REPORT TO SHAREHOLDERS FOR THE THREE MONTHS AND YEAR ENDED DECEMBER 31, 2013

LETTER TO SHAREHOLDERS

March 25, 2014

Dear Fellow Shareholders:

I am pleased to report a successful year for the company in 2013. Our North American as well as export markets gained momentum. In September 2013, we restarted our High Level mill after nearly six years of curtailment and are continuing to ramp up production to serve our customers. While North American OSB prices fluctuated considerably during 2013, they were on average stronger than in 2012. We generated adjusted EBITDA of $149.1 million versus $105.5 million in 2012. Notwithstanding some near-term challenges in 2014 including transportation issues and extreme weather that have impacted OSB shipments and demand, the overall outlook remains positive with the consensus forecast for U.S. housing starts calling for further recovery in 2014.

As previously announced, we entered into an agreement with Louisiana-Pacific Corporation ("LP") whereby LP will acquire all of Ainsworth's outstanding common shares. The transaction received shareholder and court approval in October 2013, but remains subject to various closing conditions, including regulatory approvals. We continue to work with the Canadian Competition Bureau and the U.S. Department of Justice as they conduct their regulatory reviews of the transaction, and currently expect to close the transaction during the second quarter of 2014.

From an operations perspective, our total production volume was relatively flat versus the prior year as the initial contribution from High Level was offset by maintenance downtime at our other mills. We experienced some cost increases versus the prior year related to raw material input costs including resin and wax, and our overall costs were also impacted by the startup of High Level. We remain focused on operating safely, as well as the continuous improvement of work practices.

Our export markets exhibited strong growth in 2013. Shipment volumes to our key export market, Japan, increased by 39% versus last year, which reflects continued wood housing growth combined with increases in market share. We are also pleased with our progress in expanding sales to other export destinations, such as China, where we have begun selling innovative OSB products for industrial applications.

As always, I appreciate the continued trust and support of our shareholders and our valued customers. I would like to extend a special thanks to all of our employees for the progress we have made as a company over the last several years. I believe the LP transaction represents another positive step forward for our people, our customers and the communities in which we operate.

Sincerely,

/s/ Jim Lake

President and Chief Executive Officer

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
For the Three Months and Year Ended December 31, 2013

This management's discussion and analysis is presented as at March 25, 2014. Financial references are in Canadian dollars unless otherwise indicated. Additional information relating to Ainsworth Lumber Co. Ltd. (also referred to as Ainsworth, the Company, or we, or our), including our annual information form, is available on SEDAR at www.sedar.com. Our financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS").

Overview

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

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

The Company has a production capacity of 2.5 billion square feet per year (3/8-inch basis) and has four wholly-owned OSB manufacturing mills located in Grande Prairie, Alberta; High Level, Alberta; 100 Mile House, British Columbia; and, Barwick, Ontario. All four mills are strategically located in terms of wood supply and access to markets in North America and Asia.

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

100 Mile House, BC	440
Barwick, ON	510
Grande Prairie, AB	730
High Level, AB	860
Total capacity	2,540

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

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

All of our mills utilize flexible mill technology and can manufacture products for domestic and overseas markets. Our mills have access to low cost fibre sources, are energy efficient and have low sustaining capital requirements. Ainsworth employs an experienced, reliable workforce of approximately 710 workers. Safety and environmental responsibility is emphasized as a key value at all levels.

Advisory Regarding Forward-Looking Statements

This document contains forward looking statements concerning future events or expectations of Ainsworth's future performance, OSB demand and pricing, financial conditions, and other expectations, beliefs, intentions and plans that are not historical fact. These forward-looking statements appear under the heading "Outlook" and in a number of other places in this report and can be identified by words such as "may", "estimates", "projects", "expects", "intends", "believes", "plans", "anticipates", "continue", "growing", "expanding", or their negatives or other comparable words. Investors are cautioned that such forward-looking statements are not promises or guarantees of future performance but are only predictions that relate to future events, conditions or circumstances or our future results, performance, achievements or developments and are subject to substantial known and unknown risks, assumptions, uncertainties and other factors that could cause our actual results, performance or developments in our business or in our industry to differ materially from those expressed, anticipated or implied by such forward-looking statements. Factors that could cause actual results to differ materially from those expressed or implied by such forward looking statements include, without limitation, the future demand for, and sales volumes of, Ainsworth's products, future production volumes, efficiencies and operating costs, increases or decreases in the prices of Ainsworth's products, Ainsworth's future stability and growth prospects, Ainsworth's future profitability and capital needs, including capital expenditures, and the outlook for and other future developments in Ainsworth's affairs or in the industries in which Ainsworth participates and factors detailed from time to time in Ainsworth's periodic reports filed with the Canadian Securities Administrators and other regulatory authorities. These periodic reports are available to the public at www.sedar.com. Many of these factors are beyond Ainsworth's control.

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

Non-IFRS Measures

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

Overview of the LP Transaction

On September 4, 2013, Louisiana-Pacific Corporation ("LP") and the Company announced that they had entered into a definitive agreement (the "Arrangement Agreement") under which LP will acquire all of the outstanding common shares of Ainsworth for $1.94 in cash plus 0.114 LP common shares per Ainsworth common share, on a fully pro-rated basis.

On October 29, 2013, the transaction was approved by approximately 99.9% of the votes cast at the Company's special meeting of shareholders. On October 31, 2013, the Supreme Court of British Columbia issued a final order approving the Arrangement Agreement. Both Ainsworth and LP continue to work with the Canadian Competition Bureau and the U.S. Department of Justice as they conduct their regulatory reviews of the transaction. Subject to obtaining required regulatory approvals and the satisfaction or waiver of other conditions pursuant to the Arrangement Agreement, the Company currently expects the acquisition to close during the second quarter of 2014.

Further information about the Arrangement Agreement is set out in Ainsworth's management proxy circular dated September 24, 2013, which is available under Ainsworth's profile on www.sedar.com.

Outlook

U.S. housing indicators continue to show improvement. Additionally, we continue to experience growth in our export markets, including Japan. As a result, we remain confident that the market will require additional supply in the years ahead. The restart of our High Level mill will allow us to meet the growing requirements of our existing customer base in North America and Asia as well as service new market segments.

Summary of Operating and Financial Results from Continuing Operations

(in millions, except volume, unless otherwise noted)	2013	Q4-13	Q3-13	Q2-13	Q1-13	2012	Q4-12	Q3-12	Q2-12	Q1-12	2011
Sales	**$ 488.0**	**$ 104.4**	$ 114.3	$ 127.5	$ 141.8	$ 409.1	$ 117.9	$ 115.6	$ 90.5	$ 85.1	$ 293.3
Adjusted EBITDA (1)	**148.9**	**11.3**	24.4	50.7	62.5	105.5	42.0	37.0	16.9	9.6	12.5
Adjusted EBITDA margin (2)	**30.5%**	**10.8%**	21.3%	39.8%	44.1%	25.8%	35.6%	32.0%	18.7%	11.3%	4.3%
Shipment volume (mmsf 3/8")	**1,608.9**	**409.2**	422.3	380.4	397.0	1,620.0	398.2	422.9	393.8	405.1	1,540.5
Production volume (mmsf 3/8")	**1,623.9**	**420.2**	396.9	398.7	408.1	1,624.3	406.4	419.1	398.0	400.8	1,541.0

(1) Adjusted EBITDA, a non-IFRS financial measure, is defined as net income (loss) from continuing operations before amortization, gain on disposal of property, plant and equipment, cost of curtailed operations, stock option expense (recovery), finance expense, foreign exchange (gain) loss on long-term debt, other foreign exchange loss (gain), interest income earned on investments, income tax (recovery) expense and non-recurring items. See the detailed calculation of adjusted EBITDA by quarter on page 20. As a result of adopting the amendment to *IAS19 – Employee Benefits* (see "Changes in Accounting Standards"), adjusted EBITDA for each quarter of 2012 has been restated to reflect the increase in pension expense. Adjusted EBITDA for all quarters presented has also been restated to exclude interest income earned on investments.

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

Review of Financial Results

(in millions)	Q4-13	Q4-12	YTD 2013	YTD 2012
Sales	**$ 104.4**	$ 117.9	**$ 488.0**	$ 409.1
Costs of products sold	**89.4**	72.1	**323.5**	287.6
Net (loss) income from continuing operations	**(10.6)**	6.7	**39.4**	28.4
Net income	**(10.7)**	32.5	**38.8**	28.2
Adjusted EBITDA	**11.3**	42.0	**148.9**	105.5
Adjusted EBITDA margin	**10.8%**	35.6%	**30.5%**	25.8%
Shipment volume (mmsf 3/8")	**409.2**	398.2	**1,608.9**	1,620.0

The table below shows the calculation of adjusted EBITDA:

(in millions)	Q4-13	Q4-12	YTD 2013	YTD 2012
Net (loss) income from continuing operations	**$ (10.6)**	$ 6.7	**$ 39.4**	$ 28.4
Add (deduct):				
Amortization of property, plant and equipment	**6.7**	6.9	**25.5**	25.6
Loss on disposal of property, plant and equipment	**0.1**	0.2	**0.5**	0.1
Write-down of property, plant and equipment	**-**	1.5	**3.8**	1.5
Cost of curtailed operations	**-**	1.1	**10.7**	3.7
Stock-based compensation expense	**0.3**	0.5	**1.8**	0.8
Finance expense	**6.5**	11.3	**27.5**	50.8
Loss on repayment of long-term debt	**-**	22.9	**3.1**	22.9
Income tax expense	**0.2**	2.5	**21.0**	5.8
Foreign exchange loss (gain) on long-term debt	**10.9**	7.6	**24.0**	(10.3)
Gain on derivative financial instrument	**(3.8)**	(18.3)	**(8.1)**	(24.0)
Costs related to LP acquisition	**1.9**	-	**3.6**	-
Other	**(0.9)**	(0.9)	**(3.9)**	0.2
Adjusted EBITDA	**$ 11.3**	$ 42.0	**$ 148.9**	$ 105.5

Net loss from continuing operations in the fourth quarter of 2013 was $10.6 million compared to net income of $6.7 million in the fourth quarter of 2012. The $17.3 million decrease in net income included a $30.9 million decrease in gross profit (sales less cost of products sold (exclusive of amortization)), a $14.5 million decrease in the gain on derivative financial instrument, a $3.3 million increase in foreign exchange loss on long-term debt, and a $1.5 million increase in selling and administration expense. These decreases in net income were partially offset by a $22.9 million decrease in loss on early repayment of long-term debt, a $4.8 million reduction in finance expense, a $1.1 million reduction in costs of curtailed operations, and a total of $3.6 million reduction related to items including income tax expense, write-downs and amortization expense.

On an annual basis, net income from operations was $39.4 million in 2013 compared to $28.4 million in 2012, representing an increase of $11.0 million. The increase included a $43.1 million increase in gross profit, a $23.2 million decrease in finance expense, a $19.8 million decrease in loss on early repayment of long-term debt, and a $3.0 million variation in foreign exchange gain/loss on operations. These increases in net income were partially offset by a $34.2 million variation in foreign exchange gain/loss on long-term debt, a $15.9 million decrease in the gain on derivative financial asset, a $15.2 million increase in income tax expense, a $7.0 million increase in costs of curtailed operations, a $4.6 million increase in selling and administration expense, and a $2.3 million increase in write-down of property, plant and equipment.

Adjusted EBITDA

In the fourth quarter of 2013, adjusted EBITDA was $11.3 million compared to $42.0 million in the fourth quarter of 2012. Adjusted EBITDA margin on sales was 10.8% compared to 35.6% in the fourth quarter of 2012. The decrease was largely related to the $30.9 million decrease in gross profit.

Adjusted EBITDA on an annual basis was $148.9 million in 2013, compared to $105.5 million in 2012. Adjusted EBITDA margin on sales was 30.5% compared to 25.8% in 2012. The increase was primarily related to the $43.1 million increase in gross profit.

Sales

Sales of $104.4 million in the fourth quarter of 2013 were $13.5 million lower than sales of $117.9 million for the same period in 2012. The decrease in sales was mainly due to an 18% decrease in realized pricing. During the fourth quarter of 2013, the average U.S. benchmark price for the North Central and Western Canada regions decreased by 26% and 34%, respectively, compared to the same period in 2012. The impact of the U.S. benchmark declines on our realized pricing was moderated by the effect of a weaker Canadian dollar relative to the fourth quarter of 2012 combined with stronger export pricing. Notwithstanding transportation issues that impacted shipments in the fourth quarter, our sales volumes increased 2.8% due to the onset of production at High Level.

Sales of $488.0 million in 2013 were $78.9 million higher than sales of $409.1 million in 2012. This increase was mainly due to a 22% increase in realized pricing. The average U.S. benchmark price for the North Central and Western Canadian regions increased by 16% and 11% in 2013, respectively, compared to 2012. The impact of the U.S. benchmark increases on our realized pricing was enhanced by the effect of a weaker Canadian dollar in 2013 on average relative to 2012 combined with stronger export pricing. Partially offsetting the price increases, there was a 0.7% decline in sales volumes as additional production from High Level was more than offset by maintenance downtime at our various mills and transportation issues toward the end of 2013.

