value
Outstanding at beginning of period	**114,264**	**$**	**48**	-	$	-
Granted during the period	**103,705**		**60**	22,468		28
Change in value			**64**			(3)
Outstanding at end of period	**217,969**	**$**	**172**	22,468	$	25

8. FINANCE EXPENSE

	Three months ended June 30				Six months ended June 30			
		2012		2011		**2012**		2011
Cash interest	**$**	**(7,561)**	$	(6,573)	**$**	**(15,097)**	$	(13,441)
Payment-in-kind interest		**(5,029)**		(4,585)		**(10,013)**		(9,260)
Interest on finance leases		**(33)**		(163)		**(66)**		(331)
Amortization of bond discount, transaction costs and consent fees		**(517)**		(509)		**(1,034)**		(1,178)
	$	**(13,140)**	$	(11,830)	**$**	**(26,210)**	$	(24,210)

9. FOREIGN EXCHANGE (LOSS) GAIN

	Three months ended June 30				Six months ended June 30			
		2012		2011		**2012**		2011
Foreign exchange (loss) gain on long-term debt	**$**	**(10,470)**	$	2,468	**$**	**(498)**	$	14,984
Other foreign exchange loss		**(212)**		(104)		**(534)**		(564)
	$	**(10,682)**	$	2,364	**$**	**(1,032)**	$	14,420

(Figures are in thousands of Canadian dollars, except option and deferred share unit data - Unaudited)

10. GAIN (LOSS) ON DERIVATIVE FINANCIAL INSTRUMENT

The Company has a derivative financial instrument related to the call option embedded in the Senior Unsecured Notes, whereby the Company has the right to repurchase the Notes. The derivative financial asset was recorded at fair value at issuance of the Senior Unsecured Notes and is revalued at each reporting period based on current interest rates and the credit spread. Changes in the value of this derivative financial asset are reflected in operations and within other assets on the statement of financial position. Changes in the risk-free rate, the credit spread and cash interest rate resulted a gain of $217 on the derivative financial asset for the three and six months ended June 30, 2012 (three months ended June 30, 2011: $3.7 million loss, and six months ended June 30, 2011: $0.8 million gain).

11. COSTS OF CURTAILED OPERATIONS

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

12. GAIN ON ACQUISITION OF HIGH LEVEL

Effective February 17, 2011, the Company acquired the remaining 50% interest in Footner Forest Products Inc. ("High Level") from Grant Forest Products Inc. for $20 million, thereby increasing the Company's interest to 100%. The excess fair value of the net assets acquired over the cash consideration paid of $20 million resulted in a bargain purchase gain of $49,687. The existing 50% interest in the assets and liabilities of High Level held prior to this transaction was revalued to their fair values of $74,160, resulting in a gain of $22,857. The total gain of $72,544 is recorded in the consolidated statement of operations and comprehensive income for the six months ended June 30, 2011.

13. OTHER ITEMS

	Three months ended June 30		Six months ended June 30	
	2012	2011	**2012**	2011
(Loss) gain on disposal of property, plant and equipment	**$ (31)**	$ 518	**$ (30)**	$ 245
Write-down of property, plant and equipment	**-**	-	**-**	(942)
Other income	**101**	643	**280**	792
	$ 70	$ 1,161	**$ 250**	$ 95

14. 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 plans were as follows:

	Three months ended June 30		Six months ended June 30	
	2012	2011	**2012**	2011
Continuing Operations:				
Pension expense	**$ 540**	$ 331	**$ 1,041**	$ 733
Contributions	**780**	1,342	**2,017**	2,650
Discontinued Operations:				
Pension expense	**76**	48	**151**	122
Contributions	**69**	38	**110**	38

(Figures are in thousands of Canadian dollars, except option and deferred share unit data - Unaudited)

14. PENSION EXPENSE (Continued)

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

	Three months ended June 30		Six months ended June 30	
	2012	2011	**2012**	2011
Defined contribution plan cost	**$ 62**	$ 50	**$ 130**	$ 92

15. 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 recovery.

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.

16. (LOSS) EARNINGS PER SHARE

As at June 30, 2012, there were 1,815,342 stock options (December 31, 2011: 1,493,096) that were not taken into account in the calculation of diluted (loss) earnings per share for each period presented because their effect was anti-dilutive.

