HARDWOODS DISTRIBUTION

INCOME FUND

2009

Third Quarter Report to Unitholders

About the Fund

Hardwoods Distribution Income Fund (the "Fund") is an unincorporated open-ended limited purpose trust. The Fund was launched on March 23, 2004 with the completion of an initial public offering (IPO) of 14.4 million trust units ("Class A Units"). Net proceeds of the IPO were used to acquire an 80% interest in a hardwoods lumber and sheet goods distribution business ("Hardwoods" or the "Business") from the previous owners. The owners of the predecessor companies have retained a 20% interest in the Business in the form of Special Voting Units of the Fund and Class B Limited Partnership units of the Fund's operating subsidiaries ("Class B Units"), which together are exchangeable into Class A Units provided that the Fund achieves certain objectives. Hardwoods Distribution Income Fund units trade on the Toronto Stock Exchange under the symbol HWD.UN. The Fund's performance depends on the performance of the Business.

About the Business

Hardwoods has been providing quality lumber, hardwood plywood and specialty products to customers for 50 years. At September 30, 2009, we are one of the largest distributors of hardwood lumber and sheet goods in North America, operating a network of 27 distribution centers organized into eight regional clusters.

To Our Unitholders:

Three years into a major market downturn, we believe we are finally entering the final phase of the down cycle.

Over the past three years, the US residential construction market has collapsed from a peak of 2.3 million housing starts at the beginning of 2006, to less than 0.5 million starts at the beginning of 2009. At the end of September 2009 housing starts remain depressed, currently operating at a rate of 590,000 units annually. A weakened economy on both sides of the border has added to the negative impact by reducing demand for other types of products that use hardwood, such as furniture and recreational vehicles. These events have caused many of our customers to suffer business losses and failures. Our own business, in turn, has been negatively affected by ten consecutive quarters of declining sales.

Now, there are signs that the residential construction market is finally stabilizing. In the US, the pace of housing sales has improved, the inventory of unsold homes has started to decline and housing prices are beginning to firm up. Our own results have not yet registered the benefit of this shift because hardwood products are used late in the construction process. Accordingly our third quarter and nine month results continued to decline compared to a year ago. However, a foundation for increased consumption and better market conditions appears to be emerging, and Hardwoods is well positioned to benefit as this recovery takes hold over the longer term.

Throughout the down cycle we have acted decisively to protect our business. We have taken steps to align our costs with softer market conditions by reducing our branch count from a high of 39 branches in 2006 to 27 locations currently. We have reduced our annual run rate for selling and administrative expenses by 25% over this same period. To help stem sales losses and maintain reasonable margins, we have introduced attractive new offerings including import products from China and expanding our line of environmentally sensitive GreenBelt™ products. Simultaneously, we have aggressively pursued new customer account expansion to help offset the loss of customers that have gone out of business.

On the financial front, we have worked steadily to conserve cash, guard liquidity and solidify our balance sheet. One of our major achievements has been reducing bank indebtedness (net of cash) to just $6.9 million as at the end of third quarter, from $25.2 million at the start of 2008. This success has enabled us to strengthen our banking arrangements, and most recently, we negotiated a new Canadian agreement, gaining important new flexibility to invest capital into our US business if required.

As a result of these efforts, we fully expect to emerge from this downturn in sound financial condition. We are currently just above EBITDA breakeven, despite the loss of over half of our sales since the market peak in 2006, and our balance sheet is significantly strengthened with low bank indebtedness backed by significant working capital assets.

It is important to note that we anticipate one, and possibly two, more quarters of declining results as we work through the final phase of the downturn and enter our seasonally slowest quarters. Accordingly, we will continue to pursue strategies that help protect our business. Cash conservation will remain a priority with a strict focus on accounts receivable and credit control, and we will continue to defend our market share.

While cost efficiency will also be emphasized, I should note that most of our significant cost cutting measures are complete and in place. Our distribution network is closely aligned with sales levels and we are guarding our productive capacity to be positioned for the eventual resumption of demand.

I thank you for your patience and ongoing confidence as we work through what we anticipate will be the final phase of this long and difficult downturn.

Maurice Paquette

Maurice E. Paquette

President and Chief Executive Officer

Management's Discussion and Analysis

November 3, 2009

This management's discussion and analysis ("MD&A") covers our unaudited interim consolidated financial statements as at and for the three and nine month periods ended September 30, 2009 ("Interim Financial Statements"). As well, it provides an update to the MD&A section contained in our 2008 Annual Report. The information below should be read in conjunction with the Interim Financial Statements and the audited consolidated financial statements and accompanying notes of Hardwoods Distribution Income Fund for the years ended December 31, 2008 and 2007. Results are reported in Canadian dollars unless otherwise stated, and have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). For additional information, readers should also refer to our Annual Information Form and other information filed on www.sedar.com.