The average benchmark F.O.B. mill prices reported by Random Lengths for the each quarter of 2013 and 2012, as well as the annual averages for 2013 and 2012, are shown in the table below:

U.S. dollars	2013	Q4-13	Q3-13	Q2-13	Q1-13	2012	Q4-12	Q3-12	Q2-12	Q1-12
North Central (7/16" basis)	**$ 315**	**$ 245**	$ 252	$ 347	$ 417	$ 271	$ 332	$ 313	$ 235	$ 203
Western Canada (7/16" basis)	**299**	**219**	230	328	419	269	331	310	232	201

Costs of Products Sold (Exclusive of Amortization)

In the fourth quarter of 2013, costs of products sold were $89.4 million, a $17.3 million increase over the same period in 2012. The increase in costs of products sold was partially attributable to higher resin and wood pricing, combined with product mix changes that required increased use of key input materials. Additional costs were also incurred as our High Level mill was operating during the fourth quarter of 2013 (curtailed in the fourth quarter of 2012).

On an annual basis, costs of products sold were $323.5 million in 2013 compared to $287.6 million in 2012. The $35.9 million increase is related to higher raw material costs and product mix changes, as well as additional costs incurred when our High Level mill was restarted and when maintenance projects were undertaken at our other mills during 2013.

Selling and Administration

Selling and administration expense increased by $1.5 million from $4.3 million in the fourth quarter of 2012 to $5.8 million in the fourth quarter of 2013. On an annual basis, selling and administration expense increased by $4.6 million from $16.5 million in 2012 to $21.1 million in 2013. The increase for both periods is primarily related to additional costs incurred with respect to the LP transaction, combined with higher salaries and benefits expense.

Amortization of Property, Plant and Equipment and Intangible Assets

Amortization expense for the fourth quarter of 2013 was not significantly different compared to the fourth quarter of 2012. Full year amortization expense in 2013 includes a $3.8 million write-down of property, plant and equipment with respect to obsolete equipment and certain equipment that is no longer in use. Excluding the write-down, amortization expense was not significantly different in 2013 compared to 2012.

Costs of Curtailed Operations

Costs of curtailed operations are comprised of costs directly attributable to our High Level, Alberta mill, which was restarted during the third quarter of 2013. During the fourth quarter of 2013, all costs attributable to the High Level mill were classified as costs of products sold rather than costs of curtailed operations. On an annual basis, costs of curtailed operations increased by $7.0 million in 2013 compared to 2012 due to increased activities associated with preparing the mill to resume operations.

Finance Expense

Finance expense decreased significantly from $11.3 million in the fourth quarter of 2012 to $6.5 million in the fourth quarter of 2013. This reduction was due to a lower principal balance and interest rate on long-term debt following the refinancing transactions that closed in the fourth quarter of 2012. The reduction was partially offset by the foreign exchange effect of a weaker Canadian dollar, on average, relative to the U.S. dollar.

On an annual basis, finance expense was $27.5 million in 2013 compared to $50.8 million in 2012. The $23.2 million decrease was due to a combination of a lower principal balance and interest rate on our refinanced debt, partially offset by the effect of foreign exchange.

Loss on Early Repayment of Long-Term Debt

During 2013, we exercised the Year 1 option to repurchase 10% or U.S. $35 million of the principal of the 7.5% Senior Secured Notes (the "Notes"). As a result, a $3.1 million loss on repayment was recognized, which consists primarily of a $1.1 million premium paid as well as the write-off of the associated embedded derivative value of $1.8 million.

During 2012, we repaid our Senior Unsecured Notes and Senior Secured term loan. As a result, a $22.9 million loss on repayment was recognized, which consists of a $17.2 million write-off of the associated embedded derivative, a $6.0 million write-off of unamortized transaction costs and bond premium, a $1.0 million paid in legal and consent fees, partially offset by a $1.3 million realized foreign exchange gain on repayment.

Foreign Exchange (Gain) Loss on Long-Term Debt

The unrealized foreign exchange loss on long-term debt in the fourth quarter of 2013 was $10.9 million compared to $7.6 million in the fourth quarter of 2012. For the full year, the foreign exchange loss on long-term debt was $23.9 million in 2013 compared to a gain of $10.3 million in 2012.

The majority of our debt is denominated in U.S. currency and is therefore subject to fluctuations in the exchange rate. The strengthening of the Canadian dollar, relative to the U.S. dollar, results in a foreign exchange gain, whereas a weakening of the Canadian dollar, relative to the U.S. dollar, results in a foreign exchange loss.

Management estimates that a one cent change of the Canadian dollar results in an after tax increase/decrease in foreign exchange loss/gain on our U.S. dollar debt of $2.7 million on an annual basis.

Gain on Derivative Financial Instrument

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

The derivative financial asset embedded in the Notes was revalued at December 31, 2013, resulting in a gain of $3.8 million in the fourth quarter of 2013, compared to $18.3 million in the fourth quarter of 2012. For the full year, the revaluation resulted in gains of $8.1 million in 2013 and $23.9 million in 2012.

Other Items

Other income (expenses) for the fourth quarter and full year of 2013 included gains/losses on disposal of property, plant and equipment and other income. The increase from 2012 is mainly due to the write-down of certain non-core property located in Savona, British Columbia during the fourth quarter of 2012.

Income Taxes

Income tax expense in the fourth quarter of 2013 was $0.2 million on loss before income taxes of $10.4 million, compared with an income tax expense of $2.5 million on income before income taxes of $9.2 million in the fourth quarter of 2012. Income tax expense was $21.0 million for the year 2013 on income before income taxes of $60.4 million, compared with income tax expense of $5.8 million on income before income taxes of $34.2 million for the year 2012. The majority of the income tax expense was related to temporary differences that increased the deferred income tax liability on the statement of financial position. Certain permanent differences, such as the non-taxable portion of the foreign exchange loss on our debt and expenses not deductible for tax purposes, impacted the resulting income tax expense.

As a result of the discontinuation of our U.S. OSB operations, U.S. tax losses and the resulting valuation allowance are excluded from the temporary timing differences disclosed in the financial statements.

The Company has benefited Canadian non-capital tax loss carry-forwards of approximately $155 million for financial statement purposes at December 31, 2013. The Company has U.S. non-capital tax loss carry-forwards of $384 million that expire between 2026 and 2033, which are not benefited for financial statement purposes because the 2008 recapitalization resulted in a restriction of these loss carry-forwards.

The Company also has unrecognized deferred tax assets of $2.8 million (2012: $nil) relating to the foreign exchange loss on long-term debt.

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

Net Loss from Discontinued Operations

Net loss from discontinued operations includes expenses, such as pension and actuarial costs, associated with the OSB mills in Minnesota, as well as from the plywood and veneer operations in Lillooet and Savona that were disposed in 2009.

Capital Resources and Liquidity

As of December 31, 2013, our working capital was $170.9 million, compared to $142.2 million as at December 31, 2012. Our working capital requirements in the short term are to fund any potential future shortfalls from operations, interest payments, debt principal repayments and essential capital expenditures.

At December 31, 2013, Ainsworth's available liquidity, consisting of cash and cash equivalents, was $137.4 million, an improvement of $30.6 million since December 31, 2012 resulting from our stronger operating results, partially offset by debt repayments and capital expenditures. Ainsworth is also permitted under the terms of the Notes to borrow at least an additional U.S.$170 million of senior secured and unsecured debt subject to the limitations set forth in the indenture.

Our cash flows for the quarter ended December 31, 2013 were as follows:

	Q4-13	Q4-12	YTD 2013	YTD 2012
(in millions)				
Cash provided by operating activities before interest, taxes and working capital	**$ 4.0**	$ 40.3	**$ 130.4**	$ 100.1
Cash used for interest payments	**(12.6)**	(11.8)	**(28.1)**	(28.6)
Cash used for tax payments	**(0.2)**	-	**(1.1)**	-
Cash provided by (used in) working capital	**0.5**	4.2	**(1.0)**	(3.3)
Cash (used in) provided by operating activities	**$ (8.3)**	$ 32.7	**$ 100.2**	$ 68.2
Cash used in financing activities	**$ (2.6)**	$ (9.2)	**$ (43.8)**	$ (12.0)
Cash used in investing activities	**$ (3.7)**	$ (3.2)	**$ (27.4)**	$ (6.3)

In the fourth quarter of 2013 we had a cash inflow of $4.0 million from operating activities before interest and taxes paid and working capital requirements compared to $40.3 million in the fourth quarter of 2012. Decreases in OSB pricing and cost increases resulted in lower cash generated by operations quarter over quarter. The decrease in cash provided by working capital in the fourth quarter of 2013 compared to the same period in 2012 was due primarily to an increase in inventories of logs and finished goods, partially offset by the timing of accounts receivable.

For the full year 2013, cash generated by operating activities was $130.4 million (before interest and taxes paid and working capital requirements), which was higher than 2012 due to OSB price increases. The increase in cash provided by working capital for 2013 compared to 2012 was primarily related to the timing of accounts payable and accounts receivable, partially offset by higher inventories of logs and finished goods in 2013.

Cash used in financing activities for the fourth quarter of 2013 includes repayment of equipment financing loans and capital lease obligations. Cash used in financing activities for the full year of 2013 includes a 10% repayment of the Notes, which totaled U.S. $36.1 million including a premium of U.S. $1.1 million. Cash used in financing activities for the fourth quarter and full year of 2012 includes cash proceeds from the issuance of the Notes and the rights offering, with offsetting cash outflows used to repay our Senior Unsecured Notes and Senior Secured term loan, as well as repayment of equipment financing loans and capital lease obligations. Our debt principal repayments are scheduled to total $10.0 million in 2014.

Cash used in investing activities increased in the fourth quarter and full year of 2013 compared with the same periods in 2012, due to an increase in capital spending. The increase for the full year was partially offset by $1.0 million of proceeds received on the sale of non-core property located in Savona, British Columbia, and a net $0.5 million reduction in restricted cash primarily attributable to the release of certain letters of credit.

Capital spending of $3.6 million in the fourth quarter and $28.8 million for the full year of 2013 included expenditures associated with the restart of our High Level mill, as well as maintenance and other capital projects at our operating mills.

Contractual Obligations

The following table summarizes the timing of payments for which we have contractual obligations as at December 31, 2013.

	2014	2015 to 2016	2017 to 2018	Thereafter	Total
(In millions)					
Senior Secured Notes [1]	$ 25.1	$ 50.3	$ 360.2	$ -	$ 435.6
Equipment loan [2]	8.1	-	-	-	8.1
Deutsche Bank equipment loan [3]	1.8	-	-	-	1.8
Capital lease obligations [4]	0.4	0.1	-	-	0.5
Operating lease obligations	0.8	0.6	-	-	1.4
Purchase commitments [5]	5.8	2.4	2.4	1.9	12.5
	$ 42.0	$ 53.4	$ 362.6	$ 1.9	$ 459.9

(1) Under the indentures governing our outstanding Senior Secured Notes, we are required to make cash interest payments at 7.5% per annum on June 15 and December 15. Our Senior Secured Notes mature on December 15, 2017.

(2) Under the equipment loan agreement, we are required to pay interest at a rate equal to LIBOR plus 3.50% per annum, reset and payable monthly. For the purpose of the above table we have calculated the interest rate at the December 31, 2013 month-end LIBOR rate of 0.168%. Principal payments are made monthly, with a final balloon payment at maturity on September 30, 2014.

(3) Under the terms of the Deutsche Bank equipment loan agreement, we are required to pay interest at a rate equal to EURIBOR plus 1.65% per annum, reset and payable semi-annually on June 20 and December 20. For the purpose of the above table we have calculated the interest rate at the December 31, 2013 month-end EURIBOR rate of 0.287%. Principal payments of €1,193,919 are made semi-annually on June 20 and December 20. This loan matures on June 20, 2014.

(4) Capital lease obligations are payable monthly.

(5) Purchase commitments consist of long-term purchase contracts with annual minimum fixed payments and agreements to purchase certain equipment (including $4.5 million with respect to certain equipment for our High Level mill).

(6) Contractual obligations denominated in $U.S. are converted to Canadian dollars at the December 31, 2013 exchange rate posted by the Bank of Canada of $1.00 = U.S. $0.9402.

(7) Contractual obligations denominated in € are converted to Canadian dollars at the December 31, 2013 exchange rate posted by the Bank of Canada of $1.00 = €0.6824.

Outstanding Share Data

The issued share capital of the Company at December 31, 2013 is as follows:

	Shares	Warrants	Value (in millions)
Common shares	**240,875,888**	**-**	**$ 583**
Shareholder warrants converted	**30,421**	**-**	**-**
	240,906,309	**-**	**$ 583**

The Company issued 8,695,634 warrants on July 28, 2008 pursuant to the Company's recapitalization. The number of shares to be issued to warrant holders was dependent on the market price of the Company's common shares. If the Company's common share price exceeded a barrier price of U.S. $7.89 per share on or before July 29, 2013,

each warrant would be converted into 1.52 common shares; otherwise, each warrant would be converted into 0.0035 common shares. On July 29, 2013, the shareholder warrants were deemed to be exercised without additional consideration. Since the Company's share price did not exceed the barrier price of U.S.$7.89 per common share, each warrant was converted into 0.0035 common shares, resulting in the issuance of 30,421 common shares. These warrants had nominal value for accounting purposes since the Company's share price did not exceed the barrier price on July 29, 2013.

