

Attention Business/Financial Editors:
Hardwoods Distribution Income Fund Announces 2009 Fourth Quarter and
Year-End Results

Hardwoods Distribution Income Fund will hold a conference call and webcast to discuss fourth quarter and 2009 full-year financial results on March 30, 2010 at 8:00 a.m. Pacific Time (11:00 a.m. Eastern). The call can be accessed by dialing: 1-888-231-8191 or 647-427-7450 (local call in Toronto) and referencing conference call number 61033289. A replay will be available until April 13, 2010 at: 1-800-642-1687 or 416-849-0833 (Passcode 61033289).

TRADING SYMBOL: Toronto Stock Exchange - HWD.UN

LANGLEY, BC, March 29 /CNW/ - Hardwoods Distribution Income Fund (the "Fund") today reported financial results for the three months and 12 months ended December 31, 2009. The Fund's results are based on the performance of Hardwoods Specialty Products LP and Hardwoods Specialty Products USLP (collectively "Hardwoods") - one of North America's largest wholesale distributors of hardwood lumber and related sheet good products. Hardwoods operates 27 distribution centres in the U.S. and Canada.

2009 Overview

(For the 12 months ended December 31, 2009)

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- Full-year revenue declined 25.5% to \$190.9 million
- Gross profit percentage increased to 18.1%, from 18.0% in 2008
- Selling and administrative expenses were successfully reduced by \$5.8 million, a 14.0% reduction from 2008
- The Fund recorded an EBITDA loss of \$1.2 million, compared to an EBITDA profit of \$5.9 million in 2008
- A net loss of \$10.2 million was recorded, compared to a net loss of \$36.2 million in 2008
- The Fund continued to strengthen its balance sheet, reducing debt by \$13.0 million and ending the year with just \$4.5 million of bank indebtedness (net of cash)

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"We maintained stable gross margins, reduced expenses and strengthened our financial position in the midst of extremely challenging market conditions," said Maurice Paquette, Hardwoods President and CEO in describing results for the fourth quarter and 12 months of fiscal 2009.

"As we anticipated, the collapse of the US housing market and recessionary conditions in the US and Canada continued to negatively affect demand and prices for our products. Although we saw indications of stability returning to the residential construction market in the second half of 2009, it remains uncertain to what extent market conditions will improve. We have not yet seen any corresponding improvement in demand for the hardwood products we sell, which normally lag changes in housing starts by six to twelve months. Fourth quarter and full-year sales and EBITDA results remained well below last year's levels," added Paquette.

"To help mitigate the short-term sales impact of these conditions, we implemented new incentive programs in 2009 that rewarded our sales force for identifying and winning new customer accounts and for implementing new product programs that produce sustained sales. Approximately 18% of our second half sales were generated as a result of these programs. We also continued to

develop our Hardwoods Greenbelt(TM) product line, marketing directly to the architects and designers that specify environmentally friendly green building products in their building projects. These strategies provided important support for our sales and margins in 2009, while laying a foundation for stronger results once markets recover," added Mr. Paquette.

"One of our key objectives in 2009 was to ensure our costs remained closely aligned with the lower level of market demand. We completed further downsizing of our branch network early in the year, reducing our underlying sales and administrative (S&A) costs by \$8.5 million, or by \$5.8 million after accounting for higher bad debts and negative foreign exchange impacts. Combined with responsible reductions in our working capital, we ended the year with positive cash flow from operating activities of \$10.3 million, Distributable Cash results that were close to breakeven, and a further strengthening of our balance sheet. As at December 31, 2009, we had reduced our bank indebtedness (net of cash) to just \$4.5 million, from \$17.5 million at the start of 2009, and had \$20.5 million of unused borrowings available to us."

"Our improved financial position enabled us to make two favourable amendments to our US credit facilities during the year, and secure an attractive new three-year credit facility in Canada. The Fund is now moving forward on a very stable financial footing."

"Overall, we are pleased with our achievements in 2009 given difficult economic conditions, and believe that we have now put the worst of the market downturn behind us. That said, our expectations for 2010 remain cautious. Overall, we anticipate that any improvement in market conditions that occurs in 2010 will be gradual, and that a more sustainable and robust market recovery will not occur prior to 2011. Our focus will remain on tight management of costs, cash and working capital and on continuing to successfully meet new challenges as they arise," said Mr. Paquette.

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Summary of Results

Selected Unaudited Consolidated Financial Information (in thousands of Canadian dollars except where noted)

	12 months ended December 31, 2009	12 months ended December 31, 2008	3 months ended December 31, 2009	3 months ended December 31, 2008
Total sales	\$ 190,923	\$ 256,301	\$ 41,577	\$ 56,650
Sales in the US (US\$)	101,212	156,398	22,987	29,270
Sales in Canada	75,339	89,581	17,500	19,423
Gross profit	34,482	46,096	7,636	9,485
Gross profit %	18.1%	18.0%	18.4%	16.7%
Selling and administrative expenses	(35,636)	(41,425)	(10,057)	(10,915)
Realized gain on foreign currency contracts	-	1,247	-	-

Earnings before interest, taxes, depreciation and amortization and non-controlling interest ("EBITDA")	(1,154)	5,918	(2,421)	(1,430)
Add (deduct):				
Amortization	(870)	(1,471)	(198)	(326)
Interest	(586)	(1,219)	(152)	(284)
Non-cash foreign				

currency gains (losses)	(1,553)	(333)	(171)	1,498
Intangibles impairment	-	(8,612)	-	(3,144)
Goodwill impairment	-	(82,083)	-	(17,477)
Non-controlling interest	2,347	20,031	590	4,881
Income tax recovery (expense)	(8,424)	31,526	1,808	3,341

Net loss for the period	\$ (10,240)	\$ (36,243)	\$ (544)	\$ (12,941)

Basic and fully diluted loss per Class A Unit	\$ (0.711)	\$ (2.515)	\$ (0.038)	\$ (0.898)
Average Canadian dollar exchange rate for one US dollar	1.1420	1.066	1.0571	1.2115

Distributable Cash and Cash Distributions

Selected Unaudited Consolidated Financial Information (in thousands of dollars except per unit amounts)

	Year ended December 31, 2009	Year ended December 31, 2008	3 months ended December 31, 2009	3 months ended December 31, 2008
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Net cash provided by operating activities	\$ 10,247	\$ 20,229	\$ 1,380	\$ 6,028
Increase (decrease) in non-cash operating working capital	(10,291)	(14,836)	(1,885)	(7,679)

Cash flow from operations before changes in non-cash operating working capital	(44)	5,393	(505)	(1,651)
Capital expenditures	(95)	(425)	-	(79)

Distributable Cash	\$ (139)	\$ 4,968	\$ (505)	\$ (1,730)

Distributions relating to the period:				
Class A Units	\$ -	\$ 7,565(1)	\$ -	\$ -
Class B Units(2)	-	-	-	-

Total Units	\$ -	\$ 7,565	\$ -	\$ -

Outstanding units and per unit amounts:

Class A Units outstanding	14,410,000	14,410,000	14,410,000	14,410,000
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Class B Units outstanding	3,602,500	3,602,500	3,602,500	3,602,500
Total Units outstanding	18,012,500	18,012,500	18,012,500	18,012,500
Distributable Cash per Total Units	\$ (0.008)	\$ 0.276	\$ (0.028)	\$ (0.096)
Distributions relating to the period:				
Class A Units	\$ -	\$ 0.525 (1)	\$ -	\$ -
Class B Units (2)	\$ -	\$ -	\$ -	\$ -
Total Units	\$ -	\$ 0.420	\$ -	\$ -
Payout ratio (3)	0.0%	152.3%	0.0%	0.0%

March 23,
2004 to
December
31, 2009

Cumulative since inception:	
Distributable Cash Distributions relating to the period	75,478 66,754
Payout ratio (3)	88.4%

- (1) Includes the cash distributions of \$0.075 per Class A Unit per month which relate to the operations of the Fund for January to June 2008, and cash distributions of \$0.025 per Class A Unit per month which relate to the operations of the Fund for July to September 2008.
- (2) On January 10, 2006, Hardwoods Specialty Products LP and Hardwoods Specialty Products US LP, limited partnerships in each of which the Fund owns an 80% interest, announced that quarterly distributions were suspended on the Class B LP and Class B US LP units. The Class B LP units and Class B US LP units represent a 20% interest in Hardwoods Specialty Products LP and Hardwoods Specialty Products US LP, respectively. No distributions are to be paid on the Class B LP units and Class B US LP units unless distributions in stipulated minimum amounts are paid on the units in the limited partnerships held by the Fund, and in certain other circumstances. Accordingly, no distributions have been declared since the third quarter of 2005 to the non-controlling interests. No liability for distributions payable to the non-controlling interests is reflected in the December 31, 2009 balance sheet.
- (3) Payout ratio measures the ratio of distributions by the Fund relating to the period to Distributable Cash for the period.

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Results from Operations - Three Months Ended December 31, 2009

For the three months ended December 31, 2009 the Fund and its subsidiaries reported negative Distributable Cash of (\$0.5) million, or (\$0.028) per unit. By comparison, the Fund reported negative Distributable Cash of (\$1.7 million) or (\$0.096) per unit in the same period of 2008. No distributions were paid to either the public unitholders (Class A Units) or to the Class B Units in either period, resulting in a payout ratio of 0% in both

the fourth quarter of 2008 and 2009.