This MD&A includes the following sections:

Certain statements in this MD&A 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 MD&A is based on a number of assumptions, including but not limited to: three years into a major market downturn, we believe we are finally entering the final phase of the down cycle; a foundation for increased consumption and better market conditions appears to be emerging, and Hardwoods is well positioned to benefit as this recovery takes hold over the longer term; we fully expect to emerge from this downturn in sound financial condition; we anticipate one, and possibly two, more quarters of declining results as we work through the final phase of the downturn and enter our seasonally slowest quarters; we estimate at least 50% of our products are used in new residential construction in the form of cabinets, mouldings, custom finishing, and home furniture; we believe the balance of our products end up in other sectors of the economy not associated with new residential construction, such as home renovations, finishing millwork for office buildings, restaurant and bar interiors, hotel lobbies, retail point-of-purchase displays, schools, hospitals, custom motor coaches, yacht interiors and other specialty areas; we anticipate that market conditions will remain challenging through the fourth quarter of 2009 and into the first quarter of 2010 as we enter the seasonally slowest period of the year; the risk of bad debt also remains elevated with many of our customers feeling the effects of the prolonged downturn; if the Canadian dollar continues to strengthen, this could also have a negative impact on our results; despite these near-term challenges, the longer-term outlook is improving; in the US, the pace of housing sales has improved, the inventory of unsold homes has started to decline and housing prices are beginning to firm up; we expect to see a corresponding trend in our own business beginning in 2010, as cabinet and furniture orders related to this new construction are placed and help to stabilize hardwood demand and prices; we believe that the transition in the market cycle will be lengthy with a gradual recovery in 2010 and a more significant recovery not expected until 2011; overall, we believe we are well positioned to ride out the remainder of the market downturn, and participate fully in the eventual recovery; annual maintenance capital requirements are expected to average approximately $1.0 million per year, but may be higher or lower in a particular year based on the needs of the business; we believe this annual amount is sufficient to maintain the existing productive capacity of the business as it relates to our needs for property, plant and equipment; more recently, and consistent with our current focus on cost reduction and cash conservation, we have decreased our discretionary cash outlays for capital items; we anticipate capital expenditures in 2009 will not exceed $0.3 million; we believe the current economic environment has elevated our business risk, particularly in the following areas: (1) financing risk related to our ability to debt-finance our operations has increased in the current tight credit environment and it is uncertain if our US results will prove strong enough to remain in compliance with our bank agreement in the next 12 months; (2) the risk of bad debts has increased as our customers face reduced demand and pressure on credit availability in their own businesses; (3) the possibility that key suppliers could fail has increased, which could potentially disrupt our supply chain; and, (4) demand for our products could weaken still further, given that US housing starts fell to historic lows in early 2009, and the impact on our sales often lags changes in the residential construction cycle.

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 the amount of cash we are able to generate in Canadian dollars; we do not lose any key personnel; there are no significant 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; there is no significant rise in interest rates that increases our cost of borrowing under our credit agreements and leads to reduced profitability; 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 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; the downturn in the general state of the economy does not worsen and impact upon our results; 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 the amount of cash we have available to distribute to our unitholders in Canadian dollars; 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; a significant rise in interest rates could increase our cost of borrowing under our credit agreements and lead to reduced profitability; 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 or 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; our results are dependent upon the general state of the economy; 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; our credit facilities contain restrictions on our ability to borrow funds and restrictions on distributions that can be made; there are tax risks associated with an investment in our units; 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 our other continuous disclosure documents.

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.

In this MD&A, references to "EBITDA" are to earnings before interest, income taxes, depreciation and amortization, unrealized foreign currency gains and losses, 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" are 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 our operating entities determine to be reasonable and necessary for the operation of the businesses owned by these entities.

We believe that, in addition to net income or loss, our EBITDA and our Distributable Cash are each a useful supplemental measure of operating performance that may assist investors in assessing their investment in Class A Units. 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 our liquidity and cash flows. Our method of calculating EBITDA and Distributable Cash may differ from the methods used by other issuers. Therefore, our 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, please refer to the discussion of Results of Operations described in section 3.0 of this report. For reconciliation between Distributable Cash and net cash provided by operating activities as determined in accordance with GAAP, please refer to the discussion of Distributable Cash and Cash Distributions described in section 4.1 of this report.

We believe that this MD&A has been prepared in all material respects in accordance with recommendations issued by the Canadian Institute of Chartered Accountants (the "CICA") with respect to "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 "Interpretive Guidance"). The Interpretive Guidance provides guidance on standardized preparation and disclosure of distributable cash for income trusts ("Standardized Distributable Cash"). The CICA calculation of Standardized Distributable Cash, which is also a non-GAAP measure, is defined, for the purposes of the Fund, as the periodic cash provided by operating activities as reported in the GAAP financial statements, including the effects of changes in non-cash working capital, less total capital expenditures. For a summary of our Standardized Distributable Cash, please refer to section 4.2 of this report. For reconciliation between Standardized Distributable Cash and our Distributable Cash, please see section 4.2.

1.0 Background

1.1 About the Fund

The Fund is an unincorporated open-ended limited purpose trust formed under the laws of the Province of British Columbia by a declaration of trust dated January 30, 2004. The Fund was launched on March 23, 2004 with the completion of an initial public offering ("IPO") of

14,410,000 trust Voting Units ("Class A Units"). Net IPO proceeds of $133.5 million, together with drawings on credit facilities totalling $31.6 million, were used to acquire an 80% interest in the hardwood lumber and sheet goods distribution business ("Hardwoods" or the "Business") from the previous owners.

The owners of the predecessor companies have retained a 20% interest in the Business in the form of Special Voting Units of the Fund and Class B Limited Partnership units of the Fund's operating subsidiaries ("Class B Units"), which together are exchangeable into Class A Units provided that the Fund achieves certain objectives. Distributions by the Fund's operating subsidiaries to the previous owners are subject to subordination arrangements until certain financial tests established at the time of the IPO and described in the Audited Financial Statements are met. As at September 30, 2009, the following units of the Fund were issued and outstanding:

Units	14,410,000
Special Voting Units	3,602,500

Hardwoods Distribution Income Fund units trade on the Toronto Stock Exchange under the symbol HWD.UN. The Fund's performance depends on the performance of the Business.

