REPORT TO SHAREHOLDERS
FOR THE THREE MONTHS AND PERIOD ENDED
DECEMBER 31, 2009

LETTER TO SHAREHOLDERS

February 25, 2010

Dear Fellow Shareholders:

For Ainsworth, 2009 was a year of restructuring. Following what was undeniably the most challenging year in our history, 2009 saw us take decisive action to streamline the business, cut costs, strengthen our foundation and ensure we emerge from this period stronger and well positioned for growth.

Ainsworth began 2009 under the leadership of a new Chief Executive Officer. In the first six months of the year, we completed a full strategic review and established a clear direction for the business. Before the end of the year, we successfully divested all of our non-core assets, including the Savona specialty plywood mill, the Lillooet veneer mill and our three Minnesota mills thus focusing our resources on our best assets. We also continued to cut costs and improve the efficiency of our operations. Our management team was strengthened with the addition of Chris Davies, as Chief Financial Officer, and Vyvian Burton as Vice President, Human Resources. Both bring considerable industry and professional experience to the company.

As a result of these accomplishments, Ainsworth ended 2009 as an OSB focused producer. This was reflected in our performance for the year.

Sales from continuing operations for 2009 were $285.9 million, relative to $290.7 million the previous year. We recorded a net loss of $21.6 million in 2009, relative to a net loss of $321.8 million in 2008. Adjusted EBITDA for 2009, was positive $5.2 million as compared to negative $0.1 million for 2008.

In 2009, the average annual North Central market price for 7/16” oriented strand board (OSB) was $162 (per msf), down 5.8% from $172 in 2008. The average annual Western Canadian market price for 7/16” OSB was $145 (per msf) in 2009, down 7.6% from $157 in 2008.

In 2008 and through the balance of 2009, North American housing starts, the key measure of demand for our products, remained at historic lows. Looking ahead, we are cautiously optimistic about the return of stronger market fundamentals in the U.S., Canada and Japan in 2010. We expect to see a modest increase in housing starts in North America in 2010, but not a return to the peak levels seen earlier in the decade.

In the U.S., our primary market, macroeconomic trends such as high unemployment and tight credit markets are expected to continue to put downward pressure on home prices and, by extension, demand for new home construction. Over the long term, however, demographic trends clearly indicate there should be strong, sustainable demand for our products as new home construction returns.

The outlook for OSB prices is also expected to be turbulent. As demand for OSB increases with a gradual rise in new home construction, we expect prices to fluctuate as OSB manufacturers bring idled capacity back on line and increase supply.

We are moving forward with a strategy aimed at increasing the geographic diversity of our sales, advancing our ability to deliver innovative, value added products and positioning the company for future growth.

We are continuing to reduce our commodity sheathing production and are replacing it with value added products such as rim board and webstock. The market is developing an increased awareness of the environmental benefits of OSB and related products, which are manufactured from sustainably harvested forests. Taken as a whole, this migration to value added products is expected to improve profitability and move us closer to becoming sustainable and profitable throughout the business cycle.

When the market for OSB recovers, we will be ready. We have approximately 1.1 billion square feet of additional capacity that we can bring on stream in a short period of time and flexible mill technology that enables us to produce all the products required by our customers.

2009 was an eventful but positive year for Ainsworth. Our transformation will continue and the drive for improvement will be constant, but we are pleased with the progress we are making. We could not, however, be in the position we are in today without the steadfast support of our shareholders, customers and employees. For that, we thank you.

Sincerely,

/s/ Jay Gurandiano Chairman	/s/ Richard Huff President and CEO

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

This management's discussion and analysis is presented as at February 25, 2010. Financial references are in Canadian dollars unless otherwise indicated. Additional information relating to Ainsworth (also referred to as the Company, or we, or our), including our annual information form, is available on SEDAR at www.sedar.com. Our financial statements are prepared in accordance with Canadian generally accepted accounting principles ("GAAP") in Canadian dollars. Previously reported comparative balances have been reclassified to reflect the results of discontinued operations.

Overview

Ainsworth is a leading manufacturer and supplier of oriented strand board ("OSB") with a focus on value-added specialty products for markets in North America and Asia. Our products are used primarily for new home construction and our principal markets are the United States, Canada and Japan.

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

Our active manufacturing portfolio, with a production capacity of 1.6 billion square feet per year (3/8-inch basis), includes three wholly-owned OSB manufacturing facilities located in Grande Prairie, Alberta, 100 Mile House, British Columbia, and Barwick, Ontario. Overall, our mills are all strategically located in terms of wood fibre and access to markets in North America and Asia. Together, these mills ran at 96% capacity in the fourth quarter of 2009 and an average of 99% of capacity for the full year 2009.

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

100 Mile House, BC	440
Grande Prairie, AB	690
Barwick, ON	480
Operating capacity	1,610
High Level, AB (50% owned, currently curtailed)	325
Total capacity	1,935

As demand increases, we have significant long-term growth potential in incremental capacity of 1.1 billion square feet per year (3/8-inch basis) in addition to our existing operating capacity. This incremental capacity comes from two facilities: a second production line at our Grande Prairie, Alberta mill that would require approximately $105 million to complete and a 50% owned mill in High Level, Alberta that is currently idle.

Both our active and idle facilities utilize flexible mill technology and can provide for domestic and overseas markets. In addition to excellent access to fibre sources, all of our facilities are energy efficient with low sustaining capital requirements. Ainsworth employs an experienced, reliable workforce of approximately 600 workers and emphasizes safety 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, and other expectations, intentions and plans that are not historical fact. These forward-looking statements appear under the heading "Outlook" and in a number of other places in this report and can be identified by words such as "may", "estimates", "projects", "expects", "intends", "believes", "plans", "anticipates", "continue", "growing", "expanding", or their negatives or other comparable words. Investors are cautioned that such forward-looking statements are not promises or guarantees of future performance but are only predictions that relate to future events, conditions or circumstances or our future results, performance, achievements or developments and are subject to substantial known and unknown risks, assumptions, uncertainties and other factors that could cause our actual results, performance or developments in our business or in our industry to differ materially from those expressed, anticipated or implied by such forward-looking statements. Factors that could cause actual results to differ materially from those expressed or implied by such forward looking statements include, without limitation, the future demand for, and sales volumes of, Ainsworth's products, future production volumes, efficiencies and operating costs, increases or decreases in the prices of Ainsworth's products, Ainsworth's future stability and growth prospects, Ainsworth's future profitability and capital needs, including capital expenditures, and the outlook for and other future developments in Ainsworth's affairs or in the industries in which Ainsworth participates and factors detailed from time to time in Ainsworth's periodic reports filed with the Canadian Securities Administrators and other regulatory authorities. These periodic reports are available to the public at www.sedar.com. Many of these factors are beyond Ainsworth's control.

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

Non-GAAP Measures

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

Outlook

Based on current economic forecasts for growth and housing starts in our three primary markets, the U.S., Canada and Japan, we expect a modest increase in sales activity in 2010. Although forecasted housing starts for the US and Canada show significant growth in 2010 compared to 2009, we caution that they follow extremely low starts in 2009.

Our capital spending plan in 2010 includes $4.2 million dollars to complete the dryer improvement project that commenced in 2009 at our mill in 100 Mile House. The investment allows us to significantly increase our use of beetle-killed pine as a source of fibre, thereby reducing our cost of production while also improving our environmental performance. Additionally, we expect to implement smaller capital projects which will support our goal of increasing our production of value-added specialty products.

With respect to liquidity, we believe we have the necessary working capital to manage through the economic cycle. We continue to take a disciplined approach to managing our cash, and are confident in our ability to fund any shortfall from operations, interest payments, debt repayments and essential capital expenditures. Our debt principal repayments are scheduled to total $11 million in 2010 and $24 million in 2011. Our U.S.$350 million Senior Unsecured Notes, issued as part of a 2008 recapitalization, mature in 2015 and our U.S.$103 term loan is scheduled to mature in 2014.

We are permitted, under the terms of our indenture, to borrow an additional U.S.$125 million of senior secured debt and U.S.$75 million of senior unsecured debt. The availability of this funding source is dependent on credit markets.

We have additional capacity for growth in the partially completed expansion of our wholly-owned plant in Grande Prairie, Alberta as well as at our 50% owned plant in High Level, Alberta, which is currently idle. Completion of the second line would require approximately $105 million over a one-year construction period and would provide additional production capacity of approximately 775 million square feet per year (3/8-inch basis). We will resume construction at Grande Prairie and resume operations at High Level if we determine that it is financially prudent to do so.

We believe that over the long term the demand for OSB will gain strength for the following reasons:

- Structural panel consumption per home is increasing as builders identify new uses for engineered wood products;
- Builders are increasingly focused on adopting building technologies that use environmentally responsible products such as OSB; and
- Despite the considerable macro-economic challenges facing the U.S., long-term demographic trends such as immigration and new household formation will support renewed growth in new home construction and sustainable demand for engineered wood products.

Our strategic approach continues to focus on placing Ainsworth in the best position to take advantage of a recovery in the housing market while maintaining the financial strength, operational excellence and strategic customer relationships to remain a market leader in the interim.

The 2008 Recapitalization and Fresh Start

As part of the completion of our recapitalization on July 29, 2008, Ainsworth's identifiable assets and liabilities were recorded at a new cost basis, being the value established by the equity and non-equity interest. The value may not exceed fair value, if determinable, as required under the Canadian Institute of Chartered Accountants Handbook Section 1625 – Comprehensive Revaluation of Assets and Liabilities ("CICA 1625"). The process of undertaking such a comprehensive revaluation is commonly referred to as "fresh start accounting". The results for the year ended December 31, 2009, as discussed in this report, represent the results of the recapitalized Company. The comparative results for the year ended December 31, 2008 include the seven month period ended July 29, 2008 for the predecessor Company ("the Predecessor") and the five month period ended December 31, 2008 for the recapitalized Company. The recapitalization plan is described in Note 1 of our audited consolidated financial statements for the period ended December 31, 2008.

Summary of Operating Results

	2009	Q4-09	Q3-09	Q2-09	Q1-09	2008	Q4-08	Q3-08	Q2-08	Q1-08
(in millions, except per share data, unless otherwise noted)										
Sales and earnings (loss)										
Sales	$ 285.9	$ 67.1	$ 78.8	$ 70.8	$ 69.2	$ 290.7	$ 79.1	$ 80.0	$ 76.2	$ 55.4
Adjusted EBITDA (1)	$ 5.2	$ 2.4	$ 2.6	$ (0.9)	$ 1.1	$ (0.1)	$ (0.7)	$ 4.3	$ 12.4	$ (16.1)
Shipment volume (mmsf 3/8")	1,546.8	361.6	413.0	408.9	363.3	1,490.7	378.4	394.1	404.0	314.2
Production volume (mmsf 3/8")	1,561.1	379.4	407.2	413.7	360.8	1,486.4	376.8	399.1	401.2	309.3

(1) Adjusted EBITDA, a non-GAAP financial measure, is defined as net (loss) income from continuing operations before amortization, loss on disposal of property, plant and equipment, costs of curtailed operations, stock option expense, finance expense, foreign exchange (gain) loss on long-term debt, other foreign exchange (gain) loss, income tax recovery and non-recurring items. Adjusted EBITDA has been recalculated for current and comparative periods to account for the costs of curtailed operations. See the detailed calculation of adjusted EBITDA by quarter for 2009 and 2008 on page 19.

During the fourth quarter of 2009, we increased production by nearly 1% compared with the same period in 2008. Shipments declined by more than 4% in the fourth quarter of 2009 compared the same period in 2008 due to a labour disruption at CN Rail as well as a train derailment. Production and shipments increased by 5.0% and 3.8% respectively in 2009 compared to 2008.

The average market prices reported by Random Lengths for each quarter of 2009 and 2008, as well as the annual averages for 2009 and 2008 are shown in the table below:

	2009	Q4-09	Q3-09	Q2-09	Q1-09	2008	Q4-08	Q3-08	Q2-08	Q1-08
North Central (7/16" basis)	$ 162	$ 171	$ 178	$ 147	$ 154	$ 172	$ 173	$ 201	$ 176	$ 137
Western Canada (7/16" basis)	$ 145	$ 169	$ 158	$ 124	$ 128	$ 157	$ 149	$ 178	$ 169	$ 127

The average annual market price in 2009 compared to 2008 for both the North Central region and Western Canada decreased by U.S.$10 and U.S.$12 respectively. Quarterly average market prices reached a low in the second quarter of 2009.

