Unaudited Condensed Consolidated Interim Financial Statements
(Expressed in Canadian dollars)

HARDWOODS DISTRIBUTION INC.

Three and nine month periods ended September 30, 2011 and 2010

HARDWOODS DISTRIBUTION INC.

Unaudited Condensed Consolidated Interim Statement of Financial Position
(Expressed in thousands of Canadian dollars)

	Note	September 30, 2011	December 31, 2010
Assets			
Current assets:			
Cash		$ 326	$ 43
Accounts receivable	6	38,512	26,656
Income taxes recoverable		7	1,820
Inventories	7	40,970	27,441
Prepaid expenses		839	768
Total current assets		80,654	56,728
Non-current assets:			
Long-term receivables	6	1,419	1,515
Property, plant and equipment	8	6,653	2,444
Deferred income taxes		18,159	15,463
Intangible asset	3	22	-
Total non-current assets		26,253	19,422
Total assets		106,907	$ 76,150
Liabilities			
Current liabilities:			
Bank indebtedness	9	$ 23,373	$ 6,745
Accounts payable and accrued liabilities		7,881	3,098
Income taxes payable		35	41
Provisions	10	442	301
Finance lease obligation	11	849	733
Dividend payable	4	319	-
Total current liabilities		32,899	10,918
Non-current liabilities:			
Provisions	10	27	240
Finance lease obligation	11	573	722
Non-controlling interests	12	-	3,197
Long term incentive plan liability	13(b)	-	264
Fund Units	13(a)	-	144,366
Total non-current liabilities		600	148,789
Total liabilities		$ 33,499	$ 159,707
Shareholders' equity/Unitholders' deficit			
Share capital	13(a)	43,759	-
Contributed surplus		105,082	-
Deficit		(75,524)	(81,620)
Accumulated other comprehensive income (loss)		91	(1,937)
Shareholders' equity		73,408	(83,557)
Total liabilities and shareholders' equity		$ 106,907	$ 76,150

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

Approved on behalf of the Board:

(Signed) GRAHAM M. WILSON Director **(Signed) TERRY M. HOLLAND** Director

HARDWOODS DISTRIBUTION INC.

Unaudited Condensed Consolidated Statement of Comprehensive Income (Loss)
(Expressed in thousands of Canadian dollars)

Three and nine month periods ended September 30, 2011 and 2010

	Note	Three months ended September 30, 2011	Three months ended September 30, 2010	Nine months ended September 30, 2011	Nine months ended September 30, 2010
Sales		$ 57,372	$ 50,559	$ 166,120	$ 151,263
Cost of sales		(47,251)	(41,843)	(136,815)	(124,595)
Gross profit		10,121	8,716	29,305	26,668
Operating expenses:					
Selling and distribution		(6,440)	(5,987)	(18,867)	(17,854)
Administration		(1,842)	(1,585)	(5,378)	(5,009)
Other		(130)	-	(701)	320
		(8,412)	(7,572)	(24,946)	(22,543)
Profit from operating activities		1,709	1,144	4,359	4,125
Finance expense	15	(162)	(917)	(1,100)	(1,057)
Finance income	15	887	160	1,043	471
Net finance costs		725	(757)	(57)	(586)
Profit before income taxes		2,434	387	4,302	3,539
Income tax recovery (expense):					
Current	14	(9)	(10)	(44)	(144)
Deferred	14	3,180	(524)	2,157	(1,478)
		3,171	(534)	2,113	(1,622)
Profit (loss) for the period		5,605	(147)	6,415	1,917
Other comprehensive profit (loss):					
Exchange differences translating foreign operations		3,045	(1,242)	2,028	(776)
Total comprehensive profit (loss) for the period		$ 8,650	$ (1,389)	$ 8,443	$ 1,141
Basic profit (loss) per share/unit		$ 0.35	$ (0.01)	$ 0.43	$ 0.13
Diluted profit (loss) per share/unit	13	0.35	(0.01)	0.42	0.13

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

HARDWOODS DISTRIBUTION INC.

Unaudited Condensed Consolidated Statement of Changes in Shareholders' Equity
(Expressed in thousands of Canadian dollars)

Three and nine month periods ended September 30, 2011 and 2010

	Note	Share capital	Contributed surplus	Accumulated other comprehensive income-translation reserve	Deficit	Total
Balance at January 1, 2010		$ -	$ -	$ -	$ (82,557)	$ (82,557)
Profit for the period			-	-	1,917	1,917
Translation of foreign operations		-	-	(776)	-	(776)
Balance at September 30, 2010		$ -	$ -	$ (776)	$ (80,640)	$ (81,416)
Balance at January 1, 2011		$ -	$ -	$ (1,937)	$ (81,620)	$ (83,557)
Shares issued on conversion	13(a)	43,759	104,573	-	-	148,332
LTIP units issued and outstanding	13(b)	-	509	-	-	509
Profit for the period		-	-	-	6,415	6,415
Dividends declared	4	-	-	-	(319)	(319)
Translation of foreign operations		-	-	2,028	-	2,028
Balance at September 30, 2011		$ 43,759	$ 105,082	$ 91	$ (75,524)	$ 73,408

The accompanying notes are an integral part of the condensed consolidated interim financial statements.

HARDWOODS DISTRIBUTION INC.

Unaudited Condensed Consolidated Statement of Cash Flows
(Expressed in thousands of Canadian dollars)

Three and nine month periods ended September 30, 2011 and 2010

	Note	Three months ended September 30, 2011	Three months ended September 30, 2010	Nine months ended September 30, 2011	Nine months ended September 30, 2010
Cash flows from operating activities:					
Profit (loss) for the period		$ 5,605	$ (147)	$ 6,415	$ 1,917
Adjustments for:					
Depreciation	8	219	255	669	901
Gain on sale of property, plant and equipment	8	(5)	(42)	(64)	(93)
Non-cash employee incentive program		72	137	466	137
Income tax expense (recovery)		(3,171)	534	(2,113)	1,622
Net finance costs		(725)	757	57	586
Interest received		120	158	378	457
Interest paid		(122)	(248)	(432)	(585)
Income taxes paid		-	(14)	(54)	(75)
Income tax refunds received		4	22	1,800	317
		1,997	1,412	7,122	5,184
Changes in non-cash working capital:					
Accounts receivable		1,737	226	(6,532)	(6,009)
Inventories		(4,377)	(1,620)	(6,079)	(6,906)
Prepaid expenses		(244)	(30)	(54)	(41)
Provisions		(32)	(95)	(84)	(284)
Accounts payable and accrued liabilities		1,816	(359)	4,490	693
		(1,100)	(1,878)	(8,259)	(12,547)
Net cash provided by (used in) operating activities		897	(466)	(1,137)	(7,363)
Cash flow from financing activities:					
Increase in bank indebtedness		13,261	444	15,502	6,896
Principle payments on finance lease obligation		(177)	(197)	(520)	(584)
Net cash provided by financing activities		13,084	247	14,982	6,312
Cash flow from investing activities:					
Additions to property, plant and equipment		(91)	(13)	(221)	(67)
Proceeds on disposal of property, plant and equipment		-	52	98	158
Business acquisition	3	(13,693)	-	(13,693)	-
Payments received on long-term receivables		100	267	254	700
Net cash provided by (used in) investing activities		(13,684)	306	(13,562)	791
Increase (decrease) in cash		297	87	283	(260)
Cash, beginning of period		29	116	43	463
Cash, end of period		$ 326	$ 203	$ 326	$ 203

The accompanying notes are an integral part of the condensed consolidated interim financial statements.

