AINSWORTH LUMBER CO. LTD.

Interim Consolidated Balance Sheets

(In thousands of Canadian dollars)
(Unaudited)

	September 30 2009	December 31 2008
ASSETS		
Current Assets		
Cash and cash equivalents	$ 166,058	$ 192,584
Short-term investments	1,563	1,586
Accounts receivable	19,625	19,916
Inventories (Note 3)	34,252	53,251
Prepaid expenses	5,549	5,681
Restricted cash	4,135	5,344
Assets held for disposal (Note 4)	3,038	5,337
	234,220	283,699
Capital Assets, Net	627,161	652,448
Other Assets	12,064	14,512
Assets Held for Disposal (Note 4)	5,622	33,019
	$ 879,067	$ 983,678
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable and accrued liabilities	$ 29,319	$ 27,539
Income taxes payable	2,336	2,764
Current portion of future income tax liabilities	2,824	8,492
Current portion of long-term debt	10,981	12,366
Liabilities related to assets held for disposal (Note 4)	1,168	8,933
	46,628	60,094
Accrued Pension Benefit Liability	4,278	4,278
Other Liabilities (Note 5)	3,000	3,512
Long-term Debt	559,582	627,115
Future Income Tax Liabilities	45,529	60,160
Liabilities Related to Assets Held for Disposal (Note 4)	2,081	2,368
	661,098	757,527
Commitments and Guarantees (Note 6)		
Contingencies (Note 7)		
SHAREHOLDERS' EQUITY		
Capital Stock	409,613	409,613
Contributed Surplus	839	-
Deficit	(190,256)	(180,984)
Accumulated Other Comprehensive Loss	(2,227)	(2,478)
	217,969	226,151
	$ 879,067	$ 983,678

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

Approved by the Board:

/s/ Jay Gurandiano
DIRECTOR

/s/ Gordon Lancaster
DIRECTOR

AINSWORTH LUMBER CO. LTD.

Interim Consolidated Statements of Operations

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

	The Company			The Predecessor	
	Three months to Sept. 30 2009	**Nine months to Sept. 30 2009**	Two months to Sept. 30 2008	One month to July 29 2008	Seven months to July 29 2008
Sales	**$ 85,333**	**$ 247,322**	$ 65,814	$ 32,146	$ 203,073
Costs and Expenses					
Costs of products sold (exclusive of amortization)	**79,511**	**235,742**	59,456	29,356	194,919
Selling and administration	**4,836**	**15,018**	3,940	1,900	14,667
Amortization of capital assets	**9,824**	**28,343**	7,138	3,729	21,973
Net gain on disposal of capital assets (Note 9)	**-**	**(899)**	(199)	(141)	(3,092)
Write-off of capital assets	**-**	**-**	-	-	837
Write-down of capital assets held for sale (Note 4)	**-**	**8,219**	-	-	-
Write-down of inventory related to assets held for sale (Note 4)	**-**	**4,262**	-	-	-
(Net proceeds) cost of claim (Note 10)	**-**	**(4,435)**	1,194	230	1,404
Cost of class action lawsuit	**-**	**-**	209	-	318
	94,171	**286,250**	71,738	35,074	231,026
Operating Loss	**(8,838)**	**(38,928)**	(5,924)	(2,928)	(27,953)
Finance Expense					
Interest	**12,847**	**40,722**	8,649	5,670	39,536
Transaction costs	**-**	**-**	-	12,285	25,363
	12,847	**40,722**	8,649	17,955	64,899
Other (Loss) Income	**(189)**	**381**	856	(960)	729
Foreign Exchange Gain (Loss) on Long-term Debt	**47,787**	**76,508**	(19,588)	(3,991)	(33,261)
Loss on Derivative Financial Instrument	**-**	**-**	(8,713)	-	-
Other Foreign Exchange (Loss) Gain	**(4,440)**	**(6,160)**	7,207	137	383
Income (Loss) Before Income Taxes	**21,473**	**(8,921)**	(34,811)	(25,697)	(125,001)
Income Tax (Recovery) Expense (Note 12)	**(104)**	**(15,251)**	(8,887)	(9,277)	2,623
Net Income (Loss) from Continuing Operations	**21,577**	**6,330**	(25,924)	(16,420)	(127,624)
Net (Loss) Income from Discontinued Operations (Note 4)	**(1,316)**	**(15,602)**	1,605	(1,995)	(13,176)
Net Income (Loss)	**$ 20,261**	**$ (9,272)**	$ (24,319)	$ (18,415)	$ (140,800)
Earnings (loss) per share (Note 13):					
Basic					
Continuing operations	**$ 0.22**	**$ 0.06**	$ (0.26)	$ (1.12)	$ (8.71)
Discontinued operations	**(0.01)**	**(0.15)**	0.02	(0.14)	(0.90)
Net Income (Loss)	**$ 0.21**	**$ (0.09)**	$ (0.24)	$ (1.26)	$ (9.61)
Diluted					
Continuing operations	**$ 0.22**	**$ 0.06**	$ (0.26)	$ (1.12)	$ (8.71)
Discontinued operations	**(0.01)**	**(0.15)**	0.02	(0.14)	(0.90)
Net Income (Loss)	**$ 0.21**	**$ (0.09)**	$ (0.24)	$ (1.26)	$ (9.61)