In addition, 8,695,634 shareholder warrants issued on July 29, 2008 pursuant to the Company's recapitalization were not included in the computation of diluted (loss) earnings per share because to do so would have been anti-dilutive for the periods presented. Each shareholder warrant entitles the holder thereof to one common share of the Company if, on or prior to July 29, 2013, the current market price of common shares equals or exceeds a barrier price equal to U.S. $1.20 billion divided by the number of common shares outstanding on a fully diluted basis on July 29, 2008. The Company's market capitalization does not exceed U.S. $1.20 billion at June 30, 2012.

17. CHANGES IN NON-CASH OPERATING WORKING CAPITAL

	Three months ended June 30		Six months ended June 30	
	2012	2011	**2012**	2011
Trade and other receivables	**$ 888**	$ (5,263)	**$ (6,274)**	$ (9,106)
Inventories	**9,973**	17,890	**(567)**	(1,252)
Income taxes receivable/payable	**7**	(6)	**8**	11
Prepaid expenses	**(1,337)**	(473)	**(1,414)**	99
Trade and other payables	**(2,174)**	(4,345)	**1,136**	(1,042)
	$ 7,357	$ 7,803	**$ (7,111)**	$ (11,290)

(Figures are in thousands of Canadian dollars, except option and deferred share unit data - Unaudited)

18. SEGMENTED REPORTING

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

	Three months ended June 30		Six months ended June 30	
	2012	2011	**2012**	2011
United States	**$ 65,823**	$ 45,366	**$ 127,268**	$ 94,727
Canada	**12,933**	11,446	**26,297**	21,302
Japan	**10,544**	22,447	**19,143**	32,353
Overseas - other	**1,169**	1,228	**2,874**	3,565
	$ 90,469	$ 80,487	**$ 175,582**	$ 151,947

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

19. 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 indentures, the Company is restricted in managing capital and must conform to the indentures' provisions, which govern capital components such as dividends, asset sales and debt incurrence.

The Company undertakes transactions in a range of financial instruments including cash and cash equivalents, short-term investments, trade and other receivables, trade and other payables and various forms of borrowings, including Senior Unsecured Notes with an embedded derivative arising from call options, bank loans and finance leases.

(Figures are in thousands of Canadian dollars, except option and deferred share unit data - Unaudited)

19. 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 Hierarchy Level		**June 30 2012**		December 31 2011
FINANCIAL ASSETS					
Held for trading					
Cash and cash equivalents	Level 1	**$**	**18,120**	$	17,029
Short-term investments	Level 1		**41,295**		45,528
Loans and receivables					
Trade and other receivables	n/a		**24,585**		17,802
Derivative financial instrument	Level 2		**223**		6
		$	**84,223**	$	80,365
FINANCIAL LIABILITIES					
Other financial liabilities					
Trade and other payables	n/a	**$**	**22,907**	$	21,686
Current portion of long-term debt	n/a		**4,803**		4,895
Long-term debt	n/a		**527,464**		518,271
		$	**555,174**	$	544,852

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 and short-term investments. The Company's maximum exposure to credit risk related to receivables, cash and cash equivalents, and short-term investments is the gross carrying amount of these assets net of any allowance for doubtful accounts or impairment loss as reflected in these consolidated financial statements. As at June 30, 2012, the amount of accounts receivable past due was nominal.

Credit risk associated with short-term investments is minimized by ensuring that the Company only invests in liquid securities and with counterparties that have a high credit rating. Concentration of credit risk with respect to trade receivables is limited due to the Company's credit evaluation process and the dispersion of a large number of customers across many geographic areas 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. Under current market conditions, the Company continues to focus on maintaining adequate liquidity to meet cash interest and principal repayments, operating working capital requirements, including seasonal log inventory builds in the first and fourth quarters, and capital expenditures.

(Figures are in thousands of Canadian dollars, except option and deferred share unit data - Unaudited)

19. FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (Continued)

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

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

	Less than 1 month	1 to 3 months	Less than 1 year	1 to 5 years	More than 5 years
Senior Unsecured Notes	$ -	$ -	$ 25,262	$541,091	$ -
Senior Secured Term Loan	469	954	4,283	110,138	-
HSBC Equipment loan	266	531	2,351	9,256	-
Deutsche Bank equipment loan	-	-	1,705	4,988	-
Finance lease obligations	48	96	389	535	-
Operating lease obligations	71	143	643	1,715	-
Trade payable and accrued liabilities	22,247	126	1,303	-	-
Reforestation obligation	-	-	-	2,136	1,154
Purchase commitments	102	204	917	4,888	3,768
	$ 23,203	$ 2,054	$ 36,853	$674,747	$ 4,922

Market risk

Interest rate risk

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

At June 30, 2012, if interest rates had been 50 basis points higher/lower and all other variables were held constant, the Company's after-tax net income would decrease/increase by approximately $0.5 million on an annual basis (December 31, 2011: $0.5 million).