Total fourth quarter sales declined by 26.6% to \$41.6 million, from the \$56.7 million reported in 2008. The change in sales revenue reflects a 20.0% decrease in underlying sales activity and a 6.6% decrease in sales due to the negative effect of a stronger Canadian dollar. Sales in the United States, as measured in US dollars, decreased by 21.5% to \$23.0 million. Sales in Canada, as measured in Canadian dollars, declined by 9.9% to \$17.5 million.

Fourth quarter gross profit declined to \$7.6 million, from \$9.5 million in Q4 2008 as a result of the lower sales revenue, partially offset by a higher gross profit margin. Gross profit as a percentage of sales increased to 18.4% from 16.7% in Q4 2008. Gross margin percentage in 2008 was weaker than normal due to a write-down to the carrying value of specialized inventory held for a significant customer that went out of business.

Selling and administrative (S&A) expenses continued to improve in the fourth quarter, declining to \$10.1 million, from \$10.9 million in the same period of 2008. The reduction in S&A expenses reflects a \$1.5 million reduction in underlying costs as the Fund implemented a broad range of cost-saving measures, as well as the \$0.9 million positive foreign exchange impact of a stronger Canadian dollar on the conversion of S&A expenses at our US operations. These reductions were partially offset by a \$0.4 million increase in bad debt expense and by the absence of a \$1.1 million credit against fourth quarter S&A which occurred in the 2008 period. The 2008 credit against expenses reflected the last year's decision to cancel accrued year-end incentive plan payments for management and staff. As a percentage of sales, fourth quarter 2009 S&A expenses were 24.2% of sales, compared to 19.3% in 2008.

The Fund reported a fourth quarter EBITDA loss of \$2.4 million, compared to a loss of \$1.4 million in Q4 2008. The change in EBITDA reflects the lower gross profit, partially offset by the reduced S&A expenses.

The fourth quarter net loss of \$0.5 million compared favourably to a net loss of \$12.9 million during the same period in 2008. The improvement in net loss reflects a \$20.6 million decrease in goodwill and intangible impairment, and a \$0.1 million decrease in amortization and interest expense respectively. This was partially offset by the \$1.0 million decrease in EBITDA, a \$1.7 million decrease in non-cash foreign currency gains, a \$4.3 million decrease in recovery from the non-controlling interest, and a \$1.5 million decrease in income tax recovery.

Results from Operations - 12 months ended December 31, 2009

For the 12 months ended December 31, 2009, the Fund and its subsidiaries reported negative Distributable Cash of (\$0.1) million, or (\$0.008) per unit, compared to positive Distributable Cash of \$5.0 million, or \$0.276 per unit, in 2008. No distributions were paid to the Class A or Class B Units in 2009 resulting in a payout ratio of 0% for the year, compared to distributions of \$7.6 million and a payout ratio of 152.3% in the 2008 period.

Total sales declined by 25.5% to \$190.9 million, from \$256.3 million in 2008, reflecting significantly reduced demand and lower product prices. Sales at Hardwoods' US operations, as measured in US dollars, decreased by 35.2%. Sales in Canada, as measured in Canadian dollars, were down 15.9% year-over-year.

Gross profit for the 2009 year was \$34.5 million, compared to \$46.1 million in 2008. The reduction in gross profit reflects lower sales, partially offset by a slightly higher gross profit margin. As a percentage of sales, gross profit was 18.1% in 2009, compared to 18.0% in 2008.

Selling and administrative expenses decreased by \$5.8 million to \$35.6 million, from \$41.4 million in 2008. By reducing the size of the branch network and realizing savings across most expense categories, the Fund achieved underlying 2009 cost savings of \$8.5 million, which were partially offset by the \$1.7 million negative impact of a weaker Canadian dollar on US operating expenses and a \$1.0 million increase in bad debt expense.

The Fund reported an EBITDA loss of \$1.2 million, compared to an EBITDA profit of \$5.9 million in 2008. The change in EBITDA reflects lower gross profit and a \$1.2 million decrease in realized gains on foreign currency

contracts, partially offset by lower S&A expenses.

The Fund recorded a net loss of \$10.2 million for the 2009 year, compared to a net loss of \$36.2 million in 2008. The decrease in net loss primarily reflects a \$90.7 million decrease in impairment in goodwill and other intangible assets, a \$0.6 million decrease in amortization, and a \$0.6 million decrease in interest expense. This was partially offset by the \$7.1 million decrease in EBITDA, a \$1.2 million increase in non-cash foreign currency losses, a \$17.7 million decrease in recovery from non-controlling interest, and a \$39.9 million increase in income tax expense.

Outlook

While Hardwoods believes that the bottom of the market cycle has now been reached, its near-term outlook remains cautious. Many economists predict that the recent encouraging signs in the residential construction market may be tempered by higher mortgage rates and the April 2010 expiry of the US government's home-buyers tax credit. Hardwoods' risk of bad debt also remains elevated with many customers feeling the effects of the prolonged downturn. Overall, management anticipates that 2010 will bring a slow, and potentially uneven, improvement in market conditions, and that a more sustainable and robust market recovery will not occur prior to 2011.

In light of these expectations, tight management of expenses, cash and working capital will remain a key focus in 2010, with Hardwoods continuing to ensure that its distribution network and expenditures are appropriately aligned with market conditions. The company plans to remain proactive on the marketing front with continued sales force motivation and further investment in strategic product lines.

The Fund is also preparing for a management transition in 2010, with President and CEO, Maurice Paquette expected to retire in 2010 following a 36-year career with Hardwoods and its predecessor companies. The Board is currently working to identify a successor. In discussing Mr. Paquette's contribution to the company, Terry Holland, Chairman of the Board of Trustees, said, "Maurice Paquette not only strengthened Hardwoods position as one of North America's leading hardwood distributors, but he has also done a superb job of protecting the business and reducing risk through an unprecedented market downturn."

"We are going to greatly miss having Maurice at the helm, but it is a testament to his leadership skill that he leaves a strong business that will be able to participate fully in the eventual recovery, and one that will continue to thrive even after he retires. During his tenure, Maurice has built an exceptional team of operational leaders. The average tenure of the top dozen managers at Hardwoods is over 20 years. This will give us tremendous depth and stability as we prepare for a leadership transition later this year."

Regarding the January 2011 implementation of new taxes on Canadian income trusts, the Board of Trustees announced today that it does not intend to convert the Fund to a corporate structure at this time. The Fund's taxable earnings currently flow through corporate subsidiaries in both Canada and the US, which are already subject to corporate taxation. Accordingly, the introduction of the new income trust tax is not expected to have any near-term impact on the Fund's tax situation. Furthermore, the move to a corporate structure would entail an estimated \$0.3 million in costs at a time when the Fund is focused on conserving cash. Given that the tax-free rollover rules for income trusts do not expire until the end of 2012, ample time remains to convert to an alternate structure should the Board determine it is advantageous to do so. The Board will continue to monitor the situation closely.

Non-GAAP Measures - EBITDA and Distributable Cash

References to "EBITDA" are to earnings before interest, income taxes, depreciation and amortization, mark-to-market adjustments on foreign currency contracts, goodwill and other intangible assets impairments, and the non-controlling interest in earnings. In addition to net income or loss,

EBITDA is a useful supplemental measure of performance and cash available for distribution prior to debt service, changes in working capital, capital expenditures and income taxes.

References to "Distributable Cash" is to net cash provided by operating activities, before changes in non-cash operating working capital, less capital expenditures and contributions to any reserves that the Boards of Directors of Hardwoods' operating entities determine to be reasonable and necessary for the operation of the businesses owned by these entities.

Hardwoods believes that, in addition to net income or loss, EBITDA and Distributable Cash are each a useful supplemental measure of operating performance that may assist investors in assessing their investment in units of the Fund. Neither EBITDA nor Distributable Cash are earnings measures recognized by GAAP and they do not have a standardized meaning prescribed by GAAP. Investors are cautioned that EBITDA should not replace net income or loss (as determined in accordance with GAAP) as an indicator of our performance, nor should Distributable Cash replace cash flows from operating, investing and financing activities or as a measure of liquidity and cash flows. The Fund's method of calculating EBITDA and Distributable Cash may differ from the methods used by other issuers. Therefore, the Fund's EBITDA and Distributable Cash may not be comparable to similar measures presented by other issuers. For reconciliation between EBITDA and net income or loss as determined in accordance with GAAP, and for reconciliation between Distributable Cash and net cash provided by operating activities as determined in accordance with GAAP, please refer to the Management Discussion and Analysis ("MD&A") included in the Fund's 2009 Annual Report to Unitholders, which will be filed at www.sedar.com.

Additional guidance regarding disclosure of distributable cash and cash distributions was issued in 2007 in an interpretative release by the Canadian Institute of Chartered Accountants (the "CICA") in respect of "Standardized Distributable Cash in Income Trusts and other Flow Through Entities" and National Policy 41-201 of the Canadian Securities Administrators "Income Trusts and other Indirect Offerings" (collectively, the "Interpretative Guidance"). For disclosure and discussion of the Fund's Standardized Distributable Cash in accordance with the Interpretive Guidance, please refer to the MD&A included in the Fund's 200 Annual Report to Unitholders, which will be filed at www.sedar.com.

