REPORT TO SHAREHOLDERS
FOR THE THREE MONTH PERIOD ENDED
MARCH 31, 2013

LETTER TO SHAREHOLDERS

May 13, 2013

Dear Fellow Shareholders,

I am pleased to report very strong first quarter results as we benefited from the early stages of the U.S. housing market recovery and significantly stronger OSB pricing. During the first three months of the year, we generated adjusted EBITDA of $62.5 million which represented an increase of $20.5 million over the previous quarter and our best quarter in seven years. Adjusted EBITDA margins improved to an impressive 44.1% on shipment volumes of 397.0 million square feet (3/8” basis), and sales of $141.8 million.

We had a good start to the year from a production perspective at 408.1 million square feet (3/8” basis). This was a slight increase over the previous quarter and one of the best quarters for combined production from our three operating mills. Input costs did increase at all of our mills, driven by increases in resin, wax, and wood costs, however we continue to work towards mitigating these increases with ongoing optimization programs.

U.S. housing market indicators remain positive as we enter the peak building season. Foreclosures and existing home inventories are trending down against a backdrop of record low mortgage rates. Home prices and builder confidence continue to show signs of recovery. The seasonally adjusted annual rate of U.S. housing starts reported for March 2013 exceeded one million for the first time since 2008 – still well below what we believe to be normalized levels. Against this backdrop of optimism with respect to market demand, a number of OSB producers have announced plans to bring idle capacity back online.

Japan continues to be a key export market for us. During the quarter, we also introduced a new enhanced flooring product branded “Tai-Q”, derived from the Japanese characters for durability, which has been very well received by our customers. We are the principal OSB provider to the Japanese market and remain committed to growing our share of the panel market through OSB demand creation, product innovation and superior service to our customers.

During the quarter we continued our efforts in developing new products for both export and non-commodity markets. We ran several successful trials of these new products and have received favorable responses from a number of potential customers. We are very encouraged with the progress we have made and are committed to diversifying our customer base and value added product offering as part of our long term strategy.

With our strong results, we ended the quarter with further improvement in our liquidity and balance sheet. Our strong financial position provides us with the flexibility to pursue our business plan and capitalize on the ongoing market recovery through strategic investment in the business. We are progressing well in our previously announced restart of High Level and look forward to growing with our customers as well as servicing new market segments in North America and Asia. We also have the unique opportunity to complete the second line at Grande Prairie which would make it the largest OSB mill in the world and further enhance its capabilities.

As always, I value and appreciate the contribution of our employees and the support of our shareholders and customers.

Sincerely,
/s/ Jim Lake
President and Chief Executive Officer

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

This management's discussion and analysis is presented as at May 13, 2013. 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)	860
Total capacity	2,540
Current operating capacity	1,680

To meet increases in customer demand for OSB, incremental capacity will come from restarting the High Level mill. This mill has been on care and maintenance since December 2007 and has the capability of manufacturing products for Ainsworth's markets in both North America and Asia. Ainsworth has implemented plans to restart the High Level mill in the second half of 2013 in order to meet customer orders and enquiries from both North American and export markets.

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

All of our 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 625 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

U.S. housing market indicators remain positive as we enter the peak building season. Foreclosures and existing home inventories are trending down against a backdrop of record low mortgage rates. Home prices and builder confidence continue to show signs of recovery. The seasonally adjusted annual rate of U.S. housing starts reported for March 2013 exceeded one million for the first time since 2008 – still well below what we believe to be normalized levels. Against this backdrop of optimism with respect to market demand, a number of OSB producers have announced plans to bring idle capacity back online.

Summary of Operating and Financial Results from Continuing Operations

(in millions, except volume, unless otherwise noted)	Q1-13	Q4-12	Q3-12	Q2-12	Q1-12	Q4-11	Q3-11	Q2-11
Sales	**$ 141.8**	$ 117.9	$ 115.6	$ 90.5	$ 85.1	$ 69.5	$ 71.8	$ 80.5
Adjusted EBITDA (1)	**62.5**	42.0	37.0	16.9	9.6	2.5	0.5	2.5
Adjusted EBITDA margin (2)	**44.1%**	35.6%	32.0%	18.7%	11.3%	3.6%	0.7%	3.1%
Shipment volume (mmsf 3/8")	**397.0**	398.2	422.9	393.8	405.1	374.3	393.4	422.0
Production volume (mmsf 3/8")	**408.1**	406.4	419.1	398.0	400.8	368.3	394.9	388.9

(1) Adjusted EBITDA, a non-IFRS financial measure, is defined as net income (loss) from continuing operations before amortization, gain on disposal of property, plant and equipment, cost of curtailed operations, stock option expense (recovery), finance expense, foreign exchange (gain) loss on long-term debt, other foreign exchange loss (gain), interest income earned on investments, income tax (recovery) expense and non-recurring items. See the detailed calculation of adjusted EBITDA by quarter on page 13. As a result of adopting the amendment to *IAS19 – Employee Benefits* (see "Changes in Accounting Standards"), adjusted EBITDA for each quarter of 2012 has been restated to reflect the increase in pension expense. Adjusted EBITDA for all quarters presented has also been restated to exclude interest income earned on investments.

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

Review of Financial Results

(in millions)	Q1-13	Q1-12
Sales	**$ 141.8**	$ 85.1
Cost of products sold	**75.4**	71.6
Net income from continuing operations	**36.5**	0.6
Net income	**36.3**	0.5
Adjusted EBITDA	**62.5**	9.6
Adjusted EBITDA margin	**44.1%**	11.3%

The table below shows the calculation of adjusted EBITDA:

(in millions)	Q1-13	Q1-12
Net income from continuing operations	**$ 36.5**	$ 0.6
Add (deduct):		
Amortization of property, plant and equipment	**6.4**	6.2
Cost of curtailed operations	**1.6**	1.1
Stock-based compensation expense	**0.1**	0.2
Finance expense	**6.9**	13.1
Income tax expense (recovery)	**13.5**	(1.7)
Foreign exchange loss (gain) on long-term debt	**7.6**	(10.0)
Gain on derivative financial instrument	**(8.1)**	-
Other	**(2.0)**	0.1
Adjusted EBITDA	**$ 62.5**	$ 9.6

Net income from continuing operations in the first quarter of 2013 was $36.5 million compared to $0.6 million in the first quarter of 2012. The $35.9 million increase in net income included a $52.9 million increase in gross profit (sales less cost of products sold (exclusive of amortization)), an $8.1 million gain on derivative financial instrument, a $6.2 million reduction in finance expense, and a $2.0 million change in foreign exchange gain. The increases were partially offset by a $17.5 million variation in foreign exchange gain/loss on long-term debt related to a weakening of the Canadian dollar (relative to the U.S. dollar) in the first quarter of 2013, a $15.2 million variation in income tax expense/recovery, and a $0.5 million increase in cost of curtailed operations.