During 2009 we completed sales of our non-core assets, consistent with our previously disclosed strategy, and dedicated our resources to our most profitable operations. The table below provides details of the non-core assets sold:

	Product	Date Sold	Production Suspension Date
Grand Rapids, MN (1), (2)	OSB	December 2009	September 2006
Cook, MN (1), (2)	OSB	December 2009	January 2008
Bemidji, MN (1), (2)	OSB	June 2009	October 2008
Savona, BC (2)	Plywood	December 2009	July 2009
Lillooet, BC (2)	Veneer	December 2009	June 2009

(1) These mills were acquired from Potlatch Corp. in 2004.
(2) The results of operations for these facilities were reported in discontinued operations for 2009 and 2008.

Summary of Financial Results from Continuing Operations

Review of Financial Results

	Q4-09	Q4-08	2009	2008
(in millions)				
Sales	**$ 67.1**	$ 79.1	**$ 285.9**	$ 290.7
Cost of products sold	**60.4**	74.6	**263.1**	268.8
Net (loss) income from continuing operations	**(2.2)**	(79.6)	**15.9**	(232.0)
Net loss	**(12.4)**	(156.7)	**(21.6)**	(321.8)
Adjusted EBITDA	**2.4**	(0.7)	**5.2**	(0.1)

The table below shows the calculation of adjusted EBITDA:

		Q4-09		Q4-08		2009		2008
(in millions)								
Net (loss) income from continuing operations	**$**	**(2.2)**	$	(79.6)	**$**	**15.9**	$	(232.0)
Add:								
Amortization of property, plant and equipment		**7.9**		6.3		**36.2**		33.5
(Gain) on disposal of property, plant and equipment		**-**		(0.1)		**(0.8)**		(3.4)
Write-down of property, plant and equipment		**2.2**		-		**2.2**		0.8
Cost of curtailed operations		**1.4**		0.7		**2.6**		4.1
Stock option expense		**0.1**		-		**0.9**		-
(Net proceeds) cost of claim		**-**		1.9		**(4.5)**		5.0
Cost related to potential acquisition (1)		**-**		-		**0.5**		-
Finance expense		**12.3**		14.2		**53.0**		87.7
Income tax expense (recovery)		**(9.0)**		(7.0)		**(20.4)**		(12.8)
Foreign exchange (gain) loss on long-term debt		**(10.6)**		79.1		**(87.1)**		132.0
Loss on derivative financial asset		**-**		1.1		**-**		9.9
Other foreign exchange (gain) loss		**0.3**		(17.3)		**6.7**		(24.9)
Adjusted EBITDA	**$**	**2.4**	$	(0.7)	**$**	**5.2**	$	(0.1)

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

Our net loss from continuing operations was $2.2 million in the fourth quarter of 2009 compared to a loss of $79.6 million in the fourth quarter of 2008. This improvement is primarily due to an increase of $89.8 million in unrealized foreign exchange gains on long-term debt which was partially offset by a $17.6 million decrease in other foreign exchange gains.

For the full year 2009, our net income from continuing operations was $15.9 million which is a $247.9 million improvement from our net loss from continuing operations of $232.0 million in 2008. This improvement can be primarily attributed to a $219.1 million change in the unrealized foreign exchange on long-term debt as well as a $34.6 million reduction in finance expense, partially offset by a $31.4 million change in other foreign exchange.

Adjusted EBITDA

Adjusted EBITDA was positive $2.4 million in the fourth quarter of 2009 compared with negative $0.7 million in the same period of 2008. The improvement was the result of a $2.3 million improvement in gross profit (sales less cost of products sold (exclusive of amortization)) combined with a $1.5 million reduction in selling and administration expense, offset by a $0.9 million reduction in other income. The Canadian dollar was an average of twelve cents stronger than the U.S. dollar in the fourth quarter of 2009 compared with the fourth quarter of 2008 which had a negative impact on gross profit. The foreign exchange impact on adjusted EBITDA was an estimated $4.5 million reduction compared with the fourth quarter of 2008.

For the year 2009, adjusted EBITDA was positive $5.2 million compared with negative $0.1 million in 2008. This improvement was primarily due to a $4.9 million reduction in selling and administration expense combined with a $0.9 million improvement in gross profit, partially offset by a $2.0 million reduction in other income. The Canadian dollar, on average, was six cents weaker than the U.S. dollar in 2009 compared with 2008, which improved 2009 adjusted EBITDA by approximately $7.4 million compared with 2008.

Sales

Sales for the fourth quarter of the year decreased compared to 2008, primarily as a result of lower realized prices. Sales of $67.1 million in the fourth quarter of 2009 were $12.0 million lower than sales of $79.1 million for the same period in 2008. The decline in sales was due to an 11.2% decrease in our realized price and a 4.4% decrease in volume. The stronger Canadian dollar in the fourth quarter of 2009 compared with the fourth quarter of 2008 also contributed to the reduction in sales prices.

Annual sales were $285.9 million, a 1.7% decrease over sales of $290.7 million during 2008. Sales decreased by $15.2 million as a result of lower realized prices, but this was partially offset by a $10.4 million increase resulting from higher shipment volumes for the year. On a year to date basis, the weaker Canadian dollar in 2009 compared to 2008 partially offset the decline in sales prices.

Cost of Products Sold (Exclusive of Amortization)

For the fourth quarter of 2009, cost of products sold totaled $60.4 million, representing an 19.0% decrease over costs of $74.6 million in the fourth quarter 2008. Raw material cost reductions due to market conditions represents 15.0% of the decrease. The remaining decrease was due to reduced shipment volumes caused by a CN Rail strike and a train derailment.

Costs of products sold were $263.1 million for the year 2009 compared to $268.8 million in 2008. The $5.7 million reduction is mainly due to a reduction in raw material costs as a result of market conditions.

Selling and Administration

Selling and administration expenses in the fourth quarter of 2009 were $4.7 million, down 24.2% from $6.2 million recorded a year earlier. This decrease was a result of lower legal costs and reductions in discretionary spending in areas such as lease costs, subcontractors and other general spending.

For the year 2009, selling and administration expenses were $19.7 million, compared to $24.6 million in 2008. The decrease in selling and administration expenses was primarily attributable to reductions in legal costs, lease costs and discretionary spending in areas such as advertising and other general spending.

Amortization of Property, Plant and Equipment and Intangible Assets

Amortization expense in the fourth quarter of 2009 was $7.9 million, an increase of 25.4% from $6.3 million in the fourth quarter of 2008. For the full year 2009 amortization expense was $36.3 million, an increase of 8.4% from $33.5 million in 2008. Our OSB panel product mills are amortized using the units-of-production method. Production volumes were higher in 2009 than in 2008, resulting in a higher amortization expense.

Finance Expense

Finance expense in the fourth quarter of 2009 was $12.3 million, down 13.3% from $14.2 million in the fourth quarter of 2008. This decrease was attributable to the foreign exchange effects of a substantially stronger Canadian dollar and slightly lower interest rates in effect during the fourth quarter of 2009 as compared to 2008.

On an annual basis, finance expense was $53.1 million, down 39.5% from $87.7 million in 2008. The decrease was primarily attributable to transaction costs of $25.4 million incurred on the recapitalization in 2008. The balance of the decrease was due to lower interest costs resulting from a lower level of debt.

Other Income

Other income in the fourth quarter of 2009 was $239 thousand, a reduction of $0.9 million compared to the fourth quarter of 2008. This decrease was primarily due to lower interest income earned on cash balances.

For the year 2009, other income was $611 thousand compared to $2.8 million in 2008. This reduction was primarily the result of lower interest income earned on investments.

Foreign Exchange (Loss) Gain on Long-Term Debt

The unrealized foreign exchange gain on long-term debt in the fourth quarter of 2009 was $10.6 million compared with a $79.1 million loss in the fourth quarter of 2008. The Canadian dollar strengthened in the fourth quarter of 2009 resulting in an unrealized foreign exchange gain on long-term debt. In comparison, the Canadian dollar weakened in the fourth quarter of 2008 resulting in a foreign exchange loss on long-term debt.

For the full year 2009, the unrealized foreign exchange gain on long-term debt was $87.1 million compared to a loss of $132.0 million for the same period of 2008. The Canadian dollar strengthened during 2009 resulting in a foreign exchange gain. The effect of the stronger Canadian dollar was partially offset by the decline in our U.S. dollar denominated long-term debt after the recapitalization in July of 2008.

Income Taxes

The income tax recovery in the fourth quarter of 2009 was $9.0 million compared with $7.0 million in the fourth quarter of 2008. For the full year 2009, the income tax recovery was $20.3 million on loss from continuing operations before income taxes of $4.4 million, compared with $12.8 million in income tax recovery on loss before income taxes of $244.8 million for 2008. Certain permanent differences, such as the non-taxable portion of the foreign exchange gain on our debt, and the expected reversal of certain future income tax assets and liabilities at lower effected tax rates also impacted the resulting income tax recovery.

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

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

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

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

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

Net Loss from Discontinued Operations

The financial results of the OSB mills in Minnesota as well as the plywood and veneer operations in Lillooet and Savona have been disclosed as discontinued operations. During the fourth quarter of 2009, the idled facilities generated a net loss of $10.1 million as compared to $77.2 million during the fourth quarter of 2008. Net loss for the year 2009 was $37.5 million which included an impairment charge to property, plant and equipment of $25.4 million The net loss for the year 2008 was $89.8 which included an impairment to property, plant and equipment of $69.9 million.

Liquidity and Capital Resources

As of December 31, 2009, our adjusted working capital was $163.7 million, compared to $226.8 million as at December 31, 2008. We have presented adjusted working capital as we believe that it provides investors with a basis to evaluate our ability to fund operations and capital expenditures. Adjusted working capital is a non-GAAP measure, calculated as follows:

(in millions)	December 31 2009	December 31 2008
Current assets	**$ 213.4**	$ 283.7
Restricted cash	**(10.4)**	(5.3)
Current liabilities	**(46.9)**	(60.1)
Current portion of future income tax liabilities	**7.6**	8.5
Adjusted working capital	**$ 163.7**	$ 226.8
Adjusted working capital, discontinued operations	**(3.1)**	11.3
Adjusted working capital, continuing operations	**$ 166.8**	$ 215.5

Our working capital requirements in the short term are to fund any shortfall from operations, interest payments, debt 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 decline in adjusted working capital from December 31, 2008 to December 31, 2009 was primarily as a result of a deficiency of cash from operations and payments to certain discontinued operations, and financing and investing cash requirements.

The table below presents the total funds available:

(in millions)	December 31 2009	December 31 2008
Cash and cash equivalents	**$ 81.6**	$ 192.6
Restricted cash	**10.4**	5.3
Short-term investments	**61.7**	1.6
Total available funds	**153.7**	199.5

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

(in millions)	Q4-09	Q4-08	2009	2008
Cash from operating activities before interest and working capital	**$ (0.8)**	$ 14.2	**$ (17.5)**	$ (34.1)
Cash used for interest	**(13.5)**	(13.9)	**(31.8)**	(28.9)
Cash used for (provided by) working capital	**(1.3)**	(4.6)	**14.0**	7.4
Cash used in operating activities	**(15.6)**	(4.3)	**(35.3)**	(55.6)
Cash used in financing activities	**(3.2)**	(4.6)	**(10.5)**	(12.0)
Cash (used in) provided by investing activities	**(59.2)**	(2.5)	**(54.8)**	2.1
Additions to property, plant and equipment	**(4.0)**	(3.4)	**(6.8)**	(8.6)

Our operating activities resulted in net cash outflows for all periods presented as interest paid and payments related to discontinued operations were greater than cash generated from sales. In the fourth quarter of 2009, cash used in operations increased as a result of seasonal log harvesting activity to build up log inventories over the winter months combined with a reduction in shipments due to a rail strike and train derailment at CN Rail. During the fourth quarter of 2008 we used less cash in operations due to a large foreign exchange gain on operating working capital as a result of the weaker Canadian dollar which offset lower margins and higher administrative costs. On an annual basis, cash used in operations for 2009 decreased compared to 2008 as a result of improved gross margins. Cash outflows in the year 2009 were partially offset by the receipt of proceeds related to the Potlatch legal claim settlement of $6.7

million and the drawdown of inventory related to discontinued operations. We continue to closely monitor our operations and maximize cash from operations.

Cash used in financing activities in all periods presented represents the repayment of equipment financing loans and capital lease obligations. There were no debt maturities in 2009 or 2008.

Cash used in investing activities increased significantly in the fourth quarter and year 2009 compared to the same periods in 2008 due to the transfer of cash on hand into short-term investments and restricted cash. Short-term investments are primarily GICs with maturities of three to twelve months. These cash outflows were partially offset by proceeds on the disposition of the Minnesota assets and the Quesnel forest license.