About the Fund

Hardwoods Distribution Income Fund is an unincorporated, open-ended, limited purpose trust established to hold, indirectly, the securities of Hardwoods Specialty Products LP and Hardwoods Specialty Products USLP (collectively, "Hardwoods"). The Fund was launched on March 23, 2004, with the completion of an initial public offering of 14,410,000 shares.

About Hardwoods

Hardwoods is North America's largest distributor of high-grade hardwood lumber and sheet goods to the cabinet, moulding, millwork, furniture and specialty wood products industries. The company currently operates a network of 27 distribution centres in the U.S. and Canada.

Forward Looking Statements

Certain statements in this press release contain forward-looking information within the meaning of applicable securities laws in Canada ("forward-looking information"). The words "anticipates", "believes", "budgets", "could", "estimates", "expects", "forecasts", "intends", "may", "might", "plans", "projects", "schedule", "should", "will", "would" and similar expressions are often intended to identify forward-looking information, although not all forward-looking information contains these identifying words.

The forward-looking information in this press release includes, but is not limited to: our belief that although we saw indications of stability

returning to the residential construction market in the second half of 2009, it remains uncertain to what extent market conditions will improve; our belief that strategies undertaken to support our sales and margins in 2009 will lay a foundation for stronger results once markets recover; our belief that the Fund is now moving forward on a very stable financial footing; our belief that we have now put the worst of the market downturn behind us but our expectations for 2010 remain cautious; our anticipation that any improvement in market conditions that occurs in 2010 will be gradual and that a more sustainable and robust market recovery will not occur prior to 2011; our intention to remain focused on tight management of costs, cash and working capital and ensuring our distribution network and expenditures are properly aligned with market conditions; our intention to remain proactive on the marketing front with continued sales force motivation and further investment in strategic product lines; our Chief Executive Officer's intention to retire from the business once the board has identified his successor and we have had the chance to make a smooth transition; and our intention not to convert the Fund to a corporate structure at this time.

The forecasts and projections that make up the forward-looking information are based on assumptions which include, but are not limited to: there are no material exchange rate fluctuations between the Canadian and US dollar that affect our performance; the general state of the economy does not worsen; we do not lose any key personnel; there are no decreases in the supply of, demand for, or market values of hardwood lumber or sheet goods that harm our business; we do not incur material losses related to credit provided to our customers; our products are not subjected to negative trade outcomes; we are able to sustain our level of sales and EBITDA margins; we are able to grow our business long term and to manage our growth; there is no new competition in our markets that leads to reduced revenues and profitability; we do not become subject to more stringent regulations; importation of products manufactured with hardwood lumber or sheet goods does not increase and replace products manufactured in North America; our management information systems upon which we are dependent are not impaired; our insurance is sufficient to cover losses that may occur as a result of our operations; and, the financial condition and results of operations of our business upon which we are dependent is not impaired.

The forward-looking information is subject to risks, uncertainties and other factors that could cause actual results to differ materially from historical results or results anticipated by the forward-looking information. The factors which could cause results to differ from current expectations include, but are not limited to: exchange rate fluctuations between the Canadian and US dollar could affect our performance; our results are dependent upon the general state of the economy; we depend on key personnel, the loss of which could harm our business; decreases in the supply of, demand for, or market values of hardwood lumber or sheet goods could harm our business; we may incur losses related to credit provided to our customers; our products may be subject to negative trade outcomes; we may not be able to sustain our level of sales or EBITDA margins; we may be unable to grow our business long term to manage any growth; competition in our markets may lead to reduced revenues and profitability; we may become subject to more stringent regulations; importation of products manufactured with hardwood lumber or sheet goods may increase, and replace products manufactured in North America; we are dependent upon our management information systems; our insurance may be insufficient to cover losses that may occur as a result of our operations; we are dependent upon the financial condition and results of operations of our business; our credit facilities affect our liquidity, contain restrictions on our ability to borrow funds, and impose restrictions on distributions that can be made by our operating limited partnerships; our future growth may be restricted by the payout of substantially all of our operating cash flow; and, other risks described in our Annual Information Form and this MD&A.

All forward-looking information in this MD&A is qualified in its entirety by this cautionary statement and, except as may be required by law, we undertake no obligation to revise or update any forward-looking information as a result of new information, future events or otherwise after the date hereof.

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Consolidated Financial Statements
(Expressed in Canadian dollars)

HARDWOODS DISTRIBUTION INCOME FUND

Years ended December 31, 2009 and 2008

HARDWOODS DISTRIBUTION INCOME FUND

Consolidated Balance Sheets
(Expressed in thousands of Canadian dollars)

December 31, 2009 and 2008

	2009	2008
Assets		
Current assets:		
Cash and cash equivalents	\$ 463	\$ 85
Accounts receivable (note 6(c))	25,585	32,218
Income taxes recoverable	2,286	2,316
Inventory (note 5)	23,901	30,868
Prepaid expenses	878	1,039
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	53,113	66,526
Long-term receivables (note 6(c))	1,883	3,639
Property, plant and equipment (note 7)	1,291	2,168
Deferred financing costs	396	235
Future income taxes (note 13)	17,587	30,782
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	\$ 74,270	\$ 103,350
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Liabilities and Unitholders' Equity		
Current liabilities:		
Bank indebtedness (note 10)	\$ 4,960	\$ 17,561
Accounts payable and accrued liabilities	4,988	3,365
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	9,948	20,926
Deferred gain on sale-leaseback of land and building	416	572
Non-controlling interests (note 11)	8,748	13,080
Unitholders' equity:		
Fund Units (note 12)	133,454	133,454
Deficit	(60,198)	(49,958)
Accumulated other comprehensive loss	(18,098)	(14,724)
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	55,158	68,772
Nature and continuance of operations (note 1)		
Commitments (note 15)		

Contingencies (note 19)

\$ 74,270 \$ 103,350

See accompanying notes to consolidated financial statements.

HARDWOODS DISTRIBUTION INCOME FUND

Consolidated Statements of Operations and Deficit

(Expressed in thousands of Canadian dollars, except per unit amounts)

Years ended December 31, 2009 and 2008

	2009	2008
Sales	\$ 190,923	\$ 256,301
Cost of sales	156,441	210,205
Gross profit	34,482	46,096
Expenses (income):		
Selling and administrative	35,636	41,425
Amortization:		
Plant and equipment	795	941
Deferred financing costs	159	36
Other intangible assets	-	573
Deferred gain on sale-leaseback of land and building	(84)	(79)
Interest	586	1,219
Foreign exchange losses (gains)	1,553	(914)
Intangibles impairment (note 9)	-	8,612
Goodwill impairment (note 9)	-	82,083
	38,645	133,896
Loss before non-controlling interests and income taxes	(4,163)	(87,800)
Non-controlling interests (note 11)	2,347	20,031
Loss before income taxes	(1,816)	(67,769)
Income tax expense (recovery) (note 13):		
Current	(1,896)	(734)
Future	10,320	(30,792)
	8,424	(31,526)
Loss for the year	(10,240)	(36,243)
Deficit, beginning of year	(49,958)	(6,150)
Distributions declared to Unitholders	-	(7,565)

Deficit, end of year	\$ (60,198)	\$ (49,958)

Basic and diluted loss per Unit	\$ (0.71)	\$ (2.52)

Weighted average number of Units outstanding	14,410,000	14,410,000

See accompanying notes to consolidated financial statements.

HARDWOODS DISTRIBUTION INCOME FUND
Consolidated Statements of Comprehensive Income (Loss)
(Expressed in thousands of Canadian dollars)

Years ended December 31, 2009 and 2008

	2009	2008

Net loss for the year	\$ (10,240)	\$ (36,243)
Other comprehensive income (loss):		
Unrealized gains (losses) on translation of self-sustaining foreign operations	(3,374)	6,841

Comprehensive loss	\$ (13,614)	\$ (29,402)

Consolidated Statements of Accumulated Other
Comprehensive Loss
(Expressed in thousands of Canadian dollars)

Years ended December 31, 2009 and 2008

	2009	2008

Accumulated other comprehensive loss, beginning of year	\$ (14,724)	\$ (21,565)
Other comprehensive income (loss)	\$ (3,374)	\$ 6,841

Accumulated other comprehensive loss, end of year	\$ (18,098)	\$ (14,724)

See accompanying notes to consolidated financial statements.