1.2 About our Business and Industry

Hardwoods is one of North America's largest distributors of high-grade hardwood lumber and specialty sheet goods to the cabinet, moulding, millwork, furniture and specialty wood products industries. At September 30, 2009 we operated 27 distribution facilities organized into eight geographic regions throughout North America.

Approximately half of our product mix is made up of high-grade hardwood lumber and specialty goods. The balance is made up of sheet goods, consisting primarily of hardwood plywood, and including non-structural sheet goods such as medium-density fiberboard, particleboard and melamine-coated stock. Our sheet goods are a key complementary product line as they are used by many purchasers of hardwood lumber in the manufacture of their end products.

Our customer base manufactures a range of end-use products, such as cabinetry, furniture and custom millwork. These products, in turn, are sold into multiple sectors of the economy, including new home construction, renovation, non-residential construction and institutional markets. As a result of this diversity, it is difficult to determine with certainty what proportion of our products ends up in each sector of the economy. We estimate at least 50% of our products are used in new residential construction in the form of cabinets, mouldings, custom finishing, and home furniture. We believe the balance of our products end up in other sectors of the economy not associated with new residential construction, such as home renovations, finishing millwork for office buildings, restaurant and bar interiors, hotel lobbies, retail point-of-purchase displays, schools, hospitals, custom motor coaches, yacht interiors and other specialty areas.

Approximately 95% of the hardwood lumber distributed in North America is harvested from North American hardwood forests, located principally in the Eastern United States. Imported hardwood lumber is largely limited to specialty species that generally do not compete with domestic hardwood lumber. Sheet goods are generally produced in North America by large manufacturers using domestic hardwoods and other materials, although imported hardwood plywood volumes have been increasing. Both domestic and imported hardwood lumber and plywood are distributed principally by third parties such as us. Historically, balanced supply and demand conditions have resulted in a stable pricing environment for hardwood lumber and hardwood plywood. Prices have generally kept pace with inflation over the long term, although more recently we have experienced a downward trend in hardwood pricing as a result of weaker market conditions.

The hardwood distribution industry is highly fragmented. While there are a number of hardwood distributors that operate from multiple locations, most are small, privately held companies serving discrete local markets.

2.0 Overview and Outlook

Demand and prices for hardwood products remained weak through the third quarter and year-to-date 2009. According to the US Census Bureau, US housing starts fell 42.7% in the first nine months of 2009 compared to the same period last year. At the same time, average prices for hardwood lumber products were 16% weaker than a year ago, according to the Hardwood Review.

Our sales results continued to reflect the downward curve in demand and product prices. Total sales declined by 25.2% during both the third quarter and first nine months of 2009, compared to the same periods in 2008. Consistent with past quarters, our US business was hardest hit with third quarter sales down 33.7%, while Canadian sales were down by 15.7%.

Although sales were lower, our gross profit margin increased to 18.5% in the third quarter, from 17.7% last year. This improvement reflects the discounting of some inventory that took place in the third quarter of 2008 in an effort to rebalance inventory levels, but was not repeated in the 2009 period. Gross profit margin for the nine-month period declined slightly to 18.0%, from 18.3% last year, but remained within our target range of 18 to 19%. The success of our cost-cutting initiatives, including branch closures and personnel reductions, helped to reduce third quarter selling and administrative (S&A) expenses by $2.0 million year-over-year. Factoring out the negative impact of the weaker Canadian dollar on conversion of our US operating costs, we reduced underlying expenses by $7.3 million, or 24%, in the first nine months of 2009, compared to the same period in 2008.

Overall, we believe our strategies for responding to the downturn have been appropriate. We have reduced our branch network and cost structure to help offset reduced demand levels, while maintaining our core productive capacity. We have protected our market share by introducing innovative new products and attracting new customers to help mitigate the loss of customers that have gone out of business. We have also carefully guarded our cash and liquidity, while significantly strengthening our balance sheet. As at September 30, 2009, we had reduced our bank indebtedness (net of cash) to $6.9 million, from $25.2 million at the start of 2008. We also continued to strengthen our banking arrangements in the third quarter, signing a new agreement with a Canadian bank that provides important flexibility for us to invest capital into our US business if required.

Looking forward, we anticipate that market conditions will remain challenging through the fourth quarter of 2009 and into the first quarter of 2010 as we enter the seasonally slowest period of the year. The risk of bad debt also remains elevated with many of our customers feeling the effects of the prolonged downturn. If the Canadian dollar continues to strengthen, this could also have a negative impact on our results.

Despite these near-term challenges, the longer-term outlook is improving. In the US, the pace of housing sales has improved, the inventory of unsold homes has started to decline and housing prices are beginning to firm up. We expect to see a corresponding trend in our own business beginning in 2010, as cabinet and furniture orders related to this new construction are placed and help to stabilize hardwood demand and prices.

While we are encouraged by these developments, we believe that the transition in the market cycle will be lengthy with a gradual recovery in 2010 and a more significant recovery not expected until 2011. Accordingly we will continue to pursue strategies that help protect our business. Cash conservation will remain a priority with a strict focus on accounts receivable and credit control. We will also continue to actively introduce and promote new import and green products that help to protect and build market share. While cost efficiency will continue to be emphasized, further significant cost cuts are not planned as we believe our distribution network is now closely aligned with market opportunities and will be increasingly engaged in responding to the eventual resumption of demand.