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

Interim Consolidated Statements of Comprehensive Income (Loss)

(In thousands of Canadian dollars)
(Unaudited)

	The Company			The Predecessor	
	Three months to Sept. 30 2009	**Nine months to Sept. 30 2009**	Two months to Sept. 30 2008	One month to July 29 2008	Seven months to July 29 2008
Net Income (Loss)	**$ 20,261**	**$ (9,272)**	$ (24,319)	$ (18,415)	$ (140,800)
Other Comprehensive Income (Loss)					
Unrealized (loss) gain on translation of self-sustaining foreign operations	**-**	**-**	(457)	425	4,717
Realized currency translation adjustment	**-**	**251**	-	-	1,465
	-	**251**	(457)	425	6,182
Comprehensive Income (Loss)	**$ 20,261**	**$ (9,021)**	$ (24,776)	$ (17,990)	$ (134,618)

Interim Consolidated Statements of Changes in Shareholders' Equity (Deficiency)

(In thousands of Canadian dollars)
(Unaudited)

	The Company			The Predecessor	
	Three months to Sept. 30 2009	**Nine months to Sept. 30 2009**	Two months to Sept. 30 2008	One month to July 29 2008	Seven months to July 29 2008
Capital Stock	**$ 409,613**	**$ 409,613**	$ 409,613	$ 55,827	$ 55,827
Contributed Surplus					
Beginning of period	**$ 711**	**$ -**	$ -	$ -	$ -
Fair value of stock options recorded in the period (Note 8)	**128**	**839**	-	-	-
	839	**839**	-	-	-
(Deficit) Retained Earnings					
Beginning of period	**(210,517)**	**(180,984)**	-	(66,155)	62,698
Transitional adjustment on adoption of new accounting policies	**-**	**-**	-	-	(6,468)
Net income (loss)	**20,261**	**(9,272)**	(24,319)	(18,415)	(140,800)
	(190,256)	**(190,256)**	(24,319)	(84,570)	(84,570)
Accumulated Other Comprehensive Loss on Translation of Self-Sustaining Foreign Operations					
Beginning of period	**(2,227)**	**(2,478)**	-	(100,029)	(105,786)
Realized currency translation adjustment	**-**	**251**	-	-	-
Net unrealized (loss) gain on translation of self-sustaining foreign operations in the period	**-**	**-**	(457)	425	6,182
	(2,227)	**(2,227)**	(457)	(99,604)	(99,604)
Total Deficit and Accumulated Other Comprehensive Loss	**(192,483)**	**(192,483)**	(24,776)	(184,174)	(184,174)
Total Shareholders' Equity (Deficiency)	**$ 217,969**	**$ 217,969**	$ 384,837	$ (128,347)	$ (128,347)

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

AINSWORTH LUMBER CO. LTD.

