Ainsworth®

INTERIM REPORT TO SHAREHOLDERS FOR THE THREE AND NINE MONTH PERIODS ENDED SEPTEMBER 30, 2012

LETTER TO SHAREHOLDERS

October 31, 2012

Dear Fellow Shareholders:

During the quarter, we benefited from favorable market conditions. Improving demand from a recovering U.S. housing industry exceeded supply and led to a sharp run up in OSB prices. The Company recorded positive adjusted EBITDA of $37.3 million for the third quarter of 2012, which was $20.2 million higher than the second quarter of 2012, and $36.6 million higher than the third quarter of 2011. These were our best quarterly adjusted EBITDA results since the first quarter of 2006. Adjusted EBITDA for the year to date was $64.4 million in 2012, compared to $9.8 million in the same period of 2011. Our liquidity position has improved by $32.4 million over the course of the third quarter due to cash generated by operations.

Sales of $115.6 million in the quarter were $43.8 million higher compared to the same period last year due to an improvement in market prices as well as a 7.5% increase in shipment volumes. The North Central price for the benchmark 7/16” OSB averaged U.S. $313 per msf, a 70% increase relative to the third quarter of 2011. Compared to the second quarter of 2012 the increase was 33%. Western Canadian benchmark prices for 7/16” OSB averaged U.S. $310 per msf in the third quarter of 2012, a 126% increase relative to the third quarter of 2011. The increase compared to the second quarter of 2012 was 34%.

Costs of products sold were $74.3 million in the third quarter of 2012, a $7.2 million increase over the same period in 2011. While the majority of this increase related to the increase in shipment volumes, there was a 3.3% increase in the input costs compared to the third quarter of 2011. Resin and wax prices increased at our various mills, and wood costs increased at our 100 Mile House mill due to hauling rates and truck availability. A portion of these increases were mitigated by ongoing programs to optimize usage of resin and wax.

In this favorable market environment, we also benefited from improved performance at each of our three mills. Safety has also improved, with notable achievements at Grande Prairie and Barwick. We now feel we are approaching first quartile performance and are no longer lagging behind the industry average. Higher production at each of our three mills resulted in a 29.5 million square foot, or 7.5%, increase in total shipments over the same quarter last year. Our effective operating rate, excluding our High Level mill, during the quarter was 100% of previously stated annual capacity and we still feel we have opportunities to improve. Offsetting higher input costs during the year, our cost reduction initiatives have yielded operating savings of $7 million.

During the quarter we also welcomed Rick Eng to the senior management team as Vice President, Finance and Chief Financial Officer. He brings a depth of experience in corporate finance to the senior management team and will be a valuable contributor in his new role with our company.

Outlook

The U.S. housing market during the quarter continued to show signs of improvement with significant increases in housing starts and building permits being registered year-over-year and sequentially. On a seasonally adjusted annual rate, housing starts during the quarter increased 28% relative to the same period last year and 7% relative to the second quarter of 2012. More importantly, housing permits, which are a measure of future demand, increased 33% relative to the same period last year and 11% relative to the second quarter of 2012.

Low interest rates, increasing home prices and improving consumer confidence all fueled these positive trends, which we expect will continue for the remainder of the year and into next year. Industry forecasts of U.S. housing starts for 2012 and 2013 have recently been raised to 760,000 and 930,000 respectively. These levels are a marked improvement relative to the 610,000 starts recorded in 2011.

We believe a recovery in U.S. housing is now underway and should accelerate over the next 12 to 24 months. This will be positive for Ainsworth, notwithstanding certain idle capacity in the industry. We will be prudent in the start up of our High Level mill and will do so when we have identified a market for its production in both the North American and export markets. The High Level mill would represent a 50% increase in our current operating capacity and is a significant growth opportunity. It is one of the largest production facilities in the industry and will be an efficient producer, benefiting from an abundance of high quality, low cost fiber.

Turning to Japan, our principal export market, we are continuing to see increased competition from Japanese softwood plywood and, to a lesser extent, European OSB in an otherwise stable residential construction market where timber frame construction accounts for over 55% of total starts. Total housing starts for the first eight months of 2012 were approximately 568,000, a slight improvement over the same period in 2011, while wooden starts during the same period remained essentially unchanged from the prior year. With the tsunami rebuild effort taking place over a longer period of time than originally anticipated, we expect these trends to continue for the balance of 2012 and going into 2013. We remain committed to a market share growth strategy that is based on product innovation, OSB demand creation and unsurpassed service to our Japanese customers.

Just subsequent to the end of the quarter, we announced a comprehensive refinancing plan that involves a $175 million fully backstopped rights offering of common shares and a $350 million debt offering. These transactions are expected to close at or around year end, with net proceeds to repay substantially all of our existing debt. As a result, we expect to start 2013 with a much stronger balance sheet that positions us well to capitalize on the expected market recovery.

Overall, we continue to focus on strategically positioning the company to maximize shareholder value both now and through the market cycles that are typical of our industry. Our operational strategy remains focused on providing our employees with an injury-free workplace, implementing continuous improvement initiatives leading to efficiency gains and cost reductions, increasing our share of existing market segments and developing new products and markets.

As always, I value and appreciate the contribution of our employees and am grateful for the support we receive from our shareholders, customers and suppliers.

Sincerely,

/s/ Jim Lake

President and Chief Operating Officer

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

This management's discussion and analysis is presented as at October 30, 2012. Financial references are in Canadian dollars unless otherwise indicated. Additional information relating to Ainsworth Lumber Co. Ltd. (also referred to as Ainsworth, the Company, or we, or our), including our annual information form, is available on SEDAR at www.sedar.com. Our financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS").

Overview

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

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

The Company has a production capacity of 2.5 billion square feet per year (3/8-inch basis) and has four wholly-owned OSB manufacturing facilities located in Grande Prairie, Alberta; High Level, Alberta; 100 Mile House, British Columbia; and, Barwick, Ontario. All four mills are strategically located in terms of wood supply and access to markets in North America and Asia. The Company's active facilities have a current production capacity of 1.7 billion square feet (3/8-inch basis).

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

100 Mile House, BC	440
Grande Prairie, AB	730
Barwick, ON	510
High Level, AB (currently curtailed) [1]	860
Total capacity	2,540
Current operating capacity	1,680

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

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

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

Advisory Regarding Forward-Looking Statements

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

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

Non-IFRS Measures

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

Outlook

At September 30, 2012, we had available liquidity, consisting of cash and cash equivalents, and short-term investments, of approximately $86.6 million. This compares to available liquidity of $57.7 million at December 31, 2011. See "Liquidity and Capital Resources" for a more detailed description of working capital, available funds and cash flows.

Subsequent to the quarter end, Ainsworth announced its intention to proceed with a fully backstopped rights offering to raise gross proceeds of $175 million through the issue of common shares (the "Rights Offering"), and a debt financing for gross proceeds of approximately $350 million (the "Debt Financing"). The aggregate net proceeds received by Ainsworth from the Rights Offering and the Debt Financing will be used to repay in full Ainsworth's outstanding Senior Secured Term Loan due June 2014, and 11% Senior Unsecured Notes due July 2015. This comprehensive refinancing plan is expected to position us well across industry cycles through reduced debt, lower borrowing costs, and the extension of our maturity profile.

We continue to leverage on Ainsworth's operational expertise, superior products and market segment diversification to ensure the Company is also well positioned from an operational standpoint, to capitalize on a recovery in U.S. home construction and increased demand from Asia.

Our debt principal repayments are scheduled to total $1.6 million in the last quarter of 2012 and $4.8 million in 2013. Notwithstanding our announcement of the Rights Offering and the Debt Financing, our U.S. dollar Senior Secured Term Loan and our U.S. dollar Senior Unsecured Notes are otherwise scheduled to mature in 2014 and 2015 respectively.