Additions to property, plant and equipment during 2009 and 2008 were primarily limited to essential projects. During the third quarter of 2009 we initiated a dryer optimization project at our 100 Mile House facility which is expected to improve environmental compliance and reduce energy consumption. As at December 31, 2009 we had committed $4.2 million for capital expenditures related to this project and $71 thousand for capital expenditures related to the Grande Prairie expansion. The estimated costs to complete the Grande Prairie expansion, which is on hold due to market conditions, are approximately $105 million.

Contractual Obligations

The following table summarizes the timing of payments for which we have contractual obligations as at December 31, 2009. Payments of senior unsecured notes, senior secured term loans and equipment loans include cash interest and principal repayments at the time of maturity.

	2010	2011 to 2012	2013 to 2014	Thereafter	Total
(In millions)					
Senior Unsecured Notes (1)	$ 24.2	$ 52.3	$ 57.8	$ 539.7	**$ 674.0**
Senior Secured Term Loan (2)	5.7	11.3	116.3	-	**133.3**
Merrill Lynch equipment loan (3)	9.3	21.7	-	-	**31.0**
Deutsche Bank equipment loan (4)	2.1	4.0	3.9	2.9	**12.9**
Capital lease obligations (5)	1.0	2.0	2.0	10.6	**15.6**
Operating lease obligations	3.4	0.2	0.1	-	**3.7**
Purchase commitments (6)	10.7	3.4	0.3	0.7	**15.1**
	$ 56.4	**$ 94.9**	**$ 180.4**	**$ 553.9**	**$ 885.6**

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

(2) Under the Senior Secured term loan agreement, we can elect to pay interest quarterly at a base rate or over an interest period of one to three months at LIBOR plus 5.0% per annum. For the purpose of the above table, we have calculated the interest rate at the December 31, 2009 month-end LIBOR rate of 0.25%. The Senior Secured term loan matures on June 26, 2014.

(3) Under the Merrill Lynch equipment loan agreement, we are required to pay interest at a rate per annum, reset monthly, equal to LIBOR plus 2.90%, payable monthly. For the purpose of the above table we have calculated the interest rate at the December 31, 2009 month-end LIBOR rate of 0.25%. Principal payments are made monthly with the final monthly payment and a balloon payment due October 1, 2011.

(4) Under the Deutsche Bank equipment loan agreement, we are required to pay interest at a rate per annum, reset semi-annually, equal to EURIBOR plus 0.65% payable semi-annually each March and September. For the purpose of the above table we have calculated the interest rate at the December 31, 2009 month-end EURIBOR rate of 0.70%. The loan is repayable in semi-annual installments of €630,855 on June 20 and December 20.

(5) Capital lease obligations are payable monthly.

(6) Purchase commitments include long-term purchase contracts with annual minimum volume commitments and agreements to purchase machinery, equipment and electrical engineering services in relation to the Grande Prairie expansion and costs related to the dryer optimization project at 100 Mile House.

(7) Contractual obligations denominated in $U.S. are converted to Canadian dollars at the December 31, 2009 exchange rate posted by the Bank of Canada of U.S.$0.9515 = $1.00.

(8) Contractual obligations denominated in € are converted to Canadian dollars at the December 31, 2009 exchange rate posted by the Bank of Canada of €0.6646 = $1.00.

Outstanding Share Data

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

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

The issued share capital of the Company at December 31, 2009 and at December 31, 2008 are as follows:

			2009			2008
	Shares	**Warrants**	**Amount**	Shares	Warrants	Amount
Common shares	**89,905,712**	**-**	**$ 368,265**	89,905,712	-	$ 368,265
Stock options exercised	**100,000**	**-**	**267**	-	-	-
Shareholder warrants	**-**	**8,695,634**	**-**	-	8,695,634	-
Noteholder warrants	**-**	**10,094,288**	**41,348**	-	10,094,288	41,348
	90,005,712	**18,789,922**	**$ 409,880**	89,905,712	18,789,922	$ 409,613

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

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

The following table presents the exercise prices and expiry dates for the stock options outstanding at December 31, 2009:

Grant Date	**Number of Options Outstanding**	**Exercise Price**	**Expiry Date**
November 14, 2008 (1)	902,222	1.74	November 14, 2018
January 6, 2009 (1)	250,000	0.90	January 6, 2019
November 2, 2009	100,000	1.56	November 2, 2019

(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. The embedded call option derivative was recorded at fair value at issuance of the senior unsecured notes and is revalued at each reporting period based on current interest rates and the credit spread. As the risk-free interest rate and the credit spread increase the value of the derivative financial asset decreases. Conversely, a decrease in the risk-free interest rate and the credit spread increases the value of the derivative financial asset. On issuance of the notes, the value of the derivative was determined to be $9.9 million and was disclosed in "Other Assets". Changes in the value of this derivative financial asset and like embedded derivatives issued as senior unsecured notes as payment-in-kind interest are reflected in operations as "Loss on derivative financial instrument". The derivative financial asset had no value as at December 31, 2009.

Off-Balance Sheet Arrangements

We did not have any significant off-balance sheet arrangements other than letters of credit in the amount of $10.4 million ($5.3 million at December 31, 2008), for which cash has been pledged as collateral, and our co-venturer's share of the accounts payable and accrued liabilities of our High Level project in the amount of $1.3 million ($1.0 million at December 31, 2008). By agreement with the co-venturer, if the co-venturer does not pay its share of accounts payable and accrued liabilities, we may pay such amounts and recover them from the co-venturer's share of production. The co-venturer filed for CCAA protection in Ontario on June 25, 2009. At December 31, 2009, the co-venturer had met all of its obligations to the joint venture. We do not believe that we have any off-balance sheet arrangements that have, or are reasonably likely to have, a current or future material effect on our financial condition, results of operations, liquidity, capital expenditures or resources.

Related Party Transactions

During the year ended December 31, 2009, legal fees of $147 thousand were paid to a law firm of which one of the Company's directors is also a partner (2008: $nil).

Quarterly Comparative Financial Information

	2009	Q4-09	Q3-09	Q2-09	Q1-09	2008 (1)	Q4-08	Q3-08 (1)	Q2-08	Q1-08	2007
(in millions, except per share data, unless otherwise noted)											
Sales and earnings (loss)											
Sales	$ 285.9	$ 67.1	$ 78.8	$ 70.8	$ 69.2	$ 290.7	$ 79.1	$ 80.0	$ 76.2	$ 55.4	$ 369.1
Operating (loss) earnings	(32.6)	(9.4)	(7.9)	(5.4)	(9.9)	$ (42.9)	(10.6)	(8.6)	2.0	(25.7)	(140.9)
Foreign exchange gain (loss) on long-term debt	87.1	10.6	47.8	50.4	(21.7)	$ (131.9)	(79.1)	(23.6)	6.8	(36.0)	161.3
Net income (loss) from continuing operations	15.9	(2.2)	22.3	29.8	(34.0)	$ (232.0)	(79.6)	(42.2)	(32.7)	(77.5)	(30.2)
Net income (loss) from discontinued operations	(37.5)	(10.2)	(2.0)	(5.1)	(20.2)	$ (89.9)	(77.1)	(0.6)	(1.5)	(10.7)	(186.3)
Net income (loss)	(21.6)	(12.4)	20.3	24.7	(54.2)	$ (321.8)	(156.7)	(42.7)	(34.2)	(88.2)	(216.5)
Basic and diluted earnings (loss) per common share											
Net income (loss) from from continuing operations (2)	0.16	(0.02)	0.22	0.30	(0.34)	(4.60)	(0.80)	(0.58)	(2.24)	(5.31)	(2.07)
Net income (loss) (2)	(0.22)	(0.12)	0.21	0.24	(0.54)	(6.33)	(1.57)	(0.58)	(2.33)	(6.02)	(14.78)
Balance sheet											
Total assets	846.2	846.2	879.1	898.0	938.1	983.7	983.7	1,010.1	1,040.7	1,050.5	1,100.7
Total long-term debt (3)	561.3	561.3	570.6	615.8	664.8	639.5	639.5	560.0	1,001.4	1,011.7	977.4

(1) The results for the year 2008 include the results of the Predecessor for the period from January 1 to July 29, 2008 and the results of the Company for the period from July 30 to December 31, 2008 after the recapitalization.
(2) Basic and diluted net (loss) income per share. As at December 31, 2009, the Company had 100,100,000 issued common shares and noteholder warrants. Prior to July 29, 2008, the Predecessor had 14,649,140 issued common shares. For all periods presented the Company has not paid or declared any cash dividends.
(3) Total long-term debt includes the current portion of long-term debt.

OSB demand and product pricing was the main factor causing fluctuations in our sales over the past eight quarters. Sales prices remained low throughout 2007, 2008 and 2009, causing a decline in operating earnings and net income from continuing operations. Discontinued operations, which consist of our OSB mills in Minnesota as well as our plywood business, generated additional losses, particularly as a result of asset write-downs and impairment charges. In 2008, we applied certain Canadian tax losses to prior taxation years and recovered taxes at lower rates. This significantly increased income tax expense in the second half of 2008, further increasing the net loss for the period.

Net loss also fluctuated as a result of unrealized foreign exchange loss on long-term debt caused by fluctuations in the strength of the Canadian dollar relative to the U.S. dollar. OSB shipment volumes have varied in the past eight quarters depending on production disruptions, maintenance requirements, product mix and demand-related production curtailments. Production at the High Level OSB facility was halted for an indefinite period effective December 20, 2007 and the remaining mills took more downtime in 2008 than in 2007.

Segmented Information

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

Our geographic distribution of sales was as follows:

		Q4-09		Q4-08		2009		2008
(in millions)								
North America	**$**	**58.4**	$	69.6	**$**	**250.4**	$	252.2
Overseas		**8.7**		9.5		**35.5**		38.5
	$	**67.1**	$	79.1	**$**	**285.9**	$	290.7

Sales within Canada for the fourth quarter and year 2009 increased relative to the same periods in 2008 as we began to focus on selling more of our product within Canada, taking advantage of the lower freight costs and the stronger Canadian dollar. Our Minnesota operations were curtailed during the year, further contributing to the lower sales within the United States.

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

		December 31 2009		December 31 2008
(in millions)				
Canada	**$**	**545.8**	$	585.8
United States		**0.1**		29.3
	$	**545.9**	$	615.1

Risks and Uncertainties

Liquidity. During the fourth quarter of 2008 and the full year 2009, as a result of the global economic crisis, the terms and availability of debt and equity capital have been materially restricted. Should such conditions continue through to maturity of our senior unsecured notes in 2015 and should the Company require debt or equity financing, debt capital may not be available on acceptable terms, which may require management to explore strategic alternatives to improve its capital structure, enhance liquidity, refinance debt, and reduce costs and expenditures. These alternatives may not be sufficient to satisfy the Company's cash requirements over the long term which could result in an inability to continue operations.

Economic Uncertainty. Our core OSB business relies heavily on new home and renovation construction in North America. The U.S. housing market has been in a severe and prolonged recession and the Canadian housing market weakened during 2008 and continued to be challenged in 2009. As a result, the Company currently has negative cash from operations. If attempts to stabilize the financial and credit markets are not successful, economic activity in North America and elsewhere is likely to continue to recede, resulting in higher unemployment rates and shrinking credit availability. This would have an adverse effect on our business.

Competition. The wood-based panels industry is a highly competitive business environment in which companies compete, to a large degree, on the basis of price. Our ability to compete in these and other markets is dependent on a variety of factors such as manufacturing costs, availability of key production inputs, access to markets, customer service, product quality, financial resources and currency exchange rates. Should our competitors open new mills or reopen curtailed mills, this could increase market supply causing downward pressure on product prices and could result in an erosion of our profit margins.

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

Foreign Exchange. The sales for all of our products, including those sold in Canada and overseas, are denominated in U.S. dollars. As a result, any decrease in the value of the U.S. dollar relative to the Canadian dollar reduces the amount of revenues realized. U.S. dollar purchases of raw materials, supplies and services such as resin, waxes and transportation provide a partial offset to the impact of the foreign exchange sensitivity on sales. At December 31, 2009 and December 31, 2008, we did not hold any foreign exchange contracts.

Wood Fibre. Wood fibre represents the major raw material in the production of panels. In Canada, wood fibre is sourced primarily by agreements with provincial governments. The agreements are granted for various terms from five to twenty-five years and are generally subject to regular renewals every five years. As the agreements come due, we rely on the assumption that we will be able to renew the agreements. The agreements incorporate commitments with respect to sustainable forest management, silvicultural work, forest and soil renewal, and cooperation with other forest users. The government reserves the right to revoke a forest management license for any mills that are not operating for greater than twelve months, as is the case with our mill at High Level, Alberta. We have not received any notice to this effect from the government at this time. Aboriginal groups have claimed substantial portions of land in various provinces over which they claim aboriginal title or in which they have a traditional interest and for which they are seeking compensation from various levels of government. The results of these claims may adversely effect the supply of wood fibre and the commercial terms of supply agreements with provincial governments.