Interim Consolidated Statements of Cash Flows

(In thousands of Canadian dollars)
(Unaudited)

					The Company			The Predecessor		
		Three months to Sept. 30 2009		**Nine months to Sept. 30 2009**		Two months to Sept. 30 2008		One month to July 29 2008		Seven months to July 29 2008
CASH FLOWS FROM OPERATING ACTIVITIES										
Net income (loss)	**$**	**20,261**	**$**	**(9,272)**	$	(24,319)	$	(18,415)	$	(140,800)
Items not affecting cash										
Amortization of capital assets		**9,824**		**28,343**		7,522		4,317		27,152
Non-cash portion of interest expense		**4,786**		**15,086**		2,938		255		929
Non-cash stock based compensation		**128**		**839**		-		-		-
Foreign exchange (gain) loss on long-term debt		**(47,787)**		**(76,508)**		19,588		3,991		33,261
Loss on derivative financial instrument		**-**		**-**		8,713		-		-
Gain on disposal of capital assets		**(97)**		**(2,391)**		(200)		(140)		(3,264)
Write-off of capital assets		**-**		**-**		-		-		837
Adjustment to accrued pension benefit liability		**-**		**-**		(412)		-		-
Impairment of capital assets of discontinued operations		**2,494**		**16,797**		-		-		-
Write-down of capital assets held for sale		**-**		**8,219**		-		-		-
Change in non-current reforestation obligation		**44**		**(512)**		254		(141)		(405)
Future income taxes		**(2,397)**		**(20,299)**		(7,744)		(8,087)		11,146
Unrealized foreign exchange loss		**2,768**		**4,540**		-		-		-
Realized currency translation adjustment		**-**		**-**		-		-		1,465
Change in non-cash operating working capital (Note 14)		**26,811**		**15,275**		(11,489)		12,162		23,520
Cash provided by (used in) operating activities		**16,835**		**(19,883)**		(5,149)		(6,058)		(46,159)
CASH FLOWS FROM FINANCING ACTIVITIES										
Repayment of long-term debt		**(2,190)**		**(7,213)**		(1,433)		-		(5,762)
Repayment of capital lease obligations		**(89)**		**(282)**		(55)		(29)		(179)
Cash used in financing activities		**(2,279)**		**(7,495)**		(1,488)		(29)		(5,941)
CASH FLOWS FROM INVESTING ACTIVITIES										
Short-term investments		**13**		**23**		(3)		-		(51)
Restricted cash		**202**		**1,209**		(79)		(22)		107
Additions to capital assets		**(974)**		**(2,883)**		(726)		(456)		(4,530)
Decrease (increase) in other assets		**574**		**2,690**		144		489		(133)
Proceeds on disposal of capital assets		**107**		**4,639**		200		221		6,764
Settlement of warranty holdback		**-**		**-**		-		-		2,852
Cash (used in) provided by investing activities		**(78)**		**5,678**		(464)		232		5,009
Effect of foreign exchange rate changes on cash and cash equivalents		**(2,947)**		**(4,826)**		(23)		32		30
NET CASH INFLOW (OUTFLOW)		**11,531**		**(26,526)**		(7,124)		(5,823)		(47,061)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD		**154,527**		**192,584**		208,827		28,389		69,627
CASH AND CASH EQUIVALENTS, END OF PERIOD	**$**	**166,058**	**$**	**166,058**	$	201,703	$	22,566	$	22,566
SUPPLEMENTAL INFORMATION										
Taxes paid	**$**	**-**	**$**	**110**	$	2,377	$	180	$	345
Interest paid	**$**	**1,719**	**$**	**18,305**	$	1,549	$	554	$	13,406

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

1. BASIS OF PRESENTATION

Plan of Arrangement
On June 17, 2008, Ainsworth Lumber Co. Ltd. (the "Predecessor") announced a proposed recapitalization transaction (the "Plan"). Details of the Plan were provided in an information circular dated June 24, 2008 distributed to noteholders and existing shareholders. On July 24, 2008, the Plan was approved by noteholders and existing shareholders.

On July 29, 2008, the Predecessor implemented the Plan having the following key elements:

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

The Company's balance sheet as at July 29, 2008 was prepared under the provisions of the Canadian Institute of Chartered Accountants ("CICA") Handbook Section "HB") 1625, "Comprehensive Revaluation of Assets and Liabilities" ("fresh start accounting"). Under fresh start accounting, the Company was required to determine its enterprise value. The enterprise value of $410 million was determined based on the fair value of the unsecured debt (based on market trading prices) converted into equity and of the issuance of common shares and cashless warrants to the shareholders of the Predecessor.