Overall, we believe we are well positioned to ride out the remainder of the market downturn, and participate fully in the eventual recovery.

Results of Operations

3.1 Three Months Ended September 30, 2009 and September 30, 2008

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

		For the three months Ended September 30, 2009		For the three months Ended September 30, 2008
Total sales	$	46,435	$	62,115
Sales in the US (US$)		*25,419*		*38,352*
Sales in Canada		*18,596*		*22,055*
Gross profit		8,587		11,013
Gross profit %		*18.5%*		*17.7%*
Selling and administrative expenses		(8,044)		(9,967)
Realized gain on foreign currency contracts		-		298
Earnings before interest, taxes, depreciation and amortization and non-controlling interest ("EBITDA")	$	543	$	1,344
Add (deduct):				
Amortization		(206)		(298)
Interest		(165)		(237)
Non-cash foreign currency losses		(1,049)		(522)
Non-controlling interest		391		560
Income tax recovery (expense)		(10,586)		38
Net earnings (loss) for the period	$	(11,072)	$	885
Basic and fully diluted earnings per Class A Unit	$	(0.768)	$	0.061
Average Canadian dollar exchange rate for one US dollar		1.098		1.0411

Sales

For the three months ended September 30, 2009, total sales were $46.4 million, down 25.2% from $62.1 million in the third quarter of 2008. This reduction in sales reflects a 27.5% decrease in underlying sales activity, partially offset by a 2.3% increase in sales due to the positive effect of a weaker Canadian dollar. Sales in the United States, as measured in US dollars, decreased 33.7% to $25.4 million, compared to $38.4 million during the third quarter of 2008. The depressed US housing market and weakness in the general US economy were key factors in this decline.

Sales in Canada, as measured in Canadian dollars, were $18.6 million, down 15.7% from $22.1 million during the third quarter of 2008. The decline in Canadian sales reflects weakness in the domestic housing market, as well as reduced export opportunities for Canadian manufacturers that sell into the US.

Gross Profit

Gross profit for the three months ended September 30, 2009 was $8.6 million, down $2.4 million compared to $11.0 million in the third quarter of 2008. The decrease in gross profits reflects lower sales, partially offset by an increase in gross profit percentage to 18.5%, from 17.7% in Q3 2008. The higher gross profit percentage primarily reflects discounting of some inventory that took place in the 2008 period in an effort to rebalance inventory levels, which was not repeated in the current year period. Some quarter-to-quarter variation in our gross profit percentage is considered normal, with 18% to 19% representing a typical range. Our goal is to adjust our business to obtain a gross profit margin of 18.5% or better over the business cycle.

Selling and Administrative Expenses

Selling and Administrative (S&A) expenses were $8.0 million for the three months ended September 30, 2009, a decrease of $2.0 million, or 19.3%, from $10.0 million in the comparative 2008 period. This improvement reflects broad-based efforts to reduce costs in all areas of our business, and includes a $0.8 million reduction in employee costs, a $0.9 million reduction in premises and sales and warehousing costs, a $0.3 million reduction in office and administrative costs, and a $0.3 million reduction in other expenses. Our S&A cost savings were partly offset by the $0.3 million negative foreign exchange impact of a weaker Canadian dollar on the conversion of S&A expenses at our US operations, and by a $0.1 million increase in bad debts. S&A expenses represented 17.3% of sales in the first quarter of 2009, compared to 16.0% in the same period in 2008, reflecting lower sales.

Realized Gain on Foreign Currency Contracts

We discontinued our foreign currency hedging program in the third quarter of 2008. Accordingly, no gains or losses were realized on foreign currency contracts during the third quarter of 2009, compared to $0.3 million of gains during the same period in 2008. Our use of currency derivatives to mitigate the economic impact of fluctuations between the Canadian and US dollar is described in section 5.0 of this report.

EBITDA

EBITDA was $0.5 million for the three months ended September 30, 2009, compared to $1.3 million during the same period last year. The $0.8 million decrease in EBITDA reflects the $2.4 million decrease in gross profit and the $0.3 million reduction in realized gains on foreign currency contracts, partially offset by the $2.0 million reduction in S&A expenses.

Interest Expense

Average interest rates charged under our credit facilities were higher in the third quarter of 2009, but our total debt outstanding was lower than a year ago. As a result, third quarter interest expense remained unchanged at $0.2 million year-over-year.

Non-Cash Foreign Currency Gains and Losses

For the three months ended September 30, 2009, non-cash foreign currency losses were $1.0 million. These losses primarily relate to the translation of US dollar-denominated intercompany debt advanced by the Fund to a wholly-owned US subsidiary. Under GAAP, a portion of our intercompany debt is not considered to be a permanent investment, and accordingly foreign currency gains or losses that arise on translation of the non-permanent portion of the intercompany debt are recognized in the calculation of net earnings. In the comparative three-month period ended September 30, 2008, we reported a non-cash loss of $0.5 million relating to the mark-to-market valuation of foreign currency contracts that were outstanding at that time. Further discussion of our foreign currency contracts can be found under Financial Instruments in section 5.0 of this report.