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

Customer Dependence and Concentration. The Company sells its products primarily to major distributors, contractor supply yards, and wholesale distributors and faces strong competition for the business of significant customers. A significant change in our customer base could negatively affect sales and earnings. In the event that these customers declare bankruptcy or cease to do business with the Company, a material adverse effect on our business, financial condition and results of operations and cash flows may result. Our sales are also dependent on purchasers of our products having access to adequate levels of credit.

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

International Sales. A significant portion of our sales are made to customers outside of Canada and the United States. Our international sales present us with a number of risks and challenges, including but not limited to the effective marketing of our products in other countries, tariffs and other barriers to trade and recessionary environments in foreign economies.

Labour Relations. The Grande Prairie mill employees are non-unionized, while the Barwick and 100 Mile mills are unionized. The 100 Mile House labour agreement expired on June 30, 2009 and the Barwick labour agreement expired on July 31, 2009. Negotiations for both agreements are in progress. In the past, we have always been able to successfully renegotiate union contracts with no labour disruptions; however, there can be no guarantee that we will continue to be successful in this regard

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

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

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

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

Environmental. Our operations are subject to a range of general and industry-specific environmental laws and regulations relating to air emissions, wastewater discharges, solid and hazardous waste management, plant and wildlife protection, and site remediation. Failure to comply with applicable environmental laws and regulations could result in fines, penalties or other enforcement actions that could impact production capacity or increase production costs. No assurance can be given that changes to these laws and regulations or their application will not have a material adverse effect on the Company's business, operations, financial condition and operational results. Additionally, the Company may discover currently unknown environmental issues, contamination or conditions in relation to past or present operations in or at its current or former facilities, or may be faced with unforeseen environmental liabilities in the future. This may require site or other remediation costs to maintain compliance or correct violations or result in government or private claims for damage to persons, property or the environment.

Capital Intensity. The production of wood-based panels is capital intensive. There can be no assurance that key pieces of equipment will not need to be repaired or replaced. In certain circumstances, the costs of repairing or replacing equipment and the associated downtime of the affected production line may not be an insurable event.

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

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

Significant Accounting Estimates and Judgments

Management has made certain judgments and estimates that affect the reported amounts and other disclosures in our financial statements. We have adopted certain changes in accounting policies as noted below.

Changes in Accounting Policies

Goodwill and intangible assets (Section 3064). This section replaced Section 3062, "Goodwill and Other Intangible Assets" and Section 3450, "Research and Development". The new standard provides guidance on the recognition, measurement, presentation and disclosure of goodwill and intangible assets. As a result of this adoption, the Company will report intangible assets separately from property, plant and equipment.

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

The application of these new standards did not have a material effect on the Company.

Financial Instruments – Recognition and Measurement (Section 3855). This section was amended by the CICA in August 2009 to align this section more closely with IFRS. The application of this amendment is to annual financial statements with fiscal years beginning on or after November 1, 2008.

Changes include:

- Reclassification of financial assets out of assets held for trading and assets held for sale categories into loans and receivables category is permitted under certain circumstances
- The definition of the loans and receivables category has been updated so that debt securities that are not quoted in an active market are permitted to be classified in the loans and receivables category. Impairment of loans and receivables is calculated using the incurred credit loss model of Section 3025 – *Impaired loans.* Loans and receivables that an entity plans to sell in the near term must be classified as held for trading, and loans or receivables for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration, must be classified as available for sale.
- Impairment losses relating to an available for sale debt instrument must be reversed if the fair value of the instrument increases due to an event occurring after the loss was recognized

The application of these amendments did not have a material impact on the Company.

Financial Instruments – Disclosures (Section 3862). This section was amended by the CICA in June 2009 to enhance disclosures about fair value measurements and liquidity risk of financial instruments. The amendment is to be applied to annual financial statements with fiscal years ending after September 30, 2009. The purpose of this amendment is to provide further convergence with IFRS.

Financial instruments recognized at fair value on the consolidated balance sheet must be classified in fair value hierarchy levels as follows:

- Level 1 – valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 – valuation techniques based on inputs that are quoted market prices for similar assets or liabilities in an active market, or inputs that are derived from quoted market prices
- Level 3 – valuation techniques with unobservable market inputs (involves assumptions and estimates by management of how market participants would price the assets or liabilities)

The application of this amendment did not have an impact on the Company since fair value of all instruments classified as held for trading approximates carrying value due to the immediate or short-term maturity of these financial instruments. The fair value of the embedded derivative associated with the call options on the senior unsecured notes was fully written off in 2008 and the value remains at nil.

EIC-173 Credit Risk and the Fair Value of Financial Assets and Financial Liabilities. This guidance requires that an entity's own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and financial liabilities including derivative instruments. The Company has evaluated the new section and determined that the adoption of these new requirements does not have a material impact on the Company's financial statements.

Significant Accounting Estimates and Judgments

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

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

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

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

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

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

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

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

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

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

Changes in Internal Control over Financial Reporting

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

Disclosure Controls and Procedures

As required by National Instrument 52-109 Certification of Disclosure in Issuer's Annual and Interim Filings, the Company's management, including the Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of disclosure controls and procedures as at December 31, 2009. Disclosure controls and procedures are designed to provide reasonable assurance that all necessary information is reported to the CEO and CFO on a timely basis to ensure that the necessary decisions can be made regarding annual and interim financial statement disclosure.

The certifying officers have evaluated the effectiveness of our disclosure controls and procedures as at December 31, 2009, and have concluded that such controls and procedures are adequate and effective to ensure accurate and complete disclosures in the annual filings.

Internal Controls over Financial Reporting

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

Management of the Company, including the Chief Executive Officer and Chief Financial Officer, has performed an assessment of the effectiveness of the Company's internal control over financial reporting as at December 31, 2009 based on the provisions of Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based on this assessment, management has concluded that its internal controls over financial reporting are operating effectively as at December 31, 2009. Management determined that there were no material weaknesses in the Company's internal control over financial reporting as at December 31, 2009.

Canadian GAAP Developments

In December 2009 the Emerging Issues Committee of the CICA issued EIC-173, "Multiple Deliverable Revenue Arrangements" which may be applied prospectively and should be applied to revenue arrangements with multiple deliverables entered into or materially modified in the first annual period beginning on or after January 1, 2011. This guidance removes the criterion that entities must use objective and reliable evidence of fair value in separately accounting for deliverables. The Company is evaluating the implications of this standard but expects no material impact on the consolidated financial statements.

International Financial Reporting Standards

In February 2008, the Canadian Accounting Standards Board confirmed that International Financial Reporting Standards ("IFRS") will replace Canada's current generally accepted accounting principles for publicly accountable profit-oriented enterprises for interim and annual financial statements effective January 1, 2011.

The Company has developed a project conversion plan to ensure that differences between Canadian GAAP and IFRS as they relate to the business are identified, and any required changes to accounting processes and controls are made in a timely manner to ensure a smooth transition to IFRS.

The Company has established an IFRS project team, led by finance management, to execute elements of the conversion plan. Regular progress reporting to the Audit Committee on the status of the IFRS implementation has been instituted.

Our IFRS conversion project consists of four phases:

IFRS Conversion Phases	Characteristics	Status
Scoping phase	Establish project governance structure Designate resources to the project Raise awareness across the Company Perform high level diagnostic assessments of accounting differences	Complete
Detailed assessment phase	Perform systematic and detailed gap analysis between Canadian GAAP and IFRS Assess impact on systems and processes, business activities, and people Select IFRS accounting policies and election of IFRS1 exemptions	Complete
Design and implementation phase	Develop implementation requirements and building processes Prepare pro-forma IFRS financial statement and notes Communication and training	Ongoing through 2010
Post-implementation phase	Production of IFRS results (including dual reporting during fiscal 2010) Monitor transition progress and issue resolution	Ongoing through 2010

The areas identified to have the greatest impact include property, plant and equipment, intangible assets, impairment of assets and employee future benefits. System and process change requirements are currently being analyzed and implemented therefore we are unable to quantify the impact of IFRS on the future financial position and results of operations at this time.

AINSWORTH LUMBER CO. LTD.

Other Information

Unaudited

Selected Balance Sheet Items ($000's)	**Dec. 31, 2009**	Dec. 31, 2008
Cash	**$ 92,075**	$ 197,928
Short-term investments	**61,654**	1,586
Adjusted working capital (Note 1)	**163,776**	226,753
Total assets	**846,245**	983,678
Total debt	**561,325**	639,481
Shareholders' equity	**208,137**	226,152

	Three months ended Dec. 31		**Year ended Dec. 31**	
	2009	2008	**2009**	2008
Geographic Sales Distribution ($000's)				
North America	**$ 58,426**	$ 69,514	**$ 250,458**	$ 252,232
Overseas	**8,695**	9,540	**35,457**	38,490
	$ 67,121	$ 79,054	**$ 285,915**	$ 290,722
Product Shipment Volumes (msf - 3/8 inch)	**361,598**	378,376	**1,546,825**	1,490,676
Production Volumes (msf-3/8 inch)	**379,434**	376,811	**1,561,082**	1,486,445

	2009	**Q4-09**	**Q3-09**	**Q2-09**	**Q1-09**	**2008**	**Q4-08**	**Q3-08**	**Q2-08**	**Q1-08**
Reconciliation of Net Loss to Adjusted EBITDA (in millions)										
Net Income (Loss) from Continuing Operations	**$ 15.9**	**$ (2.2)**	**$ 22.3**	**$ 29.8**	**$ (34.0)**	$ (232.0)	$ (79.6)	$ (42.2)	$ (32.7)	$ (77.5)
Add:										
Amortization of capital assets	**36.2**	**7.9**	**9.8**	**9.9**	**8.6**	33.4	6.3	10.0	8.9	8.2
Gain on disposal of capital assets	**(0.8)**	**-**	**-**	**(0.3)**	**(0.5)**	(3.3)	(0.1)	(0.3)	(0.2)	(2.7)
Write-down of property, plant and equipment	**2.2**	**2.2**	**-**	**-**	**-**	0.8	-	-	-	0.8
Cost of curtailed operations	**2.6**	**1.4**	**0.4**	**0.5**	**0.3**	4.1	0.7	1.2	0.8	1.4
Stock option expense	**0.9**	**0.1**	**0.1**	**0.7**	**-**	-	-	-	-	-
(Net proceeds) cost of lawsuits	**(4.5)**	**-**	**-**	**(6.5)**	**2.0**	5.0	1.9	1.6	0.7	0.8
Cost related to potential acquisition	**0.5**	**-**	**0.4**	**0.1**	**-**	-	-	-	-	-
Finance expense	**53.0**	**12.3**	**12.8**	**13.4**	**14.5**	87.8	14.2	26.6	25.9	21.1
Income tax recovery	**(20.3)**	**(9.0)**	**0.1**	**(2.0)**	**(9.4)**	(12.9)	(7.1)	(17.6)	15.5	(3.7)
Foreign exchange (gain) loss on long-term debt	**(87.1)**	**(10.6)**	**(47.8)**	**(50.4)**	**21.7**	132.0	79.1	23.6	(6.8)	36.1
Loss on derivative financial asset	**-**	**-**	**-**	**-**	**-**	9.8	1.1	8.7	-	-
Other foreign exchange loss (gain)	**6.6**	**0.3**	**4.5**	**3.9**	**(2.1)**	(24.8)	(17.2)	(7.3)	0.3	(0.6)
Adjusted EBITDA (Note 2)	**$ 5.2**	**$ 2.4**	**$ 2.6**	**$ (0.9)**	**$ 1.1**	$ (0.1)	$ (0.7)	$ 4.3	$ 12.4	$ (16.1)

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

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

About Ainsworth

Ainsworth Lumber Co. Ltd. is a leading Canadian forest products company, with a 50-year reputation for quality products and unsurpassed customer service. In Alberta, the Company's facilities include an oriented strand board (OSB) plant at Grande Prairie and a one-half interest in the Footner OSB plant at 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 1.9 billion square feet (3/8-inch basis) of OSB.

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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.ca

AINSWORTH LUMBER CO. LTD.