Summary of Operating and Financial Results from Continuing Operations

	Q3-12	Q2-12	Q1-12	Q4-11	Q3-11	Q2-11	Q1-11	Q4-10
(in millions, except volume, unless otherwise noted)								
Sales	**$ 115.6**	$ 90.5	$ 85.1	$ 69.5	$ 71.8	$ 80.5	$ 71.5	$ 55.0
Adjusted EBITDA [(1)]	**37.3**	17.1	10.0	2.7	0.7	2.7	6.4	(1.8)
Adjusted EBITDA margin [(2)]	**32.3%**	18.9%	11.8%	3.9%	1.0%	3.4%	9.0%	-3.3%
Shipment volume (mmsf 3/8")	**422.9**	393.8	405.1	374.3	393.4	422.0	350.8	285.9
Production volume (mmsf 3/8")	**419.1**	398.0	400.8	368.3	394.9	388.9	388.9	282.5

(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), income tax (recovery) expense and non-recurring items. See the detailed calculation of adjusted EBITDA by quarter on page 11.

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

Review of Financial Results

	Q3-12	Q3-11	YTD 2012	YTD 2011
(in millions)				
Sales	**$ 115.6**	$ 71.8	**$ 291.2**	$ 223.8
Cost of products sold	**74.3**	67.1	**215.2**	201.9
Net income (loss) from continuing operations	**32.6**	(58.9)	**22.0**	5.9
Net income (loss)	**32.6**	(59.2)	**21.7**	5.5
Adjusted EBITDA	**37.3**	0.7	**64.4**	9.8
Adjusted EBITDA margin	**32.3%**	1.0%	**22.1%**	4.4%
Shipment volume (mmsf 3/8")	**422.9**	393.4	**1,221.8**	1,166.2

The table below shows the calculation of adjusted EBITDA:

	Q3-12	Q3-11	YTD 2012	YTD 2011
(in millions)				
Net income (loss) from continuing operations	**$ 32.6**	$ (58.9)	**$ 22.0**	$ 5.9
Add (deduct):				
Amortization of property, plant and equipment	**6.4**	6.1	**18.8**	18.1
Gain on disposal of property, plant and equipment	**(0.1)**	(0.5)	**-**	(0.8)
Write-down of property, plant and equipment	**-**	-	**-**	0.9
Cost of curtailed operations	**0.9**	0.9	**2.6**	2.3
Stock option expense	**0.1**	0.2	**0.3**	0.6
Finance expense	**13.3**	12.5	**39.5**	36.7
Income tax expense (recovery)	**7.0**	(8.3)	**3.4**	(14.3)
Foreign exchange (gain) loss on long-term debt	**(18.4)**	42.8	**(17.9)**	27.8
(Gain) loss on derivative financial instrument	**(5.4)**	7.0	**(5.7)**	6.2
Gain on High Level acquisition	**-**	-	**-**	(72.5)
Other	**0.9**	(1.1)	**1.4**	(1.1)
Adjusted EBITDA	**$ 37.3**	$ 0.7	**$ 64.4**	$ 9.8

Net income from continuing operations in the third quarter of 2012 was $32.6 million compared to a net loss of $58.9 million in the third quarter of 2011. The $91.5 million increase in net income resulted from a $61.2 million increase in foreign exchange gain on long-term debt, a $36.5 million increase in gross profit (sales less cost of products sold (exclusive of amortization)), and a $12.5 million increase in gain on derivative financial instrument. The increase was partially offset by a $15.4 million increase in income tax expense, a $1.9 million increase in foreign exchange losses from operations, and a $0.8 million increase in interest on long-term debt.

In the first nine months of 2012, net income from continuing operations was $22.0 million, compared to $5.9

million in the first nine months of 2011. The $16.1 million increase in net income was primarily the result of a $54.1 million increase in gross profit, a $45.7 million increase in foreign exchange gain on long-term debt, and a $11.9 million increase in gain on derivative financial instrument. The increase was partially offset by a one-time gain on the High Level acquisition of $72.5 million in 2011, a $17.8 million increase in income tax expense, a $2.8 million increase in interest on long-term debt, and a $1.9 million increase in foreign exchange loss from operations.

Adjusted EBITDA

In the third quarter of 2012, adjusted EBITDA was $37.3 million compared to $0.7 million in the third quarter of 2011. EBITDA margin on sales was 32.3% compared to 1.0% in the same period of 2011. The increase was the result of a $36.5 million increase in gross profit.

Adjusted EBITDA for the first nine months of 2012 was $64.4 million compared to $9.8 million in the first nine months of 2011. EBITDA margin on sales was 22.1% compared to 4.4% in the same period of 2011. The increase was primarily the result of a $54.1 million increase in gross profit.

Sales

Sales of $115.6 million in the third quarter of 2012 were $43.8 million higher than sales of $71.8 million for the same period in 2011. The increase in sales was due to a 49.7% increase in realized pricing and a 7.5% increase in shipment volume. During the third quarter of 2012, the average benchmark price for the North Central region was U.S. $313 per msf (7/16-inch basis), an increase of U.S. $129 per msf (7/16-inch basis) compared to the same period in 2011. The average benchmark price for the Western Canada region increased by U.S. $173 per msf (7/16-inch basis) in the third quarter of 2012 compared to the same period in 2011.

Sales of $291.2 million for the first nine months of 2012 were $67.4 million higher than sales of $223.8 million for the same period in 2011. The increase in sales was due to a 24.2% increase in realized pricing and a 4.8% increase in shipment volumes.

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

U.S. dollars	**Q3-12**	**Q2-12**	**Q1-12**	**Q4-11**	**Q3-11**	**Q2-11**	**Q1-11**	**Q4-10**
North Central (7/16" basis)	**$ 313**	$ 235	$ 203	$ 190	$ 184	$ 174	$ 199	$ 191
Western Canada (7/16" basis)	**310**	232	201	149	137	151	182	166

Costs of Products Sold (Exclusive of Amortization)

In the third quarter of 2012, cost of products sold was $74.3 million, a $7.2 million increase over the same period in 2011. While the majority of this increase related to the increase in shipment volume, there was a 3.3% increase in the input costs compared to the third quarter of 2011. Resin and wax prices increased at all of our facilities, and wood costs increased at our 100 Mile House mill due to hauling rates and truck availability. A portion of these increases were mitigated by ongoing cost reduction programs to optimize usage of resin and wax.

Cost of products sold for the first nine months was $215.2 million, a $13.3 million increase over the same period in 2011. The increase in cost of products sold was primarily the result of increased sales volumes as well as increases in wood costs and freight expense.

Selling and Administration

Selling and administration expense decreased from $4.7 million in the third quarter of 2011 to $4.1 million in the third quarter of 2012. In the first nine months of 2012, selling and administration expense was $12.1 million, down $1.2 million from $13.3 million in the first nine months of 2011. The decrease quarter over quarter and year to date was the result of reductions in salaries and benefits expense and lower professional fees.

Amortization of Property, Plant and Equipment and Intangible Assets

Amortization expense in the third quarter of 2012 was $6.4 million compared to $6.1 million in the third quarter of 2011. In the first nine months of 2012, amortization expense was $18.8 million compared to $18.1 million in the first nine months of 2011. The increase quarter over quarter and year to date was the result of higher shipment volumes in 2012 compared to 2011 since our OSB panel mills are amortized using the units-of-production method.

Finance Expense

Finance expense in the third quarter of 2012 was $13.3 million, an increase of $0.8 million compared to $12.5 million in the third quarter of 2011. For the first nine months of 2012, finance expense was $39.5 million, an increase of $2.8 million compared to $36.7 million in the same period in 2011. The increase for the three and nine months ended 2012 compared to the same periods in 2011 was the result of a higher principal balance of Senior Unsecured Notes outstanding in 2012 due to the issue of new notes as payment-in-kind interest, in combination with the foreign exchange effect of a weaker Canadian dollar, on average, relative to the U.S. dollar.