Outstanding Stock Options

The following table presents the exercise prices and expiry dates for the 1,990,676 stock options outstanding at December 31, 2013:

Grant Date	Number of Options Outstanding	Exercise Price	Expiry Date
November 14, 2008 (1)	400,000	1.16	November 14, 2018
March 5, 2010	175,000	1.53	March 5, 2020
March 15, 2010	25,000	1.63	March 15, 2020
May 13, 2010	72,376	2.99	May 13, 2020
May 21, 2010	50,000	2.76	May 21, 2020
June 14, 2010	100,000	2.19	June 14, 2020
August 5, 2010	6,300	1.93	August 5, 2020
August 13, 2010	25,000	1.81	August 13, 2020
March 4, 2011	250,000	2.19	March 4, 2021
September 9, 2011	200,000	1.29	September 9, 2021
March 9, 2012	100,000	1.03	March 9, 2022
March 13, 2012	112,000	1.03	March 13, 2022
March 15, 2013	475,000	3.73	March 15, 2023

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

Financial Instruments

Ainsworth does not use derivatives or participate in hedging activities. However, our Notes include call options which have been identified as embedded derivatives whereby we have the right to repurchase the Notes. A derivative financial asset was recorded at fair value at issuance of the Notes and is revalued at each reporting period based on the market value of the Notes, the current interest rates, and the credit spread. Changes in the value of this derivative financial asset are reflected in operations as "Gain (loss) on derivative financial instrument". Management estimates that, had interest rates been 1% higher and all other variables were constant, the value of the derivative financial asset would have increased by $2.5 million. At December 31, 2013, the derivative financial asset had a value of $19.6 million (December 31, 2012: $13.4 million).

Off-Balance Sheet Arrangements

The Company does not have any significant off-balance sheet arrangements other than letters of credit in the amount of $5.1 million ($5.6 million at December 31, 2012), for which restricted cash is held as collateral. Further, there are no off-balance sheet arrangements that have, or are reasonably likely to have, a current or future material effect on the Company's financial condition, results of operations, liquidity, capital expenditures or resources.

Related Party Transactions

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

The Company periodically sells goods to BCP affiliates. These sales were approximately $25 thousand during the fourth quarter of 2013 and $414 thousand during the fourth quarter of 2012. During the year ended December 31, 2013, these sales were approximately $2.6 million (year ended December 31, 2012: $3.8 million).
During the fourth quarter and year ended December 31, 2013, the Company also purchased equipment from BCP affiliates of approximately $150 thousand (fourth quarter and year ended December 31, 2012: $nil).

During the year ended December 31, 2012, the Company made interest payments on its Senior Unsecured Notes held by BCP in the normal course of operations. On December 27, 2012, the Company repaid the principal, plus accrued interest on the Senior Unsecured Notes held by BCP, net of amounts owed to the Company for subscription of common shares.

During the fourth quarter of 2012, the Company also paid a backstop fee of $4.4 million to BCP for their role as a standby purchaser of the rights offering. Since all rights were exercised by right-holders under the basic and additional subscription privileges, including BCP, it was not necessary for BCP to purchase shares pursuant to the terms of the standby purchase agreement.

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

	Q4-13	Q4-12	YTD 2013	YTD 2012
(in thousands)				
Legal fees [(1)]	**$ 198**	$ 741	**$ 838**	$ 749
Other services [(2)]	**227**	105	**616**	239
Key management compensation [(3)]	**908**	945	**3,521**	3,098

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

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

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

Sales to overseas markets are handled by Interex Forest Products Ltd. ("Interex"), a cooperative sales company over which Ainsworth, as a shareholder, has significant influence. At December 31, 2013, $2.9 million was included in trade receivables with respect to Interex (December 31, 2012: $2.8 million).

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

Selected Quarterly Financial Information

	2013	Q4-13	Q3-13	Q2-13	Q1-13	2012	Q4-12	Q3-12	Q2-12	Q1-12	2011
(in millions, except per share data, unless otherwise noted)											
Sales and earnings (loss)											
Sales	**$ 488.0**	**$ 104.4**	$ 114.3	$ 127.5	$ 141.8	$409.1	$ 117.9	$ 115.6	$ 90.5	$ 85.1	$293.3
Operating income (loss)	**103.0**	**2.4**	10.0	36.2	54.4	75.6	33.6	29.7	10.2	2.1	(12.8)
Foreign exchange gain (loss) on long-term debt	**(24.0)**	**(10.9)**	7.6	(13.1)	(7.6)	10.3	(7.6)	18.4	(10.5)	10.0	(11.4)
Net income (loss) from continuing operations	**39.4**	**(10.6)**	10.7	2.8	36.5	28.4	6.7	32.5	(11.4)	0.6	7.6
Net (loss) income from discontinued operations	**(0.5)**	**-**	(0.1)	(0.2)	(0.2)	(0.3)	-	-	(0.2)	(0.1)	0.7
Net income (loss)	**38.8**	**(10.7)**	10.6	2.6	36.3	28.2	6.7	32.5	(11.5)	0.5	8.3
Adjusted EBITDA [3]	**148.9**	**11.3**	24.4	50.7	62.5	105.5	42.0	37.0	16.9	9.6	12.5
Basic and diluted earnings (loss) per common share											
Net income (loss) continuing operations [1]	**0.16**	(0.04)	0.04	0.01	0.15	0.28	0.06	0.32	(0.11)	0.01	0.08
Net income (loss) [1]	**0.16**	(0.04)	0.04	0.01	0.15	0.28	0.06	0.32	(0.11)	0.01	0.08
Balance sheet											
Total assets	**882.0**	**882.0**	892.5	911.0	898.8	835.2	835.2	812.7	781.1	790.1	786.3
Total long-term debt [2]	**343.3**	**343.3**	334.8	379.1	368.3	361.4	361.4	519.0	532.3	517.9	523.2

(1) Basic and diluted net income (loss) per share. As at December 31, 2013, the Company had 240,906,309 issued common shares outstanding. For all periods presented the Company has not paid or declared any cash dividends.

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

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

OSB demand and product pricing were the main factors causing fluctuations in our sales and adjusted EBITDA over the past eight quarters. North American OSB prices began to recover in the third quarter of 2011 and this trend accelerated in late 2012 and into 2013, although prices have since moderated. OSB shipment volumes have varied in the past eight quarters depending on production disruptions, maintenance requirements and product mix.

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

Segmented Information

Our geographic distribution of sales revenue was as follows:

		Q4		Q3		Q2		Q1		YTD
(in millions)										
2013										
United States	**$**	**77.3**	**$**	**84.1**	**$**	**96.6**	**$**	**109.5**	**$**	**367.5**
Canada		**10.1**		**12.1**		**12.6**		**20.8**		**55.6**
Japan		**13.3**		**15.6**		**15.3**		**11.1**		**55.3**
Overseas - other		**3.7**		**2.5**		**3.0**		**0.4**		**9.6**
	$	**104.4**	**$**	**114.3**	**$**	**127.5**	**$**	**141.8**	**$**	**488.0**
2012										
United States	$	85.1	$	82.5	$	65.9	$	61.4	$	294.9
Canada		21.7		23.4		12.9		13.3		71.3
Japan		9.4		9.2		10.5		8.7		37.8
Overseas - other		1.7		0.5		1.2		1.7		5.1
	$	117.9	$	115.6	$	90.5	$	85.1	$	409.1

Our geographic distribution of sales volume was as follows:

	Q4	Q3	Q2	Q1	YTD
(mmsf 3/8")					
2013					
United States	**290.9**	**295.0**	**264.8**	**289.4**	**1,140.1**
Canada	**44.0**	**50.5**	**40.3**	**58.5**	**193.3**
Japan	**55.0**	**64.7**	**63.9**	**47.6**	**231.2**
Overseas - other	**19.3**	**12.1**	**11.4**	**1.5**	**44.3**
	409.2	**422.3**	**380.4**	**397.0**	**1,608.9**
2012					
United States	278.2	296.6	282.7	290.5	1,148.0
Canada	72.5	83.9	56.9	67.2	280.5
Japan	40.1	40.2	48.5	38.1	166.9
Overseas - other	7.4	2.2	5.7	9.3	24.6
	398.2	422.9	393.8	405.1	1,620.0

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

Risks and Uncertainties

Economic Uncertainty

Our results of operations and financial position could be affected by adverse changes in the global capital and credit markets, and the economy in general. Economic downturns characterized by higher unemployment, lower family income, lower corporate earnings, lower business investment and lower consumer spending typically result in decreased demand for our products. These conditions are beyond our control and may have a significant impact on our business, results of operations, cash flows and financial position.

Our core OSB business relies heavily on new home and renovation construction in North America. Volatility in new home and renovation construction levels is influenced by a number of factors, including the supply of new and existing homes on the market, longer-term interest rates and mortgage foreclosure rates. A significant increase in long-term interest rates, a prolonged decline in the availability of mortgage financing, or the occurrence of other events that reduce levels of residential construction activity could adversely affect our results.

Liquidity

We are subject to liquidity risk to the extent that our current assets and available sources of funds may not be sufficient to meet current liabilities. Our main sources of liquidity have been cash flow from our current operations and borrowings from third parties. We monitor discretionary capital expenditures carefully as operating results, as well as global debt and equity markets, can be volatile. Under the terms of the indenture governing the Company's Senior Secured Notes, we are permitted to borrow at least an additional U.S.$170 million of senior secured and unsecured debt, subject to the limitations set forth in the indenture. The availability of this funding, or other sources of capital, is dependent on capital markets at the time and may not be available on acceptable terms.

Competition

We face competition from numerous domestic and foreign competitors in the wood-based panels industry. We also compete less directly with firms that manufacture substitutes for wood building products. Our ability to compete in these and other markets is dependent on a variety of factors, such as the entry of new competitors, our competitors' pricing strategies, manufacturing costs, availability of key production inputs, access to markets, our ability to anticipate and respond to changing customer preferences, product quality, financial resources and currency exchange rates. Some of our competitors may have greater financial and other resources and greater manufacturing economies of scale compared to our Company. Should our competitors open new mills or reopen curtailed mills market supply could be increased causing downward pressure on product prices, and our profit margins could be eroded.

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 outside of our control. We have limited influence over the timing and extent of price changes, which are often volatile. 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. 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. During periods of low prices, our operations are subject to reduced revenues and margins, resulting in substantial declines in profitability and possible net losses. 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 capacity (including High Level) is approximately U.S. $25 million. Our strategy is to mitigate price volatility by maintaining low cost, high-quality flexible production facilities; establishing and developing long-term relationships with customers; geographic diversification through overseas sales; and developing specialty niche products where possible.

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. In 2013, we had one customer whose total purchases from both its distribution business and its engineered wood manufacturing business represented 24% of our total net sales. The loss of a significant customer or any significant customer order cancellations could negatively affect sales and earnings.

Product Concentration

We manufacture a single product, OSB, and, as such, fluctuations in demand or prices for OSB will have an 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 adversely affect our business, financial condition and results of operations.

International Sales

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

Foreign Exchange

All of our sales, including products 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 revenue we realize and conversely, any increase in the U.S. dollar relative to the Canadian dollar increases the amount of revenue we realize. The impact of this foreign exchange sensitivity on sales is partially offset by our U.S. dollar denominated debt as well as U.S. dollar purchases of raw materials, supplies, and services such as resin, wax and transportation. At December 31, 2013 and December 31, 2012, 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 long-term agreements with provincial governments. The agreements are granted for various terms from five to twenty-five years. As the agreements come due, we rely on the assumption that we will be able to renew or replace 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 facility that fails to honour the commitments contained within the forest management agreements. Our wood fibre supply could also be influenced by natural events, such as forest fires, severe weather conditions and other natural disasters, which may increase wood fibre costs or restrict our access to wood fibre. Aboriginal groups have claimed substantial portions of land in various provinces over which they claim aboriginal title, or in which they have a traditional interest, and for which they are seeking compensation from various levels of government. The results of these claims may adversely affect the supply of wood fibre and the commercial terms of supply agreements with provincial governments.

Other Input Costs

In addition to wood fibre, we use various other raw materials, such as resin and wax, and energy sources in our manufacturing process. Changes in the costs and availability of such raw materials and energy sources may adversely affect our operating results. Rising petroleum prices can also reduce our profitability due to increased domestic and international transportation rates or fuel surcharges. We may not be able to fully offset the effects of higher costs through hedging arrangements, price increases, productivity improvements or cost reduction programs.

Capital Intensity

The production of wood-based panels is capital intensive and it is likely that key pieces of equipment will need to be repaired or replaced. In certain circumstances, the costs of repairing or replacing equipment and the associated downtime of the affected production line may not be an insurable event. In addition, significant amounts of capital could be required to modify our equipment to produce alternative or additional products or to make significant changes in the characteristics of our current products.

Labour Relations and Employee Retention

The Grande Prairie and High Level mill employees are non-unionized, while the Barwick and 100 Mile House mills are unionized. During 2013, new union contracts were negotiated for 100 Mile House, due to expire on June 30, 2017, and Barwick, due to expire on July 31, 2017.

We could experience strikes or work interruptions if we are unable to negotiate acceptable contracts with the various trade unions upon expiry, which could reduce our sales and profitability.

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 our business, financial position and results of operations.

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 fibre for our OSB operations or could increase the cost of our wood fibre. 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 adversely affect 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 adversely affect 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 adversely affect 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.

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 any certainty the outcomes or 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 unfavorable judgments arising out of these claims could be adverse to the Company.

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

Tax Exposures

As a normal course of business, the Company takes various tax filing positions without the assurance that tax authorities will accept and not challenge such 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.

Defined Benefit Pension Plan Funding

We maintain two defined benefit pension plans. In British Columbia, the first defined benefit pension plan provides pension accruals for certain union employees at the 100 Mile House facility and a group of non-union employees, but is closed to any new employees. The second defined benefit pension plan for certain employees in Minnesota is also closed to new members and there are no current service pension accruals. In both cases, plans continue to be subject to market risk on the plan assets and to changes in discount rates. The latest funding valuation indicates that the British Columbia defined benefit pension plan is in a solvency deficit position and therefore we are required to make accelerated cash funding contributions. If actual experience differs from these assumptions or any of these assumptions change such that the solvency deficit increases, we would be required to increase cash funding contributions, reducing the availability of such funds for other corporate purposes. The U.S. defined benefit pension plan is underfunded and we continue to make contributions to the plan.