Consolidated Balance Sheets

(In thousands of Canadian dollars)

	December 31 2009		December 31 2008
ASSETS			
Current Assets			
Cash and cash equivalents (Note 2)	**92,075**	$	197,928
Short-term investments	**61,654**		1,586
Accounts receivable	**13,730**		18,795
Inventories (Note 4)	**39,182**		38,279
Income taxes receivable	**509**		-
Prepaid expenses	**4,429**		5,394
Assets of discontinued operations (Note 5)	**1,868**		21,717
	213,447		283,699
Property, Plant and Equipment (Note 6)	**538,787**		575,212
Intangible Assets (Note 7)	**75,602**		70,146
Other Assets	**11,276**		14,512
Assets of Discontinued Operations (Note 5)	**7,133**		40,109
	846,245	$	983,678
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current Liabilities			
Accounts payable and accrued liabilities	**23,475**	$	26,095
Income taxes payable	**-**		2,764
Current portion of future income tax liabilities (Note 23)	**7,649**		8,492
Current portion of long-term debt (Note 10)	**10,743**		12,366
Liabilities related to discontinued operations (Note 5)	**5,009**		10,378
	46,876		60,095
Accrued Pension Benefit Liability (Note 24)	**2,484**		4,277
Reforestation Obligation (Note 9)	**2,072**		1,871
Long-term Debt (Note 10)	**550,582**		627,115
Future Income Tax Liabilities (Note 23)	**35,209**		60,160
Liabilities Related to Discontinued Operations (Note 5)	**885**		4,009
	638,108		757,527
Commitments and Guarantees (Notes 11 and 30)			
Contingencies (Note 12)			
SHAREHOLDERS' EQUITY			
Capital Stock (Note 13)	**409,880**		409,613
Contributed Surplus	**876**		-
Deficit	**(202,619)**		(180,984)
Accumulated Other Comprehensive Loss	**-**		(2,478)
	208,137		226,151
	846,245	$	983,678

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

Approved by the Board:

/s/ Jay Gurandiano — **DIRECTOR**

/s/ Gordon Lancaster — **DIRECTOR**

AINSWORTH LUMBER CO. LTD.

Consolidated Statements of Operations

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

	The Company		The Predecessor
	Year ended December 31 2009	Five months to December 31 2008	Seven months to July 29 2008
Sales	**$ 285,915**	$ 133,430	$ 157,294
Costs and Expenses			
Costs of products sold	**263,131**	122,204	146,609
Selling and administration	**19,717**	9,915	14,668
Amortization of property, plant and equipment and intangible assets (Note 15)	**36,268**	13,007	20,448
	319,116	145,126	181,725
Loss before other items	**(33,201)**	(11,696)	(24,431)
Finance expense (Note 16)	**(53,061)**	(22,811)	(64,899)
Foreign exchange gain (loss) (Note 17)	**80,623**	(74,228)	(32,882)
Costs of curtailed operations (Note 18)	**(2,532)**	(1,150)	(2,919)
Other items (Note 19)	**3,756**	(11,010)	1,240
Loss before income taxes	**(4,415)**	(120,895)	(123,891)
Income tax (recovery) expense (Note 23)	**(20,322)**	(15,718)	2,911
Net income (loss) from continuing operations	**15,907**	(105,177)	(126,802)
Net loss from discontinued operations (Note 5)	**(37,542)**	(75,807)	(13,998)
Net loss	**$ (21,635)**	(180,984)	$ (140,800)
Basic and diluted net income (loss) per common share:			
Continuing operations	**$ 0.16**	$ (1.05)	$ (8.66)
Discontinued operations	**(0.38)**	(0.76)	(0.96)
Basic and diluted net loss per common share	**$ (0.22)**	$ (1.81)	$ (9.61)
Weighted average number of common shares outstanding	**100,013,151**	100,000,000	14,649,140
Effect of dilutive stock options on continuing operations	**61,375**	-	-
	100,074,526	100,000,000	14,649,140

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

AINSWORTH LUMBER CO. LTD.

Consolidated Statements of Comprehensive Loss

(In thousands of Canadian dollars)

	The Company		The Predecessor
	Year ended December 31 2009	Five months to December 31 2008	Seven months to July 29 2008
Net Loss	**$ (21,635)**	$ (180,984)	$ (140,800)
Other Comprehensive (Loss) Income			
Unrealized (loss) gain on translation of self-sustaining foreign operations	**-**	(2,478)	4,717
Realized currency translation adjustment on disposal of foreign operations	**2,478**	-	1,465
	2,478	(2,478)	6,182
Comprehensive Loss	**$ (19,157)**	$ (183,462)	$ (134,618)

Consolidated Statements of Changes in Shareholders' Equity (Deficiency)

(In thousands of Canadian dollars)

	The Company		The Predecessor
	Year ended December 31 2009	Five months to December 31 2008	Seven months to July 29 2008
Capital Stock			
Beginning of period	**$ 409,613**	$ 409,613	$ 55,827
Capital stock issued in the year (Note 14)	**267**	-	-
	409,880	409,613	55,827
Contributed Surplus			
Beginning of period	**$ -**	$ -	$ -
Fair value of stock options recorded in the year (Note 14)	**968**	-	-
Stock options exercised in the year (Note 14)	**(92)**		
	876	-	-
(Deficit) Retained Earnings			
Beginning of period	**(180,984)**	-	62,698
Transitional adjustment on adoption of new accounting policies (Note 2)	**-**	-	(6,468)
Net loss	**(21,635)**	(180,984)	(140,800)
	(202,619)	(180,984)	(84,570)
Accumulated Other Comprehensive Loss on Translation of Self-Sustaining Foreign Operations			
Beginning of period	**(2,478)**	-	(105,786)
Net unrealized gain (loss) on translation of self-sustaining foreign operations in the period	**-**	(2,478)	6,182
Net realized translation adjustment on disposal of foreign operations in the period	**2,478**	-	-
	-	(2,478)	(99,604)
Total (Deficit) Retained Earnings and Accumulated Other Comprehensive Loss	**(202,619)**	(183,462)	(184,174)
Total Shareholders' Equity (Deficiency)	**$ 206,994**	$ 226,151	$ (128,347)

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

AINSWORTH LUMBER CO. LTD.

Consolidated Statements of Cash Flows

(In thousands of Canadian dollars)

	The Company		The Predecessor
	Year ended December 31 2009	Five months to December 31 2008	Seven months to July 29 2008
CASH FLOWS USED IN OPERATING ACTIVITIES			
Net loss	**$ (21,635)**	$ (180,984)	$ (140,800)
Items not affecting cash			
Amortization of property, plant and equipment and intangible assets	**36,268**	14,244	27,153
Non-cash portion of interest expense	**19,684**	7,899	929
Non-cash stock based compensation (Note 14)	**968**	-	-
Foreign exchange (gain) loss on long-term debt	**(87,141)**	98,720	33,261
Loss on derivative financial instrument	**-**	9,857	-
Gain on disposal of property, plant and equipment	**(3,382)**	(429)	(3,264)
Impairment of property, plant and equipment	**2,152**	-	837
Impairment of property, plant and equipment of discontinued operations	**25,391**	69,900	-
Impairment of other assets of discontinued operations	**207**	-	-
Change in non-current reforestation obligation	**(167)**	129	(405)
Future income taxes	**(23,593)**	(8,076)	11,146
Adjustment to net accrued pension benefit asset	**(3,276)**	(4,541)	-
Unrealized foreign exchange loss	**5,308**	-	-
Realized currency translation adjustment	**-**	-	1,465
Change in non-cash operating working capital (Note 27)	**13,965**	(16,118)	23,520
Cash used in operating activities	**(35,251)**	(9,399)	(46,158)
CASH FLOWS USED IN FINANCING ACTIVITIES			
Repayment of long-term debt	**(10,326)**	(5,926)	(5,762)
Exercise of stock-options (Note 14)	**174**	-	-
Repayment of capital lease obligations	**(377)**	(161)	(179)
Cash used in financing activities	**(10,529)**	(6,087)	(5,941)
CASH FLOWS (USED IN) PROVIDED BY INVESTING ACTIVITIES			
Short-term investments	**(60,068)**	(699)	(51)
Additions to property, plant and equipment	**(6,838)**	(4,086)	(4,530)
Proceeds on disposal of property, plant and equipment	**8,870**	382	6,764
Decrease (increase) in other assets	**3,271**	1,551	(133)
Settlement of warranty holdback (Note 28)	**-**	-	2,852
Cash (used in) provided by investing activities	**(54,765)**	(2,852)	4,902
Effect of foreign exchange rate changes on cash and cash equivalents	**(5,308)**	442	30
NET CASH OUTFLOW	**(105,853)**	(17,896)	(47,167)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	**197,928**	215,824	76,731
CASH AND CASH EQUIVALENTS, END OF PERIOD	**$ 92,075**	$ 197,928	$ 29,564
Cash and cash equivalents	**81,631**	192,584	69,627
Restricted cash	**10,444**	5,344	7,104
	$ 92,075	$ 197,928	$ 76,731
SUPPLEMENTAL INFORMATION			
Net proceeds of recapitalization	**$ -**	$ -	$ 186,261
Taxes paid	**112**	2,377	345
Interest paid	**31,764**	15,448	13,406

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

1. BASIS OF PRESENTATION

On July 29, 2008 Ainsworth Lumber Co. Ltd. ("the Predecessor") implemented a financial restructuring plan and the recapitalized company ("the Company") adopted fresh start accounting in accordance with the provisions of the Canadian Institute of Chartered Accountants Handbook Section 1625, Comprehensive Revaluation of Assets and Liabilities ("CICA 1625").

Under fresh start accounting, the Company was required to determine its enterprise value. The enterprise value of $410 million was determined based on the fair value of the unsecured debt (based on market trading prices) converted into equity and of the issuance of common shares and cashless warrants to the shareholders of the Predecessor. The Company then revalued its assets and liabilities to fair value based on management's best estimates as at July 29, 2008 in conjunction with the guidance provided in CICA 1581, Business Combinations. The resulting net fair value adjustment of $147 million was recorded to capital stock. The contributed surplus of $685 million, the deficit of $85 million and the accumulated other comprehensive loss of $100 million of the Predecessor were reclassified to capital stock.

With the exception of future income taxes which are reported in accordance with CICA 3465, Income Taxes, and assets held for disposal along with their related liabilities which are reported in accordance with CICA 3475, Disposal of Long-Lived Assets and Discontinued Operations, the consolidated assets and liabilities of the Company are reported at their fair values as determined at July 29, 2008.

The statements of operations and cash flows for the year ended December 31, 2009 and five months ended December 31, 2008 represent the results of operations of the Company. The statements of operations and cash flows for the seven months ended July 29, 2008 represents the results of operations of the Predecessor. The financial information of the Predecessor has been presented to provide additional information to the reader. In reviewing the Predecessor's financial information, readers are reminded that it does not reflect the effects of the financial reorganization or the application of its accounting. Detailed information on the plan of arrangement, the impact of adjustments and fresh start accounting is available in the annual audited financial statements as at December 31, 2008.

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

1. BASIS OF PRESENTATION (Continued)

The following table reflects the impact on the balance sheet of adopting fresh start accounting:

	July 29, 2008 Balance prior to Plan Implementation	July 29, 2008 Balance after Plan Implementation
ASSETS		
Current Assets		
Cash and cash equivalents	$ 22,566	$ 208,827
Short-term investments	887	887
Accounts receivable	28,375	28,375
Inventories	60,862	56,489
Income taxes receivable	1,996	-
Prepaid expenses	8,267	8,267
Restricted cash	6,997	6,997
Current portion of future incom tax assets	659	-
	130,609	309,842
Capital Assets, Net	808,101	689,959
Other Assets	26,041	25,960
Future Income Tax Assets	12,141	3,000
Goodwill	51,970	-
	$ 1,028,862	$ 1,028,761
LIABILITIES AND SHAREHOLDERS' (DEFICIENCY) EQUITY		
Current Liabilities		
Accounts payable and accrued liabilities	$ 72,801	$ 51,322
Income taxes payable	-	1,004
Current portion of future income tax liabilities	19,230	8,474
Current portion of long-term debt	10,600	10,600
	102,631	71,400
Accrued Pension Benefit Liability	6,870	12,832
Other Liabilities	4,046	3,383
Long-term Debt	995,020	528,350
Future Income Tax Liabilities	48,642	3,183
	1,157,209	619,148
SHAREHOLDERS' (DEFICIENCY) EQUITY		
Capital Stock	55,827	409,613
Contributed Surplus	-	-
Deficit	(84,570)	-
Accumulated Other Comprehensive Loss	(99,604)	-
	(128,347)	409,613
	$ 1,028,862	$ 1,028,761

2. SIGNIFICANT ACCOUNTING POLICIES

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

(a) Basis of valuation

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

(b) Basis of consolidation

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

The Company accounts for its 50% interest in the High Level Project (Note 8) on a proportionate consolidation basis.