Foreign Exchange Gain (Loss) on Long-Term Debt

The unrealized foreign exchange gain on long-term debt in the third quarter of 2012 was $18.4 million compared with a $42.8 million loss in the third quarter of 2011. The unrealized foreign exchange gain on long-term debt in the first nine months of 2012 was $17.9 million compared with a $27.8 million loss in the same period of 2011. The foreign exchange gain in 2012 was the result of strengthening of the Canadian dollar with respect to our U.S. dollar denominated debt (whereas, in 2011, a weakening of the Canadian dollar resulted 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 $3.8 million on an annual basis.

Gain (Loss) on Derivative Financial Instrument

In the third quarter the Company recorded a gain of $5.4 million (year to date $5.7 million) related to the call option embedded in the Senior Unsecured Notes compared to a loss of $7.0 million (year to date $6.2 million loss) during the same period in 2011. The derivative financial asset is revalued quarterly (see “Financial Instrument”) and changes in value are reflected in operations.

Costs of Curtailed Operations

Costs of curtailed operations are primarily comprised of costs directly attributable to our idled High Level, Alberta mill.

Other Items

Other income of $55 thousand in the third quarter of 2012 was not significantly different than $381 thousand in the third quarter of 2011. For the first nine months of 2012, other income was $335 thousand compared to $1.2 million for the same period in 2011, primarily due to lower interest income on short-term investments.

Income Taxes

Income tax expense in the third quarter of 2012 was $7.0 million on income before income taxes of $39.6 million compared with an income tax recovery of $8.3 million on a loss before income taxes of $67.3 million in the third quarter of 2011. Income tax expense in the first nine months of 2012 was $3.4 million on income before taxes of $25.5 million compared with an income tax recovery of $14.3 million on a loss before income taxes of $8.5 million. Certain permanent differences, such as the non-taxable portion of the foreign exchange gain 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.

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.

Liquidity and Capital Resources

As of September 30, 2012, our adjusted working capital was $120.6 million, compared to $90.1 million as at December 31, 2011. We have presented adjusted working capital as we believe that it provides investors with a basis to evaluate our ability to fund operations and capital expenditures. Adjusted working capital, a non-IFRS measure, is calculated as follows:

(in millions)		September 30 2012		December 31 2011
Current assets	**$**	**160.9**	$	123.8
Restricted cash not related to current liabilities		**(5.3)**		(4.9)
Current liabilities		**(35.0)**		(28.8)
Adjusted working capital	**$**	**120.6**	$	90.1
Adjusted working capital, discontinued operations		**(0.6)**		(0.2)
Adjusted working capital, continuing operations	**$**	**121.2**	$	90.3

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

The table below presents the total funds available:

(in millions)		September 30 2012		December 31 2011
Cash and cash equivalents	**$**	**45.2**	$	12.2
Short-term investments		**41.4**		45.5
Total available funds	**$**	**86.6**	$	57.7

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

(in millions)		Q3-12		Q3-11		YTD 2012		YTD 2011
Cash provided by operating activities before interest and working capital	**$**	**35.9**	$	(2.0)	**$**	**59.8**	$	6.8
Cash used for interest payments		**(1.5)**		(1.6)		**(16.9)**		(16.6)
Cash (used in) provided by working capital		**(0.4)**		13.0		**(7.5)**		1.7
Cash provided by (used in) operating activities		**34.0**		9.4		**35.4**		(8.1)
Cash used in financing activities		**(0.4)**		(3.6)		**(2.8)**		(9.7)
Cash (used in) provided by investing activities		**(0.8)**		(1.3)		**1.4**		(16.3)

In the third quarter of 2012 we had a cash inflow of $35.9 million from operating activities before interest paid and working capital requirements compared to $2.0 million cash used in the third quarter of 2011. For the year to date, the cash provided by operating activities before interest and working capital increased to $59.8 million from $6.8 million for the same period in 2011. Increases in pricing and margins resulted in higher cash generated by operations quarter over quarter and year to date.

Cash used in financing activities for all periods presented represents the repayment of equipment financing loans and capital lease obligations. The reduction in cash used in financing activities for all periods in 2012 compared to 2011, was partially due to the refinancing of our equipment loan in the third quarter of 2011 which resulted in lower interest charges in 2012. In addition, we sold our aircraft and repaid the related financing lease of $7.4 million in the third quarter of 2011, which resulted in higher cash outflows from financing activities in 2011. There were no debt maturities in the third quarter of 2012.

The decrease in cash used by investing activities was primarily due to a reduction in capital spending in the third quarter of 2012 compared with the same period in 2011. In the first nine months of 2012, cash provided by investing activities increased due to the High Level acquisition in the first quarter of 2011 that used cash of $20.0 million, combined with lower capital spending and fewer short-term investments maturing in 2012 compared to 2011. Additions to property, plant and equipment during the third quarter and first nine months of 2012 were primarily limited to essential projects or projects where costs will be recovered by estimated benefits in a short timeframe.

Outstanding Share Data

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

	Shares	Warrants		Value (in millions)
Common shares	100,833,888	-	$	412
Shareholder warrants	-	8,695,634		-
	100,833,888	8,695,634	$	412

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

The following table presents the exercise prices and expiry dates for the 1,588,676 stock options outstanding at September 30, 2012:

Grant Date	Number of Options Outstanding	Exercise Price	Expiry Date
November 14, 2008 (1)	400,000	1.74	November 14, 2018
March 5, 2010	200,000	2.30	March 5, 2020
March 15, 2010	25,000	2.45	March 15, 2020
May 13, 2010	72,376	4.48	May 13, 2020
May 21, 2010	50,000	4.14	May 21, 2020
June 14, 2010	100,000	3.28	June 14, 2020
August 5, 2010	6,300	2.89	August 5, 2020
August 13, 2010	25,000	2.71	August 13, 2020
March 4, 2011	275,000	3.28	March 4, 2021
September 9, 2011	200,000	1.93	September 9, 2021
March 9, 2012	100,000	1.55	March 9, 2022
March 13, 2012	135,000	1.55	March 13, 2022

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

Financial Instruments

Ainsworth does not use derivatives or participate in hedging activities. However, our Senior Unsecured Notes include a call option which has been identified as an embedded derivative whereby we have the right to repurchase the Notes. The embedded call option derivative was recorded at fair value at issuance of the Senior Unsecured Notes and is revalued at each reporting period based on current interest rates and the credit spread. As the risk-free interest rate and the credit spread increase, the value of the derivative financial asset decreases. Conversely, a decrease in the risk-free interest rate and the credit spread increases the value of the derivative financial asset. Changes in the value of this derivative financial asset are reflected in operations as "Gain (loss) on derivative financial instrument". Management estimates that had interest rates been 1% higher and all other variables were constant, the value of the derivative financial asset would have increased by $1.6 million. At September 30, 2012, the derivative financial asset had a value of $5.7 million (December 31, 2011: $6 thousand).

Off-Balance Sheet Arrangements

The Company does not have any significant off-balance sheet arrangements other than letters of credit in the amount of $5.3 million ($4.9 million at December 31, 2011), for which restricted cash is held as collateral. Further, there are no off-balance sheet arrangements that have, or are reasonably likely to have, a current or future material effect on the Company's financial condition, results of operations, liquidity, capital expenditures or resources.

Related Party Transactions

Brookfield Private Equity and Finance Ltd. ("BPEF") beneficially owns or exercises control or direction over approximately 54.2% of the issued and outstanding common shares. In the normal course of operations, the Company made interest payments with respect to Senior Unsecured Notes held by BPEF.