HARDWOODS DISTRIBUTION INCOME FUND
Consolidated Statements of Cash Flows
(Expressed in thousands of Canadian dollars)

Years ended December 31, 2009 and 2008

	2009	2008
Cash flows provided by (used in) operating activities:		
Net loss for the year	\$ (10,240)	\$ (36,243)
Items not involving cash:		
Amortization	954	1,550
Imputed interest income on employee loans	(158)	(67)
Deferred gain on sale-leaseback of land and building	(84)	(79)
Gain on sale of property, plant and equipment	(42)	(14)
Unrealized foreign exchange losses	1,553	333
Non-controlling interests	(2,347)	(20,031)
Future income taxes	10,320	(30,751)
Intangibles impairment	-	8,612
Goodwill impairment	-	82,083
	(44)	5,393
Change in non-cash operating working capital (note 14)	10,291	14,836
Net cash provided by operating activities	10,247	20,229
Cash flows used in financing activities:		
Bank indebtedness	(11,031)	(11,575)
Deferred financing fees	(345)	(221)
Distributions paid to Unitholders	-	(8,646)
Net cash used in financing activities	(11,376)	(20,442)
Cash flows provided by (used in) investing activities:		
Additions to property, plant and equipment	(95)	(425)
Proceeds on disposal of property, plant and equipment	57	25
Long-term receivables, net	1,545	403
Net cash provided by investing activities	1,507	3
Increase (decrease) in cash	378	(210)
Cash, beginning of year	85	295
Cash, end of year	\$ 463	\$ 85
Supplemental information:		
Interest paid	\$ 586	\$ 1,219
Income taxes paid	207	75
Transfer of accounts receivable to long-term customer notes receivable, being a non-cash transaction	685	2,508

See accompanying notes to consolidated financial statements.

HARDWOODS DISTRIBUTION INCOME FUND
Notes to Consolidated Financial Statements
(Tabular amounts expressed in thousands of Canadian dollars)

Years ended December 31, 2009 and 2008

1. Nature and continuance of operations:

Hardwoods Distribution Income Fund (the "Fund") is an unincorporated, open ended, limited purpose trust established under the laws of the Province of British Columbia on January 30, 2004 by a Declaration of Trust. The Fund commenced operations on March 23, 2004 when it completed an initial public offering of Units and acquired an 80% interest in a hardwood lumber and sheet goods distribution business in North America (the "Business") from affiliates of Sauder Industries Limited ("SIL"). The Fund holds, indirectly, 80% of the outstanding limited partnership units of Hardwoods Specialty Products LP ("Hardwoods LP") and Hardwoods Specialty Products US LP ("Hardwoods USLP"), limited partnerships established under the laws of the Province of Manitoba and the state of Delaware, respectively.

The Fund has forecast its financial results and cash flows for the next 12 months (the "Forecast Period"). The forecasts are based on management's best estimates of operating conditions in the context of the current economic climate, today's capital market conditions and the depressed state of the housing and renovation markets in both Canada and the United States.

In the second quarter of 2009, the Fund's U.S. subsidiary and its lender amended their credit agreement with changes effective for the June 30, 2009 reporting period. This amendment removed the U.S. subsidiary's previous fixed charge coverage ratio financial covenant and replaced it with a minimum trailing EBITDA covenant. Under the amendment, the minimum trailing EBITDA covenant is only applicable in the event the U.S. subsidiary's unused credit availability falls below US\$4.0 million. At December 31, 2009, the U.S. subsidiary's unused credit availability was in excess of US\$4.0 million, and accordingly the U.S. subsidiary was not subject to any financial covenant and was compliant with its credit facility. If the U.S. subsidiary had been subject to its trailing EBITDA covenant at December 31, 2009, it would have been in compliance with this covenant. Due to the difficulty in predicting the continued severity and duration of the current economic and financial crisis, management is uncertain whether its U.S. subsidiary will remain in compliance with its financial covenant during the Forecast Period. Further weakening of the housing and renovation market, or significant customer or credit losses, could cause the U.S. subsidiary to be in violation of its financial covenant. This could cause the Fund's U.S. subsidiary bank indebtedness to become immediately due and payable, and the Fund and its U.S. subsidiary may not be able to access funds under its revolving credit facility. In the event of such a circumstance, the Fund could draw on its Canadian credit facility, or if that does not suffice, it would need to raise additional capital in the form of equity or debt to supplement or replace its existing credit facilities in order to have sufficient liquidity to meet its obligations in the Forecast Period.

The accompanying consolidated financial statements have been prepared assuming the Fund will continue as a going concern and contemplates

the realization of assets and the satisfaction of liabilities in the normal course of business. The consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts should the Fund be unable to continue as a going concern.

2. Significant accounting policies:

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles.

(a) Basis of presentation:

These consolidated financial statements include the accounts of the Fund and its 80% owned subsidiaries Hardwoods LP and Hardwoods USLP and other wholly owned subsidiaries. All significant intercompany balances and transactions have been eliminated on consolidation.

(b) Cash and cash equivalents:

The Fund considers deposits in banks, certificates of deposit and short-term investments with original maturities of three months or less when acquired as cash and cash equivalents.

(c) Accounts receivable:

Accounts receivable includes trade accounts receivable net of allowances for doubtful accounts plus the current portion of housing loans receivable from employees related to their relocation and customer notes receivable.

(d) Inventory:

Inventory is valued at lower of cost and net realizable value. Cost is determined using the weighted average cost method and includes invoice cost, duties, freight, and other directly attributable costs of acquiring the inventory.

Volume rebates and other supplier discounts are included in income when earned. Volume discounts and supplier trade discounts are accounted for as a reduction of the cost of the related inventory and are earned when inventory is sold.

(e) Property, plant and equipment:

Property, plant and equipment is stated at cost less accumulated amortization. Amortization is provided at straight-line rates sufficient to amortize the cost of the assets over their estimated useful lives as follows:

Assets	Estimated useful life
Machinery and equipment	3 to 10 years
Mobile equipment	7 years
Leasehold improvements	Over the term of the lease

(f) Deferred financing costs:

Financing costs incurred to obtain credit facilities are deferred

and amortized on a straight-line basis over the term of the related credit facility.

(g) Intangible assets:

Intangible assets represent customer relationships acquired at the time the Business was purchased from SIL (note 1) and were recorded at cost less accumulated amortization and any write-downs. Amortization was provided for on a straight-line basis over 15 years. During the year ended December 31, 2008, management performed impairment tests at June 30, 2008 and at December 31, 2008 and recorded aggregate intangibles impairments of \$8.6 million, leaving no intangible asset value at December 31, 2008.

(h) Goodwill:

Goodwill was recorded at cost less any write-downs and was not amortized. Management reviewed the carrying value of goodwill for impairment annually, or more frequently if events or changes in circumstances indicated that the asset may be impaired. Any excess of carrying value over fair value was charged to earnings in the period in which the impairment is determined. During the year ended December 31, 2008, management performed impairment tests at June 30, 2008 and at December 31, 2008 and recorded aggregate goodwill impairments of \$82.1 million, leaving no goodwill at December 31, 2008.

(i) Impairment of long-lived assets:

Long-lived assets, including property, plant and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount for the asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount that the carrying amount of the asset exceeds its fair value.

(j) Sales-leaseback of land and building:

During the year ended December 31, 2005, a subsidiary of the Fund sold a building and related land and leased back the facilities. The gain on the sale has been deferred and is amortized in proportion to the rental payments over the lease term.

(k) Income taxes:

Incorporated subsidiaries of the Fund use the asset and liability method of accounting for income taxes. Under the asset and liability method, future income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the substantive enactment date. The amount of future income tax assets recognized is limited to the amount that is more likely than not to be

realized.

As the Fund allocates all of its net earnings to Unitholders and deducts these amounts in computing its taxable income, Unitholders, rather than the Fund, will generally be liable for any income tax obligations until January 1, 2011. Accordingly, no provision for current income taxes has been made in respect of the Fund itself.

On June 12, 2007, the Canadian federal government's legislation to tax publicly traded income trusts passed third reading in the House of Commons and thus the associated income tax became substantively enacted for accounting purposes. The legislation imposes a tax on distributions from Canadian public income trusts. The new tax is not expected to apply to the Fund until January 1, 2011 as a transition period applies to publicly traded trusts that existed prior to November 1, 2006. As a result of the substantive enactment of the new tax legislation, the Fund has recognized future income tax assets and liabilities that are expected to reverse subsequent to January 1, 2011.

(l) Revenue recognition:

Revenue from the sale of hardwood lumber and sheet goods is recognized at the time of delivery, which is when title and the risks and rewards of ownership transfer to the customer.

(m) Translation of foreign currencies:

The accounts of the Fund's self-sustaining foreign operations are translated into Canadian dollars using the current rate method. Assets and liabilities are translated at the exchange rate in effect at the balance sheet date and revenue and expenses are translated at average exchange rates for the period as a proxy for the exchange rates prevailing at the transaction dates. Gains or losses arising from the translation of the financial statements of the self-sustaining foreign operations are deferred in the accumulated other comprehensive loss account in Unitholders' equity.

Foreign monetary assets and liabilities of the Canadian operations have been translated into Canadian dollars using the rate of exchange in effect at the balance sheet date. Revenue and expenses of the Canadian operations denominated in foreign currencies are translated at the average exchange rates for the period. Exchange gains or losses arising from translation of these foreign monetary balances and transactions are reflected in earnings for the period.

(n) Foreign currency contracts:

The Fund has used, in preceding years, currency derivatives to manage its exposure to fluctuations in exchange rates between the Canadian and the United States dollar. The foreign currency contracts were recognized in the balance sheet and measured at fair value, with changes in fair value recognized in the statement of operations.

(o) Loss per Unit:

Basic loss per Unit is calculated by dividing net loss by the weighted average number of Units outstanding during the reporting period. Diluted loss per Unit is calculated by application of the if-converted method for convertible securities (being

exchangeable Units held by the non-controlling interest). As the conversion of convertible securities would not have a dilutive effect on loss per Unit, diluted and basic loss per Unit are the same amount.