Non-controlling Interest

Non-controlling interest (“NCI”) was reduced by $0.4 million in the third quarter of 2009, compared to a reduction in NCI of $0.6 million in the comparable period in 2008. NCI includes the Class B Unit’s interest in pre-tax earnings or loss in the period, less an adjustment to NCI to reflect the value of subordinated distributions that were not made to the Class B Units and that can no longer be recovered by the Class B Units under the terms of the Fund’s subordination feature. The Fund’s subordination feature is further described in section 4.0 of this report and in the Interim Financial Statements.

Income taxes

Income tax expense of $10.6 million was recorded in the third quarter of 2009. The $10.6 million income tax expense reflects a reduction in net future income tax assets due to the continued downturn in financial results of our US operations. No such income tax expense occurred in the third quarter of 2008.

Net Loss

We recorded a net loss of $11.1 million for the three months ended September 30, 2009, compared to net earnings of $0.9 million in 2008. The $12.0 million decrease in net earnings primarily reflects the $10.6 million increase in income tax expense, a $0.8 million reduction in EBITDA, a $0.5 million increase in non-cash foreign currency losses, partially offset by a $0.2 million decrease related to the change in NCI.

3.2 Nine Months Ended September 30, 2009 and September 30, 2008

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

		For the nine months Ended September 30, 2009		For the nine months Ended September 30, 2008
Total sales	$	149,346	$	199,651
Sales in the US (US$)		*78,225*		*127,128*
Sales in Canada		*57,839*		*70,158*
Gross profit		26,846		36,611
Gross profit %		*18.0%*		*18.3%*
Selling and administrative expenses		(25,579)		(30,510)
Realized gain on foreign currency contracts		-		1,247
Earnings before interest, taxes, depreciation and amortization and non-controlling interest (“EBITDA”)	$	1,267	$	7,348
Add (deduct):				
Amortization		(672)		(1,145)
Interest		(434)		(935)
Non-cash foreign currency losses		(1,382)		(1,831)
Intangibles impairment		-		(5,468)
Goodwill impairment		-		(64,606)
Non-controlling interest		1,757		15,150
Income tax recovery (expense)		(10,232)		28,185
Net loss for the period	$	(9,696)	$	(23,302)
Basic and fully diluted loss per Class A Unit	$	(0.673)	$	(1.617)
Average Canadian dollar exchange rate for one US dollar		1.170		1.0186

Sales

For the nine months ended September 30, 2009, total sales were $149.3 million, down from $199.7 million in the same period in 2008. The 25.2% decrease in total sales reflects a 41.1%

decrease in underlying sales activity, partially offset by a 15.9% increase in sales due to the positive impact of a weaker Canadian dollar. The decrease in underlying sales reflects challenging business conditions as outlined in section 2.0. Year-to-date sales activity at our US operations, as measured in US dollars, declined 38.5% year-over-year, and sales in Canada were down by 17.6%.

Gross Profit

Gross profit for the nine months ended September 30, 2009 was $26.8 million, down from $36.6 million in the first nine months of 2008. The reduction in gross profit primarily reflects lower sales, as well as a reduction in gross profit margin. As a percentage of sales, gross profit was 18.0% in the first nine months of 2009, compared to 18.3% during the same period in 2008. The change in gross profit margin reflects highly competitive market conditions and ongoing efforts to reduce inventory in line with reduced sales demand.

Selling and Administrative Expenses

S&A expenses decreased $4.9 million to $25.6 million in the first nine months of 2009, from $30.5 million during the same period in 2008. This improvement reflects $4.3 million in savings related to workforce reductions and lower employee bonus accruals, $2.9 million in premises, sales, warehouse and administrative savings related to branch closures and reduced sales activity levels, and a $0.6 million reduction in other expenses primarily reflecting the absence of one-time reorganization costs incurred during the first nine months of 2008. These cost reductions were partially offset by $0.6 million in additional bad debt expense related to increased customer credit failures in the current economy, and a $2.3 million negative impact of the weaker Canadian dollar on the conversion of S&A expenses at our US operations. As a percentage of sales, year-to-date S&A expenses were 17.1% of sales, compared to 15.3% during the same period in 2008.

Realized Gain on Foreign Currency Contracts

In the first nine months of 2008, maturing foreign currency contracts provided us with $1.2 million in realized gains. We discontinued our foreign currency hedging program in the third quarter of 2008, and accordingly no gains or losses were realized on foreign currency contracts during the first nine months of 2009. Our use of currency derivatives to mitigate the economic impact of fluctuations between the Canadian and US dollar is described in section 5.0 of this report.

EBITDA

EBITDA was $1.3 million in the nine months ended September 30, 2009, down from $7.3 million in the same period in 2008. The $6.0 million decrease in EBITDA reflects the $9.8 million reduction in gross profit and the $1.2 million decrease in realized gains on foreign currency contracts, partially offset by the $4.9 million improvement in S&A.

Amortization Expense

Amortization expense was $0.7 million in the nine months ended September 30, 2009, compared to $1.1 million in the comparable period in 2008. The $0.4 million decrease in amortization expense primarily reflects the absence of intangible asset amortization in 2009. The remaining value of all intangible assets was written down to zero at December 31, 2008.

Interest Expense

Interest expense was $0.4 million in the nine months ended September 30, 2009, compared to $0.9 million in the comparable period in 2008. The decrease in interest expense primarily reflects lower outstanding bank indebtedness resulting from reduced working capital financing requirements.