The Predecessor's financial information has been presented to provide additional information to the reader. In reviewing the Predecessor's financial information, readers are reminded that they do not reflect the effects of the financial reorganization or the application of its accounting. Detailed information on the plan of arrangement, the impact of adjustments and fresh start accounting is available in the most recent annual audited financial statements.

2. SIGNIFICANT ACCOUNTING POLICIES

These unaudited interim consolidated financial statements do not include all disclosures normally provided in annual financial statements and accordingly, should be read in conjunction with the Company's audited financial statements for the year ended December 31, 2008. The Company's accounting policies are in accordance with Canadian generally accepted accounting principles and are consistent with those outlined in the 2008 audited financial statements. In management's opinion, these unaudited interim consolidated financial statements include all adjustments (consisting solely of normal recurring adjustments) necessary to present fairly such information. The results of operations for the interim periods are not necessarily indicative of the results to be expected in future periods.

In January 2009, the Emerging Issues Committee of the CICA issued EIC-173, "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities" which applies to interim and annual financial statements for periods ending on or after January 20, 2009. This guidance clarified that an entity's own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and financial liabilities including derivative instruments. The Company has evaluated the new EIC and determined that the adoption of these new requirements has not had an impact on the Company's interim financial statements.

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

3. INVENTORIES

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

	September 30 2009	December 31 2008
Logs	$ 9,957	$ 17,112
Panel products	7,509	14,157
Materials, supplies and consumable spares	16,786	21,982
	$ 34,252	$ 53,251

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

	The Company			The Predecessor	
	Three months to Sept. 30 2009	Nine months to Sept. 30 2009	Two months to Sept. 30 2008	One month to July 29 2008	Seven months to July 29 2008
Log inventory	$ (950)	$ (56)	$ (457)	$ 738	$ 11,927
Panel inventory	(364)	30	(512)	(199)	887

All inventories, including inventory related to discontinued operations (Note 4), are pledged as security for loans. Inventory of $1,327 related to long-lived assets held for sale (December 31, 2008: $14,972).

4. LONG-LIVED ASSETS HELD FOR DISPOSAL AND DISCONTINUED OPERATIONS

Following a strategic review of market and operational factors, in the third quarter of 2008 the Company announced the permanent closure of the OSB mill located in Grand Rapids, Minnesota, and during the fourth quarter of 2008 management committed to a plan to permanently close and dispose of all its OSB mills located in Minnesota. The financial results of these facilities have been reclassified as discontinued operations. In the first quarter of 2009, the Company recorded a $14.3 million impairment of capital assets based on updated estimates of the market exit price. At September 30, 2009, the Company recorded a further $2.5 million impairment of capital assets based on updated estimates of market exit price.

Net loss from discontinued operations for the nine months ended September 30, 2009 also includes a $1.5 million gain on disposal of the Bemidji, Minnesota OSB mill and a net gain of $1.6 million related to the settlement of a claim with respect to faulty equipment at the Grand Rapids, Minnesota OSB mill.

In the fourth quarter of 2008, the Company also commenced a process to sell its specialty plywood business. The long-lived assets of the specialty plywood segment have been classified as held for sale as at December 31, 2008 and September 30, 2009. The results of operations have been included in continuing operations. In the second quarter of 2009, the Company recorded a $4.3 million write-down of inventory and an $8.2 million write-down of capital assets based on market conditions and updated estimates of the fair value of assets held for sale.

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

4. LONG-LIVED ASSETS HELD FOR DISPOSAL AND DISCONTINUED OPERATIONS (Continued)

The following tables present selected financial information related to discontinued operations and long-lived assets held for sale:

	The Company			The Predecessor	
	Three months to Sept. 30 2009	**Nine months to Sept. 30 2009**	Two months to Sept. 30 2008	One month to July 29 2008	Seven months to July 29 2008
Sales	**$ -**	**$ 204**	$ 12,200	$ 5,145	$ 34,154
Impairment of capital assets	**(2,494)**	**(16,797)**	-	-	-
Gain on disposal of capital assets	**97**	**1,946**	-	-	-
(Loss) income before income taxes	**(1,316)**	**(15,602)**	1,605	(1,995)	(13,176)
Income tax expense	**-**	**-**	-	-	-
Net (loss) income from discontinued operations	**$ (1,316)**	**$ (15,602)**	$ 1,605	$ (1,995)	$ (13,176)