Significant Accounting Estimates and Judgments

Management has made certain estimates and judgments that affect the reported amounts and other disclosures in our financial statements. These estimates and judgments are described below.

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, intangible assets and timber and logging roads) for impairment. Assessing the valuation of the affected assets requires us to make judgments, assumptions and estimates. In general, write-downs for impairment are recognized when the book values exceed our estimate of the discounted 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 an estimate of its useful life.

Employee Benefit Plans

Many of our B.C. employees participate in a defined benefit pension plan sponsored by the Company. We also maintain a defined benefit pension plan in Minnesota related to employees at our former Minnesota OSB mills, which were sold during 2009. We account for the consequences of our sponsorship of these plans in accordance with IFRS, 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 and 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.

Deferred 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.

Share-Based Payments

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.

Determination of Fair Value on Purchased Business Combinations

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

Accounting Standards Developments

IFRS 9 Financial instruments ("IFRS 9")

This standard, as issued in November 2009 and amended in October 2010, will replace *IAS 39 Financial Instruments: Recognition and Measurement*. IFRS 9 provides guidance for the classification and subsequent measurement of financial assets at amortized cost or at fair value based on the Company's business model for managing financial assets and the contractual cash flow characteristics of the financial assets. Financial liabilities are classified as subsequently measured at amortized cost except for financial liabilities classified at fair value through profit or loss ("FVTPL"), financial guarantees and certain other exceptions. The new standard also requires a single impairment model to be used, replacing the multiple impairment models in IAS 39. The effective date of IFRS 9 was deferred to annual periods beginning on or after January 1, 2015. The Company does not expect this pronouncement to have a significant impact on its results and financial position.

IAS 32 Offsetting Financial Assets and Financial Liabilities ("IAS 32")

IAS 32 was amended by the IASB in December 2011. The amendments clarify existing application issues relating to the offsetting of financial assets and financial liabilities, and are effective for annual periods beginning on or after January 1, 2014. The Company does not expect these amendments to have a significant impact on its results and financial position.

IFRIC 21 Levies ("IFRIC 21")

IFRIC 21 was issued by the IASB on May 20, 2013 and provides guidance on when to recognize a liability to pay a levy imposed by government that is accounted for in accordance with *IAS 37 Provisions, Contingent Liabilities and Contingent Assets*. IFRIC 21 is effective for annual periods beginning on or after January 1, 2014. The Company does not expect this pronouncement to have a significant impact on its results and financial position.

Disclosure Controls and Procedures and Internal Control over Financial Reporting

As required by National Instrument 52-109 Certification of Disclosure in Issuer's Annual and Interim Filings, the Company's management, including the President and Chief Executive Officer ("CEO"), and the Vice President, Finance and Chief Financial Officer ("CFO") have evaluated the effectiveness of disclosure controls and procedures as at December 31, 2013. 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, 2013, and have concluded that such controls and procedures are adequate and effective to ensure accurate and complete disclosures in the annual filings.

Management has also designed internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with IFRS. There has been no material change in the design of the Company's internal control over financial reporting for the quarter and year ended December 31, 2013 that would materially affect, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Management of the Company, including the CEO and CFO, has performed an assessment of the effectiveness of the Company's internal control over financial reporting as at December 31, 2013 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, 2013. Management determined that there were no material weaknesses in the Company's internal control over financial reporting as at December 31, 2013.

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

AINSWORTH LUMBER CO. LTD.
Other Information

Selected Financial Data ($000's)	December 31, 2013	December 31, 2012
Cash and cash equivalents	**$ 137,444**	$ 106,777
Restricted cash	**5,109**	5,560
Working capital	**170,855**	142,211
Total assets	**881,958**	835,183
Total long-term debt	**343,298**	361,436
Shareholders' equity	**428,568**	385,274

Reconciliation of Net Income (Loss) to Adjusted EBITDA

(in millions)	2013	Q4-13	Q3-13	Q2-13	Q1-13	2012	Q4-12	Q3-12	Q2-12	Q1-12
Net Income (Loss) from Continuing Operations	**$ 39.4**	**$ (10.6)**	$ 10.7	$ 2.8	$ 36.5	$ 28.4	$ 6.7	$ 32.5	$ (11.4)	$ 0.6
Add (deduct):										
Amortization of property, plant and equipment	**25.5**	**6.7**	6.2	6.2	6.4	25.6	6.9	6.4	6.1	6.2
Loss (gain) on disposal of property, plant and equipment	**0.5**	**0.1**	0.4	-	-	0.1	0.2	(0.1)	-	-
Write-down of property, plant and equipment, intangibles and other	**3.8**	**-**	-	3.8	-	1.5	1.5	-	-	-
Costs of curtailed operations	**10.7**	**-**	5.6	3.5	1.6	3.8	1.1	0.9	0.7	1.1
Stock-based compensation expense (recovery)	**1.8**	**0.3**	0.4	1.0	0.1	0.8	0.5	0.1	-	0.2
Finance expense	**27.5**	**6.5**	6.7	7.4	6.9	50.8	11.3	13.3	13.1	13.1
Loss on early repayment of long-term debt	**3.1**	**-**	3.1	-	-	22.9	22.9	-	-	-
Income tax expense (recovery)	**21.0**	**0.2**	0.7	6.6	13.5	5.8	2.5	7.0	(2.0)	(1.7)
Foreign exchange loss (gain) on long-term debt	**24.0**	**10.9**	(7.6)	13.1	7.6	(10.3)	7.6	(18.4)	10.5	(10.0)
(Gain) Loss on derivative financial instrument	**(8.1)**	**(3.8)**	(3.7)	7.5	(8.1)	(23.9)	(18.3)	(5.4)	(0.2)	-
Costs related to LP acquisition	**3.6**	**1.9**	1.7	-	-		-	-	-	-
Other	**(3.9)**	**(0.9)**	0.2	(1.2)	(2.0)	-	(0.9)	0.7	0.1	0.1
Adjusted EBITDA (Note 1)	**$ 148.9**	**$ 11.3**	$ 24.4	$ 50.7	$ 62.5	$ 105.5	$ 42.0	$ 37.0	$ 16.9	$ 9.6

Note 1: Adjusted EBITDA, a non-IFRS financial measure, is defined as sales less costs of products sold (exclusive of amortization) and selling and administrative expense (exclusive of share-based compensation) plus other income (exclusive of interest income). As a result of adopting IAS 19R, adjusted EBITDA for each quarter of 2012 has been restated to reflect the increase in pension expense that is included in cost of products sold, and selling and administrative expense. Adjusted EBITDA for all quarters presented has also been restated to exclude interest income earned on investments.

About Ainsworth

Ainsworth Lumber Co. Ltd. is a leading manufacturer and marketer of oriented strand board ("OSB") with a focus on value-added specialty products for markets in North America and Asia. Ainsworth's four OSB manufacturing mills, located in Alberta, British Columbia and Ontario, have a combined annual capacity of 2.5 billion square feet (3/8-inch basis). Ainsworth is a publicly traded company listed on the Toronto Stock Exchange under the symbol ANS.

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

Visit our web-site: www.ainsworthengineered.com

Independent Auditor's Report and Consolidated Financial Statements of

AINSWORTH LUMBER CO. LTD.

December 31, 2013 and December 31, 2012

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Ainsworth Lumber Co. Ltd.

We have audited the accompanying consolidated financial statements of Ainsworth Lumber Co. Ltd., which comprise the consolidated statements of financial position as at December 31, 2013 and December 31, 2012, and the consolidated statements of income and comprehensive income, consolidated statements of changes in shareholders' equity and consolidated statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Ainsworth Lumber Co. Ltd. as at December 31, 2013 and December 31, 2012, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

/s/ Deloitte LLP
Chartered Accountants
Vancouver, British Columbia
March 25, 2014

AINSWORTH LUMBER CO. LTD.

Consolidated Statements of Financial Position

(In thousands of Canadian dollars)

	December 31 2013	December 31 2012
ASSETS		
Current Assets		
Cash and cash equivalents	**$ 137,444**	$ 106,777
Restricted cash	**5,109**	5,560
Trade and other receivables (Note 4)	**23,680**	25,608
Inventories (Note 5)	**52,471**	38,140
Prepaid expenses	**5,414**	5,312
Total Current Assets	**224,118**	181,397
Property, Plant and Equipment (Note 6)	**628,701**	628,694
Intangible Assets (Note 7)	**7,601**	9,905
Other Assets (Note 21)	**21,537**	15,187
Total Assets	**$ 881,957**	$ 835,183
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Trade and other payables (Note 8)	**$ 42,133**	$ 30,257
Income taxes payable	**805**	2,140
Current portion of long-term debt (Note 9)	**10,001**	6,313
Liabilities related to discontinued operations (Note 10)	**274**	476
Total Current Liabilities	**53,213**	39,186
Accrued Pension Benefit Liability (Note 11)	**7,542**	17,006
Reforestation Obligation (Note 12)	**4,390**	3,781
Long-term Debt (Note 9)	**333,297**	355,123
Deferred Income Tax Liabilities (Note 24)	**52,719**	32,344
Liabilities Related to Discontinued Operations (Note 10)	**2,229**	2,469
Total Liabilities	**453,390**	449,909
SHAREHOLDERS' EQUITY		
Capital Stock (Note 15)	**582,738**	582,626
Contributed Surplus	**2,030**	1,808
Deficit	**(156,201)**	(199,160)
Total Shareholders' Equity	**428,567**	385,274
Total Liabilities and Shareholders' Equity	**$ 881,957**	$ 835,183

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

Commitments (Note 13)
Contingencies (Note 14)

Approved by the Board on March 25, 2014

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

AINSWORTH LUMBER CO. LTD.

Consolidated Statements of Income and Comprehensive Income

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

		Year Ended December 31 2013		Year Ended December 31 2012 Note 2 (c)
Sales (Note 26)	**$**	**488,056**	$	409,071
Costs and Expenses				
Costs of products sold (Note 17)		**323,489**		287,631
Selling and administration (Note 17)		**21,146**		16,556
Amortization of property, plant and equipment and intangible assets (Notes 6, 7)		**29,317**		25,626
Costs of curtailed operations (Note 22)		**10,743**		3,703
Total Costs and Expenses		**384,695**		333,516
Income from Operations		**103,361**		75,555
Finance Expense (Note 18)		**(27,541)**		(50,781)
Loss on Early Repayment of Long-Term Debt (Note 19)		**(3,088)**		(22,879)
Foreign Exchange (Loss) Gain (Note 20)		**(21,794)**		9,429
Gain on Derivative Financial Instrument (Note 21)		**8,052**		23,993
Other Items (Note 23)		**1,391**		(1,163)
Income Before Income Taxes		**60,381**		34,154
Income Tax Expense (Note 24)		**(20,997)**		(5,771)
Income from Continuing Operations		**39,384**		28,383
Net Loss from Discontinued Operations (Note 10)		**(485)**		(236)
Net Income	**$**	**38,899**	$	28,147
Other Comprehensive Income				
Items not to be subsequently reclassified to profit or loss:				
Remeasurement of defined benefit obligation, net of tax (Note 11)		**4,060**		(4,374)
Total Comprehensive Income	**$**	**42,959**	$	23,773
Basic and diluted net income per common share (Note 15(b))				
Continuing operations	**$**	**0.16**	$	0.28
Discontinued operations		**0.00**		0.00
Basic and diluted net income per common share	**$**	**0.16**	$	0.28
Weighted average number of common shares outstanding - basic		**240,870,080**		102,330,910
Effect of dilutive stock options on continuing operations		**802,577**		236,225
Weighted average number of common shares outstanding - diluted		**241,672,657**		102,567,135

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

AINSWORTH LUMBER CO. LTD.

Consolidated Statements of Changes in Shareholders' Equity

(In thousands of Canadian dollars)

	Capital Stock	Contributed Surplus	Deficit	Total Shareholders' Equity
Balance, January 1, 2012	$ 411,509	$ 1,484	$ (222,933)	$ 190,060
Net income and total comprehensive income	-	-	23,773	23,773
Share-based payments (Note 16)	-	391	-	391
Stock options exercised (Note 16)	168	(67)	-	101
Shares issued in rights offering (Note 15)	170,949	-	-	170,949
Balance, December 31, 2012	**$ 582,626**	**$ 1,808**	**$ (199,160)**	**$ 385,274**

	Capital Stock	Contributed Surplus	Deficit	Total Shareholders' Equity
Balance, January 1, 2013	$ 582,626	$ 1,808	$ (199,160)	$ 385,274
Net income and total comprehensive income	-	-	42,959	42,959
Share-based payments (Note 16)	-	267	-	267
Stock options exercised (Note 16)	112	(45)	-	67
Balance, December 31, 2013	**$ 582,738**	**$ 2,030**	**$ (156,201)**	**$ 428,567**

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

AINSWORTH LUMBER CO. LTD.