Non-Cash Foreign Currency Gains and Losses

For the nine months ended September 30, 2009, non-cash foreign currency losses were $1.4 million. This loss arose primarily due to translation of US dollar-denominated intercompany debt advanced by the Fund to a wholly-owned subsidiary, as explained previously in section 3.1 of this report. In the comparative nine-month period ended September 30, 2008, a non-cash loss of $1.8 million arose on the mark-to-market valuation of foreign currency contracts that were outstanding at that time. Further discussion of our foreign currency contracts can be found under Financial Instruments in section 5.0 of this report.

Intangible Assets and Goodwill Impairment

In the second quarter of 2008, the Fund completed impairment testing and determined that the value of intangibles and goodwill exceeded their carrying value by $5.5 million and $64.6 million respectively. No intangibles or goodwill impairment was determined in the 2009 period.

Non-controlling Interest

Non-controlling interest, or NCI, was reduced by $1.8 million in the first nine months of 2009, compared to a reduction in NCI of $15.2 million in the comparable period in 2008. NCI includes the Class B Unit's interest in pre-tax earnings or loss in the period, less an adjustment to NCI to reflect the value of subordinated distributions that were not made to the Class B Units and that can no longer be recovered by the Class B Units under the terms of the Fund's subordination feature. The Fund's subordination feature is further described in section 4.0 of this report and in the Interim Financial Statements. The primary reason for the $15.2 million reduction in NCI in 2008 is related to the NCI's share of the goodwill and intangible impairment recognized by the Fund in the second quarter of 2008.

Income taxes

Income tax expense in the nine months ended September 30, 2009 was $10.2 million, compared to income tax recovery of $28.2 million in the same period in 2008. The $10.2 million income tax expense in the 2009 period primarily reflects a reduction in the net future income tax assets recorded in the third quarter, as explained previously in section 3.1 of this report. The $28.2 million income tax recovery recorded in the comparative period in 2008 primarily reflects $20.1 million in future income tax assets associated with recording the goodwill and intangibles impairment in the second quarter of 2008, and the recording of a $7.0 million future income tax benefit and a $0.8 million current income tax benefit resulting from the refinancing and reorganization of the Fund's internal affairs undertaken in the first quarter of 2008.

Net Loss

Net loss for the nine months ended September 30, 2009 was $9.7 million, compared to a net loss of $23.3 million in the comparable period in 2008. The $13.6 million reduction to net loss primarily reflects the $70.1 million reduction in goodwill and intangibles impairment, $0.5 million reduction in interest expense, $0.4 million reduction in amortization expense, and $0.4 million reduction in non-cash foreign currency losses. These increases to net earnings were partially offset by the $6.0 million decrease in EBITDA, $13.4 million decrease related to the change in NCI, and $38.4 million decrease in income tax recovery.

4.0 Liquidity and Capital Resources

4.1 Distributable Cash and Cash Distributions

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

	3 months ended September 30, 2009	3 months ended September 30, 2008	9 months ended September 30, 2009	9 months ended September 30, 2008
Net cash provided by operating activities	$ 1,955	$ 3,941	$ 8,867	$ 14,201
Increase (decrease) in non-cash operating working capital	(1,680)	(2,893)	(8,406)	(7,157)
Cash flow from operations before changes in non-cash operating working capital	275	1,048	461	7,044
Capital expenditures	(45)	(48)	(95)	(346)
Distributable Cash	$ 230	$ 1,000	$ 366	$ 6,698
Distributions relating to the period:				
Class A Units	$ -	$ 1,081 (1)	$ -	$ 7,565 (2)
Class B Units (3)	-	-	-	-
Total Units	$ -	$ 1,081	$ -	$ 7,565
Outstanding units and per unit amounts:				
Class A Units outstanding	14,410,000	14,410,000	14,410,000	14,410,000
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	$ 0.013	$ 0.056	$ 0.020	$ 0.372
Distributions relating to the period:				
Class A Units	$ -	$ 0.075 (1)	$ -	$ 0.525 (2)
Class B Units (3)	$ -	$ -	$ -	$ -
Total Units	$ -	$ 0.060	$ -	$ 0.420
Payout ratio (4)	0.0%	108.2%	0.0%	113.0%

	March 23, 2004 to September 30, 2009
Cumulative since inception:	
Distributable Cash	75,983
Distributions relating to the period	66,754
Payout ratio (4)	87.9%

[1] Includes the cash distributions of $0.025 per Class A Unit per month which relate to the operations of the Fund for July, August and September 2008.
[2] Includes the cash distributions of $0.075 per Class A Unit per month which relate to the operations of the Fund for January through June 2008, and cash distributions of $0.025 per Class A Unit per month which relate to the operations of the Fund for July through September 2008.
[3] 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 September 30, 2009 balance sheet.
[4] Payout ratio measures the ratio of distributions by the Fund relating to the period to Distributable Cash for the period.

We pay distributions on Class A Units at the end of the month following the month in which the cash is earned. Distributions may also be made quarterly on Class B Units in an amount equivalent on an after-tax per-unit basis to distributions made on Class A Units, pursuant to the terms of a subordination agreement as outlined in the Fund's Annual Information Form. Except as outlined in the terms of the subordination agreement with the Class B Units, there are no limitations on distributions from the subsidiaries of the Fund arising from the existence of a minority interest in a subsidiary of the Fund. The Fund's subordination feature is designed to stay in place until the EBITDA and certain distributable cash tests established at the time of the IPO are met. Further description of the subordination arrangement is included in note 8 of the accompanying Interim Financial Statements.