(c) Foreign currency translation

The monetary assets and liabilities of the Company which are denominated in foreign currencies are translated at the year end exchange rates. Revenues and expenses are translated at rates of exchange prevailing on the transaction dates. All exchange gains or losses are recognized currently in earnings.

Prior to December 31, 2008, the U.S. OSB operations were considered to be a self-sustaining foreign operation and the financial statements were translated using the current rate method. Assets and liabilities were translated at the exchange rate in effect at the balance sheet date and revenue and expense items were translated at average exchange rates prevailing during the year. At December 31, 2008, as a result of the decision to discontinue these operations, the U.S. OSB operations were no longer considered a self-sustaining foreign operation. Unrealized translation gains and losses previously included within accumulated other comprehensive income were classified as a separate component of shareholders' equity until the related net investments were disposed as at December 31, 2009.

(d) Use of estimates

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

The significant areas requiring management estimates include valuation of inventory, loss contingencies, valuation of long-lived assets, amortization, other assets, reforestation obligations,

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

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

employee benefit plans, future income tax assets and liabilities and management's estimates of capital requirements and liquidity.

(e) *Cash and cash equivalents*

Cash and cash equivalents generally consist of cash balances with banks, and investments with original maturities of three months or less at the time of purchase. Also included is restricted cash of $10.4 million (December 31, 2008: $5.3 million). Restricted cash is held in a separate account as collateral for the $10.4 million (December 31, 2008: $5.3 million) outstanding letters of credit to support the Company's ongoing business operations. The total credit available to the Company under this agreement is $15.0 million.

The Company had an unutilized U.S.$2.5 million foreign exchange and future contract credit facility at December 31, 2009 which, if utilized, would be secured by cash collateral.

(f) *Short-term investments*

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

(g) *Inventories*

Section 3031 was applied by the Predecessor on a prospective basis, with opening inventory adjustments recorded against opening retained earnings at January 1, 2008. Inventory is valued at the lower of cost and net realizable value. Inventory write-downs may be reversed (to the extent of the original write-down) if circumstances change in subsequent periods. Cost of panel products is defined as all costs that relate to bringing the inventory to its present location and condition under normal operating conditions and includes manufacturing costs, such as raw materials, labour and production overhead and amortization costs. Inventory cost is determined using the three month weighted average cost of production. Cost of logs is defined as all costs that relate to purchasing, harvesting and delivery of the logs to their present location, including labour, overhead and amortization. Materials, supplies and consumable spares are valued at the lower of cost and replacement cost, which approximates net realizable value, and are expensed when introduced into the production process.

(h) *Property, plant and equipment*

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

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

Assets under capital leases are amortized on a straight line basis over the term of the lease. Logging roads are stated at cost and are amortized on the basis of the volume of timber cut. The

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Company reviews the useful lives and the carrying values of its capital assets if events or changes in circumstances indicate that the assets might be impaired, by reference to estimated future operating results and undiscounted net cash flows. If the undiscounted future cash flows expected to result from the use and eventual disposition of an asset are less than their carrying amount, the assets are considered to be impaired. An impairment loss is measured at the amount by which the carrying amount of the assets exceeds their fair value, which is estimated as the expected future cash flows discounted at a rate commensurate with the risks associated with the recovery of the asset.

(i) Intangible assets

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

(j) Other assets

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

(k) Derivative financial instruments

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

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

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

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

(m) Reforestation obligation

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

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) *Asset retirement obligation*

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

(o) *Revenue recognition*

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

(p) *Transaction and financing costs*

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

(q) *Income taxes*

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

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

(r) *Loss per share*

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

(s) *Employee future benefits*

The Company has two defined benefit plans providing pension benefits to its British Columbia salaried employees and employees of the Minnesota OSB facilities. The Company also sponsors and administers an individual pension plan established for a former director of the Company. The Company accrues the costs and related obligations for the defined benefit plans using the projected benefit actuarial method prorated based on service and management's best estimates

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

of expected plan investment performance, salary escalation, and other relevant factors. The difference between costs of employee benefits charged against earnings and the Company's contributions to the plans, which are made in accordance with actuarial recommendations and pension commission regulations, is included in accrued pension benefit asset on the balance sheet. In determining pension expense, the unrecognized pension surplus or liability, adjustments arising from changes in actuarial assumptions, and the excess of net actuarial gains or losses over 10% of the greater of the benefit obligation and the market value of the plan assets is amortized on a straight-line basis over the expected average remaining service life of the employee group. The expected return on plan assets is based on the fair value of plan assets. When a transaction gives rise to both a settlement and a curtailment resulting in a gain or loss, the curtailment is accounted for prior to the settlement.

(t) *Stock-based compensation*

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

(u) *Financial instruments*

The Company classifies its cash, cash equivalents and short-term investments in commercial paper as assets held for trading which are measured at fair market value with gains and losses included in net income in the period in which they arise. Accounts receivable and long-term advances are classified as loans and receivables which are accounted for at amortized cost.

Accounts payable and accrued liabilities, long-term debt and other liabilities are measured at amortized cost. The Company has elected to measure derivatives and embedded derivatives at fair value and does not use hedge accounting.

The Company has not designated any financial instruments as available for sale or held to maturity.

(v) *Canadian GAAP adoptions*

Effective January 1, 2009, the Company adopted the new recommendations of the CICA for goodwill and intangible assets, and business combinations.

(i) *Section 3064 – Goodwill and intangible assets*. This section replaced Section 3062, "Goodwill and Other Intangible Assets" and Section 3450, "Research and Development". The new standard provides guidance on the recognition, measurement, presentation and disclosure of goodwill and intangible assets. As a result of this adoption, the Company reports intangible assets separately from property, plant and equipment.

Section 1582 – Business Combinations, Section 1601 – Consolidations and Section 1602 – Non-controlling Interests. These new standards are harmonized with International Financial Reporting Standards (IFRS). Section 1582 specifies a number of changes, including: an expanded definition of a business, a requirement to measure all business acquisitions at fair value, a requirement to measure non-controlling interests at fair value, and a requirement to recognize acquisition-related costs as expenses. Section 1601 establishes the standards for preparing consolidated financial statements. Section 1602 specifies that non-controlling interests be treated as a separate component of equity, not as a liability or other item outside of equity. The application of these amendments did not have a material impact on the Company.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(ii) *Section 3855 – Financial Instruments – Recognition and Measurement.* This section was amended by the CICA in August 2009 to align this section more closely with IFRS. The application of this amendment is to annual financial statements with fiscal years beginning on or after November 1, 2008.

Changes include:

- Reclassification of financial assets out of assets held for trading and assets held for sale categories into loans and receivables category is permitted under certain circumstances
- The definition of the loans and receivables category has been updated so that debt securities that are not quoted in an active market are permitted to be classified in the loans and receivables category. Impairment of loans and receivables is calculated using the incurred credit loss model of Section 3025 – *Impaired loans.* Loans and receivables that an entity plans to sell in the near term must be classified as held for trading, and loans or receivables for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration, must be classified as available for sale.
- Impairment losses relating to an available for sale debt instrument must be reversed if the fair value of the instrument increases due to an event occurring after the loss was recognized

The application of these amendments did not have a material impact on the Company.

(iii) *Section 3862 – Financial Instruments – Disclosures.* This section was amended by the CICA in June 2009 to enhance disclosures about fair value measurements and liquidity risk of financial instruments. The amendment is to be applied to annual financial statements with fiscal years ending after September 30, 2009. The purpose of this amendment is to provide further convergence with IFRS.

Financial instruments recognized at fair value on the consolidated balance sheet must be classified in fair value hierarchy levels as follows:

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

The application of this amendment did not have an impact on the Company's disclosure since fair value of all instruments classified as held for trading approximates carrying value due to the immediate or short-term maturity of these financial instruments. The fair value of the embedded derivative associated with the call options on the senior unsecured notes was fully written off in 2008 and the value remains at nil. The fair value of long-term debt (Note 30) is determined based on quoted ask prices for the Company's senior unsecured notes. Based on these inputs the valuation of our debt is classified as Level 2 in the fair value hierarchy.

(iv) *EIC-173 Credit Risk and the Fair Value of Financial Assets and Financial Liabilities.* This guidance requires that an entity's own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and financial liabilities including derivative instruments. The Company has evaluated the new section and determined that the adoption of these new requirements does not have a material impact on the Company's consolidated financial statements.

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

3. ACCOUNTING STANDARDS DEVELOPMENTS

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

In December 2009 the Emerging Issues Committee of the CICA issued EIC-175, "Multiple Deliverable Revenue Arrangements" which may be applied prospectively and should be applied to revenue arrangements with multiple deliverables entered into or materially modified in the first annual period beginning on or after January 1, 2011. This guidance removes the criterion that entities must use objective and reliable evidence of fair value in separately accounting for deliverables. The Company is evaluating the implications of this standard but expects no material impact on the consolidated financial statements.

4. INVENTORIES

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

	2009	2008
Logs	**$ 12,046**	$ 12,727
Panel products	**9,786**	7,979
Materials, supplies and spares	**17,350**	17,573
	$ 39,182	$ 38,279

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

		The Company	The Predecessor
	Year ended December 31 2009	Five months to December 31 2008	Seven months to July 29 2008
Log inventory	**$ 1,108**	$ (1,108)	$ 7,395
Panel inventory	**111**	(1,693)	2,337

All inventories, including inventory related to discontinued operations (Note 5), are pledged as security for loans.

5. DISPOSAL OF LONG-LIVED ASSETS AND DISCONTINUED OPERATIONS

Following a strategic review of market and operational factors, in the fourth quarter of 2008, management committed to a plan to permanently close and dispose of its OSB mills located in Minnesota. The financial results of these facilities were reclassified as discontinued operations. During 2009, the Company completed sales of its Minnesota OSB mills and the resulting net gains (losses) have been included in net loss from discontinued operations.

In the fourth quarter of 2008, management also commenced a process to dispose of its specialty plywood business. The sale was completed in the fourth quarter of 2009 and the results of operations were reclassified as discontinued operations for current and comparative periods.

In the fourth quarter of 2009, management committed to a plan to sell the Company's airplane. As a result, the plane has been reclassified as held for sale as at December 31, 2009.

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

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

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

		2009		2008
ASSETS				
Current Assets				
Accounts receivable	**$**	**819**	$	1,626
Inventories		**262**		16,162
Income taxes receivable		**557**		2,799
Prepaid expenses		**230**		1,130
		1,868		21,717
Property, Plant and Equipment		**91**		29,308
Property, Plant and Equipment Under Lease and Held for Sale		**7,042**		10,559
Other Assets		**-**		242
		7,133		40,109
Total Assets Related to Discontinued Operations	**$**	**9,001**	$	61,826
LIABILITIES				
Current Liabilities				
Accounts payable and accrued liabilities	**$**	**5,009**	$	10,378
Reforestation obligation		**-**		641
Asset retirement obligation		**-**		1,000
Accrued Pension Benefit Liability		**885**		2,368
		885		4,009
Total Liabilities Related to Discontinued Operations	**$**	**5,894**	$	14,387

			The Company		The Predecessor
		Year ended December 31 2009	Five months to December 31 2008		Seven months to July 29 2008
Sales	**$**	**29,093**	$ 37,220	$	79,933
Impairment of Property, Plant and Equipment		**25,391**	69,900		-
Impairment of Other Assets		**5,762**	5,288		-
Gain on Disposal of Property, Plant and Equipment		**(2,688)**	(97)		(200)
Loss Before Income Taxes		**(42,705)**	(76,045)		(14,285)
Net Loss from Discontinued Operations	**$**	**(37,542)**	$ (75,807)	$	(13,998)

Impairment of property, plant and equipment includes a $17.2 million write-down related to OSB operations and an $8.2 million write-down related to plywood operations.

Net loss from discontinued operations for 2009 includes a net gain of $1.6 million related to the settlement of a claim with respect to faulty equipment at the Grand Rapids, Minnesota OSB mill in the second quarter of 2009.

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

6. PROPERTY, PLANT AND EQUIPMENT

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

						2008
		Cost		Accumulated Amortization		Net Book Value
Panel product mills	$	532,357	$	11,341	$	521,016
Land		3,849		-		3,849
Construction in progress		49,726		-		49,726
Logging roads		457		33		424
Other		206		9		197
	$	586,595	$	11,383	$	575,212

No interest has been capitalized in construction in progress.

7. INTANGIBLE ASSETS

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

		2009		2008
Cost	**$**	**78,841**	$	73,055
Accumulated amortization		**3,239**		2,909
Net book value	**$**	**75,602**	$	70,146

8. THE HIGH LEVEL PROJECT

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

Production at the High Level facility was curtailed in December 2007 and the facility did not operate in 2009 or 2008. Production is allocated to the respective venturers at cost. Each respective venturer then sells its respective production to third parties. The venture does not currently generate revenue or net income and as a result the Company's proportionate share of operating, financing, and investing cash flows are not disclosed.