Consolidated Statements of Cash Flows

(In thousands of Canadian dollars)

	Year Ended December 31 2013	Year Ended December 31 2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	**$ 38,899**	$ 28,147
Items not affecting cash		
Amortization of property, plant and equipment and intangible assets (Notes 6, 7)	**29,317**	25,626
Finance expense (Note 18)	**27,541**	50,781
Loss on early repayment of long-term debt (Note 19)	**3,088**	22,879
Share-based payments (Note 16)	**1,827**	830
Foreign exchange loss (gain) on long-term debt (Note 20)	**23,922**	(10,269)
Gain on derivative financial instrument (Note 21)	**(8,052)**	(23,993)
Loss on disposal of property, plant and equipment (Note 23)	**409**	155
Write-down of property, plant and equipment	**-**	1,316
Change in non-current reforestation obligation	**180**	845
Deferred taxes	**20,518**	2,704
Pension and other	**(7,273)**	1,030
Cash flows from operating activities before working capital, interest and income taxes	**130,376**	100,051
Change in non-cash operating working capital (Note 25)	**(1,027)**	(3,298)
Interest paid	**(28,138)**	(28,642)
Income taxes paid	**(1,066)**	(26)
Cash provided by operating activities	**100,145**	68,085
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of long-term debt (Note 9)	**(43,300)**	(522,886)
Issue of long-term debt (Note 9)	**-**	348,145
Refinancing costs	**-**	(12,126)
Proceeds from issue of shares (Notes 15, 16)	**67**	175,101
Reduction in finance lease obligations (Note 9)	**(517)**	(235)
Cash used in financing activities	**(43,750)**	(12,001)
CASH FLOWS FROM INVESTING ACTIVITIES		
Decrease (Increase) in restricted cash	**451**	(699)
Additions to property, plant and equipment and intangible assets (Note 6)	**(28,811)**	(5,960)
Proceeds on disposal of property, plant and equipment	**1,092**	345
Increase in other assets	**(89)**	(31)
Cash used in investing activities	**(27,357)**	(6,345)
Effect of foreign exchange rate changes on cash and cash equivalents	**1,629**	(658)
NET CASH INFLOW	**30,667**	49,081
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	**106,777**	57,696
CASH AND CASH EQUIVALENTS, END OF PERIOD	**$ 137,444**	$ 106,777
Cash	**24,110**	55,847
Cash equivalents	**113,334**	50,930
CASH AND CASH EQUIVALENTS, END OF PERIOD	**$ 137,444**	$ 106,777

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

1. CORPORATE INFORMATION

Ainsworth Lumber Co. Ltd. ("the Company") is a manufacturer and marketer of oriented strand board ("OSB") with a focus on value-added specialty products for markets in North America and Asia. The Company owns four Canadian OSB manufacturing facilities in Alberta, British Columbia, and Ontario. The Company's OSB facility located in High Level, Alberta, which had been curtailed since December of 2007, resumed production during the third quarter of 2013. The Company's registered address is 1055 Dunsmuir Street, Suite 3194, Bentall 4, P.O. Box 49307, Vancouver, British Columbia, Canada, V7X 1L3.

Ainsworth Lumber Co. Ltd. is a publicly listed company incorporated under the laws of British Columbia. The Company's shares are listed on the Toronto Stock Exchange under the symbol ANS.

Pending Transaction

On September 4, 2013, Louisiana-Pacific Corporation ("LP") and the Company announced that they had entered into a definitive agreement (the "Arrangement Agreement") under which LP will acquire all of the outstanding common shares of Ainsworth for $1.94 in cash plus 0.114 LP common shares per Ainsworth common share, on a fully pro-rated basis.

On October 29, 2013, the transaction was approved by approximately 99.9% of the votes cast at the Company's special meeting of shareholders. On October 31, 2013, the Supreme Court of British Columbia issued a final order approving the Arrangement Agreement. Subject to obtaining required regulatory approvals and the satisfaction or waiver of other conditions pursuant to the Arrangement Agreement, the Company currently expects the acquisition to close during the second quarter of 2014.

2. SIGNIFICANT ACCOUNTING POLICIES

a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The policies set out below were consistently applied to all periods presented.

These consolidated financial statements were authorized for issuance by the Board of Directors of the Company on March 25, 2014.

b) Basis of consolidation

The consolidated financial statements of the Company for the year ended December 31, 2013 include the accounts of the Company and all of its wholly-owned subsidiaries, which are the entities over which the Company has control. Control exists when the Company has power over an investee, when the Company is exposed, or has rights, to variable returns from the investee and when the Company has the ability to affect those returns through its power over the investee. The Company's principal subsidiaries include Ainsworth Corp. and Ainsworth Engineered Canada Limited Partnership. Intercompany balances, transactions, revenues, and expenses, between subsidiaries are eliminated upon consolidation.

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

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

c) Amendment to IAS19 Employee Benefits ("IAS 19R")

The Company adopted IAS 19R effective January 1, 2013, with retrospective application. The amended standard eliminated the option to defer gains and losses related to defined benefit plans, requiring immediate inclusion in other comprehensive income ("OCI") in the period that they occur. This did not affect the Company since the election was made upon adoption of IFRS to recognize the gains and losses in OCI and report them in retained earnings (deficit).

The amended standard also eliminated the benefit of expected asset growth with the requirement to calculate interest income (cost) on the net defined benefit asset (liability) by applying the discount rate used to measure the defined benefit obligation. The impact to the Company was an increase in the annual pension expense (in cost of products sold and selling and administration) of approximately $0.6 million in 2013 (2012: $0.5 million) and a corresponding decrease in comprehensive income.

d) Business combination

The acquisition of businesses is accounted for using the acquisition method. The consideration of each acquisition is measured at the aggregate of the fair values, at the date of acquisition, of assets obtained, liabilities incurred or assumed, and equity instruments issued by the Company in exchange for control of the acquired business. The acquired business' identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3, *Business Combinations* ("IFRS 3") are recognized at their fair values at the acquisition date, except for non-current assets that are classified as held-for-sale in accordance with IFRS 5, *Non-Current Assets Held for Sale and Discontinued Operations* which are recognized and measured at fair value, less costs to sell. The non-controlling interest in the acquiree is initially measured at the non-controlling interest's proportion of the net fair value of the identifiable assets, liabilities and contingent liabilities recognized.

To the extent the fair value of consideration paid exceeds the fair value of the net identifiable assets, goodwill is recognized. To the extent the fair value of consideration paid is less than the fair value of net identifiable assets, the excess is recognized in income immediately.

Where a business combination is achieved in stages with the Company holding a pre-existing equity interest in the acquired entity, its previously held interests in the acquired entity are re-measured to fair value at the acquisition date, which is the date control is obtained, and the resulting gain or loss, if any, is recognized in income or loss. Once control is obtained, as long as control is not lost, all changes to ownership interests are treated as equity transactions and reported within equity.

e) Functional and presentational currency

These consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency. All financial information presented in Canadian dollars has been rounded to the nearest thousand.

Transactions in currencies other than the functional currency are recorded at the rates of exchange prevailing on dates of transactions. At each financial position reporting date, monetary assets and liabilities that are denominated in foreign currencies are translated using the exchange rate at the end of the reporting period. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction and are not retranslated.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

e) *Functional and presentational currency (continued)*

The individual financial statements of each of the Company's subsidiaries are presented in the currency of the primary economic environment in which the entity operates. In preparing the financial statements of the individual subsidiaries, transactions in currencies other than the subsidiary's functional currency are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items that are denominated in currencies other than the functional currency are translated at the period end exchange rates. Non-monetary assets and liabilities are translated using the historical rate on the date of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities not denominated in the functional currency of an entity are recognized in profit or loss in the period.

f) *Use of estimates and judgment*

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions at the financial position date that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses.

The most significant estimates relate to the determination of the useful life and value in use of its property, plant and equipment and intangible assets; units-of-production for amortization of the OSB facilities; accounting for business combinations; measurement of deferred income tax assets and liabilities; valuation of inventory; loss contingencies; other assets; reforestation obligations; measurement of future employee benefits; and management's estimates of capital requirements and liquidity.

Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis and are based on historical experiences and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

The most significant judgments relate to timing of revenue recognition; determination of functional currency; determination of cash generating units; purchase price allocation under the acquisition method; lease classification; and classification of financial instruments.

g) *Cash and cash equivalents*

Cash and cash equivalents generally consist of cash balances with banks, investments with original maturities of three months or less at the time of purchase, and investments that are both readily convertible to cash and subject to insignificant risk of changes in value.

The Company had an unutilized U.S.$2.5 million future foreign exchange contract credit facility at December 31, 2013 which, if utilized, would be secured by cash collateral.

h) *Restricted cash*

Restricted cash is held in a separate account as collateral for the $5.1 million (December 31, 2012: $5.6 million) outstanding letters of credit to support the Company's ongoing business operations.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

i) Inventories

Inventory is valued at the lower of cost and net realizable value. Inventory cost is determined using the three month weighted average cost of production. 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. 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.

Inventory write-downs may be reversed (to the extent of the original write-down) if circumstances change in subsequent periods.

j) Property, plant and equipment

Items of property, plant and equipment are measured at cost less accumulated amortization and accumulated impairment losses. Cost includes expenditures that are directly attributable to acquiring and bringing the assets to a working condition for their intended use. The Company also capitalizes borrowing costs which are directly attributable to the acquisition, construction or production of qualifying assets, unless development activities on these qualifying assets are suspended, in which case borrowing costs are expensed.

The cost of replacing significant parts of an item of property, plant and equipment is recognized in the carrying amount of the asset if it is probable that the future economic benefits embodied within the part will flow to the Company, and its costs can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of property, plant and equipment are recognized in the Statement of Operations and Comprehensive Income as incurred.

When significant parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

OSB facilities are amortized on the units-of-production method based on the estimated useful life of the assets at normal production levels over 25 years. Other assets are amortized on the declining balance basis at annual rates based on the estimated useful lives of the assets as follows:

Assets	Rates
Building	5%
Machinery and equipment	15-20%
Office equipment	15%

Assets under finance leases are amortized on a straight line basis over the term of the lease (one to four years). Significant parts replaced are amortized on a straight line basis over their expected useful life (two to five years). Logging roads are stated at cost and are amortized on the basis of the volume of timber cut. Assets under construction are not depreciated until they are ready for their intended use. Land is not depreciated.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

j) Property, plant and equipment (continued)

Depreciation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate. Property, plant and equipment are reviewed for impairment and accounted for as discussed in Note 2(l).

k) Intangible assets

Intangible assets consist of timber rights. The assets are measured at cost less accumulated amortization. Non-renewable pulpwood agreements and wood deposits are amortized over the life of the agreement, and the remaining assets are amortized on the basis of the volume of timber cut. Amortization methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate. If the Company identifies events or changes in circumstances which may indicate that their carrying amount may not be recoverable, the intangible assets would be reviewed for impairment and accounted as discussed in Note 2(l).

l) Asset impairment

The carrying amounts of property, plant and equipment and intangible assets are reviewed for impairment at each reporting period and whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable.

An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows ("cash generating units" or "CGUs"). The recoverable amount is the higher of an asset's fair value less cost to sell or its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the CGUs (as defined above) to which the asset belongs.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

m) Other assets

Other assets consist of long-term advances and deposits which are recorded at cost and a derivative financial instrument measured at fair value upon initial recognition and at 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. Changes in their fair values are recognized in the Statement of Comprehensive Income.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

n) Disposal of assets and discontinued operations

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through sale rather than continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale and it should be expected to be completed within one year from the date of classification. Non-current assets (and disposal groups) classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell.

o) Reforestation obligations

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

p) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, excluding any intercompany sales which have been eliminated upon consolidation. Revenue from the sale of goods and services is recognized when the risks and rewards of ownership, including managerial involvement, have transferred to the buyer; the amount of revenue can be measured reliably; the receipt of economic benefits is probable; and costs incurred or to be incurred can be measured reliably. Freight costs are included in cost of products sold.

q) Finance expense

The Company’s long-term debt is recorded net of premiums and consent fees, which are deferred at inception and subsequently amortized over the term of the debt using the effective interest rate method.

The Company accounts for transaction costs that are directly attributable to the issuance of long-term debt by deducting such costs from the carrying value of the long-term debt. The capitalized transaction costs are amortized to earnings using the effective interest rate method.

r) Taxation

Tax expense is comprised of current and deferred tax components. Tax is recognized in the statement of operations except to the extent that it relates to items recognized directly in equity or other comprehensive income, in which case the related tax is recognized in equity or other comprehensive income.

Current tax expense is based on the results for the period as adjusted for items that are not currently taxable or not deductible for tax purposes. Current tax is calculated using tax rates and laws that were enacted or substantively enacted at the financial position date.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

r) Taxation (continued)

Deferred tax is recorded using the asset and liability method. Under this method, the Company calculates all temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the period end date. Deferred tax is calculated based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates that are expected to apply to the year of realization or settlement based on tax rates and laws enacted or substantively enacted at the period end date.

Deferred tax assets are recognized to the extent it is probable that taxable profits will be available against which the deductible temporary differences and unused tax losses and tax credits can be utilized. The carrying amount of deferred tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

In a business combination, temporary differences arise as a result of differences in the fair values of identifiable assets and liabilities acquired and their respective tax bases. Deferred income tax assets and liabilities are recognized for the tax effects of these differences. Deferred income tax assets and liabilities are not recognized for temporary differences arising from goodwill or from the initial recognition of assets and liabilities acquired in a transaction other than a business combination which do not affect either accounting or taxable income or loss.

s) Net income (loss) per share

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

t) Employee benefits

The costs of retirement benefits for defined benefit plans are recognized as the benefits are earned by employees. The Projected Unit Credit Method is used along with management's best estimate assumptions to value pension and other post-retirement benefits. Past service costs are recognized immediately in income. The Company recognizes all actuarial gains and losses (excluding interest) arising from defined benefit plans in other comprehensive income that will not be reclassified to profit or loss, and reports them in retained earnings (deficit). Net interest is calculated by applying the discount rate to the net defined benefit liability or asset, and is recognized as employee benefits through profit or loss. The liability recognized in the statement of financial position is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

t) Employee benefits (continued)

Payments to the defined contribution pension plan are expensed as incurred, when the related employee service is rendered.

u) Share-based payments

The Company offers both equity-settled and cash-settled share-based payment plans for eligible directors, officers and employees. Both plans are accounted for using the fair value method. Under the fair value method, compensation expense for these share-based payments is determined based on the fair value at the grant date and is charged to income over the vesting period. For equity-settled share-based payments that vest over more than a single period, each tranche of the award is considered to be a separate grant and the fair value of each is calculated on the grant date. Management estimates a forfeiture rate for the purpose of determining the compensation expense over the vesting period.