The Company also periodically sells goods to BPEF affiliates. During the three months ended September 30, 2012, these sales were approximately $1.0 million (three months ended September 30, 2011: $2.4 million). During the nine months ended September 30, 2012, these sales were approximately $3.4 million (nine months ended September 30, 2011: $2.4 million).

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

(in thousands)	**Q3-12**	Q3-11	**YTD 2012**	YTD 2011
Legal fees (1)	**$ -**	$ -	**$ 8**	$ 74
Insurance (2)	**1**	1	**134**	135
Key management compensation (3)	**1,099**	1,602	**2,833**	3,366
	$ 1,100	$ 1,603	**$ 2,975**	$ 3,575

(1) Legal fees were paid to a law firm of which one of the Company's directors is also a partner.
(2) Insurance was paid to an entity related to BPEF.
(3) Key management compensation includes total compensation for the Board of Directors and the executive management team. No person on the Board of Directors or the executive management team had any material interest during the period in a contract of significance (except as disclosed above with respect to a service contract for legal services rendered) with the Company or any subsidiary company.

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

Selected Quarterly Financial Information

		Q3-12		Q2-12		Q1-12		Q4-11		Q3-11		Q2-11		Q1-11		Q4-10
(in millions, except per share data, unless otherwise noted)																
Sales and earnings (loss)																
Sales	**$**	**115.6**	$	90.5	$	85.1	$	69.5	$	71.8	$	80.5	$	71.5	$	55.0
Operating income (loss)		**30.7**		11.0		3.4		(3.3)		(6.0)		(3.8)		0.3		(8.0)
Foreign exchange gain (loss) on long-term debt		**18.4**		(10.5)		10.0		16.4		(42.8)		2.5		12.5		18.2
Net income (loss) from continuing operations		**32.6**		(11.3)		0.7		1.7		(58.9)		(12.9)		77.7		2.8
Net (loss) income from discontinued operations		**-**		(0.2)		(0.1)		1.1		(0.3)		(0.1)		-		-
Net income (loss)		**32.6**		(11.5)		0.6		2.8		(59.2)		(13.0)		77.7		2.8
Adjusted EBITDA		**37.3**		17.1		10.0		2.7		0.7		2.7		6.4		(1.8)
Basic and diluted earnings (loss) per common share																
Net income (loss) continuing operations (1)		**0.32**		(0.11)		0.01		0.02		(0.59)		(0.13)		0.77		0.03
Net income (loss) (1)		**0.32**		(0.11)		0.01		0.03		(0.59)		(0.13)		0.77		0.03
Balance sheet																
Total assets		**812.7**		781.1		790.1		786.3		809.9		833.4		863.1		762.2
Total long-term debt (2)		**519.0**		532.3		517.9		523.2		535.8		497.1		498.6		507.9

(1) Basic and diluted net income (loss) per share. As at September 30, 2012, the Company had 100,833,888 issued common shares outstanding. For all periods presented the Company has not paid or declared any cash dividends.
(2) Total long-term debt includes the current portion of long-term debt.

OSB demand and product pricing were the main factors causing fluctuations in our sales and EBITDA over the past eight quarters. In the fourth quarter of 2010, sales and EBITDA were further reduced by maintenance shutdowns of three to four weeks at each of the operating mills, which reduced shipment volumes. North American OSB prices declined in the second quarter of 2011, particularly in the Western region, however demand from overseas increased in the second quarter of 2011 as a result of the earthquake and tsunami in Japan in March 2011. Since the third quarter of 2011, North American OSB prices have increased steadily, nearly doubling in the Western region. 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 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. Net income in the first quarter of 2011 was also impacted by the acquisition of the remaining 50% in the curtailed High Level OSB facility that resulted in a $72.5 million gain, net of tax.

Segmented Information

Our geographic distribution of sales was as follows:

		Q3		Q2		Q1		YTD
(in millions)								
2012								
United States	$	**82.5**	$	**65.8**	$	**61.4**	$	**209.7**
Canada		**23.4**		**12.9**		**13.4**		**49.7**
Japan		**9.2**		**10.5**		**8.6**		**28.3**
Overseas - other		**0.5**		**1.3**		**1.7**		**3.5**
	$	**115.6**	$	**90.5**	$	**85.1**	$	**291.2**
2011								
United States	$	47.0	$	45.4	$	49.4	$	141.8
Canada		12.1		11.4		9.9		33.4
Japan		11.2		22.4		9.9		43.5
Overseas - other		1.5		1.3		2.3		5.1
	$	71.8	$	80.5	$	71.5	$	223.8

Canadian sales increased in the third quarter of 2012 as a result of supply and demand conditions. Property, plant and equipment, intangible assets and other assets are located within Canada.

Risks and Uncertainties

The Company is subject to a number of risks and uncertainties, including those described in the 2011 Annual Report which can be found on SEDAR at www.sedar.com. Any of the risks and uncertainties described in the above-mentioned document could have a material adverse effect on our results and financial position and cash flows and, accordingly, should be carefully considered when evaluating the Company's results.

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

Significant Accounting Estimates and Judgments

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

Disclosure Controls and Procedures and Internal Control over Financial Reporting

The President and Chief Operating Officer and the Vice President, Finance and Chief Financial Officer, together with other members of management, have designed the Company's disclosure controls and procedures in order to provide reasonable assurance that material information relating to the Company and its consolidated subsidiaries would have been know to them, and by others, within those entities. Management has also designed internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with IFRS. There has been no material change in the design of the Company's internal control over financial reporting for the quarter ended September 30, 2012 that would materially affect, or is reasonably likely to materially affect, the Company's internal control over financial reporting and Management has determined that there were no material weaknesses in the Company's internal control over financial reporting for the period in which the interim filings are being prepared.

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

		September 30 , 2012		December 31, 2011
Selected Financial Data ($000's)				
Cash, cash equivalents and restricted cash	**$**	**50,523**	$	17,029
Short-term investments		**41,441**		45,528
Adjusted working capital (Note 1)		**120,566**		90,147
Total assets		**812,698**		786,263
Total long-term debt		**518,977**		523,166
Shareholders' equity		**211,972**		190,060

Reconciliation of Net Income (Loss) to Adjusted EBITDA

(in millions)	Q3-12	Q2-12	Q1-12	Q4-11	Q3-11	Q2-11	Q1-11	Q4-10
Net Income (loss) from Continuing Operations	**$ 32.6**	$ (11.3)	$ 0.7	$ 1.7	$ (58.9)	$ (12.9)	$ 77.7	$ 2.8
Add (deduct):								
Amortization of property, plant and equipment	**6.4**	6.1	6.2	5.9	6.1	6.3	5.6	5.2
(Gain) loss on disposal of property, plant and equipment	**(0.1)**	-	-	(0.2)	(0.5)	(0.5)	0.3	-
Write-down of property, plant and equipment	**-**	-	-	-	-	-	0.9	-
Cost of curtailed operations	**0.9**	0.7	1.1	1.0	0.9	0.9	0.5	0.4
Stock option expense (recovery)	**0.1**	-	0.2	(0.2)	0.2	0.2	0.2	0.2
Finance expense	**13.3**	13.1	13.1	13.1	12.5	11.8	12.4	12.8
Income tax expense (recovery)	**7.0**	(2.0)	(1.6)	(2.4)	(8.3)	(3.8)	(2.2)	(4.0)
Foreign exchange (gain) loss on long-term debt	**(18.4)**	10.5	(10.0)	(16.4)	42.8	(2.5)	(12.5)	(18.1)
(Gain) loss on derivative financial instrument	**(5.4)**	(0.2)	-	-	7.0	3.7	(4.5)	(0.9)
Gain on High Level acquisition	**-**	-	-	-	-	-	(72.5)	-
Other	**0.9**	0.2	0.3	0.2	(1.1)	(0.5)	0.5	(0.2)
Adjusted EBITDA (Note 2)	**$ 37.3**	$ 17.1	$ 10.0	$ 2.7	$ 0.7	$ 2.7	$ 6.4	$ (1.8)

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

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

About Ainsworth

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

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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

AINSWORTH LUMBER CO. LTD.