	September 30 2009	December 31 2008
ASSETS		
Current Assets of Discontinued Operations		
Accounts receivable	**$ 102**	$ 505
Inventories	**60**	1,190
Income taxes receivable	**567**	2,799
Prepaid expenses	**2,309**	843
	3,038	5,337
Capital Assets - Discontinued Operations	**1,543**	19,280
Capital Assets - Held for Sale	**4,079**	13,497
Other Assets - Discontinued Operations	**-**	242
	5,622	33,019
Total Assets Held for Disposal	**$ 8,660**	$ 38,356
LIABILITIES		
Current Liabilities of Discontinued Operations		
Accounts payable and accrued liabilities	**$ 1,168**	$ 8,933
Accrued Pension Benefit Liability	**2,081**	2,368
Total Liabilities Held for Disposal	**$ 3,249**	$ 11,301

5. OTHER LIABILITIES

	September 30 2009	December 31 2008
Reforestation obligation	**$ 2,000**	$ 2,512
Asset retirement obligation	**1,000**	1,000
	$ 3,000	$ 3,512

The Company identified an asset retirement obligation relating to future site remediation costs of a veneer facility located on leased property in Lillooet, British Columbia. This obligation will be payable at the termination of the lease in 2010.

6. COMMITMENTS AND GUARANTEES

The Company has entered into an agreement to purchase machinery, equipment, engineering and management support services totaling approximately $4.1 million (December 31, 2008: $Nil) in relation to a dryer optimization project which is expected to improve environmental compliance and reduce energy consumption.

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

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

By agreement with the co-venturer of the jointly operated High Level, Alberta OSB facility, if the co-venturer does not pay its share of accounts payable and accrued liabilities, the Company may pay such amounts and recover them from the co-venturer's share of production. The co-venturer filed for CCAA protection in Ontario on June 25, 2009. At September 30, 2009, the co-venturer had met all of its obligations to the joint venture.

7. CONTINGENCIES

In the normal course of its business activities, the Company is subject to claims and legal actions that may be made by customers, suppliers and others. While the final outcome with respect to actions outstanding or pending as at September 30, 2009 cannot be predicted with certainty, the Company believes the resolution will not have a material effect on the Company's financial position, results of operations or cash flows.

8. STOCK-BASED COMPENSATION

On May 13, 2009 the Company's shareholders approved the adoption of a stock option plan under which options to acquire a maximum of 9,000,000 common shares are issuable with terms of up to 10 years. The following options were granted subject to shareholder approval of the stock option plan:

- Effective on November 14, 2008, an aggregate of 1,002,222 options were granted to directors and the Chief Financial Officer of the Company at an exercise price of $1.74 per share and a ten year term. The options granted to the directors represent their equity-based compensation for 2008 and 2009, with 50% of the options vested in 2008 and 50% vesting in 2009.
- On January 6, 2009, an additional 250,000 options were granted to the Chief Executive Officer of the Company, representing equity-based compensation for 2009. The options, which vest over three years and expire in ten years, have an exercise price of $0.90.

Under Canadian GAAP, stock options granted under a plan that is subject to shareholder approval are not deemed to be granted until approval is obtained. Therefore, no compensation expense was recorded in 2008 or in the first quarter of 2009 in respect of stock-based compensation. The deemed grant date, which was used as the measurement date for the purpose of calculating the fair value of stock options using the Black-Scholes model, was May 13, 2009, the date shareholders approved the stock option plan.

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

8. STOCK-BASED COMPENSATION (Continued)

	The Company			The Predecessor	
	Three months to Sept. 30 2009	**Nine months to Sept. 30 2009**	Two months to Sept. 30 2008	One month to July 29 2008	Seven months to July 29 2008
Compensation expense	**$ 128**	**$ 839**	$ -	$ -	$ -
Number of stock options granted	**-**	**1,252,222**	-	-	-
Weighted average fair value per option granted	**$ -**	**$ 0.93**	$ -	$ -	$ -
Aggregate fair value of options granted	**$ -**	**$ 1,165**	$ -	$ -	$ -
Weighted average assumptions:					
Risk-free interest rate	**-**	**2.94%**	-	-	-
Expected volatility	**-**	**40%**	-	-	-
Dividend yield	**-**	**-**	-	-	-
Expected option life (years)	**-**	**9.36**	-	-	-

There were no stock options exercised during the period.