Equity-settled awards relate to stock options, which are fair valued at grant date using the Black-Scholes option-pricing model. When stock options are exercised, any consideration paid by employees, as well as the related share-based compensation are credited to capital stock. Equity-settled awards are not re-measured subsequent to the initial grant date.

Cash-settled awards relate to deferred share units (“DSUs”), which are fair valued using the volume weighted average price (“VWAP”) of the Company’s common shares for the five business days prior to the grant date. The awards are initially measured at fair value at the grant date, and subsequently re-measured to fair value at each reporting date until settlement. The related cost of a cash-settled award is credited to liabilities until settled.

v) Financial instruments

All financial instruments are initially recorded at fair value including transaction costs except for transaction costs related to financial instruments classified as fair value through profit or loss (“FVTPL”) which are expensed as incurred. Subsequent measurement of financial instruments is determined based on its classification.

The Company classifies its cash and cash equivalents, and short-term investments as FVTPL which are measured at fair value with gains and losses included in net income in the period in which they arise. Trade and other receivables are classified as loans and receivables which are accounted for at amortized cost. Trade and other payables, income taxes payable, and long-term debt are measured at amortized cost. The Company measures derivatives and embedded derivatives at fair value with changes in fair value recognized in net income and has not elected to use hedge accounting.

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

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

v) Financial instruments (continued)

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

- Level 1 – valuation based on quoted prices (unadjusted) in active market 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.)

w) Provisions

Provisions represent liabilities of the Company for which the amount or timing is uncertain. A provision is recognized when, as a result of a past event, the Company has a present obligation (legal or constructive) that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Where appropriate, the future cash flow estimates are adjusted to reflect risks specific to the liability.

3. ACCOUNTING STANDARDS DEVELOPMENTS

a) IFRS 9 Financial instruments ("IFRS 9")

This standard, as issued in November 2009 and amended in October 2010, will replace *IAS 39 Financial Instruments: Recognition and Measurement*. IFRS 9 provides guidance for the classification and subsequent measurement of financial assets at amortized cost or at fair value based on the Company's business model for managing financial assets and the contractual cash flow characteristics of the financial assets. Financial liabilities are classified as subsequently measured at amortized cost except for financial liabilities classified at fair value through profit or loss ("FVTPL"), financial guarantees and certain other exceptions. The new standard also requires a single impairment model to be used, replacing the multiple impairment models in IAS 39. At present, the current version of IFRS 9 does not include a mandatory effective date. The Company does not expect this pronouncement to have a significant impact on its results and financial position.

b) IAS 32 Financial instruments: presentation ("IAS 32")

IAS 32 was amended by the IASB in December 2011. The amendments clarify existing application issues relating to the offsetting of financial assets and financial liabilities, and are effective for annual periods beginning on or after January 1, 2014. The Company does not expect this pronouncement to have a significant impact on its results and financial position.

c) IFRIC 21 Levies ("IFRIC 21")

IFRIC 21 was issued by the IASB on May 20, 2013 and provides guidance on when to recognize a liability to pay a levy imposed by government that is accounted for in accordance with *IAS 37 Provisions, Contingent Liabilities and Contingent Assets*. IFRIC 21 is effective for annual periods beginning on or after January 1, 2014. The Company does not expect this pronouncement to have a significant impact on its results and financial position.

4. TRADE AND OTHER RECEIVABLES

All trade and other receivables are pledged as security for the 7.5% Senior Secured Notes due in 2017 (the "Notes") and are comprised of the following:

		2013		2012
Trade receivables	**$**	**17,237**	$	22,305
Other receivables		**6,543**		3,403
		23,780		25,708
Less: allowance for doubtful accounts		**(100)**		(100)
	$	**23,680**	$	25,608

There were no changes in the allowance for doubtful accounts during the years ended December 31, 2013 and 2012.

The aging of trade receivables is as follows:

		2013		2012
< 30 days	**$**	**15,298**	$	22,126
30 - 60 days		**1,541**		179
> 60 days		**398**		-
	$	**17,237**	$	22,305

The Company did not have any significant impaired trade receivables for the year ended December 31, 2013 (December 31, 2012: $nil).

5. INVENTORIES

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

		2013		2012
Logs	**$**	**18,690**	$	8,739
Panel products		**16,032**		12,502
Materials, supplies and spares		**17,749**		16,899
	$	**52,471**	$	38,140

There were no inventory write-downs or recoveries of previous write-downs during the years ended December 31, 2013 and 2012.

During the year ended December 31, 2013, $259.1 million (year ended December 31, 2012: $228.0 million) of inventory was charged to costs of products sold.

All inventories are pledged as security for the Notes.

6. PROPERTY, PLANT AND EQUIPMENT

Cost	**Land**	**Building**	**Machinery and Equipment**	**Assets under Finance Lease**	**Other Assets** [(1)]	**Construction in Progress** [(2)]	**Total** [(3)]
Cost, December 31, 2012	$3,135	$223,113	$ 445,781	$ 2,151	$ 8,280	$ 55,311	$ 737,771
Additions	-	257	84	-	1,841	26,629	28,811
Disposals	(1,000)	(172)	(547)	(74)	16	-	(1,777)
Investment tax credits on capital expenditures	-	-	(143)	-	-	-	(143)
Transfers	-	1,930	17,027	-	253	(19,210)	-
Write-downs [(4)]	-	(879)	(1,972)	-	(5)	(4)	(2,860)
Cost, December 31, 2013	$2,135	$224,249	$ 460,230	$ 2,077	$10,385	$ 62,726	$ 761,802
Accumulated Amortization							
Accumulated amortization, December 31, 2012	$ -	$ (26,662)	$ (78,750)	$(1,074)	$ (2,591)	$ -	$(109,077)
Amortization for the period	-	(7,109)	(14,805)	(622)	(792)	-	(23,328)
Disposals	-	38	163	74	(21)	-	254
Write-downs [(4)]	-	67	(1,020)	-	3	-	(950)
Accumulated amortization, December 31, 2013	$ -	$ (33,666)	$ (94,412)	$(1,622)	$ (3,401)	$ -	$(133,101)
Carrying amount							
Balance, Dec. 31, 2012	$3,135	$196,451	$ 367,031	$ 1,077	$ 5,689	$ 55,311	$ 628,694
Balance, Dec. 31, 2013	2,135	190,583	365,818	455	6,984	62,726	628,701

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

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

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

(4) During the year ended December 31, 2013, the Company recorded a $3.8 million write-down with respect to obsolete equipment and certain equipment that is no longer in use. The write-down was included in amortization of property, plant and equipment and intangible assets on the statement of income and comprehensive income.

7. INTANGIBLE ASSETS

Intangible assets consist of timber rights.

Cost		
Cost, December 31, 2013 and 2012	$	26,562
Accumulated Amortization		
Accumulated amortization at December 31, 2012	$	(16,657)
Amortization for the period		(2,304)
Accumulated amortization, December 31, 2013	$	(18,961)
Carrying Amount [1]		
Balance, December 31, 2012	$	9,905
Balance, December 31, 2013		7,601

[1] Intangible assets are pledged as security for the Notes.

8. TRADE AND OTHER PAYABLES

		2013		2012
Trade payables	**$**	**16,613**	$	11,456
Other payables and accruals [1]		**25,520**		18,801
	$	**42,133**	$	30,257

[1] Other payables and accruals include wages and benefits, severance payable, sundry payables, current reforestation liabilities and accrued interest. At December 31, 2013, $227 (December 31, 2012: $100) is payable to Brookfield Capital Partners Ltd. (“BCP”) and $70 (December 31, 2012: $741) is payable to a law firm of which one of the Company’s directors is also a partner, for services provided to the Company.

9. LONG-TERM DEBT

	Note	Par Value	Maturity		2013		2012
Bank and other loans							
Senior secured notes	(a)	US $315,000	Dec. 15, 2017	**$**	**335,034**	$	348,215
Equipment financing loan	(b)	US $7,393	Sept. 30, 2014		**7,863**		10,030
Equipment financing loan	(c)	Euro €1,194	June 20, 2014		**1,750**		4,698
Finance leases	(d)		2013 - 2015		**478**		995
					345,125		363,938
Unamortized transaction costs					**(6,663)**		(9,025)
Unamortized deferred debt premium					**4,836**		6,523
				$	**343,298**	$	361,436
Current				**$**	**10,001**	$	6,313
Non-current					**333,297**		355,123
				$	**343,298**	$	361,436

a) On November 27, 2012, the Company completed a private placement of U.S.$350 million of Senior Secured Notes (the "Notes"). These notes bear interest at an annual rate of 7.5%, payable semi-annually in cash in arrears, and are secured by substantially all of the Company's assets on a first priority basis, subject to certain exceptions and permitted liens. Proceeds from the issue of the Notes and from the rights offering (Note 15) were used to redeem the Company's 11% Senior Unsecured Notes ("Senior Unsecured Notes").

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

b) The equipment loan is secured by certain property, plant and equipment, and requires maintenance of working capital of not less than $50.0 million. Principal and interest payable monthly at LIBOR plus 3.5% per annum.

c) Effective November 27, 2012, the terms of this equipment loan were amended to increase semi-annual interest payable of EURIBOR plus 0.65% per annum to EURIBOR plus 1.65%. The maturity of this loan was amended from December 20, 2016 to June 20, 2014.

d) Secured by certain property, plant and equipment.

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

2014	$ 10,014
2015	77
2016	-
2017	335,034
2018	-
And thereafter	-
	$ 345,125

10. DISCONTINUED OPERATIONS

During 2009, the Company completed sales of its Minnesota OSB mills and its specialty plywood business. Liabilities relate to costs associated with terminating the Minnesota defined benefit pension plan and settling outstanding employee claims.

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

		2013		2012
LIABILITIES				
Current Liabilities of Discontinued Operations				
Trade and other payables	**$**	**274**	$	476
Accrued Pension Benefit Liability [1]		**2,229**		2,469
Total Liabilities Held for Disposal	**$**	**2,503**	$	2,945

(1) During 2010, the Company issued a letter of credit in the amount of U.S.$1.1 million to in respect of its potential obligations related to the Minnesota defined benefit plan upon termination of the defined benefit pension plan.

		2013		2012
Loss Before Income Taxes	**$**	**(324)**	$	(235)
Income Tax Expense		**(161)**		(1)
Loss from Discontinued Operations	**$**	**(485)**	$	(236)

There have been no significant investing or financing activities related to the discontinued operations since fiscal 2010. The cash outflows from discontinued operations relate primarily to the U.S. pension plan and settlement of miscellaneous general accounts, offset by cash inflows related to the sale of certain equipment.

11. ACCRUED PENSION BENEFIT LIABILITY

Defined benefit plans:

The Company maintains two defined benefit pension plans for certain salaried and certain hourly employees in British Columbia and Minnesota, both of which are closed to new entrants. The defined benefit plans are subject to the applicable pension regulations in those jurisdictions. The defined benefit plans are governed by the Company's retirement committee, which are comprised of members of the Company's management group and report to the Company's Board of Directors. The retirement committee is required by law to act in the best interests of the plan participants and is responsible for the prudent management of the plan assets as well as for making recommendations on investment policy and changes to the defined benefit plans in order to preserve and enhance the value as well as maximize the long-term rate of return of the defined benefit plans' assets.

Under both defined benefit plans, employees are entitled to monthly pension benefits upon retirement at age 65, and a death benefit. Pension benefits are dependent on a member's salary throughout their career and years of service with the Company. Payments under the B.C. defined benefit plan pension benefit is calculated as 1.5% of yearly maximum pensionable earnings ("YMPE") plus 2% of gross earnings over YMPE. Payments under the Minnesota defined pension plan are either a dollar multiplier times the number years of credited service, or 1.25% of final average earnings times years of credited service. The pension liability of the Minnesota plan was reclassified to discontinued operations (Note 10).

11. ACCRUED PENSION BENEFIT LIABILITY (Continued)

The Company measures its accrued pension 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, 2012. The date of the next required valuation is December 31, 2015. The most recent actuarial valuation of the Minnesota pension plan was as of January 1, 2013. The next valuation will be prepared as of January 1, 2014. The net accrued benefit liability related to the Company's U.S. operations has been classified separately due to the sale of these operations. Actuarial gains and losses are recognized in other comprehensive income in the period within which they occur.

The defined benefit pension plans expose the Company to a number of actuarial risks, including investment risk, interest rate risk, longevity risk and salary 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's objectives, policies and processes for managing these risks are described below.

Investment risk
The present value of the pension benefit obligations are calculated using a discount rate set with reference to Canadian corporate bond yields. If the return on plan assets is below this rate, this will result in a plan deficit. The Company manages risk through specifying allowable and prohibited investment types, setting diversification strategies and determining target asset allocations.