Condensed Interim Consolidated Statements of Financial Position

(In thousands of Canadian dollars)
(Unaudited)

	September 30 2012	December 31 2011
ASSETS		
Current Assets		
Cash and cash equivalents	$ 50,523	$ 17,029
Short-term investments	41,441	45,528
Trade and other receivables	27,943	17,802
Inventories (Note 3)	36,386	36,408
Prepaid expenses	4,586	6,553
Assets held for disposal	-	509
Total Current Assets	160,879	123,829
Property, Plant and Equipment (Note 4)	634,121	648,766
Intangible Assets	10,110	11,678
Other Assets (Note 11)	7,588	1,990
Total Assets	$ 812,698	$ 786,263
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Trade and other payables	$ 27,909	$ 21,686
Income taxes payable	1,708	1,521
Current portion of long-term debt (Note 5)	4,761	4,895
Liabilities related to discontinued operations	594	719
Total Current Liabilities	34,972	28,821
Accrued Pension Benefit Liability	13,102	13,103
Reforestation Obligation	3,664	2,936
Long-term Debt (Note 5)	514,216	518,271
Deferred Income Tax Liabilities	32,956	31,194
Liabilities Related to Discontinued Operations	1,816	1,878
Total Liabilities	600,726	596,203
SHAREHOLDERS' EQUITY		
Capital Stock	411,677	411,509
Contributed Surplus	1,553	1,484
Deficit	(201,258)	(222,933)
Total Shareholders' Equity	211,972	190,060
Total Liabilities and Shareholders' Equity	$ 812,698	$ 786,263

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

Contingencies (Note 6)

Approved by the Board on October 30, 2012:

/s/ Peter Gordon
DIRECTOR

/s/ Gordon Lancaster
DIRECTOR

AINSWORTH LUMBER CO. LTD.

Condensed Interim Consolidated Statements of Comprehensive Income

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

	Three months ended September 30		Nine months ended September 30	
	2012	2011	**2012**	2011
Sales (Note 19)	**$ 115,585**	$ 71,806	**$ 291,167**	$ 223,753
Costs and Expenses				
Costs of products sold (Note 8)	**74,326**	67,062	**215,234**	201,871
Selling and administration (Note 8)	**4,111**	4,654	**12,123**	13,293
Amortization of property, plant and equipment and intangible assets	**6,427**	6,113	**18,762**	18,097
Total Costs and Expenses	**84,864**	77,829	**246,119**	233,261
Income (Loss) from Operations	**30,721**	(6,023)	**45,048**	(9,508)
Finance Expense (Note 9)	**(13,262)**	(12,489)	**(39,472)**	(36,699)
Foreign Exchange Gain (Loss) (Note 9)	**17,525**	(41,739)	**16,493**	(27,319)
Gain (Loss) on Derivative Financial Instrument (Note 11)	**5,442**	(7,031)	**5,659**	(6,227)
Costs of Curtailed Operations (Note 12)	**(893)**	(872)	**(2,629)**	(2,261)
Gain on Acquisition of High Level (Note 13)	**-**	-	**-**	72,544
Other Items (Note 14)	**115**	900	**365**	995
Income (Loss) Before Income Taxes	**39,648**	(67,254)	**25,464**	(8,475)
Income Tax (Expense) Recovery (Note 16)	**(7,045)**	8,311	**(3,418)**	14,335
Income (Loss) from Continuing Operations	**32,603**	(58,943)	**22,046**	5,860
Net Loss from Discontinued Operations	**(19)**	(292)	**(371)**	(434)
Net Income (Loss), and Total Comprehensive Income (Loss)	**$ 32,584**	$ (59,235)	**$ 21,675**	$ 5,426
Basic and diluted net income (loss) per common share (Note 17):				
Continuing operations	**$ 0.32**	$ (0.59)	**$ 0.22**	$ 0.06
Discontinued operations	**0.00**	0.00	**0.00**	0.00
Basic and diluted net income (loss) per common share	**$ 0.32**	$ (0.59)	**$ 0.22**	$ 0.06
Weighted average number of common shares outstanding - basic	**100,831,062**	100,633,018	**100,789,763**	100,605,274
Effect of dilutive stock options on continuing operations	**68,313**	-	**560**	418,750
Weighted average number of common shares outstanding - diluted	**100,899,375**	100,633,018	**100,790,323**	101,024,024

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

AINSWORTH LUMBER CO. LTD.

Condensed Interim Consolidated Statements of Changes in Shareholders' Equity

(In thousands of Canadian dollars)
(Unaudited)

	Capital Stock	Contributed Surplus	Deficit	Total Shareholders' Equity
Balance, January 1, 2011	$ 410,950	$ 1,350	$ (226,345)	$ 185,955
Net income and total comprehensive income	-	-	5,426	5,426
Share-based payments (Note 7)	-	612	-	612
Stock options exercised (Note 7)	559	(235)	-	324
Balance, September 30, 2011	**$ 411,509**	**$ 1,727**	**$ (220,919)**	**$ 192,317**

	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	-	-	21,675	21,675
Share-based payments (Note 7)	-	136	-	136
Stock options exercised (Note 7)	168	(67)	-	101
Balance, September 30, 2012	**$ 411,677**	**$ 1,553**	**$ (201,258)**	**$ 211,972**

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

AINSWORTH LUMBER CO. LTD.

Condensed Interim Consolidated Statements of Cash Flows

(In thousands of Canadian dollars)

(Unaudited)

	Three months ended September 30		Nine months ended September 30	
	2012	2011	**2012**	2011
CASH FLOWS FROM OPERATING ACTIVITIES				
Net Income (Loss)	**$ 32,584**	$ (59,235)	**$ 21,675**	$ 5,426
Items not affecting cash				
Amortization of property, plant and equipment and intangible assets	**6,427**	6,113	**18,762**	18,097
Finance expense (Note 9)	**13,262**	12,489	**39,472**	36,699
Share-based payments (Note 7)	**125**	211	**327**	655
Foreign exchange (gain) loss on long-term debt (Note 10)	**(18,409)**	42,782	**(17,911)**	27,798
(Gain) loss on derivative financial instrument (Note 11)	**(5,442)**	7,031	**(5,659)**	6,227
(Gain) loss on disposal of property, plant and equipment (Note 14)	**(60)**	(526)	**(29)**	(258)
Write-down of property, plant and equipment	**-**	-	**-**	1,614
Change in non-current reforestation obligation	**374**	(52)	**728**	(527)
Deferred taxes	**6,844**	(10,155)	**1,965**	(16,190)
Gain on acquisition of High Level (Note 13)	**-**	-	**-**	(72,544)
Other	**252**	(587)	**466**	(101)
Cash flows from operating activities before working capital, interest and income taxes	**35,957**	(1,929)	**59,796**	6,896
Change in non-cash operating working capital (Note 18)	**(435)**	12,972	**(7,546)**	1,682
Interest paid	**(1,487)**	(1,579)	**(16,864)**	(16,574)
Income taxes paid	**-**	(82)	**(26)**	(85)
Cash provided by (used in) operating activities	**34,035**	9,382	**35,360**	(8,081)
CASH FLOWS FROM FINANCING ACTIVITIES				
Repayment of long-term debt (Note 5)	**(665)**	(16,788)	**(2,830)**	(21,803)
Issue of long-term debt (Note 5)	**-**	14,089	**-**	14,089
Exercise of stock options (Note 7)	**101**	150	**101**	324
Increase (reduction) in finance lease obligations (Note 5)	**191**	(1,041)	**(88)**	(2,260)
Cash used in financing activities	**(373)**	(3,590)	**(2,817)**	(9,650)
CASH FLOWS FROM INVESTING ACTIVITIES				
(Purchase) redemption of short-term investments	**(146)**	(170)	**4,087**	8,902
Acquisition of High Level (Note 13)	**-**	-	**-**	(20,000)
Additions to property, plant and equipment	**(849)**	(1,838)	**(2,960)**	(5,683)
Proceeds on disposal of property, plant and equipment and intangible assets	**175**	674	**205**	777
Decrease (increase) in other assets	**12**	12	**60**	(297)
Cash (used in) provided by investing activities	**(808)**	(1,322)	**1,392**	(16,301)
Effect of foreign exchange rate changes on cash and cash equivalents	**(451)**	725	**(441)**	161
NET CASH INFLOW (OUTFLOW)	**32,403**	5,195	**33,494**	(33,871)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	**18,120**	28,511	**17,029**	67,577
CASH AND CASH EQUIVALENTS, END OF PERIOD	**$ 50,523**	$ 33,706	**$ 50,523**	$ 33,706
Cash	**31,753**	23,789	**31,753**	23,789
Cash equivalents	**13,429**	5,193	**13,429**	5,193
Restricted cash	**5,341**	4,724	**5,341**	4,724
CASH AND CASH EQUIVALENTS, END OF PERIOD	**$ 50,523**	$ 33,706	**$ 50,523**	$ 33,706