9. GAIN ON DISPOSAL OF CAPITAL ASSETS

Net gain on disposal of capital assets in the nine months ended September 30, 2009 primarily relates to the sale of a forest license and insurance claims.

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

During the first quarter of 2009, the Company recorded insurance claims receivable of $612 thousand to replace equipment damaged as a result of fire and an equipment malfunction.

10. LEGAL SETTLEMENT

During the second quarter of 2009, the Company settled a claim against Potlatch Corporation (“Potlatch”) for $6.7 million (U.S.$5.75 million) relating to the reimbursement of repair and related costs at the three Minnesota mills purchased from Potlatch in 2004. The proceeds of the settlement were received on July 2, 2009.

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

11. PENSION EXPENSE

Pension expense and contributions related to the Company's defined benefit plans was as follows:

	The Company			The Predecessor	
	Three months to Sept. 30 2009	**Nine months to Sept. 30 2009**	Two months to Sept. 30 2008	One month to July 29 2008	Seven months to July 29 2008
Continuing Operations:					
Pension expense	**$ 428**	**$ 1,284**	$ 317	$ 267	$ 1,871
Contributions	**769**	**2,718**	1,205	355	2,719
Discontinued Operations:					
Pension expense	**$ 63**	**$ 203**	$ 305	$ 285	$ 1,983
Contributions	**-**	**1,928**	1,919	-	-

Upon permanent closure of the Minnesota mills, the Company may be required to make additional pension funding contributions of up to U.S.$0.7 million, unless the related plan is otherwise terminated. The Company made a contribution of $1.9 million (U.S.$1.5 million) in March 2009, which is expected to mitigate any future funding requirements associated with the closure of the Minnesota mills.

Effective May, 26, 2009, all new employees will be enrolled into a Canadian defined contribution plan.

12. INCOME TAXES

During the three and nine month periods ended September 30, 2009, continued operational losses resulted in a future income tax recovery. Certain permanent differences, such as the non-taxable portion of the foreign exchange gain on our U.S. debt, and the expected reversal of certain future income tax assets and liabilities at lower effected tax rates also impacted the resulting income tax recovery.

13. EARNINGS (LOSS) PER SHARE

Basic earnings per share is calculated by dividing net earnings by the weighted average number of common shares outstanding during the period. Diluted earnings per share is based on the weighted average number of common shares and dilutive warrants 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.

Noteholder warrants were included in the computation of basic and diluted earnings per share because they are convertible to common shares at any time for no additional consideration. The shareholder warrants were not included in the computation of diluted loss per share because to do so would have been anti-dilutive for the periods presented.

At September 30, 2009 there were 1,022,222 (September 30, 2008: $Nil) stock options which were not taken into account in the calculation of diluted earnings per share for each period presented because their effect was anti-dilutive.

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

13. EARNINGS (LOSS) PER SHARE (Continued)

	The Company			The Predecessor	
	Three months to Sept. 30 2009	**Nine months to Sept. 30 2009**	Two months to Sept. 30 2008	One month to July 29 2008	Seven months to July 29 2008
Net income (loss) from continuing operations	$ **21,577**	$ **6,330**	$ (25,924)	$ (16,420)	$ (127,624)
Net (loss) income from discontinued operations	**(1,316)**	**(15,602)**	1,605	(1,995)	(13,176)
Net income (loss)	$ **20,261**	$ **(9,272)**	$ (24,319)	$ (18,415)	$ (140,800)
Weighted average common shares outstanding	**100,000,000**	**100,000,000**	100,000,000	14,649,140	14,649,140
Effect of dilutive stock options	**98,298**	**32,842**	-	-	-
	100,098,298	**100,032,842**	100,000,000	14,649,140	14,649,140
Basic earnings per share:					
Net income (loss) from continuing operations	$ **0.22**	$ **0.06**	$ (0.26)	$ (1.12)	$ (8.71)
Net (loss) income from discontinued operations	**(0.01)**	**(0.15)**	0.02	(0.14)	(0.90)
Net income (loss)	$ **0.21**	$ **(0.09)**	$ (0.24)	$ (1.26)	$ (9.61)
Diluted earnings per share:					
Net income (loss) from continuing operations	$ **0.22**	$ **0.06**	$ (0.26)	$ (1.12)	$ (8.71)
Net (loss) income from discontinued operations	**(0.01)**	**(0.15)**	0.02	(0.14)	(0.90)
Net income (loss)	$ **0.21**	$ **(0.09)**	$ (0.24)	$ (1.26)	$ (9.61)