1. Nature of operations and the Arrangement

Hardwoods Distribution Inc. (the "Company") is a company incorporated under the Canada Business Corporations Act. The Company is the successor to Hardwoods Distribution Income Fund (the "Fund") following the completion of the conversion of the Fund (the "Reorganization") from an income trust structure by way of a court-approved plan of arrangement under the Canada Business Corporation Act on July 1, 2011 (the "Arrangement").

Pursuant to the Arrangement holders of units of the Fund received common shares ("Common Shares") of the newly created corporation, Hardwoods Distribution Inc., on a one-for-one basis. Concurrently with the Arrangement, holders of the Special Voting Units of the Fund and corresponding Class B limited partner units of Hardwoods Specialty Products LP and Hardwoods Specialty Products USLP (together the "Exchangeable Units") directly or indirectly exchanged each Exchangeable Unit for 0.3793 Common Shares of the Company. Upon completion of the Arrangement, the Company holds all the assets previously held by the Fund and wholly owns Hardwoods Specialty Products LP and Hardwoods Specialty Products USLP. Hardwoods Specialty Products LP and Hardwoods Specialty Products USLP are the primary operating entities of the Company in Canada and the US, respectively. As a result of the Arrangement, the Company became the sole unitholder of the Fund's outstanding Units. On July 1, 2011 the Fund was dissolved and all of its assets were transferred to, and all of its liabilities were assumed by, the Company as the Fund's sole unitholder on that date.

The Arrangement resulted in the Company having 15,970,513 Common Shares issued and outstanding, and the Common Shares trade on the Toronto Stock Exchange under the symbol "HWD." The Company's principal office is located at #306, 9440 202nd Street, Langley, British Columbia V1M 4A6. Taken together, Hardwoods Specialty Products LP and Hardwoods Specialty Products USLP operate a network of 31 distribution centers in Canada and the US engaged in the wholesale distribution of hardwood lumber and related sheet goods and specialty products.

The Reorganization has been accounted for on a continuity of interest basis and accordingly, the consolidated financial statements reflect the financial position, results of operations and cash flows as if the Company had always carried on the business formerly carried on by the Fund, with all assets and liabilities transferring to the Company at their respective carrying values on July 1, 2011.

Information herein with respect to Hardwoods Distribution Inc. includes information in respect of the Fund prior to completion of the Reorganization to the extent applicable unless the context otherwise requires. In addition, references to "common shares" and "shares" should be read as references to "units" for periods prior to July 1, 2011.

2. Basis of preparation and significant accounting policies:

(a) Statement of compliance:

These condensed consolidated interim financial statements are prepared in accordance with IAS 34, Interim Financial Reporting and thus do not include all of the information required for full annual financial statements. These are the Company's third condensed consolidated interim financial statements prepared for part of the period covered by the first IFRS annual financial statements and IFRS 1, First Time Adoption of International Financial Reporting Standards ("IFRS 1"), has been applied. The preparation of these condensed consolidated interim financial statements resulted in changes to the accounting policies adopted by the Company in its most recent annual financial statements, which were prepared under Canadian generally accepted accounting principals ("GAAP") as issued by the Canadian Institute of Chartered Accountants. An explanation of how the transition to IFRS has affected the reported financial position and financial performance of the Company is explained in note 20 to these condensed consolidated interim financial statements and note 20 to the Fund's consolidated interim financial statements for the three month period ended March 31, 2011.

The condensed consolidated interim financial statements were authorized for issue by the Board of Directors on November 7, 2011.

(b) Basis of measurement:

The condensed consolidated interim financial statements have been prepared on the historical cost basis, except for the non-controlling interest's exchangeable units liability which was recorded in the statement of financial position at its estimated fair value until completion of the Arrangement described in Note 1.

(c) Functional and presentation currency:

These condensed consolidated interim financial statements are presented in Canadian dollars, which is the Company's functional currency. All financial information presented in the financial statements, with the exception of per share amounts, has been rounded to the nearest thousand.

(d) Use of estimates and judgment:

The preparation of financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual amounts may differ from the estimates applied in the preparation of these financial statements.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

2. Basis of preparation and significant accounting policies (continued):

(d) Use of estimates and judgment (continued)

Information about significant areas of estimation uncertainty and critical judgments in applying policies that have the most significant effect on the amounts recognized in the condensed consolidated interim financial statements is included in the following notes:

- Note 3 – the valuation of Paxton assets acquired and combined net income and sales
- Note 6 – the determination of the allowance for doubtful accounts;
- Note 10 – the determination of provisions and contingencies
- Note 11 – the determination of finance lease obligations
- Note 12 – the valuation of the non-controlling interest exchangeable units; and
- Note 14 – the valuation of deferred income taxes and utilization of tax loss carry forwards.

(e) Significant accounting policies

The significant accounting policies that have been used in the preparation of these condensed consolidated interim financial statements are summarized in note 3 to the first interim condensed consolidated interim financial statements of the Fund for the three month period ended March 31, 2011. Accordingly, these statements should be read in conjunction with the condensed consolidated interim financial statements for the period ended March 31, 2011.

New standards and interpretations yet to be adopted:

IFRS 9 - Financial Instruments

In November 2009, the IASB issued IFRS 9 - *Financial Instruments*, which is the first step in its project to replace IAS 39 - *Financial Instruments: Recognition and Measurement*. IFRS 9 establishes the measurement and classification of financial assets. Under IFRS 9, financial assets are measured either at fair value through earnings or at amortized cost if certain conditions are met. The effective date of this standard is January 1, 2013, but early adoption is permitted. The Company will apply this standard to its financial statements beginning on January 1, 2013. The Company is currently evaluating the impact of IFRS 9 on its financial statements.

IFRS 10 – Consolidated Financial Statements

In May 2011, the IASB issued IFRS 10 – *Consolidated Financial Statements*. The objective of IFRS 10 is to establish principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. The effective date of this standard is January 1, 2013, but early adoption is permitted. The Company will apply this standard to its financial statements beginning on January 1, 2013. The adoption of IFRS 10 is not expected to have a significant impact on the Company's consolidated financial statements.

(Tabular amounts expressed in thousands of Canadian dollars)

2. Basis of preparation and significant accounting policies (continued):

(e) Significant accounting policies (continued)

IFRS 12 – Disclosure of Interests in Other Entities

In May 2011, the IASB issued IFRS 12 – *Disclosure of Interests in Other Entities*. The objective of IFRS 12 is to require the disclosure of information that enables users of financial statements to evaluate the nature of, and risks associated with, its interests in other entities and the effects of those interests on its financial position, financial performance and cash flows. The effective date of this standard is January 1, 2013, but early adoption is permitted. The Company will apply this standard to its financial statements beginning on January 1, 2013. The adoption of IFRS 12 is not expected to have a significant impact on the Company's consolidated financial statements.

IFRS 13 – Fair Value Measurement

In May 2011, the IASB issued IFRS 13 – *Fair Value Measurement*. The objective of IFRS 13 is to define fair value, set out in a single IFRS framework for measuring fair value, and establish disclosure requirements regarding fair value measurements. The effective date of this standard is January 1, 2013, but early adoption is permitted. The Company will apply this standard to its financial statements beginning on January 1, 2013. The Company is currently evaluating the impact of IFRS 13 on its financial statements.