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

1. CORPORATE INFORMATION

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

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

2. SIGNIFICANT ACCOUNTING POLICIES

a) *Statement of compliance*

These condensed interim consolidated financial statements have been prepared in accordance with IAS 34 – *Interim Financial Reporting*. Accordingly, certain disclosures included in the audited consolidated annual financial statements, prepared in accordance with the International Financial Reporting Standards, have been condensed or omitted. These condensed interim consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2011.

The accounting policies applied in these condensed interim consolidated financial statements are consistent with those applied and disclosed in the Company's consolidated financial statements for the year ended December 31, 2011. The Company's interim results are not necessarily indicative of its results for a full year.

These condensed interim consolidated financial statements were authorized for issuance by the Board of Directors of the Company on October 30, 2012.

b) *Basis of consolidation*

The condensed interim consolidated financial statements of the Company include the accounts of the Company and all of its wholly-owned subsidiaries, which are the entities over which the Company has control. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The Company's principal subsidiaries include Ainsworth Corp. and Ainsworth Engineered Canada Limited Partnership. Intercompany balances, 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.

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

3. INVENTORIES

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

	September 30 2012	December 31 2011
Logs	$ 8,853	$ 8,734
Panel products	10,923	10,627
Materials, supplies and spares	16,610	17,047
	$ 36,386	$ 36,408

All inventories are pledged as security for loans.

4. PROPERTY, PLANT AND EQUIPMENT

Cost	Land	Building	Machinery and Equipment (1)	Assets under Finance Lease	Other Assets (2)	Construction in Progress (3)	Total
Cost, December 31, 2011	$4,334	$223,118	$ 442,252	$ 1,818	$ 8,057	$ 55,513	$ 735,092
Additions	-	-	35	-	84	2,841	2,960
Disposals	-	(5)	(34)	-	(182)	(20)	(241)
Investment tax credits on capital expenditures	-	-	(203)	-	-	-	(203)
Transfers	-	-	2,678	333	170	(3,336)	(155)
Cost, September 30, 2012	$4,334	$223,113	$ 444,728	$ 2,151	$ 8,129	$ 54,998	$ 737,453
Accumulated Amortization							
Accumulated amortization, December 31, 2011	$ -	$ (19,493)	$ (64,389)	$ (449)	$ (1,995)	$ -	$ (86,326)
Amortization for the period	-	(5,365)	(10,751)	(465)	(500)	-	(17,081)
Disposals	-	-	8	-	67	-	75
Accumulated amortization, September 30, 2012	$ -	$ (24,858)	$ (75,132)	$ (914)	$ (2,428)	$ -	$ (103,332)
Carrying amount							
Balance, Dec. 31, 2011	$4,334	$203,625	$ 377,863	$ 1,369	$ 6,062	$ 55,513	$ 648,766
Balance, Sept. 30, 2012	4,334	198,255	369,596	1,237	5,701	54,998	634,121

(1) Certain property, plant and equipment have been secured as collateral against equipment financing of $11.7 million. In addition, there is a security charge against an OSB facility, to the maximum of U.S. $50 million.

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

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

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

5. LONG-TERM DEBT

		September 30 2012		December 31 2011
Balance, beginning of period	**$**	**523,166**	$	507,895
Repayments		**(2,918)**		(17,125)
Payment-in-kind interest (Note 9)		**15,089**		18,990
Amortization of bond discount, transaction costs and consent fees (Note 9)		**1,551**		2,053
Foreign exchange (gain) loss on long-term debt (Note 10)		**(17,911)**		11,353
Balance, end of period	**$**	**518,977**	$	523,166
Current portion		**(4,761)**		(4,895)
Long-term portion	**$**	**514,216**	$	518,271

6. CONTINGENCIES

In the normal course of its business activities, the Company is subject to claims and legal actions that may be made against its customers, suppliers and others. While the final outcome with respect to actions outstanding or pending as at September 30, 2012 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.

7. SHARE-BASED PAYMENTS

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

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

	Three months ended September 30		**Nine months ended September 30**	
	2012	2011	**2012**	2011
Weighted average assumptions:				
Risk-free interest rate	**n/a**	1.12%	**1.41%**	1.93%
Expected volatility[1]	**n/a**	54.00%	**54.00%**	50.77%
Dividend yield	**n/a**	0%	**0%**	0%
Expected option life (years)	**n/a**	4.00	**4.00**	4.00
Share price	**n/a**	1.76	**1.51**	2.96

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

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

7. SHARE-BASED PAYMENTS (Continued)

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

	Three months ended September 30					
	2012			2011		
	Number of Share Options		**Weighted Average Exercise Price**	Number of Share Options		Weighted Average Exercise Price
Outstanding at beginning of period	**1,815,342**	**$**	**2.37**	2,462,009	$	2.42
Granted during the period	**-**		**-**	200,000		1.93
Exercised during the period [(1)]	**(65,000)**		**1.56**	(166,666)		0.90
Forfeited during the period [(2)]	**(161,666)**		**2.34**	-		-
Outstanding at end of period	**1,588,676**	**$**	**2.40**	2,495,343	$	2.48
Options exercisable at end of period	**840,336**			862,009		
Weighted average fair value per option granted during the period	**$ -**			$ 0.70		

	Nine months ended September 30					
	2012			2011		
	Number of Share Options		**Weighted Average Exercise Price**	Number of Share Options		Weighted Average Exercise Price
Outstanding at beginning of period	**1,753,676**	**$**	**2.52**	1,978,676	$	2.13
Granted during the period	**300,000**		**1.55**	800,000		2.94
Exercised during the period [(1)]	**(65,000)**		**1.56**	(266,666)		1.22
Forfeited during the period [(2)]	**(400,000)**		**2.41**	(16,667)		2.30
Outstanding at end of period	**1,588,676**	**$**	**2.40**	2,495,343	$	2.48
Options exercisable at period end	**840,336**			862,009		
Weighted average fair value per option granted during the period	**$ 0.64**			$ 1.22		

(1) During the three and nine months ended September 30, 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. During the three months ended September 30, 2011, $348 was credited to capital stock with respect to stock options that were exercised. This includes $150 consideration received on exercise, plus $198 representing the vested fair value of the stock options.