14. CHANGE IN NON-CASH OPERATING WORKING CAPITAL

	The Company			The Predecessor	
	Three months to Sept. 30 2009	**Nine months to Sept. 30 2009**	Two months to Sept. 30, 2008	One month to July 29 2008	Seven months to July 29 2008
Accounts receivable	$ **7,439**	$ **694**	$ (6,252)	$ (131)	$ (9,492)
Inventories	**9,146**	**19,663**	2,918	(1,146)	3,736
Income taxes receivable/payable	**299**	**1,804**	783	2,850	(4,600)
Prepaid expenses	**1,640**	**(1,139)**	1,542	443	(391)
Accounts payable and accrued liabilities	**8,287**	**-** **(5,747)**	(10,480)	10,146	34,267
	$ **26,811**	$ **15,275**	$ (11,489)	$ 12,162	$ 23,520

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

15. SEGMENTED INFORMATION

	OSB	Plywood	Corporate	Consolidated
The Company				
Three months ended September 30, 2009				
Sales to external customers	**$ 78,767**	**$ 6,566**	**$ -**	**$ 85,333**
Operating loss	**(2,253)**	**(943)**	**(5,642)**	**(8,838)**
The Company				
Nine months ended September 30, 2009				
Sales to external customers	**$ 218,796**	**$ 28,526**	**$ -**	**$ 247,322**
Write-down of capital assets	**-**	**(8,219)**	**-**	**(8,219)**
Write-down of inventory	**-**	**(4,262)**	**-**	**(4,262)**
Net proceeds of claim	**-**	**-**	**4,435**	**4,435**
Operating loss	**(12,196)**	**(15,737)**	**(10,995)**	**(38,928)**
The Company				
Two months ended September 30, 2008				
Sales to external customers	$ 54,854	$ 10,960	$ -	$ 65,814
Operating loss	(179)	(440)	(5,305)	(5,924)
The Predecessor				
One month ended July 29, 2008				
Sales to external customers	$ 24,958	$ 7,188	$ -	$ 32,146
Operating loss	(817)	203	(2,314)	(2,928)
The Predecessor				
Seven months ended July 29, 2008				
Sales to external customers	$ 156,509	$ 46,564	$ -	$ 203,073
Operating loss	(9,031)	(1,113)	(17,809)	(27,953)

Sales from continuing operations attributed to countries based on location of customer are as follows:

		The Company		The Predecessor	
	Three months to Sept. 30 2009	**Nine months to Sept. 30 2009**	Two months to Sept. 30 2008	One month to July 29 2008	Seven months to July 29 2008
United States	**$ 61,668**	**$ 165,678**	$ 47,387	$ 22,836	$ 136,242
Canada	**13,451**	**52,412**	7,174	4,844	29,588
Overseas	**10,214**	**29,232**	11,253	4,466	37,243
	$ 85,333	**$ 247,322**	$ 65,814	$ 32,146	$ 203,073

Capital assets attributed to countries based on location, including continuing and discontinued operations and assets held for sale, are as follows:

	September 30 2009	December 31 2008
Canada	**$ 631,240**	$ 665,945
United States	**1,543**	19,280
	$ 632,783	$ 685,225

16. MANAGEMENT OF CAPITAL

The Company defines capital as working capital, long-term debt and equity, as reflected in these interim financial statements. The Company manages capital by adjusting the amount of dividends paid to shareholders, purchasing shares for cancellation pursuant to normal course 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 with the indentures' provisions, which govern capital components such as dividends, asset sales and debt incurrence.