3. Business acquisition:

On September 19, 2011 a subsidiary of the Company purchased certain assets of Frank Paxton Lumber Company ("Paxton") with the intention to continue operations of the business. Paxton is a US based remanufacturer and distributor of hardwood lumber, millwork and sheet goods, with branch operations in San Antonio, Denver, Cincinnati, Kansas City and Chicago. The Company purchased the trade accounts receivable, inventory, and property, plant and equipment of Paxton for cash consideration of $13.7 million (US$13.9 million) and hired Paxton's employees to continue operating the business.

The acquisition has been accounted for as a business combination. The preliminary allocation of purchase price to identified assets acquired is as follows:

Trade accounts receivable	$	3,972
Inventory		5,769
Property, plant and equipment		3,931
Intangible asset		21
Cash paid	$	13,693

As part of the acquisition, buildings have been leased from the previous owner at market rates. Liabilities were not assumed with the exception of equipment and truck leases, which are classified as operating leases. The lease obligations are as follows:

Minimum lease payments due		Within one year		One to five years		After five years		Total
Buildings	$	1,048	$	4,193	$	-	$	5,241
Equipment and vehicles		86		67		-		153

(Tabular amounts expressed in thousands of Canadian dollars)

3. Business acquisition (continued):

Had the acquisition occurred on January 1, 2011 management estimated that the Company's consolidated sales would have been $198.1 million for the nine month period ended September 30, 2011. Sales included in these condensed consolidated interim financial statements for the period from September 19 to 30, 2011 for Paxton were $2.1 million. There was no material impact on profit in the period arising from the Paxton acquisition as earnings from Paxton were substantially offset by transactions costs associated with completing the acquisition.

4. Capital management:

The Company'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 Company considers its capital to be bank indebtedness (net of cash) and shareholders' equity. The Company's capitalization is as follows:

	September 30, 2011	December 31, 2010
Cash and cash equivalents	$ (326)	$ (43)
Bank indebtedness	23,373	6,745
Fund unit liability	-	144,366
Net deficit attributable to unitholders	-	(83,557)
Shareholders' equity	73,408	-
Total capitalization	$ 96,455	$ 67,511

The terms of the Company's US and Canadian credit facilities are described in note 9. The terms of the agreements with the Company's lenders provide that dividends cannot be paid to its shareholders in the event that its subsidiaries did not meet certain additional credit ratios. The Company's operating subsidiaries were compliant with all required credit ratios under the US and Canadian credit facilities as at September 30, 2011, and accordingly there were no restrictions on dividends arising from compliance with financial covenants.

On August 8, 2011 Hardwoods Distribution Inc. declared a cash dividend of $0.02 per common share to shareholders of record as of October 20, 2011. The dividend was paid to shareholders on October 31, 2011.

5. Financial instruments:

Financial instrument assets include cash and cash equivalents, which are designated as fair value through profit and loss, and current and long-term receivables which are designated as loans and receivables and measured at amortized cost. Financial instrument liabilities include bank indebtedness, accounts payable, accrued liabilities, finance lease obligation and, prior to conversion, the Fund's unit liability. 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.

(Tabular amounts expressed in thousands of Canadian dollars)

5. Financial instruments (continued):

Fair values of financial instruments

The carrying values of cash and cash equivalents, accounts receivable, income tax recoverable, and accounts payable accrued liabilities approximate their fair values due to the relatively short period to maturity of the instruments. The fair value of long-term receivables and finance lease obligations are not expected to differ materially from their respective carrying values, given the interest rates being charged. The carrying values of the credit facilities approximate their fair values due to the existence of floating market based interest rates. The fair value of these non-derivative financial assets and liabilities has been estimated based on the present value of future cash flows, discounted at a market rate of interest at the reporting date.

Derivative financial instruments

The Fund's non-controlling interest exchangeable unit liability (note 12) was recorded at fair value each reporting period, until their conversion to shares of the Company on July 1, 2011 (notes 1 and 12).

6. Accounts receivable:

The following is a breakdown of the Company's current and long term receivables and represents the Company's principal exposure to credit risk.

	September 30, 2011	December 31, 2010
Trade accounts receivable - Canada	$ 12,754	$ 10,555
Trade accounts receivable - United States	28,954	17,726
Sundry receivable	171	200
Current portion of long-term receivables	453	413
	42,332	28,894
Less:		
Allowance for credit loss	3,820	2,238
	$ 38,512	$ 26,656
Long-term receivables:		
Employee housing loans	$ 382	$ 375
Customer notes	1,027	1,088
Security deposits	463	465
	1,872	1,928
Less:		
Current portion, included in accounts receivable	453	413
	$ 1,419	$ 1,515

(Tabular amounts expressed in thousands of Canadian dollars)

6. Accounts receivable (continued):

The aging of trade receivables was:

	September 30, 2011	December 31, 2010
Current	$ 27,093	$ 16,791
Past due 31 - 60 days	7,319	5,460
Past due 61 - 90 days	2,675	2,059
Past due 90+ days	4,621	3,971
	$ 41,708	$ 28,281

The Company determines its allowance for doubtful accounts based on its best estimate of the net recoverable amount by customer account. Accounts that are considered uncollectable are written off. The total allowance at September 30, 2011 was $3.8 million (December 31, 2010 - $2.2 million). The amount of the allowance is considered sufficient based on the past experience of the business, the security the Company has in place for past due accounts and management's regular review and assessment of customer accounts and credit risk.

Bad debt expense, net of recoveries, for the three months ended September 30, 2011 was $0.3 million which equates to 0.5% of sales (three month period ended September 30, 2010 – $0.6 million, being 1.2% of sales). For the nine months ended September 30, 2011 bad debt expense, net of recoveries, was $1.1 million (nine months ended September 30, 2010 - $1.4 million), being 0.7% of sales.

7. Inventories:

	September 30, 2011	December 31, 2010
Lumber	$ 14,538	$ 9,868
Sheet goods	19,522	13,270
Specialty	4,417	2,307
Goods in-transit	2,493	1,996
	$ 40,970	$ 27,441

Inventory related expenses are included in the consolidated statement of comprehensive income as follows:

	Three months ended September 30, 2011	Three months ended September 30, 2010	Nine months ended September 30, 2011	Nine months ended September 30, 2010
Inventory write-downs	$ 154	$ 184	$ 517	$ 638
Cost of inventory sold	$ 45,271	$ 40,490	$ 131,232	$ 119,639
Other cost of sales	1,980	1,353	5,583	4,956
Total cost of sales	$ 47,251	$ 41,843	$ 136,815	$ 124,595

(Tabular amounts expressed in thousands of Canadian dollars)