During the nine months ended September 30, 2011, $559 was credited to capital stock with respect to stock options that were exercised. This includes $324 consideration received on exercise, plus $235 representing the vested fair value of the stock options.

(2) During the three months ended September 30, 2012, $9 (three months ended September 30, 2011: $nil) was reversed from contributed surplus with respect to unvested options forfeited.

During the nine months ended September 30, 2012, $135 (nine months ended September 30, 2011: $8) was reversed from contributed surplus with respect to unvested options forfeited.

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

7. SHARE-BASED PAYMENTS (Continued)

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

	Options Outstanding				Options Exercisable		
Range of Exercise Prices	Number of Options	Weighted Average Remaining Contractual Life (yrs)		Weighted Average Exercise Price	Number of Options		Weighted Average Exercise Price
$0 - 2	835,000	7.74	$	1.73	440,000	$	1.76
2.01 - 4	631,300	7.93		2.91	294,628		2.75
4.01 - 6	122,376	7.63		4.34	105,708		4.37
	1,588,676	7.81	$	2.40	840,336	$	2.43

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

	Three months ended September 30				Nine months ended September 30			
		2012		2011		**2012**		2011
Share-based compensation expense	**$**	**59**	$	192	**$**	**136**	$	612

Effective May 13, 2011, the Company implemented a Deferred Share Units ("DSU") plan for directors. Under the DSU plan, directors may elect to receive up to 100% of their fees in the form of DSUs. The number of DSUs awarded is determined by dividing the dollar portion of the fees by the weighted average price of the Company's common shares for the five business days prior to the grant date. DSUs must be retained until the director leaves the Board, at which time the cash value of the DSUs is paid out.

The initial fair value of the liability is calculated as of the grant date using the Black-Scholes option-pricing model and is recognized immediately. The liability is subsequently re-measured to fair value at each reporting period until settlement. The initial fair value of amounts granted and any subsequent changes in fair value are recorded within compensation expense in the period.

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

Weighted average assumptions:	
Risk-free interest rate	1.22%
Expected volatility	50.00%
Dividend yield	0%
Expected life (years)	4.00
Share price	2.40

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

7. SHARE-BASED PAYMENTS (Continued)

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

	Three months ended September 30					
	2012			2011		
	Number of DSUs		**Fair Value**	Number of DSUs		Fair Value
Outstanding at beginning of period	**217,969**	**$**	**171**	22,468	$	25
Granted during the period	**37,770**		**32**	36,776		37
Change in value			**34**			(20)
Outstanding at end of period	**255,739**	**$**	**237**	59,244	$	42

	Nine months ended September 30					
	2012			2011		
	Number of DSUs		**Fair Value**	Number of DSUs		Fair Value
Outstanding at beginning of period	**114,264**	**$**	**47**	-	$	-
Granted during the period	**141,475**		**92**	59,244		65
Change in value			**98**			(23)
Outstanding at end of period	**255,739**	**$**	**237**	59,244	$	42

8. EMPLOYEE BENEFITS

	Three months ended September 30				Nine months ended September 30			
		2012		2011		**2012**		2011
Short-term employee benefits	**$**	**12,853**	$	13,113	**$**	**36,907**	$	37,462
Long-term employee benefits		**2,311**		1,985		**7,758**		7,088
Share-based payments		**125**		210		**327**		655
	$	**15,289**	$	15,308	**$**	**44,992**	$	45,205

9. FINANCE EXPENSE

	Three months ended September 30				Nine months ended September 30			
		2012		2011		**2012**		2011
Cash interest	**$**	**(7,636)**	$	(7,188)	**$**	**(22,733)**	$	(20,629)
Payment-in-kind interest		**(5,076)**		(4,761)		**(15,089)**		(14,021)
Interest on finance leases		**(33)**		(68)		**(99)**		(399)
Amortization of bond premium, transaction costs and consent fees		**(517)**		(472)		**(1,551)**		(1,650)
	$	**(13,262)**	$	(12,489)	**$**	**(39,472)**	$	(36,699)

10. FOREIGN EXCHANGE GAIN (LOSS)

	Three months ended September 30				Nine months ended September 30			
		2012		2011		**2012**		2011
Foreign exchange gain (loss) on long-term debt	**$**	**18,409**	$	(42,782)	**$**	**17,911**	$	(27,798)
Other foreign exchange (loss) gain		**(884)**		1,043		**(1,418)**		479
	$	**17,525**	$	(41,739)	**$**	**16,493**	$	(27,319)

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

11. GAIN (LOSS) ON DERIVATIVE FINANCIAL INSTRUMENT

The Company has a derivative financial instrument related to the call option embedded in the Senior Unsecured Notes, whereby the Company has the right to repurchase the Notes. The derivative financial asset was recorded at fair value at issuance of the Senior Unsecured Notes and is revalued at each reporting period based on current interest rates and the credit spread. Changes in the value of this derivative financial asset are reflected in operations and within other assets on the statement of financial position. Changes in the risk-free rate, the credit spread and cash interest rate resulted gains on the derivative financial asset of $5.4 million for the three months ended September 30, 2012, and $5.7 million for the nine months ended September 30, 2012 (three months ended September 30, 2011: $7.0 million loss, and nine months ended September 30, 2011: $6.2 million loss).

12. COSTS OF CURTAILED OPERATIONS

Costs of curtailed operations primarily include costs associated with the High Level OSB facility.

13. GAIN ON ACQUISITION OF HIGH LEVEL

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

14. OTHER ITEMS

	Three months ended September 30		Nine months ended September 30	
	2012	2011	**2012**	2011
Gain on disposal of property, plant and equipment	**$ 60**	$ 519	**$ 30**	$ 764
Write-down of property, plant and equipment	**-**	-	**-**	(942)
Other income	**55**	381	**335**	1,173
	$ 115	$ 900	**$ 365**	$ 995

15. PENSION EXPENSE

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

	Three months ended September 30		Nine months ended September 30	
	2012	2011	**2012**	2011
Continuing Operations:				
Pension expense	**$ 532**	$ 324	**$ 1,573**	$ 1,057
Contributions	**713**	1,292	**2,730**	3,942
Discontinued Operations:				
Pension expense	**73**	50	**224**	172
Contributions	**183**	214	**293**	252

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

15. PENSION EXPENSE (Continued)

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

	Three months ended September 30		Nine months ended September 30	
	2012	2011	**2012**	2011
Defined contribution plan cost	**$ 85**	$ 52	**$ 215**	$ 144

16. 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.

17. EARNINGS (LOSS) PER SHARE

For the three months ended September 30, 2012, there were 1,101,676 stock options (three months ended September 30, 2011: 1,937,010) that were not taken into account in the calculation of diluted earnings (loss) per share because their effect was anti-dilutive. For the nine months ended September 30, 2012, there were 1,588,676 anti-dilutive stock options (nine months ended September 30, 2011: 1,345,349) that were not taken into account in the calculation of diluted earnings (loss) per share.

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

18. CHANGES IN NON-CASH OPERATING WORKING CAPITAL

	Three months ended September 30		Nine months ended September 30	
	2012	2011	**2012**	2011
Trade and other receivables	**$ (3,358)**	$ 3,954	**$ (9,632)**	$ (5,152)
Inventories	**625**	6,364	**58**	5,112
Income taxes payable	**205**	213	**213**	224
Prepaid expenses	**3,381**	1,582	**1,967**	1,681
Trade and other payables	**(1,288)**	859	**(152)**	(183)
	$ (435)	$ 12,972	**$ (7,546)**	$ 1,682

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

19. SEGMENTED REPORTING

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

	Three months ended September 30		Nine months ended September 30	
	2012	2011	**2012**	2011
United States	**$ 82,460**	$ 47,043	**$ 209,728**	$ 141,770
Canada	**23,374**	12,062	**49,671**	33,364
Japan	**9,211**	11,229	**28,354**	43,582
Overseas - other	**540**	1,472	**3,414**	5,037
	$ 115,585	$ 71,806	**$ 291,167**	$ 223,753

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

20. 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 September 30, 2012, the Company is in compliance with the provisions of these indentures.