For the three months ended September 30, 2009, the Fund and its subsidiaries generated Distributable Cash of $0.2 million, or $0.013 per unit. For the nine months ended September 30, 2009, the Fund and its subsidiaries generated Distributable Cash of $0.4 million, or $0.020 per unit. No distributions were made relating to the three or nine-month periods ended September 30, 2009. On November 3, 2008, the Trustees of the Fund announced a suspension of further monthly cash distributions to public unitholders (Class A Units) until such time as market conditions and the Fund's financial performance have improved.

4.2 Standardized Distributable Cash and Cash Distributions

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

	3 months ended September 30, 2009	3 months ended September 30, 2008	9 months ended September 30, 2009	9 months ended September 30, 2008
Net cash provided by operating activities	$ 1,955	$ 3,941	$ 8,867	$ 14,201
Capital expenditures	(45)	(48)	(95)	(346)
Standardized Distributable Cash	$ 1,910	$ 3,893	$ 8,772	$ 13,855
Distributions relating to the period:				
Class A Units	$ -	$ 1,081 [(1)]	$ -	$ 7,565 [(2)]
Class B Units [(3)]	-	-	-	-
Total Units	$ -	$ 1,081	$ -	$ 7,565
Outstanding units and per unit amounts:				
Class A Units outstanding	14,410,000	14,410,000	14,410,000	14,410,000
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
Standardized Distributable Cash per Total Units	$ 0.106	$ 0.216	$ 0.487	$ 0.769
Distributions per Total Units	$ -	$ 0.060	$ -	$ 0.420
Standardized payout ratio [(4)]	0.0%	27.8%	0.0%	54.6%

	March 23, 2004 to September 30, 2009
Cumulative since inception:	
Standardized Distributable Cash	91,932 [(5)]
Distributions relating to the period	66,754
Standardized Payout ratio [(4)]	72.6%

[1] Includes the cash distributions of $0.025 per Class A Unit per month which relate to the operations of the Fund for July, August and September 2008.
[2] Includes the cash distributions of $0.075 per Class A Unit per month which relate to the operations of the Fund for January through June 2008, and cash distributions of $0.025 per Class A Unit per month which relate to the operations of the Fund for July through September 2008.
[3] 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 September 30, 2009 balance sheet.
[4] Payout ratio measures the ratio of distributions by the Fund relating to the period to Standardized Distributable Cash for the period.
[5] Calculation of cumulative Standardized Distributable Cash since inception excludes a $10.3 million increase in non-cash operating working capital, which relates to a final working capital adjustment payment made to the former owners to complete the initial purchase of the Business.

In addition to our Distributable Cash, the Interpretive Guidance recommends disclosure of Standardized Distributable Cash. This is provided in the table above. Management believes that the calculation of Standardized Distributable Cash distorts the Fund’s quarter-to-quarter distributable cash and payout ratios, as our non-cash operating working capital fluctuates significantly as a result of significant changes in market demand for our products and seasonal factors. The board of directors of our operating entities look beyond quarter-to-quarter fluctuations in working capital when making decisions regarding monthly distributions. As a result, management believes that our historical measure of Distributable Cash, which excludes the impact of changes in non-cash working capital, is a better measure for determining our operating performance.

The table below reconciles Standardized Distributable Cash to our Distributable Cash.

Selected Unaudited Consolidated Financial Information
(in thousands of dollars)

	3 months ended September 30, 2009	3 months ended September 30, 2008	9 months ended September 30, 2009	9 months ended September 30, 2008
Standardized Distributable Cash	$ 1,910	$ 3,893	$ 8,772	$ 13,855
Increase (decrease) in non-cash operating working capital	(1,680)	(2,893)	(8,406)	(7,157)
Distributable Cash	$ 230	$ 1,000	$ 366	$ 6,698

4.3 Working Capital

Our business requires an ongoing investment in working capital, comprised of accounts receivable, income taxes recoverable, inventory, and prepaid expenses, partly offset by short-term credit provided by suppliers in the form of accounts payable and accrued liabilities. Our investment in working capital fluctuates from quarter-to-quarter based on factors such as seasonal sales demand, strategic purchasing decisions taken by management, and the timing of collections from customers and payments made to our suppliers. Historically the first and fourth quarters are seasonally slower periods for construction activity and therefore demand for hardwood products decreases. As a result, sales and working capital requirements may be lower in these quarters. A summary of changes in our non-cash operating working capital during the three and nine months ended September 30, 2009 and 2008 is provided below.

(in thousands of Canadian dollars)

Source (use) of funds	3 months ended September 30, 2009	3 months ended September 30, 2008	9 months ended September 30, 2009	9 months ended September 30, 2008
Accounts receivable	$ (21)	$ 2,528	$ (1,931)	$ (50)
Income taxes recoverable	$ (13)	$ (4)	1,902	$ (862)
Inventory	$ 71	$ 188	5,221	$ 8,826
Prepaid expenses	$ 139	$ 190	(100)	$ (137)
Accounts payable and accrued liabilities	$ 1,504	$ (9)	3,314	$ (621)
Decrease in non-cash operating working capital	$ 1,680	$ 2,893	$ 8,406	$ 7,157

4.4 Capital Expenditures and Productive Capacity

Our capital expenditures are typically low as we lease all of our buildings and contract out all freight delivery services. Capital expenditures are principally for the replacement of forklifts, furniture and fixtures, leasehold improvements and computer equipment. Over the business cycle, annual maintenance capital requirements are expected to average approximately $1.0 million per year, but may be higher or lower in a particular year based on the needs of the business. We believe this annual amount is sufficient to maintain the existing productive capacity of the business as it relates to our needs for property, plant and equipment. More recently, and consistent with our current focus on cost reduction and cash conservation, we have decreased our discretionary cash outlays for capital items. Our total capital expenditures during the first nine months of 2009 amounted to just $95,000. The closing of nine branch locations over the past seven quarters has freed up additional forklift capacity and reduced our need to purchase replacement forklift equipment. We anticipate capital expenditures in 2009 will not exceed $0.3 million.