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

8. THE HIGH LEVEL PROJECT (Continued)

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

		2009		2008
Assets				
Cash	**$**	**18**	$	-
Accounts receivable		**1,592**		1,849
Inventories		**4,866**		5,191
Prepaid expenses		**2,869**		2,751
Property, plant and equipment		**49,337**		49,689
Intangible assets		**15,762**		15,762
Liabilities				
Excess of cheques issued over cash in bank		**-**		25
Accounts payable and accrued liabilities		**1,314**		991

By agreement between the Company and its co-venturer, if the co-venturer does not pay its share of accounts payable and accrued liabilities, the Company may pay such amounts and recover them from the co-venturer's share of production. The co-venturer filed for CCAA protection in Ontario on June 25, 2009. At December 31, 2009, the co-venturer had met all of its obligations to the joint venture.

9. REFORESTATION OBLIGATION

The Company's reforestation obligations are as follows:

		2009		2008
Current portion, included in accounts payable and accrued liabilities	**$**	**297**	$	654
Long-term portion		**2,072**		1,871
	$	**2,369**	$	2,525

			The Company		The Predecessor
		Year ended December 31 2009		Five months to December 31 2008		Seven months to July 29 2008

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

10. LONG-TERM DEBT

		2009		2008
U.S. $375,431 (December 31, 2008: U.S.$357,340) Senior Unsecured Notes due July 29, 2015 with cash interest payable semi-annually at 6% per annum and 5% payment-in-kind interest per annum due at maturity	**$**	**394,579**	$	435,240
U.S.$102,637 (December 31, 2008: U.S. $102,637) Senior Secured Term Loan due June 26, 2014 with interest payable monthly, bi-monthly, quarterly or semi-annually at LIBOR plus 5% per annum or quarterly at base rate plus 4%		**107,872**		125,012
U.S.$28,227 (December 31, 2008: U.S.$35,620) equipment financing loan due October 1, 2011 with principal and interest payable monthly at LIBOR plus 2.90% per annum		**29,667**		43,391
€8,201 (December 31, 2008: €9,463) equipment financing loan due December 20, 2016 with interest payable semi-annually at EURIBOR plus 0.65% per annum		**12,339**		16,079
U.S.$9,220 (December 31, 2008: U.S.$9,548) capital lease obligation maturing May 29, 2025 with interest at 6.81%		**9,689**		11,629
		554,146		631,351
Consent fees		**(1,007)**		(1,141)
Unamortized deferred debt premium		**8,186**		9,271
		561,325		639,481
Current portion		**(10,743)**		(12,366)
	$	**550,582**	$	627,115

The Company's term loan of $107.9 million (U.S.$102.6 million) is secured by inventory and accounts receivable. The Company can elect to pay interest at a base rate plus 4.0% or at LIBOR plus 5.0%. Interest at the base rate plus 4.0%, which is derived from the prime rate and the federal funds effective rate, is payable quarterly. Interest at LIBOR plus 5.0% is payable on a monthly, bi-monthly, quarterly or semi-annual basis, depending on the interest period election made by the Company. The interest rate and interest period are elected by the Company at the end of the previous interest period. As at December 31, 2009 the Company elected to pay monthly interest at LIBOR plus 5.0%. There are no scheduled principal payments until maturity on June 26, 2014.

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

2010	$	10,743
2011		23,483
2012		2,320
2013		2,350
2014		110,253
And thereafter		532,188
	$	681,337

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

11. COMMITMENTS AND GUARANTEES

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

	Operating Leases	Capital Lease
2010	$ 3,418	$ 1,017
2011	192	1,017
2012	52	1,017
2013	44	1,017
2014	20	1,017
Total minimum lease payments	$ 3,726	$ 5,085
Imputed interest (6.81%)		(2,965)
Capital lease obligation		$ 2,120

The Company has entered into an agreement to purchase machinery, equipment, engineering and management support services totaling approximately $4.2 million (December 31, 2008: $Nil) in relation to a dryer optimization project which is expected to improve environmental compliance and reduce energy consumption.

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

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

12. CONTINGENCIES

In the normal course of its business activities, the Company is subject to claims and legal actions that may be made by customers, suppliers and others. While the final outcome with respect to actions outstanding or pending as at December 31, 2009 cannot be predicted with certainty, the Company believes the resolution will not have a material effect on the Company's financial position, results of operations or cash flows.

13. CAPITAL STOCK AND WARRANTS

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

The Company's issued share capital is as follows:

			2009			2008
	Shares	**Warrants**	**Amount**	Shares	Warrants	Amount
Common shares	**89,905,712**	**-**	**$ 368,265**	89,905,712	-	$ 368,265
Stock options exercised (Note 14)	**100,000**	**-**	**267**	-	-	-
Shareholder warrants	**-**	**8,695,634**	**-**	-	8,695,634	-
Noteholder warrants	**-**	**10,094,288**	**41,348**	-	10,094,288	41,348
	90,005,712	**18,789,922**	**$ 409,880**	89,905,712	18,789,922	$ 409,613

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

13. CAPITAL STOCK AND WARRANTS (Continued)

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

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

(b) *Loss per share*

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

At December 31, 2009 there were 1,022,222 (December 31, 2008: $Nil) stock options which were not taken into account in the calculation of diluted earnings per share for each period presented because their effect was anti-dilutive.

14. STOCK-BASED COMPENSATION

On May 13, 2009 the Company's shareholders approved the adoption of a stock option plan under which stock options awards were granted to directors and selected executives, representing their equity-based compensation. The plan provides for the issuance of options to acquire a maximum of 9,000,000 common shares. The options have terms of up to ten years and the fair value of options granted is calculated using the Black-Scholes model on the date of grant.

A summary of the status of the Company's stock option plan as of December 31, 2009 and changes during 2009 is presented below:

		Number of Shares		Weighted Average Exercise Price
Number of options outstanding at beginning of the year		-	$	-
Number of options granted during the year		1,352,222		1.57
Number of options exercised during the year (a)		(100,000)		1.74
Number of options outstanding at end of the year		1,252,222	$	1.56
Options exercisable at year end		985,555		
Weighted average fair value of options granted during the year (b)	$	0.94		

(a) On November 13, 2009, $267 thousand was credited to capital stock with respect to stock options that were exercised. This includes $174 thousand consideration received on exercise date, plus $92 thousand representing the vested fair value of the stock options.
(b) The weighted average fair value of options granted is based upon the following assumptions: risk-free interest rate of 2.98%, expected volatility of 40% and expected option life of 9.41 years.
(c) The compensation expense recorded for options that vested during the year ended December 31, 2009 is $968 thousand (five months ended December 31, 2008: $Nil; seven months ended July 31, 2008: $Nil).

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

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

	The Company		The Predecessor
	Year ended December 31 2009	Five months to December 31 2008	Seven months to July 29 2008
Amortization expense for the period:			
Property, plant and equipment	**$ 31,091**	$ 11,352	$ 19,404
Logging roads	**235**	13	334
Asset under capital lease	**495**	208	334
	31,821	11,573	20,072
Timber rights	**4,447**	1,434	376
	$ 36,268	$ 13,007	$ 20,448

16. FINANCE EXPENSE

	The Company		The Predecessor
	Year ended December 31 2009	Five months to December 31 2008	Seven months to July 29 2008
Cash interest	**$ (32,425)**	$ (14,398)	$ (39,536)
Payment-in-kind interest	**(20,636)**	(8,413)	-
Interest on long-term debt	**(53,061)**	(22,811)	(39,536)
Transaction costs	**-**	-	(25,363)
	$ (53,061)	$ (22,811)	$ (64,899)

Transaction costs of $25.4 million in the seven month period ended July 29, 2008 represent professional fees and filing fees associated with the recapitalization transaction as well as the exchange offer and consent solicitation, which expired in March 2008.

17. FOREIGN EXCHANGE GAIN (LOSS)

	The Company		The Predecessor
	Year ended December 31 2009	Five months to December 31 2008	Seven months to July 29 2008
Foreign exchange gain (loss) on long-term debt	**$ 87,141**	$ (98,720)	$ (33,261)
Other foreign exchange (loss) gain	**(6,518)**	24,492	379
	$ 80,623	$ (74,228)	$ (32,882)

18. COSTS OF CURTAILED OPERATIONS

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

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

19. OTHER ITEMS

The following table includes details of other items:

	The Company		The Predecessor
	Year ended December 31 2009	Five months to December 31 2008	Seven months to July 29 2008
Gain on disposal of property, plant and equipment (Note 20)	**$ 862**	$ 332	$ 3,064
Write-down of property, plant and equipment	**(2,152)**	-	(837)
Net proceeds (cost of claim) (Note 21)	**4,435**	(3,019)	(1,404)
Cost of class action lawsuit	**-**	(504)	(318)
Loss on derivative financial instrument (Note 22)	**-**	(9,856)	-
Other income	**611**	2,037	735
	$ 3,756	$ (11,010)	$ 1,240

20. GAIN ON DISPOSAL OF PROPERTY, PLANT AND EQUIPMENT

During the first quarter of 2009, the Company recorded insurance claims receivable of $535 thousand to replace equipment damaged as a result of fire and an equipment malfunction.

In the second quarter of 2009, the Company completed the sale of a forest license to harvest pine beetle killed timber in the Quesnel, British Columbia region. A gain of $450 thousand was recorded. The net book value of the license was classified as held for sale as at December 31, 2008.

In 2008, the Predecessor recorded a gain on sale of an unused finger-joint lumber facility of $3.3 million and a gain on sale of an electricity transmission line of $0.1 million.

21. LEGAL SETTLEMENT

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

22. LOSS ON DERIVATIVE FINANCIAL INSTRUMENT

The Company has a derivative financial instrument related to the call option embedded in the Senior Unsecured Notes. Changes in the value of this derivative financial asset are reflected in operations. As at December 31, 2009 the derivative financial asset had no value. For the period ended December 31, 2008, changes in the risk-free rate and the credit spread resulted in a $9.9 million loss.

23. INCOME TAXES

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

At July 29, 2008, the implementation of the recapitalization plan resulted in a forgiveness of indebtedness of approximately $394 million for income tax purposes. The forgiven amount was applied to reduce capital

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

23. INCOME TAXES (Continued)

losses available to the Company. The capital losses arose on the wind up of a foreign affiliate at the time of implementation of the recapitalization plan.

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

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

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

	The Company				The Predecessor	
	Year ended December 31, 2009		Five months to December 31, 2008		Seven months to July 29, 2008	
	Amount	**%**	**Amount**	**%**	Amount	%
Income tax (recovery) expense at statutory rate	**$ (1,317)**	**30**	$ (37,005)	31	$ (37,859)	31
Non-taxable foreign exchange loss (gain) on long-term debt	**(13,987)**	**317**	15,020	(12)	5,148	(4)
Reduction in statutory income tax rates	**(1,104)**	**25**	2,473	(2)	3,178	(3)
Rate differentials between jurisdictions	**-**	-	(250)	0	(22)	0
Rate differential on loss carried back	**-**	-	-	-	13,853	(11)
Valuation allowance	**(960)**	**22**	-	-	20,328	(16)
Other non-deductible items	**(2,954)**	**67**	4,044	(3)	(1,715)	1
Tax (recovery) expense	**$ (20,322)**	**460**	$ (15,718)	13	$ 2,911	(2)
Comprised of:						
Current taxes	**$ (3,548)**		-		$ (8,448)	
Future income taxes	**(16,774)**		(15,718)		11,359	
	$ (20,322)		$ (15,718)		$ 2,911	

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

23. INCOME TAXES (Continued)

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

		2009		2008
Future income tax assets:				
Accruals not currently deductible	**$**	**1,060**	$	913
Deferred pension costs		**431**		882
Loss on repurchase of long-term debt		**9**		27
Foreign exchange loss on long-term debt		**2,276**		12,998
Tax loss carryforwards		**39,648**		18,425
Financing costs		**5,523**		8,076
Investment tax credits		**5,886**		4,953
Other tax credits		**918**		918
	$	**55,751**	$	47,192
Future income tax liabilities:				
Eligible capital expenditures		**84**		(7)
Depreciable capital assets		**(98,481)**		(115,205)
Land		**(212)**		(632)
	$	**(98,609)**	$	(115,844)
Future income tax liability, net	**$**	**(42,858)**	$	(68,652)
As reported in the consolidated balance sheet:				
Current portion of future income tax liabilities	**$**	**(7,649)**	$	(8,492)
Long-term future income tax liabilities		**(35,209)**		(60,160)
	$	**(42,858)**	$	(68,652)

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

		Canada		United States
2025 to 2027	$	-	$	195,935
2028		65,260		-
2029		85,169		210,451
Unlimited		3,456		-

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

24. EMPLOYEE FUTURE BENEFITS

The Company maintains two defined benefit pension plans for certain salaried and certain hourly employees in British Columbia and Minnesota. The pension liability of the Minnesota plan was reclassified to discontinued operations (Note 5). In addition, during 2007 the Predecessor transferred existing pension benefit entitlements totaling $1.1 million to an individual pension plan established for a director of the Predecessor. The plan is sponsored and administered by the Company.