Adjusted EBITDA

In the first quarter of 2013, adjusted EBITDA was $62.5 million compared to $9.6 million in the first quarter of 2012. Adjusted EBITDA margin on sales was 44.1% compared to 11.3% in the same period of 2012. The increase reflected the $52.9 million increase in gross profit.

Sales

Sales of $141.8 million in the first quarter of 2013 were $56.7 million higher than sales of $85.1 million for the same period in 2012. The increase in sales was mainly due to a 70% increase in realized pricing. During the first quarter of 2013, the average benchmark price for the North Central region was U.S.$417 per msf (7/16-inch basis), an increase of U.S.$214 per msf (7/16-inch basis) compared to the same period in 2012. The average benchmark price for the Western Canada region increased by U.S.$218 per msf (7/16-inch basis) in the first quarter of 2013 compared to the same period in 2012. The full benefit of the strong OSB market was partially offset by limited railcar availability, largely weather-related, which resulted in sales volumes decreasing by 2% in the first quarter of 2013 compared to the same period in 2012.

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	Q1-13	Q4-12	Q3-12	Q2-12	Q1-12	Q4-11	Q3-11	Q2-11
North Central (7/16" basis)	**$ 417**	$ 332	$ 313	$ 235	$ 203	$ 190	$ 184	$ 174
Western Canada (7/16" basis)	**419**	331	310	232	201	149	137	151

Costs of Products Sold (Exclusive of Amortization)

In the first quarter of 2013, cost of products sold was $75.4 million, a $3.8 million increase over the same period in 2012. The increase in cost of products sold was partially attributable to increases in resin, wax and wood pricing, as well as maintenance projects undertaken at our 100 Mile House and Grande Prairie facilities during the first quarter of 2013.

Selling and Administration

Selling and administration expense for both the first quarter of 2013 and first quarter of 2012 was $4.1 million.

Amortization of Property, Plant and Equipment and Intangible Assets

Amortization expense of $6.4 million in the first quarter of 2013 was not significantly different than $6.3 million in the first quarter of 2012.

Costs of Curtailed Operations

Costs of curtailed operations are comprised of costs directly attributable to our High Level, Alberta mill. The $0.5 million increase from the first quarter of 2012 compared to the first quarter of 2013 reflects increased activities associated with the Company's plan to restart operations in 2013.

Finance Expense

Finance expense decreased significantly from $13.1 million in the first quarter of 2012, to $6.9 million in the first quarter of 2013. This reduction was due to a lower principal balance and interest rate on long-term debt following the refinancing transactions that closed in the fourth quarter of 2012. The reduction was partially offset by the foreign exchange effect of a weaker Canadian dollar, on average, relative to the U.S. dollar.

Foreign Exchange (Loss) Gain on Long-Term Debt

The unrealized foreign exchange loss on long-term debt in the first quarter of 2013 was $7.6 million compared to a gain of $10.0 million in the first quarter of 2012. The majority of our debt is denominated in U.S. currency and is therefore subject to fluctuations in the exchange rate. A strengthening of the Canadian dollar, relative to the U.S. dollar, results in a foreign exchange gain, whereas a weakening of the Canadian dollar, relative to the U.S. dollar, results in a foreign exchange loss.

Management estimates that a one cent change of the Canadian dollar results in an after tax increase/decrease in foreign exchange loss/gain on our U.S. dollar debt of $2.8 million on an annual basis.

Gain on Derivative Financial Instrument

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

The derivative financial asset embedded in the Senior Secured Notes was revalued at March 31, 2013, resulting in a gain of $8.1 million in the first quarter of 2013. There was no change in the value of the derivative financial asset embedded in the Senior Unsecured Notes in the first quarter of 2012.

Other Items

Other items were $358 thousand in the first quarter of 2013, not significantly different than $180 thousand in the first quarter of 2012. Other items are comprised of other income and gains on disposal of property, plant and equipment.

Income Taxes

Income tax expense in the first quarter of 2013 was $13.5 million on income before income taxes of $50.0 million compared with an income tax recovery of $1.7 million on a loss before income taxes of $1.1 million in the first quarter of 2012. The majority of the income tax expense was related to temporary differences that increased the deferred income tax liability on the statement of financial position. Certain permanent differences, such as the non-taxable portion of the foreign exchange loss on our debt and expenses not deductible for tax purposes, impacted the resulting income tax expense.

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

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

Net Loss from Discontinued Operations

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

Capital Resources and Liquidity

As of March 31, 2013, our adjusted working capital was $190.6 million, compared to $136.6 million as at December 31, 2012. 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:

		March 31 2013		December 31 2012
(in millions)				
Current assets	**$**	**241.2**	$	181.4
Restricted cash not related to current liabilities		**(4.4)**		(5.6)
Current liabilities		**(46.2)**		(39.2)
Adjusted working capital	**$**	**190.6**	$	136.6
Adjusted working capital, discontinued operations		**(0.4)**		(0.5)
Adjusted working capital, continuing operations	**$**	**191.0**	$	137.1

Our working capital requirements in the short term are to fund any potential future shortfalls from operations, interest payments, debt principal repayments and essential capital expenditures.

At March 31, 2013, Ainsworth's available liquidity, consisting of cash and cash equivalents, was $141.2 million, an improvement of $34.4 million since December 31, 2012 resulting from our stronger operating results. Ainsworth is also permitted under the terms of the Senior Secured Notes to borrow at least an additional U.S.$170 million of senior secured and unsecured debt subject to the limitations set forth in the indenture.