The Company is also exposed to interest risk on the derivative financial instrument that arises from the call option embedded in the Senior Unsecured Notes. As the risk-free interest rate and the credit spread increase, the value of the derivative financial asset decreases. Conversely, a decrease in the risk-free interest rate and the credit spread increases the value of the derivative financial asset. Changes in the value of this derivative financial asset are reflected in operations. The value of the derivative financial instrument as at June 30, 2012 was $223 (December 31, 2011: $6) and was included in other assets. At June 30, 2012, if interest rates had been 1% higher/lower and all other variables were constant, the value of the derivative financial asset would not have changed significantly.

(Figures are in thousands of Canadian dollars, except option and deferred share unit data - Unaudited)

19. FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (Continued)

Currency risk
Currency risk refers to the risk that the value of a financial commitment, recognized asset or liability will fluctuate due to changes in foreign currency rates. The Company's functional currency is the Canadian dollar, but it is exposed to foreign currency risk primarily arising from U.S. dollar denominated long-term debt, cash, 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 June 30, 2012, the impact on the after tax loss for the year 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 be would have been $3.9 million higher/lower (December 31, 2011: $3.8 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 market, 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.

Valuation of long-lived assets
Management assesses long-lived assets for indications of impairment at the end of each reporting period. Such indicators might include a decline in market capitalization below the carrying value of assets, prolonged poor market conditions or restricted access to capital. As a result of certain indicators a detailed impairment assessment was performed on December 31, 2011. Based on the results of this assessment and the improvement in market conditions during the first three months of 2012, management believes that there is adequate support for the carrying value of long-lived assets at June 30, 2012. Should the markets for the Company's products deteriorate or should capital not be available to fund capital expenditures, it is possible that the value of certain long-lived assets would be impaired.

Fair value of financial instruments
The fair value of financial instruments, with the exception of the Senior Unsecured Notes and Senior Secured Term Loan, is estimated to approximate their carrying value at June 30, 2012 due to the immediate or short-term maturity of these financial instruments.

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

	June 30, 2012		December 31, 2011	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Senior notes	**$ 409,443**	**$ 313,619**	$ 398,019	$ 232,170
Term loan	**103,850**	**100,715**	103,574	87,134
Equipment financing	**18,022**	**18,022**	20,342	20,342
	$ 531,315	**$ 432,356**	$ 521,935	$ 339,646

(Figures are in thousands of Canadian dollars, except option and deferred share unit data - Unaudited)

19. FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (Continued)

The Senior Secured Term Loan is secured by accounts receivable and inventory, with a carrying value of $58.6 million, and an additional U.S. $50 million charge on the 100 Mile House, British Columbia OSB facility in respect of the obligations owing under the Senior Secured Term Loan. Equipment financing of $12.6 million is secured by certain capital assets.

The fair value of the call option embedded in the Senior Unsecured Notes as at June 30, 2012 was $223 (December 31, 2011: $6).

20. RELATED PARTY TRANSACTIONS

Brookfield Private Equity and Finance Ltd. ("BPEF")

The Company is controlled by BPEF, which beneficially owns or exercises control or direction over approximately 55.0% of the issued and outstanding common shares.

The Company also periodically sells goods to BPEF affiliates. During the three months ended June 30, 2012, these sales were approximately $1.1 million (three months ended June 30, 2011: $nil). During the six months ended June 30, 2012, these sales were approximately $2.4 million (six months ended June 30, 2011: $nil). These transactions were measured and recorded at fair value. Fair value is defined as the transaction amount with unrelated parties under similar terms and conditions. At June 30, 2012, all amounts were collected in respect of sales of goods to BPEF and its affiliates.

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 June 30		Six months ended June 30	
	2012	2011	**2012**	2011
Short-term employment benefits	**$ 737**	$ 644	**$ 1,394**	$ 1,282
Long-term employment benefits	**26**	28	**55**	60
Share-based payments	**126**	241	**285**	422
	$ 889	$ 913	**$ 1,734**	$ 1,764

Other

During the three months ended June 30, 2012, the Company paid legal fees of $nil (three months ended June 30, 2011: $10) to a law firm of which a director of the Company is a Partner. During the six months ended June 30, 2012, legal fees of $8 (six months ended June 30, 2011: $74) were paid. The Company also paid $133 in the second quarter and six months ended June 30, 2012 ($134 second quarter and six months ended June 30, 2011) to an entity related to BPEF to provide insurance services.

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