The Company measures its accrued benefit obligations and the fair value of plan assets of its defined benefit pension plans for accounting purposes as at December 31 of each year. The most recent actuarial valuation of the British Columbia pension plan for funding purposes was as of December 31, 2006. A valuation will be completed for the year ended December 31, 2009 by June 2010. The most recent actuarial valuation of the Minnesota pension plan was as of January 1, 2009. As a result of the recapitalization on July 29, 2008, the Company requested updated accounting results for pension benefits

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

24. EMPLOYEE FUTURE BENEFITS (Continued)

at the date of fresh start and at December 31, 2008 and as a result the plan assets, accrued benefit obligation and net accrued benefit liabilities have been recorded at their fair values at July 29, 2008. The net accrued benefit liability related to the Company's U.S. operations has been classified separately as a result of the decision to discontinue these operations.

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

		2009		2008
PLAN ASSETS				
Fair value at beginning of year	$	**35,513**	$	39,985
Actual return on plan assets		**2,392**		1,169
Employer contributions		**3,483**		2,045
Benefits paid		**(6,173)**		(1,883)
Actuarial gain (loss)		**2,138**		(5,803)
Fair value at end of year	$	**37,353**	$	35,513
Fair value of plan assets at end of year, discontinued operations	$	**5,678**	$	8,319
ACCRUED BENEFIT OBLIGATION				
Balance at beginning of year		**38,663**		45,595
Current service cost		**1,400**		701
Interest cost		**2,681**		1,181
Benefits paid		**(6,173)**		(1,883)
Adjustment to discount rate		**5,198**		(6,931)
Curtailments		**(1,065)**		-
Balance at end of year [1]		**40,704**		38,663
NET DEFICIT, END OF YEAR	$	**(3,351)**	$	(3,150)
Accrued benefit obligation at end of year, discontinued operations	$	**6,563**	$	10,687
Net deficit at end of year, discontinued operations	$	**(885)**	$	(2,368)
PENSION EXPENSE				
Accrual for current services	$	**1,400**	$	701
Interest on accrued benefits		**2,681**		1,181
Actual return on pension fund assets		**(2,392)**		(1,169)
	$	**1,689**	$	713
Pension expense, discontinued operations	$	**467**	$	(1,351)

1. Accrued benefit obligation includes liabilities of $2.3 million (December 31, 2008: $3.0 million) related to the Lillooet and Savona discontinued operations.

		2009		2008
NET ACCRUED PENSION BENEFIT LIABILITY				
Funded status - plan deficit	$	**(3,351)**	$	(3,149)
Unamortized net actuarial gain (loss)		**867**		(1,128)
Net accrued pension benefit liability	$	**(2,484)**	$	(4,277)
Net accrued pension benefit liability, discontinued operations	$	**(885)**	$	(2,368)

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

24. EMPLOYEE FUTURE BENEFITS (Continued)

Based on the fair value of assets held at December 31, 2009, the defined benefit pension plan assets were comprised of the following:

	2009	2008
PLAN ASSETS		
Cash	**0.1%**	0.5%
Canadian short-term investments	**4.3%**	0.6%
Canadian bonds and debentures	**37.9%**	39.5%
Canadian common shares	**28.8%**	28.5%
Canadian pooled equity funds	**2.0%**	5.2%
Global bonds and debentures	**0.5%**	0.6%
Global pooled equity funds	**11.6%**	12.5%
U.S. common shares	**14.9%**	12.5%
	100.0%	100.0%

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

	2009	2008
Discount rate on accrued benefit obligation at end of year	**6.50%**	7.25%
Discount rate on benefit costs	**7.25%**	6.25%
Expected long-term rate of return on plan assets	**7.00%**	7.00%
Rate of compensation increase	**3.00%**	3.00%

Total cash payments for employee future benefits for the year ended December 31, 2009, consisting of cash contributed by the Company to its defined benefit pension plans and cash payments directly to beneficiaries, was $2,404 (five months to December 31, 2008: $3,842 and seven months to July 29, 2008: $3,074).

Plan Investment Strategies and Policies

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

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

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

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

24. EMPLOYEE FUTURE BENEFITS (Continued)

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

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

	Allowable Range	Actual
Canadian equities	15 - 50%	31%
US equities	5% - 35%	15%
International equities	0% - 30%	12%
Bonds	30 - 50%	38%
Short-term and cash	0 - 20%	4%

At December 31, 2009, there were no shares of the Company held in the pension and other benefit trusts administered by the Company.

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

	The Company		The Predecessor
	Year ended December 31 2009	Five months to December 31 2008	Seven months to July 29 2008
Multi-employer pension plan	**$ 434**	$ 422	$ 792
Group RRSP	**1,387**	496	827
401(k) savings plans	**36**	216	281
	$ 1,857	$ 1,134	$ 1,900

25. RELATED PARTY TRANSACTIONS

During the year ended December 31, 2009, the Company paid legal fees of $147 thousand (2008: $nil) to a law firm of which a director of the Company is a Partner and also serves on the Executive Committee. The transaction was 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.

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

26. SEGMENTED INFORMATION

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

	The Company		The Predecessor
	Year ended December 31 2009	Five months to December 31 2008	Seven months to July 29 2008
North America	**$ 250,458**	$ 115,765	$ 136,469
Overseas	**35,457**	17,665	20,825
	$ 285,915	$ 133,430	$ 157,294

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

	2009	2008
Canada	**$ 545,829**	$ 585,771
United States (Note 5)	**91**	29,308
	$ 545,920	$ 615,079

27. CHANGE IN NON-CASH OPERATING WORKING CAPITAL

	The Company		The Predecessor
	Year ended December 31 2009	Five months to December 31 2008	Seven months to July 29 2008
Accounts receivable	**$ 5,850**	$ (9,432)	$ (9,492)
Inventories	**14,656**	5,406	3,736
Income taxes receivable/payable	**(1,031)**	(1,592)	(4,600)
Prepaid expenses	**1,897**	1,791	(391)
Accounts payable and accrued liabilities	**(7,407)**	(12,291)	34,267
	$ 13,965	$ (16,118)	$ 23,520

28. SETTLEMENT OF WARRANTY HOLDBACK

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

29. MANAGEMENT OF CAPITAL

The Company defines capital as working capital, long-term debt and equity, as reflected in these consolidated financial statements. The Company manages capital by issuing new shares and warrants, issuing new debt, and/or issuing new debt to replace existing debt with different characteristics. Under its existing debt indentures, the Company is restricted in managing capital and must conform with the indentures' provisions, which govern capital components such as dividends, asset sales and debt incurrence. During the fourth quarter of 2008, as a result of the global economic crisis, the terms and availability of debt and equity capital have been materially restricted. As a result, should the Company require debt or equity financing (Note 10 and 30), debt capital may not be available on acceptable terms, which may require management to explore strategic alternatives to improve its capital structure, enhance liquidity, refinance debt, sell non-core assets and reduce costs and expenditures.

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

30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

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

2009	Loans and receivables / Other financial liabilities	Assets (liabilities) at fair value through earnings	Total
ASSETS			
Cash and cash equivalents	$ -	$ 92,075	$ 92,075
Short-term investments	-	61,654	61,654
Trade and other receivables	13,730	-	13,730
LIABILITIES			
Trade and other payables	23,475	-	23,475
Current portion of long-term debt	10,743	-	10,743
Long-term debt	550,582	-	550,582

2008	Loans and receivables / Other financial liabilities	Assets (liabilities) at fair value through earnings	Total
ASSETS			
Cash and cash equivalents	$ -	$ 197,928	$ 197,928
Short-term investments	-	1,586	1,586
Trade and other receivables	18,795	-	18,795
LIABILITIES			
Trade and other payables	26,095	-	26,095
Current portion of long-term debt	12,366	-	12,366
Long-term debt	627,115	-	627,115

Financial Risks

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

Credit Risk

Credit risk is the risk that a contracting entity will not complete its obligations under a financial instrument and cause a financial loss. The Company is exposed to credit risk on accounts receivable and short-term investments. The Company's maximum exposure to credit risk related to receivables and short-term investments is the gross carrying amount of these assets net of any allowance for doubtful accounts or impairment loss as reflected in these consolidated financial statements. As at December 31, 2009, the amount of accounts receivable past due was nominal.

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

30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

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

Liquidity Risk

Liquidity risk is the risk that the Company encounters difficulty in meeting its financial obligations as they come due. Liquidity risk includes the risk that, as a result of operational liquidity requirements, the Company: will not have sufficient funds to settle a transaction on the due date; will be forced to sell financial assets at a value which is less than what they are worth; or may be unable to settle or recover a financial asset at all. Liquidity risk arises from accounts payable, long-term debt, commitments and financial guarantees. Under current market conditions, the Company believes that through to 2014, based on current and forecasted product pricing, it has adequate liquidity to meet cash interest and principal repayments, operating working capital requirements and capital expenditures. During the fourth quarter of 2008, as a result of the global economic crisis, the terms and availability of debt and equity capital have been materially restricted. As a result, should such conditions continue through to maturity of our term loan in 2014 and our senior unsecured notes in 2015 and should the Company require debt or equity financing, debt capital may not be available on acceptable terms, which may require management to explore strategic alternatives to improve its capital structure, enhance liquidity, refinance debt, sell non-core assets and reduce costs and expenditures.

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

	Less than 1 month	1 to 3 months	4 to 12 months	1 to 5 years
Senior Unsecured Notes	$ -	$ -	$ 24,245	$ 110,034
Senior Secured Term Loan	481	916	4,267	127,641
Equipment loan	784	1,563	6,941	21,663
Deutsche Bank equipment loan	-	-	2,059	6,022
Capital lease obligations	85	169	763	4,068
Operating lease obligations	449	853	2,115	308
Accounts payable and accrued liabilities	26,164	287	2,033	-
Reforestation obligation	-	-	-	2,072
Purchase commitments	1,194	2,488	10,463	595
	$ 29,157	$ 6,276	$ 52,886	$ 272,403

Market Risk

Interest rate risk

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

At December 31, 2009, if interest rates had been 50 basis points higher/lower and all other variables were held constant, the Company's after-tax net loss would increase/decrease by approximately $0.5 million on an annual basis (December 31, 2008: $0.8 million).

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

30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

The Company is also exposed to interest risk on the derivative financial instrument that arises from the call option embedded in the Senior Unsecured Notes. As the risk-free interest rate and the credit spread increase, the value of the derivative financial asset decreases. Conversely, a decrease in the risk-free interest rate and the credit spread increases the value of the derivative financial asset. Changes in the value of this derivative financial asset are reflected in operations. The value of the derivative financial instrument as at December 31, 2009 and December 31, 2008 was $Nil.

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

The U.S. dollar is the only foreign currency to which the Company has significant exposure. The Company does not use derivative instruments to reduce its exposure to foreign currency risk.

At December 31, 2009, if the Canadian dollar had weakened/strengthened one cent against the U.S. dollar with all other variables held constant, after-tax net loss for the year would have been $3.7 million higher/lower on an annual basis (December 31, 2008: $5.4 million).

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

Fair Values

The fair value of financial instruments, with the exception of senior notes, is estimated to approximate their carrying value at December 31, 2009 due to the immediate or short-term maturity of these financial instruments.

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

		2009		2008
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Senior notes	**$ 401,758**	**$ 236,726**	$ 443,370	$ 281,765
Term loan	**107,872**	**107,872**	125,012	125,012
Equipment financing	**42,006**	**42,006**	59,470	59,470
Capital leases	**9,689**	**9,689**	11,629	11,629
	$ 561,325	**$ 396,293**	$ 639,481	$ 477,876

The term loan is secured by accounts receivable and inventory having a carrying value of $54 million. In the event that the accounts receivable and inventory security for the term loan is deficient, the term loan holders have an additional security charge (the "floating deficiency charge") in an OSB facility. The maximum of the floating deficiency charge is U.S.$50 million, which is less than the carrying value of the asset. Equipment financing of U.S.$35.6 million is secured by certain capital assets.