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

(in millions)	Q1-13	Q1-12
Cash provided by operating activities before interest and working capital	**$ 60.9**	$ 9.2
Cash used for interest payments	**(0.1)**	(1.8)
Cash used in working capital	**(25.5)**	(14.5)
Cash provided by (used in) operating activities	**35.3**	(7.1)
Cash used in financing activities	**(0.8)**	(0.8)
Cash used in investing activities	**(1.4)**	(0.7)

In the first quarter of 2013 we had a cash inflow of $60.9 million from operating activities before interest paid and working capital requirements compared to $9.2 million in the first quarter of 2012. Increases in pricing and margins resulted in higher cash generated by operations quarter over quarter, offset partially by a reduction in volume. Cash used for interest payments decreased significantly in the first quarter of 2013 compared to the same period in 2012 as a result of the comprehensive refinancing in the fourth quarter of 2012 that reduced borrowing costs and our debt levels. The increase in cash used in working capital in the first quarter of 2013 compared to the same period in 2012 is due to higher log inventory volumes, combined with an increase in finished goods inventory resulting from the previously noted railcar availability issues.

Cash used in financing activities for all periods presented includes repayment of equipment financing loans and capital lease obligations. Our debt principal repayments are scheduled to total $5.3 million for the remaining nine months of 2013.

Cash used by investing activities increased in the first quarter of 2013 compared with the same period in 2012, due to an increase in capital spending, partially offset by $1.0 million of proceeds received on the sale of non-core property located in Savona, British Columbia, and a net $1.2 million reduction in restricted cash primarily attributable to the release of certain letters of credit.

Capital spending of $3.6 million in the first quarter of 2013, included expenditures associated with the planned restart of our High Level mill, as well as maintenance capital at our operating mills.

Outstanding Share Data

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

	Shares	Warrants	Value (in millions)
Common shares	**240,836,888**	**-**	**$ 583**
Shareholder warrants	**-**	**8,695,634**	**-**
	240,836,888	**8,695,634**	**$ 583**

The Company issued 8,695,634 warrants on July 28, 2008. Upon exercise, the warrants will be converted into common shares without additional consideration. For accounting purposes, nominal value has been allocated to these warrants as the fair value is not readily determinable due to their contingent nature.

The number of shares that may be issued to warrant holders is dependent on the market price of the Company's common shares. If the Company's common share price exceeds a barrier price of U.S. $7.89 per share (2011: $12.00 per share) on or before July 29, 2013, each warrant will be converted into 1.52 (2011: 1.0) common shares. If the Company's common share price does not exceed the barrier price on or before July 29, 2013, each warrant will be converted into 0.0035 (2011: 0.0023) common shares.

Outstanding Stock Options

The following table presents the exercise prices and expiry dates for the 2,085,676 stock options outstanding at March 31, 2013:

Grant Date	Number of Options Outstanding	Exercise Price	Expiry Date
November 14, 2008 (1)	400,000	1.16	November 14, 2018
March 5, 2010	200,000	1.53	March 5, 2020
March 15, 2010	25,000	1.63	March 15, 2020
May 13, 2010	72,376	2.99	May 13, 2020
May 21, 2010	50,000	2.76	May 21, 2020
June 14, 2010	100,000	2.19	June 14, 2020
August 5, 2010	6,300	1.93	August 5, 2020
August 13, 2010	25,000	1.81	August 13, 2020
March 4, 2011	275,000	2.19	March 4, 2021
September 9, 2011	200,000	1.29	September 9, 2021
March 9, 2012	100,000	1.03	March 9, 2022
March 13, 2012	132,000	1.03	March 13, 2022
March 15, 2013	500,000	3.73	March 15, 2023

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

Financial Instruments

Ainsworth does not use derivatives or participate in hedging activities. However, our Senior Secured Notes include call options which have been identified as embedded derivatives whereby we have the right to repurchase the Notes. A derivative financial asset was recorded at fair value at issuance of the Senior Secured 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 $3.2 million. At March 31, 2013, the derivative financial asset had a value of $21.5 million (December 31, 2012: $13.4 million).

Off-Balance Sheet Arrangements

The Company does not have any significant off-balance sheet arrangements other than letters of credit in the amount of $4.4 million ($5.6 million at December 31, 2012), for which restricted cash is held as collateral. Further, there are no off-balance sheet arrangements that have, or are reasonably likely to have, a current or future material effect on the Company's financial condition, results of operations, liquidity, capital expenditures or resources.

Related Party Transactions

The Company is controlled by Brookfield Capital Partners Ltd. ("BCP"), which beneficially owns or exercises control or direction over approximately 54.5% of the issued and outstanding common shares.

The Company also periodically sells goods to BCP affiliates. During the three months ended March 31, 2013, these sales were approximately $2.3 million (three months ended March 31, 2012: $1.3 million).

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

(in thousands)		Q1-13		Q1-12
Legal fees (1)	**$**	**135**	$	8
Other services (2)		**83**		-
Key management compensation (3)		**688**		845

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

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

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

Sales to overseas markets are handled by Interex Forest Products Ltd. ("Interex"), a cooperative sales company over which Ainsworth, as a shareholder, has significant influence. At March 31, 2013, $3.5 million was included in trade receivables with respect to Interex (December 31, 2012: $2.8 million).