The B.C. plan has a balanced investment in equity securities and corporate and government bonds. Due to the long-term nature of the pension benefit obligations, the retirement committee considers it appropriate that a portion of the plan assets should be invested in equity securities which are expected to outperform corporate and government bonds in the long-term notwithstanding higher volatility and risk in the short-term. A breakdown of the various categories in which the Company's plan assets are invested is provided in the tables that follow.

The Minnesota plan assets are invested in a money market fund.

Interest rate risk
A decrease in the bond interest rate will increase the pension benefit obligations, although this will be partially offset by an increase in the return on the plan's bond investments. At December 31, 2013, if interest rates had been 1% higher/lower and all other variables were constant, the value of the accrued benefit obligation would decrease/increase by approximately $8.0 million/$10.1 million.

Longevity risk
The present value of the pension benefit obligations are calculated using the best estimate of the mortality of plan participants both during and after their employment. An increase in the life expectancy of the plan participants will result in an increase in the value of the obligations. At December 31, 2013, if mortality rates had been 1% higher/lower and all other variables were constant, the value of the accrued benefit obligation would decrease/increase by approximately $150.

Salary risk
The present value of the pension benefit obligations are calculated using the expected future pensionable earnings of the plan participants. An increase in the pensionable earnings of the plan participants will increase the value of the obligations. At December 31, 2013, if the rate of salary increases had been 1% higher/lower and all other variables were constant, the value of the accrued benefit obligation would increase/decrease by approximately $1.1 million/$1.0 million.

11. ACCRUED PENSION BENEFIT LIABILITY (Continued)

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

		2013		2012
PLAN ASSETS				
Fair value at beginning of year	$	43,928	$	41,487
Expected return on plan assets		1,982		2,053
Remeasurement gain (loss) included in other comprehensive income:				
Actuarial gain (loss)		2,962		1,249
Employer contributions [1]		6,964		3,497
Benefits paid		(4,702)		(4,358)
Fair value at end of year	$	51,134	$	43,928
ACCRUED BENEFIT OBLIGATION				
Balance at beginning of year	$	60,934	$	54,590
Current service cost		1,943		2,012
Interest cost		2,663		2,721
Benefits paid		(4,702)		(4,358)
Remeasurement loss (gain) included in other comprehensive income:				
Actuarial loss (gain) due to changes in demographic assumptions		1,493		-
Actuarial loss (gain) due to changes in financial assumptions		(3,751)		5,969
Experience adjustments		96		-
Balance at end of year [2]		58,676		60,934
NET PLAN DEFICIT AT END OF YEAR	$	(7,542)	$	(17,006)
Fair value of plan assets at end of year, discontinued operations	$	4,094	$	4,097
Accrued benefit obligation at end of year, discontinued operations	$	6,323	$	6,566
Net plan deficit at end of year, discontinued operations	$	(2,229)	$	(2,469)

[1] Employer contributions for the year ended December 31, 2014 are estimated at $8.3 million, not considering the effect of the next actuarial valuation which may increase contributions.

[2] Accrued benefit obligation includes liabilities of $2.0 million (December 31, 2012: $2.2 million) related to the Lillooet and Savona discontinued operations.

The components of pension expense that have been charged to the statement of operations for the period, within selling and administration and cost of products sold, are set out below:

		2013		2012
Accrual for current services	$	1,943	$	2,012
Interest on accrued benefits		2,663		2,721
Expected return on pension fund assets		(1,982)		(2,053)
Pension expense, continuing operations	$	2,624	$	2,680
Pension expense, discontinued operations	$	90	$	111

11. ACCRUED PENSION BENEFIT LIABILITY (Continued)

Net actuarial losses have been charged to other comprehensive income and immediately recognized in retained earnings (deficit) as follows:

		2013		2012
Actuarial losses in other comprehensive income, January 1	**$**	**18,669**	$	14,295
Actuarial (gain) loss on plan assets, continuing operations		**(2,962)**		(1,249)
Actuarial (gain) loss on plan liabilities, continuing operations		**(2,162)**		5,970
Net actuarial loss, discontinued operations		**(233)**		838
Income tax expense (recovery) on actuarial (gain) loss		**1,297**		(1,185)
Total (gain) loss charged to other comprehensive income for the year		**(4,060)**		4,374
Actuarial losses in other comprehensive income, December 31	**$**	**14,609**	$	18,669

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

	2013	2012
Discount rate on accrued benefit obligation at end of year	**4.80%**	4.40%
Discount rate on benefit costs	**4.40%**	5.00%
Expected long-term rate of return on plan assets	**4.40%**	5.00%
Actual return on plan assets	**11.51%**	9.89%
Rate of compensation increase	**3.00%**	3.00%
Average longevity at retirement age for current pensioners (years):		
Males	**19.8**	19.8
Females	**22.1**	22.1
Average longevity at retirement age for current employees (future pensioners) (years):		
Males	**21.3**	21.3
Females	**22.9**	22.9

The expected rate of return considers the allocation of the assets in which the pension fund is invested and the individual best estimate rates of return on those asset classes in order to establish an overall rate of return for the entire fund. This rate is assumed to be net of administration and investment management fees charged to the plan.

The timing of expected benefit payments within the next 10 years is disclosed below:

	Less than 1 year		**1 to 2 years**		**3 to 5 years**		**5 to 10 years**		**Total**
$	4,391	$	2,468	$	7,816	$	14,625	$	29,300

11. ACCRUED PENSION BENEFIT LIABILITY (Continued)

The plan assets in the defined benefit pension plans, which fall within the allowable range of the corresponding assets category as set out in the Statement of Investment Policies and Procedures, are as follows:

PLAN ASSETS	2013	2012
Cash	**0.2%**	0.2%
Canadian bonds and debentures	**42.8%**	44.7%
Canadian pooled equity funds	**35.5%**	35.2%
U.S. pooled equity funds	**21.5%**	19.9%
	100.0%	100.0%

At December 31, 2013, there were no shares of the Company held in the pension and other benefit trusts administered by the Company.

Defined contribution plan and other plans:

The Company maintains a Canadian defined contribution pension plan for all non-union employees who joined the Company after April 1, 2010. Beginning in September 2013, all new unionized employees at the 100 Mile House, British Columbia facility were also enrolled into the defined contribution pension plan. The plan is funded by payments from the employees and the Company. Payments are charged to the statement of operations for the period as incurred.

The Company also sponsors a Group Registered Retirement Savings Plan (RRSP) at three of its Canadian operations, as well as a Deferred Profit Sharing Plan for union employees at the Barwick, Ontario facility.

Contributions to these plans were as follows:

		2013		2012
Deferred profit sharing plan	**$**	**693**	$	653
Group RRSP		**588**		590
Defined contribution pension plan		**569**		289
401(k) savings plans		**29**		26

12. REFORESTATION OBLIGATION

Reforestation obligations relate to timber that is harvested under various licenses issued by the Provinces of British Columbia and Alberta. 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.

		2013		2012
Balance, January 1	**$**	**4,269**	$	3,405
Expense		**1,489**		1,518
Paid during the year		**(821)**		(371)
Fair value adjustment		**244**		(283)
Balance, December 31	**$**	**5,181**	$	4,269
Current portion, included in trade and other payables	**$**	**791**	$	488
Non-current portion		**4,390**		3,781
	$	**5,181**	$	4,269

13. COMMITMENTS

The Company is committed to operating lease payments in respect of premises and finance lease payments in respect of machinery and equipment as follows:

	Operating Leases	Finance Leases
No later than one year	$ 842	$ 424
Later than one year, but no later than five years	619	78
Later than five years	-	-
	1,461	502
Less: future finance charges	-	(25)
Present value of minimum lease payments	$ 1,461	$ 477

The Company's obligations under finance leases are secured by the lessors' title to the leased assets. The fair value of the finance lease obligations approximate their carrying value.

The Company had a contractual commitment to purchase property, plant and equipment at December 31, 2013 of approximately $4.5 million (December 31, 2012: $3.1 million). The Company has certain long-term purchase contracts with minimum fixed payment commitments. All contracts are at market prices and on normal business terms.

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

14. CONTINGENCIES

In the normal course of its business activities, the Company is subject to claims and legal actions that may be made against its customers, suppliers and others. While the final outcome with respect to actions outstanding or pending as at December 31, 2013 cannot be predicted with certainty, the Company believes the resolution will not have a material effect on the Company's financial position, financial performance, or cash flows.

15. 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 and outstanding share capital is as follows:

	2013			2012		
	Shares	**Warrants [1]**	**Amount**	**Shares**	**Warrants [1]**	**Amount**
Balance, January 1	**240,833,888**	**8,695,634**	**$582,626**	100,768,888	8,695,634	$411,509
Stock options exercised (Note 16)	**42,000**	**-**	**112**	65,000	-	168
Shareholder warrants converted [1]	**30,421**	**(8,695,634)**	**-**			
Shares issued in rights offering [2]	**-**	**-**	**-**	140,000,000	-	175,000
Transaction costs on rights offering [3]	**-**	**-**	**-**	-	-	(4,051)
Balance, December 31	**240,906,309**	**-**	**$582,738**	240,833,888	8,695,634	$582,626

[1] The Company issued 8,695,634 warrants on July 28, 2008. The number of shares to be issued to warrant holders was dependent on the market price of the Company's common shares. If the Company's common share price exceeded a barrier price of U.S.$7.89 per share on or before July 29, 2013, each warrant would be converted into 1.52 common shares; otherwise, each warrant would be converted into 0.0035 common shares. On July 29, 2013, the shareholder warrants were deemed to be exercised without additional consideration. Since the Company's share price did not exceed the barrier price of U.S.$7.89 per common share, each warrant was converted into 0.0035 common shares, resulting in the issuance of 30,421 common shares. These warrants had nominal value for accounting purposes.

[2] On December 27, 2012, the Company completed its fully backstopped rights offering raising gross proceeds of $175 million. A total of 140 million common shares were purchased under the rights offering.

[3] Transaction costs are net of tax and include legal, regulatory and other professional fees related to the rights offering, and fees of $4.4 million paid to BCP for its role as standby purchaser of the rights offering (Note 28).

b) Net income per share

The shareholder warrants were not included in the computation of diluted earnings per share for the year ended December 31, 2012 because the Company's share price did not exceed the barrier price of U.S.$7.89 per share during the year ended December 31, 2012.

At December 31, 2013 there were 475,000 (December 31, 2012: 514,010) 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.

16. SHARE-BASED PAYMENTS

Stock Option Plan

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

Effective December 27, 2012, the Company reduced the exercise price of all options that were outstanding prior to the rights offering (Note 15), to reflect the dilutive effect of the 140 million common shares that were issued in connection with the rights offering. The modification did not result in an incremental increase in fair value.

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

	2013	2012
Risk-free interest rate	**1.26%**	1.41%
Expected volatility[1]	**50.00%**	54.00%
Dividend yield	**0%**	0%
Expected option life (years)	**4.00**	4.00
Share price	**$4.17**	$1.51

[1] Expected volatility is based on the historical share price volatility over the past four years, taking into consideration the volatility of similar entities over a comparable period.

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

	2013			2012		
	Number of Share Options		**Weighted Average Exercise Price**	Number of Share Options		Weighted Average Exercise Price
Outstanding at beginning of period	**1,588,676**	**$**	**1.60**	1,753,676	$	2.52
Granted during the period	**500,000**		**3.73**	300,000		1.55
Exercised during the period [1]	**(42,000)**		**1.60**	(65,000)		1.56
Forfeited during the period [2]	**(56,000)**		**2.55**	(400,000)		2.41
	1,990,676	**$**	**2.11**	1,588,676	$	2.40
Effect of exercise price reduction			**-**			(0.80)
Outstanding at end of period	**1,990,676**	**$**	**2.11**	1,588,676	$	1.60
Options exercisable at end of period	**1,073,676**			840,336		
Weighted average fair value per option granted during the period	**$ 1.81**			$ 0.64		

[1] During the year ended December 31, 2013, $112 was credited to capital stock with respect to options that were exercised. This includes $67 consideration received on exercise, plus $45 representing the vested fair value of the stock options. During the year ended December 31, 2012, $168 was credited to capital stock with respect to stock options that were exercised. This includes $101 consideration received on exercise, plus $67 representing the vested fair value of the stock options.

[2] During the year ended December 31, 2013, $12 (December 31, 2012: $135) was reversed from contributed surplus with respect to unvested options forfeited.