(p) Use of estimates:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Areas requiring significant management estimate include the assessment of the Fund's ability to continue as a going concern, the valuation and impairment analysis of goodwill and intangible assets, the determination of the allowance for doubtful accounts, future income taxes and amounts of accrued liabilities. Actual amounts may differ from the estimates applied in the preparation of these financial statements.

(q) Future changes in accounting standards:

International Financial Reporting Standards:

The CICA will transition Canadian generally accepted accounting principles ("GAAP") for publicly accountable entities to International Financial Reporting Standards ("IFRS"). The Fund's consolidated financial statements are to be prepared in accordance with IFRS for the fiscal year commencing January 1, 2011. While IFRS uses a conceptual framework similar to Canadian GAAP, there are significant differences on recognition, measurement, and disclosures. While the effects of IFRS have not yet been fully determined, the Fund has identified a number of key areas which are likely to be impacted, including: deferred gain on sale-leaseback of land and building; accumulated other comprehensive loss; property plant and equipment, leased vehicles, and potentially the classification of non-controlling interests and Fund units. In addition, financial statement presentation changes and additional disclosure requirements are anticipated under IFRS. The adoption of IFRS is not expected to have a material impact on the Fund's reported cash flows.

3. Adoption of new accounting standards:

Goodwill and Intangible Assets:

Effective January 1, 2009, the Fund adopted the new CICA Handbook Section 3064, Goodwill and Intangible Assets. This section replaces CICA Handbook Section 3062, Goodwill and Intangible Assets, and establishes revised standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. As the Fund no longer has goodwill or intangible assets, the adoption of this new standard does not impact the amounts presented in the financial statements.

Credit risk and the fair value of financial assets and liabilities:

On January 23, 2009, the CICA Emerging Issues Committee (EIC) issued EIC-173, Credit Risk and the Fair Value of Financial Assets and Liabilities. EIC-173 is effective for interim and annual financial statements ending on or after January 20, 2009. EIC-173 provides guidance that an entity's own credit risk of counterparties should be taken into account in determining the fair value of financial assets and liabilities. Adoption of this guidance is to be applied

retrospectively without restatement of prior periods. The Fund has evaluated the impact of this new standard and concluded that it does not have a material impact on its financial statements.

Financial instruments disclosures:

Amended Handbook Section 3862, Financial Instruments - Disclosures, establishes revised standards for the disclosure of financial instruments. The new standard establishes a three-tier hierarchy as a framework for disclosing fair value of financial instruments based on inputs used to value the Fund's investments. The hierarchy of inputs and description of inputs is described as follows:

Level 1 - fair values are based on quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 - fair values are based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices); or

Level 3 - fair values are based on unobservable inputs for which no market data exists, therefore, requiring the Fund to develop its own assumptions.

Changes in valuation methods may result in transfers into or out of an investment's assigned level.

These additional disclosures have been provided in Note 6 to the Financial Statements.

4. Capital disclosures:

The Fund's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Fund considers its capital to be bank indebtedness (net of cash) plus Unitholders' equity. The Fund's capitalization is as follows:

	2009	2008
Cash and cash equivalents	\$ (463)	\$ (85)
Bank indebtedness	4,960	17,561
Net debt	4,497	17,476
Unitholders' equity	55,158	68,772
Total capitalization	\$ 59,655	\$ 86,248

The Fund monitors on a monthly basis the ratio of net debt to earnings before interest, income taxes, depreciation and amortization ("EBITDA"). Net debt to EBITDA serves as an indicator of the Fund's financial leverage. The U.S. credit facility is subject to a minimum trailing EBITDA covenant that is only applicable in the event the U.S. subsidiary's unused credit availability falls below US \$4.0 million. The Canadian credit facility is subject to a Fixed Charge Coverage Ratio ("FCCR") calculated as (EBITDA - capital expenditures - cash taxes)/(interest expense) which cannot be less

than 1.1 for Hardwoods LP.

The terms of the agreements with the Fund's lenders provide that distributions cannot be made to its unitholders in the event that its subsidiaries do not meet the above covenant requirements as well as certain additional credit ratios. The Fund's operating subsidiaries were compliant with all required credit ratios as at December 31, 2009, and accordingly there were no restrictions on distributions arising from compliance with financial covenants.

Distributions are one of the ways the Fund manages its capital. Distributions of the Fund's available cash are made to the maximum extent possible, subject to reasonable reserves established by the Trustees of the Fund. Distributions are made by the Fund having given consideration to a variety of factors including the outlook for the business, financial leverage, and the ratio of distributions to available cash of the Fund.

There were no changes in the Fund's approach to capital management during the year ended December 31, 2009. On November 3, 2008 the Trustees of the Fund suspended further monthly distributions until such time as market conditions and the Fund's generation of cash has improved.

5. Inventory:

	2009	2008
Lumber	\$ 8,224	\$ 12,077
Sheet goods	12,171	14,990
Specialty	2,099	2,356
Goods in-transit	1,407	1,445
	\$ 23,901	\$ 30,868

During the year ended December 31, 2009 inventory write-downs totaling \$2.7 million (2008 - \$3.1 million) were recorded to reduce certain inventory items to their net realizable value. The write-down for the year ended December 31, 2008 included \$0.6 million for inventory stocked specifically for a large customer which declared bankruptcy.

Cost of sales for the year ended December 31, 2009 were \$156.4 million (2008 - \$210.2 million), which included \$148.3 million (2008 - \$201.8 million) of costs associated with inventory. The other \$8.1 million (2008 - \$8.4 million) related principally to freight and other related expenses.

6. Financial instruments:

Financial assets include cash and cash equivalents, which are designated as held-for-trading and measured at fair value, current and long-term receivables, and income taxes recoverable which are designated as loans and receivables and measured at amortized cost. Financial liabilities include bank indebtedness and accounts payable and accrued liabilities. All financial liabilities are designated as other liabilities and are measured at amortized cost. There are no financial instruments classified as available-for-sale or held-to-maturity. Until August 2008, financial instruments of the Fund also

included foreign currency contracts which are derivative financial instruments (note 6(b)) and measured at fair value.

(a) Fair values of financial instruments:

The carrying values of cash and cash equivalents, accounts receivable, income taxes recoverable, accounts payable and accrued liabilities approximate their fair values due to the relatively short period to maturity of the instruments. The fair value of long-term receivables is not expected to differ materially from carrying value. The carrying values of the credit facilities approximate their fair values due to the existence of floating market based interest rates.

(b) Derivative financial instruments:

Until August 2008 the Fund used foreign currency contracts to assist in managing its exposure to fluctuations in exchange rates between the Canadian dollar and the U.S. dollar. The foreign currency contracts were recognized in the balance sheet and measured at their fair value based on the level two valuation inputs as described in Note 3, with changes in fair value recognized in the statement of operations.

All of the outstanding foreign currency contracts were settled with the counterparty during the year ended December 31, 2008.

(c) Financial risk management:

Trustees of the Fund and the Board of Directors of the Fund's subsidiaries have the overall responsibility for the establishment and oversight of the Fund's risk management framework. The Fund's risk management policies are established to identify and analyze the risks faced by the Fund, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and in response to the Fund's activities. Through its standards and procedures management has developed a disciplined and constructive control environment in which all employees understand their roles and obligations. Management regularly monitors compliance with the Fund's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Fund.

The Fund has exposure to credit, liquidity and market risks from its use of financial instruments.

(i) Credit risk:

Credit risk is the risk of financial loss to the Fund if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Credit risk arises principally from the Fund's receivables from its customers. Employee housing loans, customer notes and security deposits also present credit risk to the Fund.

The following is a breakdown of the Fund's current and long-term receivables and represents the Fund's exposure to credit risk related to its financial assets:

	2009	2008
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Trade accounts receivable - Canada	\$	9,756	\$	8,404
Trade accounts receivable - United States		16,117		23,423
Sundry receivable		203		495
Current portion of long-term receivables		919		2,243

		26,995		34,565

Less: allowance for doubtful accounts		1,410		2,347

	\$	25,585	\$	32,218

Long-term receivables:				
Employee housing loans	\$	450	\$	1,507
Customer notes		1,834		3,772
Security deposits		518		603

		2,802		5,882

Less: current portion, included in accounts receivable		919		2,243

	\$	1,883	\$	3,639

Trade accounts receivable:

The Fund's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The Fund is exposed to credit risk in the event it is unable to collect in full amounts receivable from its customers. The Fund employs established credit approval practices and engages credit attorneys when appropriate to mitigate credit risk. It is the Fund's policy to secure credit advanced to customers whenever possible by registering security interests in the assets of the customer and by obtaining personal guarantees.

Credit limits are established for each customer and are regularly reviewed. In some instances the Fund may choose to transact with a customer on a cash-on-delivery basis. The Fund's largest individual customer balance amounted to 9.1% (2008 - 8.2%) of trade accounts receivable and customer notes receivable at December 31, 2009.