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

Selected Annual and Quarterly Financial Information

(in millions, except per share data, unless otherwise noted)	Q1-13	Q4-12	Q3-12	Q2-12	Q1-12	Q4-11	Q3-11	Q2-11
Sales and earnings (loss)								
Sales	**$ 141.8**	$ 117.9	$ 115.6	$ 90.5	$ 85.1	$ 69.5	$ 71.8	$ 80.5
Operating income (loss)	**54.4**	33.6	29.7	10.2	2.1	(3.3)	(6.0)	(3.8)
Foreign exchange (loss) gain on long-term debt	**(7.6)**	(7.6)	18.4	(10.5)	10.0	16.4	(42.8)	2.5
Net income (loss) from continuing operations	**36.5**	6.7	32.5	(11.3)	0.6	1.7	(58.9)	(12.9)
Net (loss) income from discontinued operations	**(0.2)**	-	-	(0.2)	(0.1)	1.1	(0.3)	(0.1)
Net income (loss)	**36.3**	6.7	32.5	(11.5)	0.5	2.8	(59.2)	(13.0)
Adjusted EBITDA (3)	**62.5**	42.0	37.0	16.9	9.6	2.5	0.5	2.5
Basic and diluted earnings (loss) per common share								
Net income (loss) continuing operations (1)	**0.15**	0.06	0.32	(0.11)	0.01	0.02	(0.59)	(0.13)
Net income (loss) (1)	**0.15**	0.06	0.32	(0.11)	-	0.03	(0.59)	(0.13)
Balance sheet								
Total assets	**898.8**	835.2	812.7	781.1	790.1	786.3	809.9	833.4
Total long-term debt (2)	**368.3**	361.4	519.0	532.3	517.9	523.2	535.8	497.1

(1) Basic and diluted net income (loss) per share. As at March 31, 2013, the Company had 240,836,888 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.

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

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

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

Segmented Information

Our geographic distribution of sales was as follows:

	Three months ended March 31	
	2013	2012
(in millions)		
United States	**$ 109.5**	$ 61.4
Canada	**20.8**	13.4
Japan	**11.1**	8.6
Overseas - other	**0.4**	1.7
	$ 141.8	$ 85.1

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 2012 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.

Changes in Accounting Standards

Effective January 1, 2013, the Company has adopted the following new and amended accounting standards. The changes in accounting standards have been made in accordance with their transitional provisions.

(a) *Consolidation*
IFRS 10 – Consolidated Financial Statements
IFRS 11 – Joint Ventures
IFRS 12 – Disclosures of Involvement with Other Entities

These standards provide guidance in identifying which entities should be consolidated, including accounting for joint arrangements. They also provide enhanced disclosures for consolidated entities, joint arrangements, associates and unconsolidated structured entities. The standards were applied by the Company effective January 1, 2013 and did not have any effect on its financial statements.

(b) *IFRS 13 – Fair Value Measurements and Disclosure*

This standard defines fair value, provides a framework for measuring fair value and requires disclosures about fair value measurements. This standard was applied prospectively by the Company, effective January 1, 2013, and resulted in additional disclosure of fair value measurement for financial instruments. There was no effect on the Company's financial position.

(c) *Amended IAS 19 Employee Benefits ("IAS19")*

The Company adopted IAS19 effective January 1, 2013, with retrospective application. The amended standard eliminated the option to defer gains and losses related to defined benefit plans, requiring immediate inclusion in other comprehensive income ("OCI") in the period that they occur. This did not affect the Company since the election was made upon adoption of IFRS to recognize the gains and losses in OCI and report them in retained earnings (deficit).

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

Significant Accounting Estimates and Judgments

Management has made certain estimates and judgments that affect the reported amounts and other disclosures in our financial statements. These estimates and judgments are described in our 2012 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 Executive 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 known 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 the 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 March 31, 2013 that would materially affect, or is reasonably like 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 produce reasonable, not absolute, assurance that the objectives of the control system are met.

AINSWORTH LUMBER CO. LTD.
Other Information

Selected Financial Data ($000's)	March 31, 2013	December 31, 2012
Cash, cash equivalents	**$ 141,180**	$ 106,777
Restricted cash	**4,371**	5,560
Adjusted working capital (Note 1)	**190,665**	136,651
Total assets	**898,778**	835,183
Total long-term debt	**368,295**	361,436
Shareholders' equity	**421,469**	385,274

Reconciliation of Net Income (Loss) to Adjusted EBITDA

(in millions)	Q1-13	Q4-12	Q3-12	Q2-12	Q1-12	Q4-11	Q3-11	Q2-11
Net Income (loss) from Continuing Operations	**$ 36.5**	$ 6.7	$ 32.5	$ (11.4)	$ 0.6	$ 1.7	$ (58.9)	$ (12.9)
Add (deduct):								
Amortization of property, plant and equipment	**6.4**	6.9	6.4	6.1	6.2	5.9	6.1	6.3
Loss (gain) on disposal of property, plant and equipment	**-**	0.2	(0.1)	-	-	(0.2)	(0.5)	(0.5)
Write-down of property, plant and equipment, intangibles and other	**-**	1.5	-	-	-	-	-	-
Cost of curtailed operations	**1.6**	1.1	0.9	0.7	1.1	1.0	0.9	0.9
Stock-based compensation expense (recovery)	**0.1**	0.5	0.1	-	0.2	(0.2)	0.2	0.2
Finance expense	**6.9**	11.3	13.3	13.1	13.1	13.1	12.5	11.8
Loss on early repayment of long-term debt	**-**	22.9	-	-	-	-	-	-
Income tax expense (recovery)	**13.5**	2.5	7.0	(2.0)	(1.7)	(2.4)	(8.3)	(3.8)
Foreign exchange loss (gain) on long-term debt	**7.6**	7.6	(18.4)	10.5	(10.0)	(16.4)	42.8	(2.5)
(Gain) loss on derivative financial instrument	**(8.1)**	(18.3)	(5.4)	(0.2)	-	-	7.0	3.7
Other	**(2.0)**	(0.9)	0.7	0.1	0.1	-	(1.3)	(0.7)
Adjusted EBITDA (Note 2)	**$ 62.5**	$ 42.0	$ 37.0	$ 16.9	$ 9.6	$ 2.5	$ 0.5	$ 2.5

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 (exclusive of interest income). As a result of adopting IAS19R, adjusted EBITDA for each quarter of 2012 has been restated to reflect the increase in pension expense that is included in cost of products sold, and selling and administrative expense. Adjusted EBITDA for all quarters presented has also been restated to exclude interest income earned on investments.

About Ainsworth

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

Ainsworth Lumber Co. Ltd.
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E-mail: Rick.Eng@ainsworth.ca

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

Visit our web-site: www.ainsworthengineered.com

AINSWORTH LUMBER CO. LTD.