8. Property, plant and equipment:

	Leased vehicles	Machinery and equipment	Mobile equipment	Leasehold improvements	Total
Cost					
Balance at January 1, 2010	$ 2,456	$ 2,095	$ 3,225	$ 786	$ 8,562
Additions	1,476	61	-	13	1,550
Disposals	(1,416)	(137)	(134)	(2)	(1,689)
Adjustments:					
Foreign currency translation	(82)	(63)	(112)	(12)	(269)
Balance at December 31, 2010	2,434	1,956	2,979	785	8,154
Additions	556	3,539	505	94	4,694
Disposals	(503)	(2)	(36)	(1)	(542)
Adjustments:					
Foreign currency translation	81	270	133	12	496
Balance at September 30, 2011	$ 2,568	$ 5,763	$ 3,581	$ 890	$ 12,802
Accumulated depreciation					
Balance at January 1, 2010	$ 1,180	$ 1,685	$ 2,394	$ 736	$ 5,995
Depreciation during period	706	189	205	37	1,137
Disposals	(974)	(133)	(133)	(2)	(1,242)
Adjustments:					
Foreign currency translation	(31)	(53)	(85)	(11)	(180)
Balance at December 31, 2010	881	1,688	2,381	760	5,710
Depreciation during period	497	98	57	17	669
Disposals	(365)	(2)	(36)	(1)	(404)
Adjustments:					
Foreign currency translation	30	54	79	11	174
Balance at September 30, 2011	$ 1,043	$ 1,838	$ 2,481	$ 787	$ 6,149
Net book value:					
December 31, 2010	$ 1,553	$ 268	$ 598	$ 25	$ 2,444
September 30, 2011	1,525	3,924	1,099	103	6,653

Depreciation of property, plant and equipment is included in the statement of comprehensive income as follows:

	Three months ended September 30, 2011	Three months ended September 30, 2010	Nine months ended September 30, 2011	Nine months ended September 30, 2010
Selling and distribution	$ 210	$ 223	$ 645	$ 797
Administration	9	32	24	104
	$ 219	$ 255	$ 669	$ 901

(Tabular amounts expressed in thousands of Canadian dollars)

8. Property, plant and equipment (continued):

Gains and losses on disposal of property, plant and equipment are included in the statement of comprehensive income as follows:

	Three months ended September 30, 2011	Three months ended September 30, 2010	Nine months ended September 30, 2011	Nine months ended September 30, 2010
Selling and distribution	$ 5	$ 35	$ 64	$ 86
Administration	-	7	-	7
Gain on disposal	$ 5	$ 42	$ 64	$ 93

9. Bank indebtedness:

	September 30, 2011	December 31, 2010
Checks issued in excess of funds on deposit	$ 739	$ 282
Credit facility, Hardwoods LP	5,633	548
Credit facility, Hardwoods USLP (September 30, 2011 - US$16,304; December 31, 2010 - US$6,162)	17,090	6,129
Deferred finance fees	(89)	(214)
	$ 23,373	$ 6,745

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 Company. 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 Company.

9. Bank indebtedness (continued):

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. During the three month period ended September 30, 2011, Hardwoods USLP amended its credit facility in conjunction with the Paxton acquisition, increasing the maximum borrowing available under the credit facility from US$25 million to US$30 million. The Hardwoods USLP credit facility provides financing up to US $30.0 million and has a four year term with a maturity date of May 26, 2015. Each facility is payable in full at maturity. The Hardwoods LP Credit Facility is a revolving credit facility which Hardwoods LP may terminate subject to prepayment penalties of $225,000 if terminated 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 may be terminated by Hardwoods USLP 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. 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 September 30, 2011, the Hardwoods LP credit facility had $8.7 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 55% of the book value of inventories (with certain accounts receivable and inventory being excluded). Hardwoods USLP is required to maintain a fixed charge coverage ratio (calculated as EBITDA less cash taxes less capital expenditures, divided by interest plus distributions) of 1.0 to 1. This covenant of the Hardwoods USLP Credit Facility does not need to be met however when the unused availability under the credit facility is in excess of US$2.5 million. At September 30, 2011, the Hardwoods USLP credit facility had unused availability of $13.8 million (US$13.2 million).

(Tabular amounts expressed in thousands of Canadian dollars)

10. Provisions:

	Legal	Onerous contracts	Total
Balance at December 31, 2010	$ 301	$ 240	$ 541
Provisions made during the period	101	-	101
Provisions used during the period	(52)	(132)	(184)
Adjustments during the period	7	4	11
Balance at September 30, 2011	$ 357	$ 112	$ 469
Non-current	-	27	27
Current	$ 357	$ 85	$ 442
	$ 357	$ 112	$ 469

Legal

The Company and its subsidiaries are subject to legal proceedings that arise in the ordinary course of its business. Provisions for legal costs are related to employee severance and product liability issues. Management is of the opinion, based upon information presently available, that it is unlikely that any liability, to the extent not provided for or through insurance, would be material in relation to the Company's condensed consolidated interim financial statements.

Onerous contracts

Due to the closure of some branches before the expiry of the lease the Company has a legal obligation to pay the monthly lease until the expiry date. The Company has mitigated the obligation by sub-leasing the properties. The Company has made provision for the net lease in the case that the sub-lease does not cover the entire obligation. The full expense was recognized in profit/loss in the period of the branch closure and subsequently the related liability is being reduced over the life of the obligation as cash payments are made. The liability is measured at the present value of the expected net cost of the remaining term of the contract.

Decommissioning

The Company and its subsidiaries are not obligated in any material way for decommissioning or site restoration.

11. Leases:

(a) Finance leases as lessee:

Subsidiaries of the Company lease vehicles with terms ranging from 18 to 50 months. Hardwoods LP guarantees a residual value under the terms of the leases in Canada, and any difference between the amount realized and the guaranteed residual value is either paid to or paid by Hardwoods LP. In the US the lease payments cover the full capitalized cost over the term of the lease, and any proceeds from the sale of the vehicle are paid to Hardwoods USLP. The Company and its subsidiaries have determined that these vehicle leases are considered finance leases and are recorded on the statement of financial position.

(Tabular amounts expressed in thousands of Canadian dollars)

11. Leases (continued):

Finance lease liabilities are payable as follows:

Minimum lease payments due	Within one year	One to three years	Total
September 30, 2011:			
Future minimum lease payments	$ 913	$ 593	$ 1,506
Interest	64	20	84
Present value of minimum payments	$ 849	$ 573	$ 1,422

The present value of the lease payments is calculated using the interest rate implicit in the lease.

(b) Operating leases as lessee:

The Company's subsidiaries are obligated under various operating leases, mainly building leases that require future minimum rental payments as follows:

Minimum lease payments due	Within one year	One to five years	After five years	Total
Minimum lease payments due:	$ 5,349	$ 13,492	$ -	$ 18,841
Minimum sublease revenue receivable:	131	100	-	231

Minimum lease payments are recognized as an expense while sublease payments are recognized as a reduction to selling and distribution costs on the statement of comprehensive income as follows:

	Three months ended September 30, 2011	Three months ended September 30, 2010	Six months ended September 30, 2011	Six months ended September 30, 2010
Minimum lease payment expense	$ 1,038	$ 1,109	$ 3,109	$ 3,584
Sublease payments received	(160)	(36)	(520)	(166)

The Fund's operating lease agreements do not contain any contingent rent clauses. Some operating building lease agreements contain renewal options but none contains any restrictions regarding distributions, further leasing or additional debt. Renewal options are reviewed regularly by management.

(Tabular amounts expressed in thousands of Canadian dollars)

12. Non-controlling interests:

Prior to completion of the Arrangement on July 1, 2011 (note 1), the previous owners of the business had 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. In accordance with the Arrangement described in Note 1 the owners of the Class B LP Units and Class B USLP Units agreed to exchange their units for 0.3793 Common Shares of the Corporation per outstanding unit.