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	**September 30 2012**	December 31 2011
FINANCIAL ASSETS			
Held for trading			
Cash and cash equivalents	Level 1	**$ 50,523**	$ 17,029
Short-term investments	Level 1	**41,441**	45,528
Loans and receivables			
Trade and other receivables [(1)]	n/a	**27,943**	17,802
Derivative financial asset	Level 2	**5,665**	6
		$ 125,572	$ 80,365
FINANCIAL LIABILITIES			
Other financial liabilities			
Trade and other payables [(1)]	n/a	**$ 27,909**	$ 21,686
Long-term debt, including current portion	n/a	**517,835**	521,935
		$ 545,744	$ 543,621

[(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.

20. FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (Continued)

Financial risk factors

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

Credit risk

Credit risk is the risk that a contracting entity will not complete its obligations under a financial instrument and cause a financial loss. The Company is exposed to credit risk on trade and other receivables, cash and cash equivalents and short-term investments. The Company's maximum exposure to credit risk related to trade and other receivables, cash and cash equivalents, and short-term investments is the gross carrying amount of these assets net of any allowance for doubtful accounts or impairment loss as reflected in these consolidated financial statements. At September 30, 2012, the amount of accounts receivable past due was nominal and no accounts were impaired.

Credit risk associated with short-term investments is minimized by ensuring that the Company only invests in liquid securities and with counterparties that have a high credit rating. Concentration of credit risk with respect to trade receivables is limited due to the Company's credit evaluation process and the dispersion of a large number of customers across many geographic areas as well as the use of credit insurance.

Liquidity risk

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

As global debt and equity markets can be volatile, we continue to monitor discretionary capital expenditures carefully. The Company's U.S. dollar equipment loan and the U.S. dollar Senior Secured Term Loan mature in 2014. The U.S. dollar Senior Unsecured Notes mature in 2015. Under the terms of the Company's Senior Secured Term Loan and Senior Unsecured Note indenture, the Company is permitted to borrow an additional U.S. $125 million of Senior Secured debt and U.S. $75 million of Senior Unsecured debt. The availability of this funding or of other sources of capital is dependent on capital markets at the time and may not be available on acceptable terms. We are pursuing a comprehensive refinancing plan to deleverage our capital structure. The plan involves repaying in full the Company's Senior Secured Term Loan and Senior Unsecured Notes through a combination of equity and debt. See "Note 22 – Subsequent Event" for details of the refinancing plan.

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.

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

20. FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (Continued)

	Less than 1 month	1 to 3 months	Less than 1 year	1 to 5 years	More than 5 years
Senior Unsecured Notes	$ -	$ 12,048	$ 12,349	$522,543	$ -
Senior Secured Term Loan	459	904	4,046	104,899	-
HSBC Equipment loan	254	506	2,244	8,189	-
Deutsche Bank equipment loan	-	825	821	5,652	-
Finance lease obligations	59	117	452	646	-
Operating lease obligations	71	142	640	1,492	-
Trade payable and accrued liabilities	27,473	-	1,030	-	-
Reforestation obligation	-	-	-	2,510	1,154
Purchase commitments	102	204	917	4,888	3,463
	$ 28,418	$ 14,746	$ 22,499	$650,819	$ 4,617

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 September 30, 2012, if interest rates had been 50 basis points higher/lower and all other variables were held constant, the Company's after-tax net income would decrease/increase by approximately $0.4 million on an annual basis (December 31, 2011: $0.5 million).

The Company is also exposed to interest risk on the derivative financial instrument that arises from the call option embedded in the Senior Unsecured Notes. As the risk-free interest rate and the credit spread increase, the value of the derivative financial asset decreases. Conversely, a decrease in the risk-free interest rate and the credit spread increases the value of the derivative financial asset. Changes in the value of this derivative financial asset are reflected in operations. The value of the derivative financial instrument as at September 30, 2012 was $5.7 million (December 31, 2011: $6.0) and was included in other assets. At September 30, 2012, if interest rates had been 1% higher/lower and all other variables were constant, the value of the derivative financial asset would increase by approximately $1.6 million.

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

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

At September 30, 2012, the impact on the after tax loss of a one cent weakening/strengthening of the Canadian dollar, all other variables remaining constant, on the revaluation of the Company's monetary assets and liabilities would be would have been $3.6 million higher/lower on an annual basis (December 31, 2011: $3.8 million).

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

20. FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (Continued)

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

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

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

	September 30, 2012		December 31, 2011	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Senior notes	**$ 400,638**	**$ 374,843**	$ 398,019	$ 232,170
Term loan	**100,349**	**98,331**	103,574	87,134
Equipment financing	**16,848**	**16,848**	20,342	20,342
	$ 517,835	**$ 490,022**	$ 521,935	$ 339,646

The Senior Secured Term Loan is secured by accounts receivable and inventories, with a carrying value of $61.4 million, and an additional U.S. $50 million charge on the 100 Mile House, British Columbia OSB facility in respect of the obligations owing under the Senior Secured Term Loan. Equipment financing of $11.7 million is secured by certain capital assets.

The fair value of the call option embedded in the Senior Unsecured Notes as at September 30, 2012 was $5.7 million (December 31, 2011: $6.0).

21. RELATED PARTY TRANSACTIONS

Brookfield Private Equity and Finance Ltd. ("BPEF")
The Company is controlled by BPEF, which beneficially owns or exercises control or direction over approximately 54.2% of the issued and outstanding common shares. In the normal course of operations, the Company made interest payments on its Senior Unsecured Notes to BPEF.

The Company also periodically sells goods to BPEF affiliates. During the three months ended September 30, 2012, these sales were approximately $1.0 million (three months ended September 30, 2011: $2.4 million). During the nine months ended September 30, 2012, these sales were approximately $3.4 million (nine months ended September 30, 2011: $2.4 million). At September 30, 2012, all amounts were collected in respect of sales of goods to BPEF and its affiliates.

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

21. RELATED PARTY TRANSACTIONS (Continued)

Subsidiaries

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

Compensation of the executive management team and directors

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

	Three months ended September 30		Nine months ended September 30	
	2012	2011	**2012**	2011
Short-term employee benefits	**$ 964**	$ 1,335	**$ 2,358**	$ 2,617
Long-term employee benefits	**15**	38	**70**	98
Share-based payments	**120**	229	**405**	651
	$ 1,099	$ 1,602	**$ 2,833**	$ 3,366

Other

	Three months ended September 30		Nine months ended September 30	
	2012	2011	**2012**	2011
Legal fees (1)	**$ -**	$ -	**$ 8**	$ 74
Insurance (2)	**1**	1	**134**	135
	$ 1	$ 1	**$ 142**	$ 209

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

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.

22. SUBSEQUENT EVENT

On October 22, 2012, Ainsworth announced the approval of a comprehensive refinancing plan (the "Refinancing Plan"). As part of the Refinancing Plan, the Company intends to proceed with a fully backstopped rights offering to raise gross proceeds of $175 million through the issue of common shares (the "Rights Offering") and a debt financing for gross proceeds of approximately $350 million (the "Debt Financing"). The aggregate net proceeds received by Ainsworth from the Rights Offering and the Debt Financing will be used to repay in full Ainsworth's outstanding Senior Secured Term Loan due June 2014 and 11% Senior Unsecured Notes due July 2015. The completion of the Rights Offering is conditional upon, among other things, the completion of the Debt Financing on terms and conditions satisfactory to Ainsworth.