The aging of trade receivables was:

		2009		2008

Current	\$	14,557	\$	17,037
Past due 31-60 days		5,283		6,696
Past due 61-90 days		2,181		3,706
Past due 90+ days		3,852		4,388

\$ 25,873 \$ 31,827

The Fund determines its allowance for doubtful accounts based on its best estimate of the net recoverable amount by customer. Accounts that are considered uncollectable are written off. The total allowance at December 31, 2009 was \$1.4 million (2008 - \$2.3 million). The amount of the allowance is considered sufficient based on the past experience of the business, the security the Fund has in place for past due accounts and management's regular review and assessment of customer accounts and credit risk.

The change in the allowance for doubtful accounts can be reconciled as follows:

2009 2008

Balance as at January 1	\$ 2,347	\$ 1,046
Additions during the period	2,774	2,121
Changes due to currency rate fluctuations	(263)	359
Use during the period	(3,448)	(1,179)

Balance as at December 31 \$ 1,410 \$ 2,347

Bad debt expense comprises additions to the allowance for doubtful accounts plus the value of receivables directly written off. Bad debt expense, net of recoveries, for the year ended December 31, 2009 was \$5.2 million which includes \$3.4 million related to trade accounts receivable and \$1.8 million to long-term receivables. For the year ended December 31, 2008 bad debt expense was \$3.9 million, all of which related to trade accounts receivable. Historically bad debt expense has averaged approximately 0.8% of sales.

Employee housing loans:

Employee loans are non-interest bearing and are granted to employees who are relocated. Employee loans are secured by a deed of trust or mortgage depending upon the jurisdiction. Employee loans are repaid in accordance with the loan agreement. These loans are measured at their fair market value upon granting the loan and subsequently measured at amortized cost.

Customer notes:

Customer notes are issued to certain customers to provide fixed repayment schedules for amounts owing that have been agreed will be repaid over longer periods of time. The terms of each note are negotiated with the customer. For notes issued the Fund requires a fixed payment amount, personal guarantees, general security agreements, and in some cases security over specific property or assets. Customer notes bear market interest rates ranging from 8%-10%.

Security deposits:

Security deposits are recoverable on leased premises at the end of the related lease term. The Fund does not believe there is any material credit risk associated with its security deposits.

(ii) Liquidity risk:

Liquidity risk is the risk that the Fund will not be able to meet its financial obligations as they fall due. The Fund's approach to managing liquidity is to ensure that it will have sufficient cash available to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Fund's reputation. At December 31, 2009, in Canada, a subsidiary of the Fund had a revolving credit facility of up to \$15.0 million. In the US, a subsidiary of the Fund had a revolving credit facility of up to \$26.3 million (US\$25.0 million). These credit facilities can be drawn down to meet short-term financing requirements, including fluctuations in non-cash working capital. The amount made available under the revolving credit facilities from time to time is limited to the extent of the value of certain accounts receivable and inventories held by subsidiaries of the Fund, as well as by continued compliance with credit ratios and certain other terms under the credit facilities. At December 31, 2009 the Canadian and U.S. credit facilities had \$9.2 million and \$11.3 million (US\$10.8 million), respectively of additional borrowing capacity.

(iii) Market risk:

Market risk is the risk that changes in market prices, such as interest rates, foreign exchange rates, and commodity prices will affect the Fund's net earnings or value of its holdings of financial instruments.

Interest rate risk:

The Fund is exposed to interest rate risk on its credit facilities which bear interest at floating market rates.

Based upon December 31, 2009 bank indebtedness balance of \$5.0 million, a 1% increase or decrease in the interest rates charged would result in decrease or increase to annual net earnings by \$0.05 million.

Currency risk:

As the Fund conducts business in both Canada and the United States it is exposed to currency risk. Most of the hardwood lumber sold by the Fund in Canada is purchased in U.S. dollars from suppliers in the United States. Although the Fund reports its financial results in Canadian dollars, approximately two-thirds of its sales are generated in the United States. Changes in the currency exchange rates of the Canadian dollar against the U.S. dollar will affect the results presented in the Fund's financial statements and cause its earnings to fluctuate. Changes in the costs of hardwood lumber purchased by the Fund in the United States as a result of the changing value of the Canadian dollar against the U.S. dollar are usually absorbed by the Canadian

market. When the hardwood lumber is resold in Canada it is generally sold at a Canadian dollar equivalent selling price, and accordingly revenues in Canada are effectively increased by decreases in value of the Canadian dollar and vice versa. Fluctuations in the value of the Canadian dollar against the U.S. dollar will affect the amount of cash available to the Fund for distribution to its Unitholders.

The Fund no longer maintains foreign currency contracts to mitigate the potential impact of foreign exchange on U.S. dollar distributions made by its U.S. operations. Currently no distributions are being made from the Fund's U.S. subsidiary. The Fund previously maintained foreign currency contracts to assist in forward planning cash flows to be received from its U.S. subsidiary.

At December 31, 2009 the Fund's Canadian subsidiaries primary exposure to foreign denominated working capital financial instruments was in relation to accounts receivable from U.S. customers (US\$0.2 million, (2008 - US\$0.1 million)), income taxes recoverable (US\$1.9 million, (2008 - US\$1.3 million)), and accounts payable to U.S. suppliers (\$0.2 million, (2008 - US\$0.1 million)).

Based on the Fund's exposure to foreign denominated financial instruments, the Fund estimates a \$0.05 weakening in the Canadian dollar as compared to the U.S. dollar would have reduced the net loss for the year ended December 31, 2009 by approximately \$0.1 million. A \$0.05 strengthening of the Canadian dollar as compared to the U.S. dollar would have had the equal but opposite effect.

This foreign currency sensitivity is focused solely on the currency risk associated with the Fund's Canadian subsidiaries exposure to foreign denominated financial instruments as at December 31, 2009 and does not take into account the effect of a change in currency rates will have on the translation of the balance sheet and operations of the Fund's U.S. subsidiaries nor is it intended to estimate the potential impact changes in currency rates would have on the Fund's sales and purchases.

Commodity price risk:

The Fund does not enter in to any commodity contracts. Inventory purchases are transacted at current market rates based on expected usage and sale requirements and increases or decreases in prices are reflected in the Fund's selling prices to customers.

7. Property, plant and equipment:

December 31, 2009	Cost	Accumulated amortization	Net book value
Machinery and equipment	\$ 2,095	\$ 1,685	\$ 410
Mobile equipment	3,225	2,394	831
Leasehold improvements	786	736	50
	\$ 6,106	\$ 4,815	\$ 1,291

December 31, 2008	Cost	Accumulated amortization	Net book value
Machinery and equipment	\$ 2,308	\$ 1,610	\$ 698
Mobile equipment	3,776	2,458	1,318
Leasehold improvements	840	688	152
	\$ 6,924	\$ 4,756	\$ 2,168

8. Foreign currency contracts:

In August 2008, a subsidiary of the Fund agreed to settle all of its remaining foreign currency contracts with the counterparty. The amount received by the Fund's subsidiary in settling the remaining twenty-two outstanding contracts was \$0.2 million.

For the year ended December 31, 2008, the Fund's subsidiary realized cash of \$1.2 million from the settlement of foreign currency contracts. For the year ended December 31, 2008, a loss of \$0.8 million was recorded in the statement of operations as the cash realized was less than the \$2.0 million fair value of the contracts recorded at December 31, 2007 due to the strengthening of the U.S. dollar during that period.

9. Intangible assets and goodwill:

During the year ended December 31, 2008, management reviewed for impairment the carrying value of intangible assets and goodwill. Results of testing indicated impairment of the carrying value of intangible assets of \$8.6 million and goodwill of \$82.1 million. This impairment reduced the intangible asset and goodwill balances to zero, and is attributable primarily to the significant decline in sales in the U.S. and Canada resulting from reduced residential housing starts and remodeling sales and a decline in consumer confidence and overall economic activity.

10. Bank indebtedness:

	2009	2008
Checks issued in excess of funds on deposit	\$ 1,077	\$ 1,087
Credit facility, Hardwoods LP	1,945	265
Credit facility, Hardwoods USLP (December 31, 2009 - US\$1,844; December 31, 2008 - US\$13,308)	1,938	16,209
	\$ 4,960	\$ 17,561

Bank indebtedness consists of checks issued in excess of funds on deposit and advances under operating lines of credit available to Hardwoods LP and Hardwoods USLP (the "Credit Facilities").

Each of the Credit Facilities is separate, is not guaranteed by the other partnership, and does not contain cross default provisions to the other Credit Facility. The Credit Facility made available to Hardwoods LP is secured by a first security interest in all of the present and after acquired property of Hardwoods LP and its operating subsidiaries, and by the LP Units held by a subsidiary of the Fund and SIL. The Credit Facility made available to Hardwoods USLP is secured by a first security interest in all of the present and after acquired property of Hardwoods USLP and by the USLP Units held by a subsidiary of the Fund and by SIL.