For accounting purposes up to the conversion to a corporation, the non-controlling interest exchangeable Units, being the Class B LP Units and the Class B USLP Units, were considered a liability as the Units to be issued by the Company in an exchange were themselves a puttable financial instrument. The fair value of the non-controlling interest exchangeable unit liability was estimated to be as follows:

	September 30, 2011	December 31, 2010
Non-controlling interest exchangeable unit liability	$ -	$ 3,197

Changes in the fair value of the above noted liability were recorded in the statement of comprehensive income as part of net finance expense (note 15). The fair value at June 30, 2011 of $3.7 million was transferred to share capital upon conversion to shares of the Company.

13. Shares and Fund Units:

The weighted average number of common shares / units outstanding in each of the reporting periods was as follows:

	Three months ended September 30, 2011	Three months ended September 30, 2010	Nine months ended September 30, 2011	Nine months ended September 30, 2010
Weighted average common shares / units - basic	15,971	14,410	15,032	14,410
Weighted average common shares / units - diluted	16,242	14,410	15,307	14,475

(Tabular amounts expressed in thousands of Canadian dollars)

13. Shares and Fund Units (continued):

(a) Prior to the Arrangement the Fund had issued 14,604,065 Units with a carrying value of $144.6 million. The Fund Units were classified as a liability under IFRS in accordance with IAS 32, Financial Instruments: Presentation. This classification is a result of the Units being puttable instruments as the holder had the option to redeem the Units for amounts based on the market prices at the time of redemption and the Units had a contractual obligation requiring delivery of income to the unitholders. The Fund recorded the liability at the fair value of the Units at the inception of the liability and recorded the amounts subsequent to initial recognition on an amortized cost basis. Direct expenses associated with the initial issuance of the Fund Units, totaling $10.6 million, were expensed as a financing cost at the date of issuance.

On July 1, 2011 the Fund Units were converted on a one-to-one basis to common shares in the Company and are now recorded as Share Capital at the fair market value on the date of conversion being $40.0 million, with the difference of $104.6 million between the carrying value of the Fund Unit liability and the fair value of the shares issued being recorded in contributed surplus.

A continuity of the Shares and Fund Unit liability is as follows:

	Shares	Units		Total
Balance at January 1, 2010	-	14,410,000	$	144,100
Issued pursuant to long term incentive plan	-	113,858		266
Balance at December 31, 2010	-	14,523,858		144,366
Issued pursuant to long term incentive plan	-	80,227		222
Converted to Common Shares	-	(14,604,085)		(144,588)
Common shares at fair value as of July 1, 2011	14,604,085	-		40,015
Class B units converted to Common Shares	1,366,428	-		3,744
Balance at September 30, 2011	15,970,513	-	$	43,759

(b) Long Term Incentive Plan:

At the Annual General Meeting held on May 20, 2010, the Unitholders approved a long term incentive plan (“LTIP”) which authorized the issuance of a maximum of 850,000 LTIP Units to qualified trustees, directors, officers, employees and consultants to align the interests of such persons with the interests of Shareholders. Terms of the Fund’s LTIP are described in the Fund’s most recent annual financial statements dated December 31, 2010.

In accordance with the IFRS 2, Share-based Payment, the Fund was required to classify its Restricted Units and Performance Units as cash settled awards as they converted into Units of the Fund which were redeemable at the holder’s option. The amount of compensation cost was measured each period end based on the current market price of the Fund’s Units and the expense is recognized each period during the requisite service period based on the estimated number of awards that were expected to vest and in the case of Performance Units, based on the estimated number of Units to be issued provided that the performance conditions were considered probable of achievement.

(Tabular amounts expressed in thousands of Canadian dollars)

13. Shares and Fund Units (continued):

(b) Long Term Incentive Plan (continued):

Post-conversion the LTIP awards can be settled in common shares of the Company, and as such, the Company has reclassified the LTIP shares as an equity-settled share based award, as the Company has no stated intent and no past practice of settling in cash. The Company has accounted for the changes to the LTIP as a modification of the LTIP awards. The fair value of the LTIP liability at July 1, 2011, being the date of the modification, was transferred to contributed surplus. The compensation cost from July 1, 2011 onwards will be based on the fair value of the awards at grant date and will be recorded over the remaining vesting periods.

A continuity of the LTIP Shares/Units outstanding is as follows:

	Performance Units/Shares	Restricted Units/Shares
Balance at January 1, 2010	-	-
LTIP Units issued during the period	160,452	341,571
LTIP Units settled by exchange for free-trading Fund Units	-	(113,858)
Balance at December 31, 2010	160,452	227,713
LTIP Units issued during the period	24,631	105,900
LTIP Units settled by exchange for free-trading Fund Units	(80,227)	-
Balance at September 30, 2011	104,856	333,613

As of March 31, 2011, 80,227 Performance Units became fully vested and were settled by the issuance of Fund Units with a fair value of $0.2 million.

Non-cash compensation expense of $71,254 was recorded for the three month period ended September 30, 2011(2010 – $137,080). Non-cash compensation expense amount of $465,686 was recorded for the nine month period ended September 30, 2011(2010 – $137,080).

14. Income taxes:

Income tax expense is recognized based on management's best estimate of the annual income tax rates expected for the full financial year applied to the pre-tax income earned in Canada and the United States for the interim period. The Company's consolidated effective tax rate is affected by changes in the fair value of the non-controlling interest which results in no current or deferred taxes attributable to unitholders and other non deductable expenses of the Company.

During the three-month period ended September 30, 2011, the Company recorded a deferred income tax recovery of $3.8 million as a result of the various restructuring activities occurring during the quarter.

(Tabular amounts expressed in thousands of Canadian dollars)

15. Finance income and expense:

	Note	Three months ended September 30, 2011	Three months ended September 30, 2010	Nine months ended September 30, 2011	Nine months ended September 30, 2010
Finance expense:					
Interest on bank indebtedness	9	$ 113	$ 212	$ 359	$ 538
Amortization of deferred finance cost	9	27	44	125	133
Accretion of finance lease obligation	11	22	26	70	69
Change in fair value of non-controlling interest	12	-	546	546	273
Foreign exchange losses		-	89	-	44
Total finance expense		162	917	1,100	1,057
Finance income:					
Imputed interest on employee loans receivable	6	4	3	12	15
Interest on trade receivables and customer notes	6	141	157	400	456
Foreign exchange gain		742	-	631	-
Total finance income		887	160	1,043	471
Net finance income (costs)		$ 725	$ (757)	$ (57)	$ (586)

16. Segment reporting:

Information about geographic areas is as follows:

	Three months ended September 30, 2011	Three months ended September 30, 2010	Nine months ended September 30, 2011	Nine months ended September 30, 2010
Revenue from external customers:				
Canada	$ 20,908	$ 20,164	$ 63,921	$ 60,827
United States	36,464	30,395	102,199	90,436
	$ 57,372	$ 50,559	$ 166,120	$ 151,263

	September 30, 2011	December 31, 2010
Non-current assets:		
Canada	$ 8,935	$ 8,340
United States	17,318	11,082
	$ 26,253	$ 19,422

(Tabular amounts expressed in thousands of Canadian dollars)

17. Employee remuneration:

(a) Employee benefits expense:

Expenses recognized for employee benefits are analyzed below.