17. FINANCIAL INSTRUMENTS AND RISKS

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

a) Financial Risks

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

Credit Risk
Credit risk is the risk that a contracting entity will not complete its obligations under a financial instrument and cause a financial loss. The Company is exposed to credit risk on accounts receivable and short-term investments. The Company's maximum exposure to credit risk related to receivables and short-term investments is the gross carrying amount of these assets net of any allowance for doubtful accounts or impairment loss as reflected in these interim financial statements. As at September 30, 2009, the amount of accounts receivable past due was nominal. Accounts receivable of $0.6 million related to a long-lived asset held for sale (December 31, 2008: $2.7 million).

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

Liquidity Risk
Liquidity risk is the risk that the Company encounters difficulty in meeting its obligations associated with financial liabilities. Liquidity risk includes the risk that, as a result of operational liquidity requirements, the Company will not have sufficient funds to settle a transaction on the due date; will be forced to sell financial assets at a value which is less than what they are worth; or may be unable to settle or recover a financial asset at all. Liquidity risk arises from accounts payable, long-term debt, commitments and financial guarantees. Under current market conditions, the Company 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. At September 30, 2009, as a result of the global economic crisis, the terms and availability of debt and equity capital continue to be materially restricted. Should such conditions continue through to maturity of our senior notes in 2015 and should the Company require debt or equity financing, debt capital may not be available on acceptable terms, which may require management to explore strategic alternatives to improve its capital structure, enhance liquidity, refinance debt, sell non-core assets and reduce costs and expenditures.

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

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

17. FINANCIAL INSTRUMENTS AND RISKS (Continued)

	Less than 1 month	1 to 3 months	4 to 12 months	1 to 5 years
Senior Unsecured Notes	$ -	$ 11,895	$ 12,196	$ 124,600
Senior Secured Term Loan	493	971	4,346	23,228
Equipment loan	806	1,605	7,130	24,417
Deutsche Bank equipment loan	-	1,085	1,079	8,379
Capital lease obligations	86	173	777	4,144
Operating lease obligations	237	418	1,149	450
Accounts payable and accrued liabilities (a)	21,573	336	2,597	-
Reforestation obligation	-	-	-	2,000
Asset retirement obligation	-	-	-	1,000
Purchase commitments	1,169	2,338	9,927	3,027
	$ 24,365	$ 18,822	$ 39,200	$ 191,245

(a) As at September 30, 2009, accounts payable and accrued liabilities of $1.2 million related to a long-lived asset held for sale (December 31, 2008: $2.5 million).

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

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

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

17. FINANCIAL INSTRUMENTS AND RISKS (Continued)

At September 30, 2009, if the Canadian dollar had weakened/strengthened one cent against the U.S. dollar with all other variables held constant, after-tax net loss for the year would have been $3.8 million higher/lower on an annual basis (December 31, 2008: $5.4 million). The decreased sensitivity of after-tax net loss to foreign currency rate changes in 2009 is due to an increase in the effective tax rate compared to December 31, 2008.

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.

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

b) Fair Values

The fair value of financial instruments, with the exception of senior notes, is estimated to approximate their carrying value at September 30, 2009 due to the immediate or short-term maturity of these financial instruments.

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

	September 30, 2009		December 31, 2008	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Senior notes	$ 404,488	$ 237,202	$ 443,370	$ 281,765
Term loan	109,894	109,894	125,012	125,012
Equipment financing	46,220	46,220	59,470	59,470
Capital leases	9,961	9,961	11,629	11,629
	$ 570,563	$ 403,277	$ 639,481	$ 477,876

The term loan is secured by accounts receivable and inventory having a carrying value of $54.0 million. In the event that the accounts receivable and inventory security for the term loan is deficient, the term loan holders have an additional security charge (the "floating deficiency charge") in an OSB facility. The maximum of the floating deficiency charge is U.S.$50 million, which is less than the carrying value of the asset. Equipment financing of U.S.$34.3 million is secured by certain capital assets.

18. SUBSEQUENT EVENT

On November 3, 2009, the Company reached an agreement to sell the Grand Rapids, Minnesota site to a third party. The Grand Rapids operation has been included in discontinued operations since August, 2008 and the sale will not have a material impact on the overall financial results of the Company.