The Hardwoods LP Credit Facility has a three year term, provides financing up to \$15.0 million and has a maturity date of August 7, 2012. The Hardwoods USLP Credit Facility has a three year term, provides financing of up to US\$ 25.0 million and has a maturity date of September 30, 2011. Each facility is payable in full at maturity. The Hardwoods LP Credit Facility is repayable subject to prepayment penalties of \$225,000 if repaid in the first 12 months of the credit facility term, \$150,000 if repaid in the second 12 months of the credit facility term, and \$75,000 thereafter if repaid prior to the maturity date of the credit facility. The Hardwoods USLP Credit Facility is repayable without prepayment penalties. The Credit Facilities bear interest at a floating rate based on the Canadian or US prime rate (as the case may be), LIBOR or bankers acceptance rates plus, in each case, an applicable margin. Letters of credit are also available under the Credit Facilities on customary terms for facilities of this nature. The Credit Facilities' rates vary with the ratio of EBITDA minus capital expenditures and cash taxes, divided by interest. Commitment fees and standby charges usual for borrowings of this nature were and are payable.

The amount made available under the Credit Facility to Hardwoods LP from time to time is limited to the extent of 85% of the book value of accounts receivable and the lesser of 60% of the book value or 85% of appraised value of inventories with the amount based on inventories not to exceed 60% of the total amount to be available. Certain identified accounts receivable and inventories are excluded from the calculation of the amount available under the Credit Facility. Hardwoods LP is required to maintain a fixed charge coverage ratio (calculated as the ratio of EBITDA less cash taxes less capital expenditures, divided by interest) of not less than 1.1 to 1. At December 31, 2009 the Hardwoods LP credit facility had \$9.2 million of additional borrowing capacity.

The amount to be made available under the Credit Facility to Hardwoods USLP from time to time is limited to the extent of 85% of the book value of certain accounts receivable and 50% of the book value of inventories (with certain accounts receivable and inventory being excluded). Hardwoods USLP is required to maintain a minimum trailing EBITDA covenant until December 31, 2010, and a fixed charge coverage ratio (calculated as EBITDA less cash taxes less capital expenditures, divided by interest plus distributions) of 1.0 to 1 thereafter. These covenants of the Hardwoods USLP Credit Facility do not need to be met however when the unused availability under the credit facility is in excess of US\$4.0 million. At December 31, 2009 the Hardwoods USLP credit facility had unused availability of \$11.3 million (US\$10.8 million).

The average annual interest rates paid in respect of bank indebtedness for the year ended December 31, 2009 were 3.82% and 4.88% (2008 - 5.19% and 5.09%) for the Hardwoods LP and Hardwoods USLP credit facilities, respectively. In addition, standby fees of 0.5% and 0.75% (2008 - 0.25% and 0.25%) related to the unused portion

of the credit facilities was charged by the banks for Hardwoods LP and Hardwoods USLP respectively.

11. Non-controlling interests:

	2009	2008
Balance, beginning of year	\$ 13,080	\$ 30,006
Interest in earnings:		
Interest in earnings (loss) before taxes	(833)	(17,560)
Adjustment to non-controlling interest from subordination of Class B Unit Holders	(1,514)	(2,471)
Increase (decrease)	(2,347)	(20,031)
Foreign currency translation adjustment of non-controlling interest in Hardwoods USLP	(1,985)	3,105
Balance, end of year	\$ 8,748	\$ 13,080

The previous owners of the Business (note 1) have retained a 20% interest in Hardwoods LP and Hardwoods USLP through ownership of Class B Hardwoods LP units ("Class B LP Units") and Class B Hardwoods USLP units ("Class B USLP Units"), respectively. The Fund owns an indirect 80% interest in Hardwoods LP and Hardwoods USLP through ownership of all Class A Hardwoods LP units ("Class A LP Units") and Class A Hardwoods USLP units ("Class A USLP Units"), respectively.

The Class A LP Units and Class B LP Units and the Class A USLP Units and Class B USLP Units, respectively, have economic and voting rights that are equivalent in all material respects except distributions on the Class B LP Units and Class B USLP Units are subject to the subordination arrangements described below until the date (the "Subordination End Date") on which:

- the consolidated Adjusted EBITDA, as defined in the Subordination Agreement dated March 23, 2004, of the Fund for the 12 month period ending on the last day of the month immediately preceding such date is at least \$21,300,000; and
- cash distributions of at least \$29,540,000 (\$2.05 per Unit) have been paid on the Units and a combined amount of cash advances or distributions of at least \$7,385,000 has been paid on the Class B LP Units and Class B USLP Units, being \$2.05 per combined Class B LP and Class B USLP Units (as adjusted for issuances, redemptions and repurchases of Units, LP Units and USLP Units subsequently and by converting the cash distributions or advances by Hardwoods USLP on the USLP Units at the rate of exchange used by the Fund to convert funds received by it in U.S. dollars into Canadian dollars) for the 24 month period ending on the last day of the month immediately preceding such date.

The Subordinated End Date had not occurred as at December 31, 2009.

Prior to the Subordination End Date, advances and distributions on

the LP Units and the USLP Units will be made in the following order of priority:

- At the end of each month, cash advances or distributions will be made to the holders of Class A LP Units and Class A USLP Units in a combined amount that is sufficient to provide available cash to the Fund to enable the Fund to make cash distributions upon the Units for such month at least equal to \$0.08542 per Unit or, if there is insufficient available cash to make distributions or advances in such amount, such lesser amount as is available and as determined by the board of directors of the general partners;
- At the end of each fiscal quarter of Hardwoods LP and Hardwoods USLP, including the fiscal quarter ending on the fiscal year end, available cash of Hardwoods LP and Hardwoods USLP will be advanced or distributed in the following order of priority:
 - First, in payment of the monthly cash advance or distribution to the holders of Class A LP Units and Class A USLP Units as described above, for the month then ended;
 - Second, to the holders of Class A LP Units and Class A USLP Units, to the extent that the combined monthly cash advances or distributions in respect of the 12 month period then ended (and not, for greater certainty, in any previous 12 month period) on Class A LP Units and Class A USLP Units were not made or were made in amounts less than a combined amount at least equal to \$1.025 per Unit, the amount of any such deficiency. As of December 31, 2009, the amount of such deficiency was \$14.8 million (2008 - \$7.2 million);
 - Third, to the holders of Class B LP Units and Class B USLP Units in a combined amount for one Class B LP Unit and one Class B USLP Unit equal, on a pro-rated basis, to the combined amount advanced or distributed on one Class A LP Unit and one Class A USLP Unit during such fiscal quarter or, if there is insufficient available cash to make advances or distributions in such amount, such lesser amount as is available;
 - Fourth, to the holders of Class B LP Units and Class B USLP Units, to the extent only that combined advances or distributions in respect of any fiscal quarter(s) during the 12 month period then ended (and not, for greater certainty, in any previous 12 month period) on one Class B LP Unit and one Class B USLP Unit were not made, or were made in amounts less, on a pro-rated basis, that the combined amount advanced or distributed on one Class A LP Unit and one Class A USLP Unit during such 12 month period, the amount of such deficiency. As of December 31, 2009, the amount of such deficiency was nil (2008 - \$1.9 million); and
 - Fifth, to the extent of any excess, to the holders of the Class A LP Units and Class B LP Units and Class A USLP Units and Class B USLP Units, respectively, so that the combined advances or distributions on one Class A LP Unit and one Class A USLP Unit are the same as the combined advances or distribution on one Class B LP Unit and one Class B USLP Unit in respect of the 12 month period then ended (and not, for greater certainty, any previous 12 month period).

After the Subordination End Date, the holders of the Class B LP Units and Class B USLP Units will generally be entitled to effectively exchange all or a portion of their Class B LP Units and Class B USLP Units together for up to 3,602,500 Units of the Fund, representing

20% of the issued and outstanding Units of the Fund on a fully diluted basis. In the event the Fund enters into an agreement in respect of an acquisition or a take-over bid of the Fund, the holders of the Class B LP Units and Class B USLP Units will be entitled to exchange such units for Units of the Fund.

The cumulative deficiency which is no longer recoverable by the Class B LP Unitholders and the Class B USLP Unitholders, has been recorded as an adjustment to the non-controlling interest's share of earnings in the amount of \$1.5 million for the year ended December 31, 2009 and \$2.5 million for the year ended December 31, 2008.

12. Fund Units:

- (a) An unlimited number of Units and Special Voting Units may be created and issued pursuant to the Declaration of Trust. Each Unit is transferable and represents an equal undivided beneficial interest in any distributions from the Fund, whether of net income, net realized capital gains or other amounts and in the net assets of the Fund in the event of a termination or winding up of the Fund. The Special Voting Units are not entitled to any beneficial interest in any distribution from the Fund or in the net assets of the Fund in the event of a termination or winding up of the Fund. Each Unit, or Special Voting Unit, entitles the holder thereof to one vote at all meetings of voting Unitholders.

On March 23, 2004, the Fund issued 14,410,000 Units at a price of \$10 per Unit pursuant to the Offering. Net proceeds from the Offering were \$133,454,000 after deducting expenses of the Offering of \$10,646,000. The holders of the Class B Units of Hardwoods LP and Hardwoods USLP were issued 3,602,500 Special Voting Units of the Fund, the value of which is included in non-controlling interests (note 11). Such Special Voting Units are to be cancelled on the exchange of Class B Units of Hardwoods LP and Hardwoods USLP for Units of the Fund.