	Three months ended September 30, 2011	Three months ended September 30, 2010	Nine months ended September 30, 2011	Nine months ended September 30, 2010
Wages, salaries, and benefits	$ 4,063	$ 3,561	$ 12,145	$ 10,857
Pensions - defined contribution plans	124	106	368	335
LTIP Unit compensation	72	109	466	109
	$ 4,259	$ 3,776	$ 12,979	$ 11,301

Employee benefit expenses are included in the consolidated statement of comprehensive income as follows:

	Three months ended September 30, 2011	Three months ended September 30, 2010	Nine months ended September 30, 2011	Nine months ended September 30, 2010
Selling and distribution	$ 3,777	$ 3,006	$ 10,540	$ 9,081
Administration	482	770	2,439	2,220
	$ 4,259	$ 3,776	$ 12,979	$ 11,301

(b) 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 condensed consolidated interim financial statements.

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 condensed consolidated interim financial statements.

Pension expenses are included in the consolidated statement of comprehensive income as follows:

	Three months ended September 30, 2011	Three months ended September 30, 2010	Nine months ended September 30, 2011	Nine months ended September 30, 2010
USLP Plan	$ 62	$ 52	$ 176	$ 165
LP Plan	62	52	192	169

(Tabular amounts expressed in thousands of Canadian dollars)

18. Related party transactions:

The Company's related parties include Sauder Industries Limited (SIL) (note 1), key management, and post-employment benefit plans for the employees of the Company's subsidiaries.

(a) Transactions with SIL:

	Three months ended September 30, 2011	Three months ended September 30, 2010	Nine months ended September 30, 2011	Nine months ended September 30, 2010
Purchases from SIL	$ 6	$ 40	$ 74	$ 85
Sales to SIL	94	104	221	370

All these sales and purchases took place at prevailing market prices.

(b) Transactions with key management personnel:

Key management of the Company includes members of the Board of Directors, the President, Chief Financial Officer, and regional Vice Presidents. Key management personnel remuneration includes the following expenses:

	Three months ended September 30, 2011	Three months ended September 30, 2010	Nine months ended September 30, 2011	Nine months ended September 30, 2010
Short-term employee benefits:				
Salaries and benefits including bonuses	$ 554	$ 416	$ 1,145	$ 1,174
Vehicle lease	9	12	26	41
LTIP Unit compensation	32	109	170	109
Total remuneration	$ 595	$ 537	$ 1,341	$ 1,324

The Company offers housing loans to employees required to relocate. Key management had no loans outstanding at either September 30, 2011 or December 31, 2010.

During the three month period ended September 30, 2011, the Company paid $0.1 million (three month period ended September 30, 2010 - $0.1 million) to former key management personnel under the term of non-compete and consulting arrangements. During the nine month period ended September 30, 2011, the Company paid $0.4 million (nine month period ended September 30, 2010 - $0.2 million) under these arrangements with former key management personnel.

(c) Transactions with post-employment benefit plans:

The defined contribution plan referred to in note 17(b) is a related party to the Company. The Company's transactions with the pension plan include contributions paid to the plan, which are disclosed in note 17(b). A subsidiary of the Company paid US$1,500 during 2011 for administration of the plan. The Company has not entered into other transactions with the pension plan, neither has it any outstanding balances at the reporting dates under review.

19. Seasonality:

The Company is subject to seasonal influences. Historically the first and fourth quarters are seasonally slower periods for construction activity and therefore demand for hardwood products.

20. Explanation of transition to IFRS:

As stated in note 2(a), these are the Company's third condensed consolidated interim financial statement prepared in accordance with IAS34.

The accounting policies set out in note 2 have been consistently applied in preparing the interim financial statements for the three and nine month periods ended September 30, 2011, the comparative periods ended September 30, 2010 and the year ended December 31, 2010 and in the preparation of an opening IFRS statement of financial position at January 1, 2010 (the Company's date of transition).

Adjustments on transition to IFRS

In preparing its opening IFRS statement of financial position, the Company has adjusted amounts reported previously in financial statements prepared in accordance with previous Canadian GAAP. An explanation of how the transition from previous Canadian GAAP to IFRS has affected the Company's financial position and financial performance is set out in the following tables and the accompanying notes thereto. Reconciliation of the consolidated IFRS statements of financial position at January 1, 2010 and December 31, 2010 and the consolidated statement of comprehensive income for the year ended December 31, 2010 can be found in the Company's condensed consolidated interim financial statements for the three month period ended March 31, 2011.

(Tabular amounts expressed in thousands of Canadian dollars)

20. Explanation of transition to IFRS (continued):

Reconciliation of Condensed Consolidated Statement of Financial Position at September 30, 2010:

	Note	Canadian GAAP	Effect of transition to IFRS	IFRS
Assets				
Current assets:				
Cash		$ 203	$ -	$ 203
Accounts receivable		30,736	-	30,736
Income taxes recoverable		1,863	-	1,863
Inventories		30,473	-	30,473
Prepaid expenses		908	-	908
Total current assets		64,183	-	64,183
Non-current assets:				
Long-term receivables		1,692	-	1,692
Property, plant and equipment	e	942	1,725	2,667
Deferred financing costs	h	260	(260)	-
Deferred income taxes	i	15,915	(163)	15,752
Total non-current assets		18,809	1,302	20,111
Total assets		$ 82,992	$ 1,302	$ 84,294
Liabilities				
Current liabilities:				
Bank indebtedness	h	$ 11,762	$ (260)	$ 11,502
Accounts payable and accrued liabilities	g	5,352	(662)	4,690
Taxes payable	g	-	101	101
Provisions	g	-	230	230
Finance lease obligation	e	-	764	764
Total current liabilities		17,114	173	17,287
Non-current liabilities:				
Deferred gain	d	350	(350)	-
Provisions	g	-	331	331
Finance lease obligation	e	-	849	849
Non-controlling interests	c	9,277	(6,271)	3,006
Long-term incentive plan liability	j	-	137	137
Fund Units	b	-	144,100	144,100
Total non-current liabilities		9,627	138,796	148,423
Total liabilities		26,741	138,969	165,710
Net Assets (Deficit) Attributable to Unitholders				
Fund Units	b	133,454	(133,454)	-
Contributed surplus	j	109	(109)	-
Deficit	k	(58,699)	(21,941)	(80,640)
Accumulated other comprehensive loss	a	(18,613)	17,837	(776)
Total net assets (deficit) attributable to unitholders		56,251	(137,667)	(81,416)
Total net assets (deficit) and liabilities		$ 82,992	$ 1,302	$ 84,294

(Tabular amounts expressed in thousands of Canadian dollars)

20. Explanation of transition to IFRS (continued):

Reconciliation of Condensed Consolidated Statement of Comprehensive Income for the three month period ended September 30, 2010:

	Note	Canadian GAAP	Effect of transition to IFRS	IFRS
Sales		$ 50,559	$ -	$ 50,559
Cost of sales		(41,843)	-	(41,843)
Gross profit		8,716	-	8,716
Expenses:				
Selling and distribution	e,f	-	(5,987)	(5,987)
Administration	f,j	-	(1,585)	(1,585)
Sales and administration	f	(7,325)	7,325	-
Depreciation	f	(74)	74	-
Deferred financing costs	f	(44)	44	-
Amortization of deferred gain	d	19	(19)	-
Interest	f	(211)	211	-
Foreign exchange losses	f	(88)	88	-
		(7,723)	151	(7,572)
Finance expense	c,e,f	-	(917)	(917)
Finance income	f	-	160	160
Net finance expense		-	(757)	(757)
Non-controlling interest	c	(198)	198	-
Profit before income taxes		795	(408)	387
Income tax expense				
Current	i	(10)	-	(10)
Deferred	d,e	(522)	(2)	(524)
		(532)	(2)	(534)
Profit for the period		263	(410)	(147)
Other comprehensive loss:				
Exchange differences translating foreign operations		(823)	(419)	(1,242)
Total comprehensive loss for the period		$ (560)	$ (829)	$ (1,389)
Basic and diluted profit per Unit		$ 0.02	$ (0.03)	$ (0.01)

(Tabular amounts expressed in thousands of Canadian dollars)

20. Explanation of transition to IFRS (continued):

Reconciliation of Condensed Consolidated Statement of Comprehensive Income for the nine month period ended September 30, 2010:

	Note	Canadian GAAP	Effect of transition to IFRS	IFRS
Sales		$ 151,263	$ -	$ 151,263
Cost of sales		(124,595)	-	(124,595)
Gross profit		26,668	-	26,668
Expenses:				
Selling and distribution	e,f	-	(17,854)	(17,854)
Administration	f,j	-	(5,009)	(5,009)
Other	f	-	320	320
Sales and administration	f	(21,734)	21,734	-
Depreciation	f	(366)	366	-
Deferred financing costs	f	(133)	133	-
Amortization of deferred gain	d	57	(57)	-
Interest	f	(542)	542	-
Foreign exchange losses	f	(44)	44	-
		(22,762)	219	(22,543)
Finance expense	c,e,f	-	(1,057)	(1,057)
Finance income	f	-	471	471
Net finance expense		-	(586)	(586)
Non-controlling interest	c	(781)	781	-
Profit before income taxes		3,125	414	3,539
Income tax expense				
Current	i	(144)	-	(144)
Deferred	d,e	(1,482)	4	(1,478)
		(1,626)	4	(1,622)
Profit for the period		1,499	418	1,917
Other comprehensive loss:				
Exchange differences translating foreign operations		(515)	(261)	(776)
Total comprehensive loss for the period		$ 984	$ 157	$ 1,141
Basic and diluted profit per Unit		$ 0. 10	$ 0.03	$ 0.13

20. Explanation of transition to IFRS (continued):

Notes to the reconciliation of net assets

(a) IFRS 1 “First-time Adoption of International Financial Reporting Standards” (“IFRS 1”):

IFRS 1 generally requires that first-time adopters retrospectively apply all effective IFRS standards and interpretations in effect as at the reporting date. IFRS 1 also provides for certain optional exemptions and certain mandatory exceptions to this general principle. The Company has made the following elections under IFRS-1:

(*i*) The Company has elected under IFRS 1 not to apply IFRS 3 “Business Combinations” (“IFRS 3”) retrospectively to business combinations that occurred prior to January 1, 2010 (the date of transition to IFRS). Accordingly, the Company has continued with the same accounting treatment of previous business combinations under Canadian GAAP.

(*ii*) The Company has elected under IFRS 1 not to apply IAS 21 “The Effects of Changes in Foreign Exchange Rates” to the cumulative translation differences that arose prior to the date of transition to IFRS. The cumulative translation differences that existed for foreign subsidiaries at the date of transition to IFRS have been deemed to be nil and the amount recorded at December 31, 2009 under Canadian GAAP was transferred to deficit. Gains or losses on a subsequent disposal of foreign operations will exclude translation differences that arose before the date of transition to IFRS.

The effect of this election is to increase deficit and decrease accumulated other comprehensive loss by $18.1 million at January 1, 2010, September 30, 2010, and December 31, 2010 as compared to amounts reported under previous Canadian GAAP.

(b) Previously under Canadian GAAP, the Fund’s Units were classified as equity instruments. In Accordance with IAS 32, Financial Instruments: Presentation, the Units are classified as a long-term liability as the Units are considered puttable financial instruments as the holder has the option to redeem the Units for amounts related to market prices at the time of the redemption and the Units impose an obligation requiring delivery of income to the unitholders. Certain exceptions provided in IAS 32 allow some puttable instruments to be classified as equity under IFRS, however these conditions are much more restrictive than previous Canadian GAAP. The Units did not meet the exceptions in IAS 32 for equity presentation, as there was a contractual obligation to distribute taxable income to unitholders on an annual basis.

The Company has made the following two accounting policy elections with respect to these Units:

(i) it has not separated the income distribution stream as an embedded derivative as it is considered to be dependent on a non-financial variable specific to a party to the contract, and

(ii) it has elected to treat the distribution stream based on income as a floating rate financial instrument.

20. Explanation of transition to IFRS (continued):

Notes to the reconciliation of net assets (continued)

(b) (continued):

As a result the Company has recorded the liability at the cash amount originally exchanged for the Units, being $144.1 million. The effect of classification of the Units as a long-term liability is to reduce Unitholders' equity and increase long-term liabilities by $144.1 million at January 1, 2010, September 30, 2010, and by $144.4 on December 31, 2010 as compared to amounts reported under previous Canadian GAAP. The Company has transferred $10.6 million of related Unit issuance costs previously netted against the Unitholders' equity balance to deficit as a financing cost expensed prior to the IFRS adoption date.

Consistent with the classification of the Units as a liability, distributions paid to Unitholder's are considered a financing cost in the statement of comprehensive income. As no distributions were paid during the year ended December 31, 2010, there is no impact to the comparative statement of comprehensive income. As the Units are treated as a floating rate liability, any changes in the distributions based on changes to income levels are expensed in the period in which they occur.

(c) The Company's non-controlling interest is in the form of exchangeable Class B units that, under certain conditions, could be converted into Units of the Fund. In accordance with IAS 32, if the instruments to be received on exchange are themselves puttable instruments, or instruments that impose an obligation to deliver a pro rata share of the net assets of the entity on liquidation, the exchangeable instruments are themselves considered a financial liability. As the Units are themselves considered a liability, the non-controlling interest's exchangeable units are also considered a liability. As the non-controlling interest was previously presented in the statement of financial position as a liability there is no difference in classification arising from the transition to IFRS.

(Tabular amounts expressed in thousands of Canadian dollars)

20. Explanation of transition to IFRS (continued):

Notes to the reconciliation of net assets (continued)

(c) (continued):

As described in note 12, the non-controlling interest's exchangeable units are measured at fair value at each financial statement date and the difference is recorded as a gain or loss in the net finance cost section of the consolidated statement of comprehensive income. The impact resulting from the change in measurement of the non-controlling interest is as follows:

	Three months ended September 30, 2010	Nine months ended September 30, 2010
Consolidated statement of comprehensive income		
Decrease in non-controlling interest share of net income	$ 198	$ 781
Increase in finance expense	(546)	(273)
Increase (decrease) in comprehensive income	$ (348)	$ 508

	September 30, 2010	December 31, 2010
Consolidated statement of financial position		
Decrease in non-controlling interest	$ (6,271)	$ (5,547)
Decrease in deficit	$ 6,271	$ 5,547

(Tabular amounts expressed in thousands of Canadian dollars)

20. Explanation of transition to IFRS (continued):

Notes to the reconciliation of net assets (continued)

(d) During the year ended December 31, 2005, a subsidiary of the Company sold a building and related land to an unrelated third party and subsequently leased back the facilities. Canadian GAAP required the gain on the sale to be deferred and it was amortized in proportion to the rental payments until the changeover to IFRS. IFRS requires the gain on the sale to be recognized in income when the sale is made at fair market value and the leaseback is classified as an operating lease. The Company has determined that under IFRS the gain on sale would have been recognized in its entirety in 2005.