Condensed Interim Consolidated Statements of Financial Position

(In thousands of Canadian dollars)
(Unaudited)

	March 31 2013	December 31 2012
ASSETS		
Current Assets		
Cash and cash equivalents	**$ 141,180**	$ 106,777
Restricted cash	**4,371**	5,560
Trade and other receivables	**32,029**	25,608
Inventories (Note 4)	**59,466**	38,140
Prepaid expenses	**4,163**	5,312
Total Current Assets	**241,209**	181,397
Property, Plant and Equipment (Note 5)	**625,493**	628,694
Intangible Assets	**8,850**	9,905
Other Assets	**23,226**	15,187
Total Assets	**$ 898,778**	$ 835,183
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Trade and other payables	**$ 37,438**	$ 30,257
Income taxes payable	**1,947**	2,140
Current portion of long-term debt (Note 6)	**6,348**	6,313
Liabilities related to discontinued operations	**440**	476
Total Current Liabilities	**46,173**	39,186
Accrued Pension Benefit Liability	**17,006**	17,006
Reforestation Obligation	**4,153**	3,781
Long-term Debt (Note 6)	**361,947**	355,123
Deferred Income Tax Liabilities	**45,508**	32,344
Liabilities Related to Discontinued Operations	**2,522**	2,469
Total Liabilities	**477,309**	449,909
SHAREHOLDERS' EQUITY		
Capital Stock	**582,631**	582,626
Contributed Surplus	**1,702**	1,808
Deficit	**(162,864)**	(199,160)
Total Shareholders' Equity	**421,469**	385,274
Total Liabilities and Shareholders' Equity	**$ 898,778**	$ 835,183

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

Commitments (Note 7)
Contingencies (Note 8)

Approved by the Board on May 13, 2013

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

Condensed Interim Consolidated Statements of Income and Comprehensive Income

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

	Three months ended March 31	
	2013	2012 Note 3
Sales (Note 20)	**$ 141,844**	$ 85,113
Costs and Expenses		
Costs of products sold (Note 10)	**75,365**	71,580
Selling and administration (Note 10)	**4,130**	4,075
Amortization of property, plant and equipment and intangible assets	**6,393**	6,250
Costs of curtailed operations (Note 14)	**1,592**	1,079
Total Costs and Expenses	**87,480**	82,984
Income from Operations	**54,364**	2,129
Finance Expense (Note 11)	**(6,901)**	(13,070)
Foreign Exchange (Loss) Gain (Note 12)	**(5,921)**	9,650
Gain on Derivative Financial Instrument (Note 13)	**8,077**	-
Other Items (Note 15)	**358**	180
Income (Loss) Before Income Taxes	**49,977**	(1,111)
Income Tax (Expense) Recovery (Note 17)	**(13,489)**	1,679
Income from Continuing Operations	**36,488**	568
Net Loss from Discontinued Operations	**(192)**	(61)
Net Income	**$ 36,296**	$ 507
Other Comprehensive Income		
Actuarial gains, net of tax	**-**	80
Total Comprehensive Income	**$ 36,296**	$ 587
Basic and diluted net income per common share (Note 18)		
Continuing operations	**$ 0.15**	$ 0.01
Discontinued operations	**0.00**	0.00
Basic and diluted net income per common share	**$ 0.15**	$ 0.01
Weighted average number of common shares outstanding - basic	**240,834,188**	100,768,888
Effect of dilutive stock options on continuing operations	**723,612**	-
Weighted average number of common shares outstanding - diluted	**241,557,800**	100,768,888

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

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, 2012	$ 411,509	$ 1,484	$ (222,933)	$ 190,060
Net income and total comprehensive income	-	-	587	587
Share-based payments (Note 9)	-	104	-	104
Stock options exercised (Note 9)	-	-	-	-
Balance, March 31, 2012	**$ 411,509**	**$ 1,588**	**$ (222,346)**	**$ 190,751**

	Capital Stock	Contributed Surplus	Deficit	Total Shareholders' Equity
Balance, January 1, 2013	$ 582,626	$ 1,808	$ (199,160)	$ 385,274
Net income and total comprehensive income	-	-	36,296	36,296
Share-based payments (Note 9)	-	(104)	-	(104)
Stock options exercised (Note 9)	5	(2)	-	3
Balance, March 31, 2013	**$ 582,631**	**$ 1,702**	**$ (162,864)**	**$ 421,469**

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 March 31 2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	**$ 36,296**	$ 507
Items not affecting cash		
Amortization of property, plant and equipment and intangible assets	**6,393**	6,250
Finance expense (Note 11)	**6,901**	13,070
Share-based payments (Note 9)	**119**	155
Foreign exchange loss (gain) on long-term debt (Note 12)	**7,565**	(9,972)
Gain on derivative financial instrument (Note 13)	**(8,077)**	-
Gain on disposal of property, plant and equipment (Note 15)	**(6)**	-
Change in non-current reforestation obligation	**372**	784
Deferred taxes	**13,164**	(1,637)
Other	**(1,300)**	103
Cash flows from operating activities before working capital, interest and income taxes	**61,427**	9,260
Change in non-cash operating working capital (Note 19)	**(25,518)**	(14,468)
Interest paid	**(118)**	(1,824)
Income taxes paid	**(518)**	(26)
Cash provided by (used in) operating activities	**35,273**	(7,058)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of long-term debt (Note 6)	**(683)**	(670)
Proceeds from issue of shares	**3**	-
Increase (reduction) in finance lease obligations (Note 6)	**(140)**	(128)
Cash used in financing activities	**(820)**	(798)
CASH FLOWS FROM INVESTING ACTIVITIES		
Decrease (increase) in restricted cash	**1,189**	(139)
Additions to property, plant and equipment and intangible assets (Note 5)	**(3,636)**	(544)
Proceeds on disposal of property, plant and equipment and intangible assets	**1,006**	-
Increase in other assets	**38**	7
Cash used in investing activities	**(1,403)**	(676)
Effect of foreign exchange rate changes on cash and cash equivalents	**1,353**	(59)
NET CASH INFLOW (OUTFLOW)	**34,403**	(8,591)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	**106,777**	57,696
CASH AND CASH EQUIVALENTS, END OF PERIOD	**$ 141,180**	$ 49,105
Cash	**20,036**	7,894
Cash equivalents	**121,144**	41,211
CASH AND CASH EQUIVALENTS, END OF PERIOD	**$ 141,180**	$ 49,105

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; however, the Company has implemented plans to resume production at the High Level mill in 2013. The Company's registered address is 1055 Dunsmuir Street, Suite 3194, Bentall 4, P.O. Box 49307, Vancouver, British Columbia, Canada, V7X 1L3.