- (b) The Trustees of the Fund approved the adoption of a Unitholders' Rights Plan (the "Rights Plan") dated December 12, 2006, that is intended to ensure fair treatment for all Unitholders in the event of a take-over bid or any other attempt to acquire a controlling interest in the Fund. The Rights Plan has been accepted by the Toronto Stock Exchange and was approved at the meeting of Unitholders on May 14, 2007. The Rights Plan will continue in effect until the annual general meeting of Unitholders in 2010. Provisions of the Rights Plan include the limitation on Unitholder ownership at 20% of outstanding units in the absence of a take-over bid for all outstanding units and a requirement for a take-over bid to be open for a minimum of 60 days. At the effective date of the Rights Plan, beneficial owners of 20% or more of the units of the Fund (including holders of securities exchangeable for units of the Fund) were deemed to be "Grandfathered Persons" and are exempt from the definition of an "Acquiring Person" under the Rights Plan provided their beneficial interest in the outstanding units does not increase by more than 1.0% following December 12, 2006. The rights become exercisable only when a person or party acquires 20% or more of the Units, or in the case of a Grandfathered Person increases their beneficial interest in Units by more than 1.0%, each without complying with certain provisions of the Rights Plan. Each right would entitle each holder of Units (other than the acquiring person or party) to purchase additional Units of the Fund at a 50 percent discount to the market price at the time.

13. Income taxes:

	2009	2008
Current	\$ (1,896)	\$ (734)
Future	10,320	(30,792)
	\$ 8,424	\$ (31,526)

During the year ended December 31, 2009, a subsidiary of the Fund recorded a future tax expense of \$10.1 million related to the refinancing of inter-entity debt resulting from the continued downturn in financial results in the Fund's US operating subsidiary. The future tax expense was comprised of a reduction to the US operating loss carry forwards of a subsidiary of the Fund and a reduction in the associated tax basis in the subsidiary's investment in Hardwoods USLP.

During the year ended December 31, 2008 the Fund completed an internal reorganization that involved the refinancing of inter-entity debt in the form of notes issued and held by subsidiaries of the Fund. As a result of the internal re-organization, income tax losses which are available to reduce US taxable income of approximately US \$10.3 million arose. Based on statutory income tax rates in effect for the Fund's US subsidiary, this amounted to an estimated \$3.6 million tax benefit available to subsidiaries of the Fund. This \$3.6 million benefit was recorded at March 31, 2008 and was comprised of an estimated \$0.8 million current income tax recovery and \$2.8 million future income tax recovery.

Also during the year ended December 31, 2008 a Canadian subsidiary of the Fund recognized tax pools consisting principally of Canadian tax losses carried forward, of approximately \$16.0 million as a result of the Fund's re-organization plan. Based on tax rates expected to apply at the date such tax pools will be utilized, an additional \$4.2 million of future income tax benefit was recorded by the Fund at March 31, 2008.

The reorganizations and inter-entity refinancing noted in the preceding paragraphs did not have any effect upon the management or business activities of the Fund's operating subsidiaries.

During the year ended December 31, 2008, the Fund recorded a future tax recovery of approximately \$22.3 million as a result of the write-down of goodwill and intangible assets. Goodwill and intangible assets remain deductible for Canadian and U.S. tax purposes.

Under current income tax regulations subsidiaries of the Fund are subject to income taxes in Canada and the United States. The applicable statutory rate in Canada for the year ending December 31, 2009 is 30.4% (2008 - 31.0%) and in the United States is 39.4% (2008 - 39.4%). As the tax expense related to the Canadian subsidiaries of the Fund is only \$0.3 million, the following table reconciles the Fund's consolidated income tax expense to the statutory rate applicable in the United States. Income tax expense differs from that calculated by applying the U.S. federal and state income tax rates to earnings before income taxes for the following reasons:

2009	2008
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Earnings before income tax	\$	(1,816)	\$	(67,769)
Computed tax recovery at statutory rate	\$	(716)	\$	(26,701)
Internal restructuring and re-financing		10,129		(7,802)
Income of Fund distributed directly to Unitholders		-		(2,382)
Income and deductions not subject to tax		-		(422)
Taxes paid as a result of Subordination Agreement		-		92
Adjustment to non-controlling interest not subject to tax		(596)		(698)
State and branch profits tax		228		50
Reconciling items related to goodwill and intangible impairment		-		5,611
Rate changes		(475)		-
Other		(146)		726
Income tax expense (recovery)	\$	8,424	\$	(31,526)

Taxes paid as a result of the Subordination Agreement represent additional taxes incurred by subsidiaries of the Fund due to distributions having not been made to the non-controlling interests on a proportionate basis.

The tax effect of temporary differences that give rise to significant portions of the future income tax assets and liabilities at December 31, 2009 is as follows:

	2009	2008
Future income tax assets:		
Accounts receivable	\$ 438	\$ 380
Accounts payable	207	-
Inventory	290	351
Employee housing loans	44	77
Property, plant and equipment	351	309
Goodwill	15,926	19,307
Tax loss carry forwards and future interest deductions	4,427	10,318
Deferred gain on sale-leaseback of land and building	131	180
Financing charges and other	200	-
	22,014	30,922
Future income tax liabilities:		
Prepaid expenses	(45)	(88)
Property, plant and equipment	(62)	(52)
Investment in Hardwoods USLP	(4,320)	-
	(4,427)	(140)
Net future income tax asset	\$ 17,587	\$ 30,782

At December 31, 2009, subsidiaries of the Fund have operating loss carry forwards for income tax purposes of approximately \$14.1 million in Canada and US\$ nil in the United States that may be utilized to offset future taxable income. These losses, if not utilized expire between 2014 and 2027.

At December 31, 2009 the Fund and its Canadian subsidiaries have capital losses of approximately \$23.4 million (2008 - \$nil), and suspended capital losses of approximately \$44.2 million available to offset future Canadian taxable capital gains. These capital losses arose as a result of internal restructuring and inter-entity transactions during the year ended December 31, 2009. A full valuation allowance has been recorded against the associated future income tax asset of \$8.5 million.

14. Changes in non-cash operating working capital and additional cash flow disclosures:

	2009	2008
Source (use) of funds		
Accounts receivable	\$ 3,842	\$ 7,858
Income taxes recoverable/payable	(223)	(805)
Inventory	4,355	11,820
Prepaid expenses	74	155
Accounts payable and accrued liabilities	2,243	(4,192)
Decrease in non-cash operating working capital		
	\$ 10,291	\$ 14,836

CICA 1540, Cash Flow Statements, requires entities to disclose total cash distributions on financial instruments classified as equity in accordance with a contractual agreement and the extent to which total cash distributions are non-discretionary. The Fund has no contractual requirement to pay cash distributions to Unitholders' of the Fund. During the year ended December 31, 2009 no discretionary cash distributions were paid to Unitholders (2008 - \$8.6 million).

15. Commitments:

The Fund's subsidiaries are obligated under various building and automobile operating leases that require minimum rental payments in each of the next five years as follows:

2010	\$ 5,746
2011	3,735
2012	2,733
2013	2,041
2014	1,536
	15,791
Thereafter	580
	\$ 16,371

16. Segment disclosure:

Information about geographic areas is as follows:

	2009	2008

Revenue from external customers:		
Canada	\$ 75,339	\$ 89,581
United States	115,584	166,720
	-----	-----
	\$ 190,923	\$ 256,301
	-----	-----
Property, plant and equipment:		
Canada	\$ 450	\$ 752
United States	841	1,416
	-----	-----
	\$ 1,291	\$ 2,168
	-----	-----

17. Pensions:

Hardwoods USLP maintains a defined contribution 401 (k) retirement savings plan (the "USLP Plan"). The assets of the USLP Plan are held and related investment transactions are executed by the Plan's Trustee, ING National Trust, and, accordingly, are not reflected in these consolidated financial statements. During the year ended December 31, 2009, Hardwoods USLP contributed and expensed \$239,378 (US\$209,378) (2008- \$377,750 (US\$354,362)) in relation to the USLP Plan.

Hardwoods LP does not maintain a pension plan. Hardwoods LP does, however, administer a group registered retirement savings plan ("LP Plan") that has a matching component whereby Hardwoods LP makes contributions to the LP Plan which match contributions made by employees up to a certain level. The assets of the LP Plan are held and related investment transactions are executed by LP Plan's Trustee, Sun Life Financial Trust Inc., and, accordingly, are not reflected in these consolidated financial statements. During the year ended December 31, 2009, Hardwoods LP contributed and expensed \$196,561 (2008 - \$256,469) in relation to the LP Plan.

18. Related party transactions:

For the year ended December 31, 2009, sales of \$448,257 (2008 - \$427,795) were made to affiliates of SIL, and the Fund made purchases of \$53,210 (2008 - \$98,005) from affiliates of SIL. All sales and purchases took place at prevailing market prices.

During the year ended December 31, 2008, the Fund paid \$108,000 to affiliates of SIL under the terms of an agreement to provide services for management information systems. This agreement ended December 31, 2008.

19. Contingencies:

The Fund and its subsidiaries are subject to legal proceedings that arise in the ordinary course of its business. Management is of the opinion, based upon information presently available, that it is unlikely that any liability, to the extent not provided for through insurance or otherwise, would be material in relation to the Fund's consolidated financial statements.

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/For further information: Rob Brown, Chief Financial Officer, Phone:
(604) 881-1990, Fax: (604) 881-1995, Email: robbrown(at)hardwoods-inc.com/
(HWD.UN.)

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