The impact arising from the transition to IFRS is summarized as follows:

	Three months ended September 30, 2010	Nine months ended September 30, 2010
Consolidated statement of comprehensive income		
Decrease in other income	$ (19)	$ (57)
Decrease in deferred income tax expense	6	17
Decrease in comprehensive income	$ (13)	$ (40)

	September 30, 2010	December 31, 2010
Consolidated statement of financial position		
Decrease in deferred gain on sale leaseback	$ (350)	$ (320)
Decrease in deferred income tax asset	110	101
Decrease in deficit	$ 240	$ 219

(Tabular amounts expressed in thousands of Canadian dollars)

20. Explanation of transition to IFRS (continued):

Notes to the reconciliation of net assets (continued)

(e) Under previous Canadian GAAP, leases of automobiles used by the Company's sales people were considered operating leases. Upon assessment of IAS 17 Leases, the Company has concluded that the automobile leases are finance leases, primarily because the gains or losses from the fluctuation in the fair value of the automobiles residual values accrue to the Company and its subsidiaries as a result of a residual value guarantee included in the lease agreement.

The effect of this change in classification has resulted in the Company's subsidiaries recording a finance lease obligation and increasing its property, plant and equipment to reflect the depreciated value of the automobiles. Furthermore, the statement of comprehensive income now includes depreciation expense related to the automobiles and finance costs related to the lease obligation, as compared to an operating lease expense which had been previously recorded as a selling and distribution expense.

The impact arising from the change is summarized as follows:

	Three months ended September 30, 2010	Nine months ended September 30, 2010
Consolidated statement of comprehensive income		
Increase (decrease) in selling and distribution:		
Decrease in operating lease expense	$ 221	$ 665
Increase in depreciation expense	(181)	(535)
Decrease in gain on leased autos	(28)	(70)
Decrease in expense related to leased autos	12	60
Increase in finance costs	(26)	(69)
Increase in deferred income tax expense	(8)	(13)
Increase (decrease) in comprehensive income	$ (22)	$ (22)

	September 30, 2010	December 31, 2010
Consolidated statement of financial position		
Increase in property, plant and equipment	$ 1,725	$ 1,553
Increase in finance lease obligation:		
Current portion	764	733
Long-term portion	849	722
Decrease in deferred income tax asset	(53)	(30)
(Increase) decrease in deficit	59	68

(Tabular amounts expressed in thousands of Canadian dollars)

20. Explanation of transition to IFRS (continued):

Notes to the reconciliation of net assets (continued)

(f) Management has elected to present the consolidated statement of comprehensive income according to the expenses functional classification. Previously under GAAP, the sales and administrative expenses were presented together. Under IFRS, these categories have been separated and expenses such as employee expenses and benefits (note 17) and amortization (note 8) have been allocated between these functional categories.

(g) In accordance with IAS 37, Provisions, *Contingent Liabilities and Contingent Assets*, management of the Company reviewed its assessments relating to provisions for legal proceedings based on the probability-weighted average of the possible outcomes. There is no change to provisions at January 1, 2010, March 31, 2010 or December 31, 2010.

Other provisions and taxes payable that were previously included in accounts payable and accrued liabilities have been separately disclosed on the IFRS statement of financial position. The impact of these reclassifications is as follows:

	September 30, 2010	December 31, 2010
Consolidated statement of financial position		
Decrease in accounts payable and accrued liabilities	$ (662)	$ (582)
Reclassified to provisions:		
Current portion	230	301
Long-term portion	331	240
Reclassified to taxes payable	101	41

(h) In accordance with IAS 32, deferred finance costs that were directly incurred in attaining revolving credit facilities by subsidiaries of the Company are to be netted against the associated bank indebtedness. Under previous Canadian GAAP, such charges were shown as a long-term asset. This reclassification has no impact on the Company's deficit.

(Tabular amounts expressed in thousands of Canadian dollars)

20. Explanation of transition to IFRS (continued):

Notes to the reconciliation of net assets (continued)

(i) The above changes increased (decreased) the deferred tax asset as follows based on a tax rate of 39.4% in the US and 26% in Canada:

	Note	September 30, 2010	December 31, 2010
Decrease to the deferred tax asset arising from:			
Elimination of deferred gain on sale lease-back financing charges	d	110	101
Recognition of finance lease obligation and corresponding adjustment to property, plant and equipment	e	53	30
Decrease in deferred tax asset		$ (163)	$ (131)

(j) In accordance with IFRS 2, Share-based payment, the Company is required to classify its Restricted Units and Performance Units, issued under the Company's LTIP, as a liability as compared to equity (contributed surplus) under previous Canadian GAAP. In addition, unlike Canadian GAAP, the LTIP liability is remeasured each period end based on the current market price of the Company's units.

The impact arising from the transition to IFRS is summarized as follows:

	Three months ended September 30, 2010	Nine months ended September 30, 2010
Consolidated statement of comprehensive income		
Increase in administration expense	$ (28)	$ (28)

(Tabular amounts expressed in thousands of Canadian dollars)

20. Explanation of transition to IFRS (continued):

Notes to the reconciliation of net assets

(j) (continued):

	September 30, 2010	December 31, 2010
Consolidated statement of financial position		
Increase in long term incentive plan liability	$ 137	$ 264
Increase in Company unit liability	-	68
Decrease in contributed surplus	(109)	(198)
Increase in deficit	$ (28)	$ (134)

(k) The above noted changes decreased (increased) deficit (each net of related tax) as follows:

	Note	September 30, 2010	December 31, 2010
Reclassification of cumulative currency differences	a	$ (18,098)	$ (18,098)
Unit issue costs	b	(10,646)	(10,646)
Fair value non-controlling interest	c	6,271	5,547
Deferred gain on sale leaseback	d	240	219
Finance leases	f	59	68
LTIP compensation	j	(28)	(134)
CTA on adjustment items		261	666
Increase in deficit		(21,941)	(22,378)

(l) The following table is a reconciliation of the change in classification of cash flows arising from the transition to IFRS for the periods ended September 30, 2010:

	Canadian GAAP	Effect of transition to IFRS	IFRS
Three months ended September 30, 2010			
Net cash used in operating activities	$ (626)	$ 160	$ (466)
Net cash provided by financing activities	443	(196)	247
Net cash provided by investing activities	270	36	306
Nine months ended September 30, 2010			
Net cash used in operating activities	$ (7,854)	$ 491	$ (7,363)
Net cash provided by financing activities	6,897	(585)	6,312
Net cash provided by investing activities	697	94	791

The adjustments to the cash flow classification arise as a result of the presentation of the Company's automobile leases as finance leases. In accordance with the Company's lease classification, the principle repayments on the automobile leases are presented as a financing activity.