Ainsworth Lumber Co. Ltd. is a publicly listed company incorporated under the laws of 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 ("IFRS"), 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, 2012.

The accounting policies applied in these condensed interim consolidated financial statements are consistent with those applied and disclosed in the Company's audited consolidated financial statements for the year ended December 31, 2012. 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 May 13, 2013.

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.

3. CHANGES IN ACCOUNTING STANDARDS

Effective January 1, 2013, the Company has adopted the following new and amended accounting standards. The changes in accounting standards have been made in accordance with their transitional provisions.

(d) Consolidation
IFRS 10 – Consolidated Financial Statements
IFRS 11 – Joint Ventures
IFRS 12 – Disclosures of Involvement with Other Entities

(Figures are in thousands of Canadian dollars except share and per share amounts - Unaudited)

3. CHANGES IN ACCOUNTING STANDARDS (Continued)

These standards provide guidance in identifying which entities should be consolidated, including accounting for joint arrangements. They also provide enhanced disclosures for consolidated entities, joint arrangements, associates and unconsolidated structured entities. The standards were applied by the Company effective January 1, 2013 and did not have any effect on its financial statements.

(e) IFRS 13 – Fair Value Measurements and Disclosure

This standard defines fair value, provides a framework for measuring fair value and requires disclosures about fair value measurements. This standard was applied prospectively by the Company, effective January 1, 2013, and resulted in additional disclosure of fair value measurement for financial instruments. There was no effect on the Company's financial position.

(f) Amended IAS 19 Employee Benefits ("IAS19")

The Company adopted IAS19 effective January 1, 2013, with retrospective application. The amended standard eliminated the option to defer gains and losses related to defined benefit plans, requiring immediate inclusion in other comprehensive income ("OCI") in the period that they occur. This did not affect the Company since the election was made upon adoption of IFRS to recognize the gains and losses in OCI and report them in retained earnings (deficit).

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

4. INVENTORIES

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

		March 31 2013		December 31 2012
Logs	**$**	**27,439**	$	8,739
Panel products		**15,013**		12,502
Materials, supplies and spares		**17,014**		16,899
	$	**59,466**	$	38,140

All inventories are pledged as security for the Senior Secured Notes.

During the first quarter of 2013, $59.7 million (first quarter of 2012: $55.8 million) was charged to cost of products sold.

(Figures are in thousands of Canadian dollars except share and per share amounts - Unaudited)

5. PROPERTY, PLANT AND EQUIPMENT

Cost	Land	Building	Machinery and Equipment	Assets under Finance Lease	Other Assets (1)	Construction in Progress (2)	Total (3)
Cost, December 31, 2012	$3,135	$223,113	$ 445,781	$ 2,151	$ 8,280	$ 55,311	$ 737,771
Additions	-	10	84	-	132	3,410	3,636
Disposals (4)	(1,000)	-	-	-	-	-	(1,000)
Transfers	-	-	586	-	-	(586)	-
Cost, March 31, 2013	$2,135	$223,123	$ 446,451	$ 2,151	$ 8,412	$ 58,135	$ 740,407
Accumulated Amortization							
Accumulated amortization, December 31, 2012	$ -	$ (26,662)	$ (78,750)	$ (1,074)	$ (2,591)	$ -	$ (109,077)
Amortization for the period	-	(1,805)	(3,663)	(157)	(212)	-	(5,837)
Accumulated amortization, March 31, 2012	$ -	$ (28,467)	$ (82,413)	$ (1,231)	$ (2,803)	$ -	$ (114,914)
Carrying amount							
Balance, Dec. 31, 2012	$3,135	$196,451	$ 367,031	$ 1,077	$ 5,689	$ 55,311	$ 628,694
Balance, Mar. 31, 2013	2,135	194,656	364,038	920	5,609	58,135	625,493

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

(2) No interest has been capitalized in construction in progress for the periods presented as construction has been put on hold pending continued improvement in market conditions. Included in construction in progress is $52,101 related to our second production line at Grande Prairie, which is currently curtailed.

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

(4) During the quarter, the Company sold certain non-core property located in Savona, British Columbia for cash consideration approximating the carrying value.

6. LONG-TERM DEBT

	March 31 2013	December 31 2012
Balance, beginning of period	**$ 361,436**	$ 523,166
Issuance	**-**	348,145
Repayments	**(823)**	(523,121)
Payment-in-kind interest (Note 11)	**-**	18,510
Amortization of bond premium, transaction costs and consent fees (Note 11)	**117**	1,918
Cost of early repayment of long-term debt	**-**	5,519
Bond premium, transaction costs and underwriting fees on Senior Secured Notes	**-**	(2,432)
Unrealized foreign exchange loss (gain) on long-term debt (Note 12)	**7,565**	(10,269)
Balance, end of period	**$ 368,295**	$ 361,436
Current portion	**(6,348)**	(6,313)
Long-term portion	**$ 361,947**	$ 355,123

(Figures are in thousands of Canadian dollars except share and per share amounts - Unaudited)

7. COMMITMENTS

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

8. 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 March 31, 2013 cannot be predicted with certainty, the Company believes the resolution will not have a material effect on the Company's financial position, financial performance, or cash flows.

9. 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.

Effective December 27, 2012, the Company reduced the exercise price of all options that were outstanding prior to the rights offering, to reflect the dilutive effect of the 140 million common shares that were issued in connection with the rights offering.