16. SHARE-BASED PAYMENTS (Continued)

The following table summarizes the weighted average exercise prices and weighted average remaining contractual life of the stock options outstanding at December 31, 2013:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	**Number of Options**	**Weighted Average Remaining Contractual Life (yrs)**	**Weighted Average Exercise Price**	**Number of Options**	**Weighted Average Exercise Price**
$0 - 2	1,043,300	6.39	$ 1.25	751,300	$ 1.30
2.01 - 4	947,376	8.02	3.05	322,376	2.46
	1,990,676	7.17	$ 2.11	1,073,676	$ 1.65

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

	2013	2012
Stock option expense	**$ 267**	$ 391

Deferred Share Unit Plan

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

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

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

	2013		2012	
	Number of DSUs	**Fair Value**	Number of DSUs	Fair Value
Outstanding at beginning of period	**415,958**	**$ 485**	114,264	$ 47
Granted during the period	**78,064**	**208**	301,694	211
Change in value		**1,352**		227
Outstanding at end of period	**494,022**	**$ 2,045**	415,958	$ 485

17. EMPLOYEE BENEFITS

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

	2013	2012
Short-term employee benefits	**$ 59,293**	$ 50,173
Long-term employee benefits	**12,052**	10,008
Share-based payments	**1,827**	829
	$ 73,172	$ 61,010

18. FINANCE EXPENSE

		2013		2012
Cash interest	**$**	**(26,977)**	$	(30,224)
Payment-in-kind interest		**-**		(18,510)
Interest on finance leases		**(79)**		(129)
Amortization of bond premium, transaction costs and consent fees		**(485)**		(1,918)
	$	**(27,541)**	$	(50,781)

19. LOSS ON EARLY REPAYMENT OF LONG-TERM DEBT

		2013		2012
Extinguishment of derivative embedded in Senior Secured Notes	**$**	**(1,791)**	$	-
Extinguishment of derivative embedded in Senior Unsecured Notes		**-**		(17,200)
Premium paid		**(1,082)**		-
Write off transaction costs and bond premium		**(215)**		(5,956)
Net consent fees on tender		**-**		(884)
Legal fees and other		**-**		(160)
Realized foreign exchange gain		**-**		1,321
	$	**(3,088)**	$	(22,879)

20. FOREIGN EXCHANGE (LOSS) GAIN

		2013		2012
Foreign exchange (loss) gain on long-term debt	**$**	**(23,922)**	$	10,269
Other foreign exchange gain (loss)		**2,128**		(840)
	$	**(21,794)**	$	9,429

21. GAIN ON DERIVATIVE FINANCIAL INSTRUMENT

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

During the year, the Company exercised an option to repurchase 10% of the principal of the Notes (Note 9). The embedded derivative related to this option was revalued as at August 13, 2013, and extinguished on August 14, 2013 when the option was exercised (Note 19).

On November 26, 2012, the derivative financial instrument related to the call option embedded in the 11% Senior Unsecured Notes was revalued, and was extinguished on November 27, 2012 when the Senior Unsecured Notes were redeemed (Note 19).

Changes in the market value of the Notes, the risk-free rate, the credit spread and the cash interest rate resulted in an $8.1 million gain on the derivative financial asset for the year ended December 31, 2013. Total gains on the derivative financial instruments related to the Notes and Senior Unsecured Notes for the year ended December 31, 2012 were $24.0 million.

22. COSTS OF CURTAILED OPERATIONS

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

23. OTHER ITEMS

		2013		2012
Loss on disposal of property, plant and equipment	**$**	**(409)**	$	(155)
Write-down of property, plant and equipment		**-**		(1,488)
Other income		**1,800**		480
	$	**1,391**	$	(1,163)

24. TAXATION

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

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

(a) Reconciliation of the effective tax rate:

The following table provides a reconciliation of the Canadian statutory corporation rate to the effective tax rate of the Company:

	2013		2012	
	Amount	**%**	Amount	%
Income tax expense at statutory rate	**$ 15,235**	**25**	$ 8,538	25
Non-taxable foreign exchange loss (gain) on long-term debt	**3,154**	**5**	(1,461)	(4)
Change in statutory income tax rates	**654**	**1**	-	
Other	**1,954**	**4**	(1,306)	(4)
Tax expense	**$ 20,997**	**35**	$ 5,771	17
Comprised of:				
Current taxes	**$ 640**		$ 649	
Deferred income taxes	**20,357**		5,122	
Tax expense	**$ 20,997**		$ 5,771	

24. TAXATION (Continued)

(b) Temporary differences and tax loss carry forwards which give rise to the net deferred income tax liability are as follows:

		2013		2012
Deferred income tax assets:				
Accruals not currently deductible	$	**1,722**	$	1,688
Deferred pension costs		**1,394**		4,073
Financing costs		**1,763**		2,308
Investment tax credits		**14,223**		12,005
Land		**60**		-
Tax loss carryforwards		**40,583**		59,761
Other tax credits		**918**		918
	$	**60,663**	$	80,753
Deferred income tax liabilities:				
Depreciable capital assets		**(110,898)**		(111,302)
Derivative gain on financial instrument		**(2,484)**		(1,671)
Land		**-**		(63)
Foreign exchange gain on long-term debt		**-**		(61)
	$	**(113,382)**	$	(113,097)
Deferred income tax liability, net	$	**(52,719)**	$	(32,344)

The Company has benefited Canadian non-capital tax loss carry-forwards of approximately $155 million for financial statement purposes at December 31, 2013 (December 31, 2012: $234 million).

(c) Unrecognized deferred tax assets:

The Company has U.S. non-capital tax loss carry-forwards of $384 million that expire between 2026 and 2033, which are not benefited for financial statement purposes because the 2008 recapitalization resulted in a restriction of these loss carry-forwards.

The Company also has unrecognized deferred tax assets of $2.8 million (2012: $nil) relating to foreign exchange loss on long-term debt.

The movement in deferred income tax assets and liabilities during the year was all charged to the statement of operations, with the exception of $1.3 million charged to other comprehensive income related to the movement in deferred pension costs (2012: $1.3 million recovery). In 2012, $1.4 million was charged to share capital related to the movement in financing costs.

25. CHANGES IN NON-CASH OPERATING WORKING CAPITAL

		2013		2012
Trade and other receivables	$	**1,928**	$	(7,297)
Inventories		**(14,200)**		(1,570)
Income taxes payable		**(269)**		645
Prepaid expenses		**(167)**		779
Trade and other payables		**11,681**		4,145
	$	**(1,027)**	$	(3,298)

26. SEGMENTED REPORTING

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

		2013		2012
United States	**$**	**367,536**	$	294,847
Canada		**55,638**		71,291
Japan		**55,214**		37,834
Overseas - other		**9,668**		5,099
	$	**488,056**	$	409,071

Included in sales are $115.6 million (December 31, 2012: $83.9 million) to the Company's largest customer. No other single customer contributed 10% or more to the Company's revenue for both 2013 and 2012.

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

27. FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS

Management of capital

The Company's objectives for managing capital (defined as working capital, long-term debt and equity excluding accumulated other comprehensive income) are to safeguard its ability to continue as a going concern in order to provide returns to shareholders and benefits for other stakeholders. The Company manages capital by adjusting the amount of dividends paid to shareholders, purchasing shares for cancellation pursuant to normal issuer bids, issuing new shares and warrants, issuing new debt, and/or issuing new debt to replace existing debt with different characteristics. Under its existing debt indentures, the Company is restricted in managing capital and must conform to the indentures' provisions, which govern capital components such as dividends, asset sales and debt incurrence. At December 31, 2013, the Company is in compliance with the provisions of these indentures.

27. FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (Continued)

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

	Fair Value Hierarchy Level		**December 31 2013**		December 31 2012
FINANCIAL ASSETS					
Held for trading					
Cash and cash equivalents	Level 1	**$**	**137,444**	$	106,777
Loans and receivables					
Trade and other receivables [1]	n/a		**23,680**		25,608
Derivative financial asset [2]	Level 2		**19,632**		13,371
		$	**180,756**	$	145,756
FINANCIAL LIABILITIES					
Other financial liabilities					
Trade and other payables [1]	n/a	**$**	**42,133**	$	30,257
Long-term debt, including current portion	n/a		**342,819**		360,441
		$	**384,952**	$	390,698

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

[2] The Company applies a Black-Scholes model for the 10% repurchase option and a standard Option-Adjusted Spread model for the remaining call options. The current bid price for the bonds of 107.25 at December 31, 2013 (December 31, 2012: 105) is used as the market value input.

The Company's policy for determining the timing of transfers between levels of the fair value hierarchy is based on the date of the event or change in circumstances that caused the transfer. There were no transfers between level 1 and level 2 for the years ended December 31, 2013 and 2012. There were no financial instruments classified as level 3 at December 31, 2013 or December 31, 2012.

Financial risk factors

The Company's activities result in exposure to a number of financial risks, including credit risk, liquidity risk and market risk. The Company's objectives, policies and processes for measuring and managing these risks are described below.

Credit risk

Credit risk is the risk that a contracting entity will not complete its obligations under a financial instrument and cause a financial loss. The Company is exposed to credit risk on trade and other receivables, cash and cash equivalents. The Company's maximum exposure to credit risk is the gross carrying amount of these assets net of any allowance for doubtful accounts or impairment loss as reflected in these consolidated financial statements. At December 31, 2013, the amount of accounts receivable past due or impaired was nominal.

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

27. FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (Continued)

Liquidity risk

Liquidity risk is the risk that the Company encounters difficulty in meeting its financial obligations as they come due. Liquidity risk includes the risk that, as a result of operational liquidity requirements, the Company will not have sufficient funds to settle a transaction on the due date; will be forced to sell financial assets at a value which is less than what they are worth; or may be unable to settle or recover a financial asset at all. Liquidity risk arises from trade and other payables, long-term debt, commitments and financial guarantees. The Company continues to focus on maintaining adequate liquidity to meet cash interest and principal repayments, operating working capital requirements including seasonal log inventory builds in the first and fourth quarters, and capital expenditures.

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

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

	Less than 1 month	1 to 3 months	Less than 1 year	1 to 5 years	More than 5 years	Total
Senior Secured Notes	$ -	$ -	$ 25,128	$410,417	$ -	$435,545
HSBC equipment loan	262	522	7,268	-	-	8,052
Deutsche Bank equipment loan	-	-	1,767	-	-	1,767
Finance lease obligations	48	92	284	78	-	502
Operating lease obligations	74	146	622	619	-	1,461
Trade payable and accrued liabilities	36,755	404	4,132	-	-	41,291
Reforestation obligation	-	-	-	3,303	1,087	4,390
Purchase commitments	1,594	570	3,601	4,888	1,935	12,588
	$ 38,733	$ 1,734	$ 42,802	$419,305	$ 3,022	$505,596

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, 2013, if interest rates had been 50 basis points higher/lower and all other variables were held constant, the Company's after-tax net income would decrease/increase by approximately $36 on an annual basis (December 31, 2012: $55).

27. FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (Continued)

***Market risk* (Continued)**

The Company is also exposed to interest rate risk on the derivative financial instrument that arises from the call option embedded in the Notes. As the risk-free interest rate and the credit spread increase, the value of the derivative financial asset decreases. Conversely, a decrease in the risk-free interest rate and the credit spread increases the value of the derivative financial asset. Changes in the value of this derivative financial asset are reflected in operations. The value of the derivative financial instrument as at December 31, 2013 was $19.6 million (December 31, 2012: $13.4 million) and was included in other assets. At December 31, 2013, if interest rates had been 1% higher and all other variables were constant, the value of the derivative financial asset would increase by approximately $2.5 million (December 31, 2012: $3.0 million).

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

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

At December 31, 2013, the impact on the after tax net income of a one cent weakening/strengthening of the Canadian dollar, all other variables remaining constant, on the revaluation of the Company's monetary assets and liabilities would be would have been $2.7 million higher/lower on an annual basis (December 31, 2012: $2.3 million).

Commodity price risk
The Company's financial performance is principally dependent on the demand for and selling prices of its products. Both are subject to significant fluctuations. The markets for panel products are cyclical and are affected by factors such as global economic conditions including the strength of the U.S. and Japanese housing markets, changes in industry production capacity, changes in world inventory levels and other factors beyond the Company's control. The Company reduces its exposure to commodity price risk through product and geographic diversification.

Fair value of financial instruments
The fair value of financial instruments, with the exception of the Notes, is estimated to approximate their carrying value at December 31, 2013 due to the immediate or short-term maturity of these financial instruments.

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

	December 31, 2013		December 31, 2012	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Senior Secured Notes [1]	**$ 333,245**	**$ 352,699**	$ 345,802	$ 356,690
Equipment financing [2]	**9,574**	**9,574**	14,639	14,639
	$ 342,819	**$ 362,273**	$ 360,441	$ 371,329

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

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

27. FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (Continued)

The fair value of the call option embedded in the Notes as at December 31, 2013 was $19.6 million (December 31, 2012: $13.4 million).

28. RELATED PARTY TRANSACTIONS

Brookfield Capital Partners

The Company is controlled by BCP, which beneficially owns or exercises control or direction over approximately 54.4% of the issued and outstanding common shares.

The Company periodically sells goods to BCP affiliates. During the year ended December 31, 2013, these sales were approximately $2.6 million (year ended December 31, 2012: $3.8 million).

During the year ended December 31, 2013, the Company also purchased equipment from BCP affiliates of approximately $150 (year ended December 31, 2012: $nil).

During the year ended December 31, 2012, the Company made interest payments on its Senior Unsecured Notes held by BCP in the normal course of operations. On December 27, 2012, the Company repaid the principal, plus accrued interest on the Senior Unsecured Notes held by BCP, net of amounts owed to the Company for subscription of common shares.

During the year ended December 31, 2012, the Company also paid a backstop fee of $4.4 million to BCP for their role as a standby purchaser of the rights offering (Note 15). Since all rights were exercised by right-holders under the basic and additional subscription privileges, including BCP, it was not necessary for BCP to purchase shares pursuant to the terms of the standby purchase agreement.

Subsidiaries

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

Compensation of the executive management team and directors

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

	2013	2012
Short-term employee benefits	**$ 2,825**	$ 2,339
Long-term employee benefits	**92**	81
Share-based payments	**604**	678
	$ 3,521	$ 3,098

Other

	2013	2012
Legal fees [(1)]	**$ 838**	$ 749
Other services [(2)]	**616**	239
	$ 1,454	$ 988

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

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

28. RELATED PARTY TRANSACTIONS (Continued)

Sales to overseas markets are handled by Interex Forest Products Ltd. (“Interex”), a cooperative sales company over which Ainsworth, as a shareholder, has significant influence. At December 31, 2013, $2.9 million was included in trade receivables with respect to Interex (December 31, 2012: $2.8 million).

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