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

	Three months ended March 31	
	2013	2012
Risk-free interest rate	**1.26%**	1.41%
Expected volatility[1]	**50.00%**	54.00%
Dividend yield	**0%**	0%
Expected option life (years)	**4.00**	4.00
Share price	**$4.17**	$1.51

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

(Figures are in thousands of Canadian dollars except share and per share amounts - Unaudited)

9. SHARE-BASED PAYMENTS (Continued)

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

	March 31, 2013			March 31, 2012		
	Number of Share Options		**Weighted Average Exercise Price**	Number of Share Options		Weighted Average Exercise Price
Outstanding at beginning of period	**1,588,676**	**$**	**1.60**	1,753,676	$	2.52
Granted during the period	**500,000**		**3.73**	300,000		1.55
Exercised during the period (1)	**(3,000)**		**1.03**	-		-
Forfeited during the period (2)	**-**		**-**	(25,000)		3.13
Outstanding at end of period	**2,085,676**	**$**	**2.11**	2,028,676	$	2.37
Options exercisable at end of period	**1,014,340**			945,336		
Weighted average fair value per option granted during the period	**$ 1.81**			$ 0.64		

(1) During the three months ended March 31, 2013, $5 was credited to capital stock with respect to options that were exercised. This includes $3 consideration received on exercise, plus $2 representing the vested fair value of the stock options. No stock options were exercised during the three months ended March 31, 2012.

(2) No stock options were forfeited during the three months ended March 31, 2013. During the three months ended March 31, 2012, $9 was reversed from contributed surplus with respect to unvested options forfeited.

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

	Options Outstanding				**Options Exercisable**		
Range of Exercise Prices	**Number of Options**	**Weighted Average Remaining Contractual Life (yrs)**		**Weighted Average Exercise Price**	**Number of Options**		**Weighted Average Exercise Price**
$0 - 2	1,088,300	7.18	$	1.25	731,966	$	1.30
2.01 - 4	997,376	8.78		3.05	282,374		2.46
	2,085,676	7.94	$	2.11	1,014,340	$	1.62

The Company recorded a compensation recovery in selling and administration expense for the three months ended March 31, 2013 of $104 (compensation expense for the three months ended March 31, 2012: $104).

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.

(Figures are in thousands of Canadian dollars except share and per share amounts - Unaudited)

9. SHARE-BASED PAYMENTS (Continued)

The table below outlines the significant assumptions used to estimate the fair value of DSUs at March 31:

	2013	2012
Weighted average assumptions:		
Risk-free interest rate	**1.20%**	1.45%
Expected volatility	**50.00%**	54.00%
Dividend yield	**0%**	0%
Expected life (years)	**4.00**	4.00
Share price	**$4.05**	$1.42

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

	Three months ended March 31					
	2013			2012		
	Number of DSUs		Fair Value	Number of DSUs		Fair Value
Outstanding at beginning of period	**415,958**	**$**	**485**	114,264	$	47
Granted during the period	**18,149**		**32**	46,896		32
Change in value			**191**			18
Outstanding at end of period	**434,107**	**$**	**708**	161,160	$	97

10. EMPLOYEE BENEFITS

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

	Three months ended March 31			
		2013		2012
Short-term employee benefits	**$**	**13,072**	$	11,714
Long-term employee benefits		**3,446**		2,817
Share-based payments		**119**		155
	$	**16,637**	$	14,686

11. FINANCE EXPENSE

	Three months ended March 31			
		2013		2012
Cash interest	**$**	**(6,759)**	$	(7,536)
Payment-in-kind interest		**-**		(4,984)
Interest on finance leases		**(25)**		(33)
Amortization of bond premium, transaction costs and consent fees		**(117)**		(517)
	$	**(6,901)**	$	(13,070)

12. FOREIGN EXCHANGE (LOSS) GAIN

	Three months ended March 31			
		2013		2012
Foreign exchange (loss) gain on long-term debt	**$**	**(7,565)**	$	9,972
Other foreign exchange gain (loss)		**1,644**		(322)
	$	**(5,921)**	$	9,650

(Figures are in thousands of Canadian dollars except share and per share amounts - Unaudited)

13. GAIN ON DERIVATIVE FINANCIAL INSTRUMENTS

The Senior Secured Notes, issued on November 27, 2012, have embedded call options whereby the Company has the right to repurchase 10% of the original principal of the Senior Secured Notes each year in the first two years, and the right to redeem the Senior Secured Notes after two years. The derivative financial asset was recorded at fair value at issuance of the Senior Secured Notes and is revalued at each reporting period based on current interest rates and the credit spread. The fair value of this instrument is included in other assets on the consolidated statement of financial position. Changes in the fair value are reflected in net income. Changes in the market value of the Senior Secured Notes, risk-free rate, the credit spread and cash interest rate resulted in an $8.1 million gain on the derivative financial asset for the three months ended March 31, 2013. There was no change in the fair value of call option embedded in Senior Unsecured Notes for the three months ended March 31, 2012.

14. COSTS OF CURTAILED OPERATIONS

Costs of curtailed operations include costs associated with the High Level OSB facility. The Company has implemented plans to resume production at this mill in 2013.

15. OTHER ITEMS

	Three months ended March 31	
	2013	2012
Gain on disposal of property, plant and equipment	**$ 6**	$ 1
Other income	**352**	179
	$ 358	$ 180

16. 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 pension plans were as follows:

	Three months ended March 31	
	2013	2012 Note 3
Continuing Operations:		
Pension expense	**$ 841**	$ 670
Contributions	**714**	1,237
Discontinued Operations:		
Pension expense	**76**	28
Contributions	**79**	41

The Company's total defined contribution plan cost for the three months ended March 31, 2013 was $122 (three months ended March 31, 2012: $68).

17. 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.

(Figures are in thousands of Canadian dollars except share and per share amounts - Unaudited)

17. TAXATION (Continued)

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.

18. EARNINGS PER SHARE

For the three months ended March 31, 2013, there were 500,000 stock options (March 31, 2012: 2,028,676) that were not taken into account in the calculation of diluted earnings per share because their effect was anti-dilutive.

The Company issued 8,695,634 shareholder warrants on July 29, 2008 pursuant to the Company's recapitalization. The number of common shares that may be issued to warrant holders is dependent on the market price of the Company's common shares. If the Company's common share price exceeds a barrier price of U.S.$7.89 per share, on or before July 29, 2013, each warrant will be converted into 1.52 common shares. If the Company's common share price does not exceed the barrier price, on or before July 20, 2013, each warrant will be converted into 0.0035 common shares on July 29, 2013. The shareholder warrants were not included in the computation of diluted earnings per share because the common share price did not exceed the barrier price at March 31, 2013.

19. CHANGES IN NON-CASH OPERATING WORKING CAPITAL

	Three months ended March 31	
	2013	2012
Trade and other receivables	**$ (6,421)**	$ (7,162)
Inventories	**(20,827)**	(10,540)
Income taxes payable	**325**	1
Prepaid expenses	**1,116**	(77)
Trade and other payables	**289**	3,310
	$ (25,518)	$ (14,468)

20. 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 March 31	
	2013	2012
United States	**$ 109,453**	$ 61,445
Canada	**20,848**	13,364
Japan	**11,095**	8,599
Overseas - other	**448**	1,705
	$ 141,844	$ 85,113

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

(Figures are in thousands of Canadian dollars except share and per share amounts - Unaudited)

21. 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 indenture, the Company is restricted in managing capital and must conform to the indenture's provisions, which govern capital components such as dividends, asset sales and debt incurrence. At March 31, 2013, the Company is in compliance with the provisions of the indenture.

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		**March 31 2013**		December 31 2012
FINANCIAL ASSETS					
Held for trading					
Cash and cash equivalents	Level 1	**$**	**141,180**	$	106,777
Loans and receivables					
Trade and other receivables (1)	n/a		**32,029**		25,608
Derivative financial asset (2)	Level 2		**21,448**		13,371
		$	**194,657**	$	145,756
FINANCIAL LIABILITIES					
Other financial liabilities					
Trade and other payables (1)	n/a	**$**	**37,438**	$	30,257
Long-term debt, including current portion	n/a		**367,440**		360,441
		$	**404,878**	$	390,698

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

(2) The Company applies a Black-Scholes model for the 10% repurchase options and a standard Option-Adjusted Spread model for the remaining call options. The current bid price for the bonds of 108.50 at March 31, 2013 (December 31, 2013: 105) is used as the market value input.

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

Financial risk factors

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

(Figures are in thousands of Canadian dollars except share and per share amounts - Unaudited)

21. FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (Continued)

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, and cash and cash equivalents. The Company's maximum exposure to credit risk is the gross carrying amount of these assets net of any allowance for doubtful accounts or impairment loss as reflected in these consolidated financial statements. At March 31, 2013, the amount of accounts receivable past due was nominal and no accounts were impaired.

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

Liquidity risk

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

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

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

	Less than 1 month	**1 to 3 months**	**Less than 1 year**	**1 to 5 years**	**More than 5 years**
Senior Secured Notes	$ -	$ 15,780	$ 13,335	$462,280	$ -
HSBC Equipment loan	257	512	2,270	7,694	-
Deutsche Bank equipment loan	-	1,598	1,584	1,569	-
Finance lease obligations	48	96	440	349	-
Operating lease obligations	69	138	621	1,241	-
Trade payable and accrued liabilities	26,093	9,446	2,339	-	-
Reforestation obligation	-	-	-	3,403	750
Purchase commitments	619	1,309	2,383	4,888	2,852
	$ 27,086	$ 28,879	$ 22,972	$481,424	$ 3,602

21. FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (Continued)

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 March 31, 2013, if interest rates had been 50 basis points higher/lower and all other variables were held constant, the Company's after-tax net income would decrease/increase by approximately $53 on an annual basis (December 31, 2012: $55).

The Company is also exposed to interest risk on the derivative financial instrument that arises from the call option embedded in the Senior Secured 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 March 31, 2013 was $21.5 million (December 31, 2012: $13.4 million) and was included in other assets. At March 31, 2013, if interest rates had been 1% higher and all other variables were constant, the value of the derivative financial asset would increase by approximately $3.2 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 March 31, 2013, the impact on the after tax net income of a one cent weakening/strengthening of the Canadian dollar, all other variables remaining constant, on the revaluation of the Company's monetary assets and liabilities would be would have been $2.7 million higher/lower on an annual basis (December 31, 2012: $2.3 million).

Commodity price risk
The Company's financial performance is principally dependent on the demand for and selling prices of its products. Both are subject to significant fluctuations. The markets for panel products are cyclical and are affected by factors such as global economic conditions including the strength of the U.S. and Japanese housing 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 Secured Notes, is estimated to approximate their carrying value at March 31, 2013 due to the immediate or short-term maturity of these financial instruments.

(Figures are in thousands of Canadian dollars except share and per share amounts - Unaudited)

21. FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (Continued)

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

	March 31, 2013		December 31, 2012	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Senior Secured Notes (1)	**$ 353,291**	**$ 377,277**	$ 345,802	$ 356,690
Equipment financing (2)	**14,149**	**14,149**	14,639	14,639
	$ 367,440	**$ 391,426**	$ 360,441	$ 371,329

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

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

The fair value of the call option embedded in the Senior Secured Notes as at March 31, 2013 was $21.5 million (December 31, 2012: $13.4 million).

22. RELATED PARTY TRANSACTIONS

Brookfield Capital Partners

The Company is controlled by BCP, which beneficially owns or exercises control or direction over approximately 54.5% of the issued and outstanding common shares.

The Company also periodically sells goods to BCP affiliates. During the three months ended March 31, 2013, these sales were approximately $2.3 million (three months ended March 31, 2012: $1.3 million).

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 March 31	
	2013	2012
Short-term employee benefits	**$ 594**	$ 657
Long-term employee benefits	**33**	29
Share-based payments	**61**	159
	$ 688	$ 845

(Figures are in thousands of Canadian dollars except share and per share amounts - Unaudited)

22. RELATED PARTY TRANSACTIONS (Continued)

Other

	Three months ended March 31	
	2013	2012
Legal fees [1]	**$ 135**	$ 8
Other services [2]	**83**	-
	$ 218	$ 8

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

[2] Includes amounts paid to BCP and its affiliates for services provided to the Company.

Sales to overseas markets are handled by Interex Forest Products Ltd. ("Interex"), a cooperative sales company over which Ainsworth, as a shareholder, has significant influence. At March 31, 2013, $3.5 million was included in trade receivables with respect to Interex (December 31, 2012: $2.8 million).

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