In addition to maintaining the productive capacity of our property, plant and equipment, we also manage the productive capacity of the business in terms of: (1) available distribution infrastructure; and (2) maintenance of a skilled work force.

Available distribution infrastructure refers to the physical capacity of the distribution network maintained by our business, and may be measured in terms of the number and total square footage of distribution centres in operation. Since our IPO in March 2004, we have made a number of adjustments to our distribution network, including opening, closing, and relocating some of our distribution facilities. As discussed in section 2.0 of this report, we are presently experiencing a significant market downturn in demand for hardwood products. In response, we have reduced our available distribution infrastructure, closing seven branches in 2008 and a further two branches in the second quarter of 2009. We believe these reductions are appropriate to better match our operating costs to current market demand.

Selected Unaudited Consolidated Financial Information

	September 30, 2009	December 31, 2008	December 31, 2007	December 31, 2006	December 31, 2005
Number of distribution centres in operation	27	29	36	36	39
Total square footage of distribution centres	1.0 million s.f.	1.1 million s.f.	1.3 million s.f.	1.3 million s.f.	1.3 million s.f.

While our network is smaller, maintenance of a skilled workforce remains critical to managing the productive capacity of our business. We utilize a number of strategies to attract, train, retain and reward our employees. Our staffing levels reflect decisions regarding our distribution network and our expectations for sales demand based upon prevalent economic conditions. Trends in our workforce capacity, as measured in terms of number of employees and average annual sales dollars per employee, are summarized below. Although the productive capacity of our human capital is difficult to measure directly, we believe the productive capacity of our business, as measured by sales per employee, has been largely sustained.

Selected Unaudited Consolidated Financial Information

	September 30, 2009	December 31, 2008	December 31, 2007	December 31, 2006	December 31, 2005
Number of employees	159	190	236	252	259
Annual sales per employee ($ millions)	1.3 [1]	1.3	1.4	1.4	1.4

[1] Nine months sales to September 30, 2009 annualized, divided by number of employees

4.5 Utilization of Distributable Cash

Selected Unaudited Consolidated Financial Information (in thousands of dollars)

	3 months ended September 30, 2009	3 months ended September 30, 2008	9 months ended September 30, 2009	9 months ended September 30, 2008
Distributable Cash	$ 230	$ 1,000	$ 366	$ 6,698
Cash Distributions paid in the period	-	(1,801)	-	(8,286)
Distributable Cash retained (shortfall)	$ 230	$ (801)	$ 366	$ (1,588)
Decrease (increase) in non-cash operating working capital	1,680	2,893	8,406	7,157
Decrease (increase) in long-term receivables	179	302	802	186
Decrease (increase) in deferred financing fees	(239)	(204)	(320)	(204)
Proceeds from disposal of property, plant and equipment	13	-	42	-
Decrease (increase) in bank indebtedness, net of cash	$ 1,863	$ 2,190	$ 9,296	$ 5,551

Our utilization of Distributable Cash and its relation to working capital use and bank line financing are summarized above. For the three months ended September 30, 2009, the Fund generated Distributable Cash of $0.2 million, and made no cash distributions during the period. We decreased our investment in non-cash operating working capital by $1.7 million, decreased our investment in long-term receivables by $0.2 million, and increased our investment in deferred financing fees by $0.2 million. Taking these factors together, we paid down our bank indebtedness (net of cash) by $1.9 million in the third quarter of 2009.

For the nine months ended September 30, 2009 the Fund generated Distributable Cash of $0.4 million, and made no cash distributions during the period. We decreased our non-cash operating working capital by $8.4 million (primarily by collecting income taxes recoverable, and reducing our inventory), decreased our investment in long-term receivables by $0.8 million, and increased our investment in deferred financing fees (primarily expenses associated with entering into a new Canadian credit facility). Taking these factors together, the Fund reduced its bank indebtedness (net of cash) by $9.3 million in the first nine months of 2009.

4.6 Revolving Credit Facilities and Debt Management Strategy

Selected Unaudited Consolidated Financial Information (in thousands of dollars)

	As at September 30, 2009		As at December 31, 2008	
Cash and cash equivalents	$	(1,263)	$	(85)
Bank indebtedness		8,124		17,561
Net Debt	$	6,861	$	17,476
Unitholders' Equity	$	55,874	$	68,772
Total Capitalization	$	62,735	$	86,248
Net debt to total capitalization		10.9%		20.3%
Previous 12 months EBITDA	$	(163)	$	5,918
Net debt to previous 12 months EBITDA		(42.1)		3.0

As discussed in section 4.5 of this report, we paid down our net debt by $9.3 million during the nine months ended September 30, 2009. The impact of a stronger Canadian dollar (as at September 30, 2009 compared to December 31, 2008) on the conversion of our US dollar bank line reduced our debt by a further $1.3 million. Taken together, our net debt balance decreased by $10.6 million, from $17.5 million at December 31, 2008 to $6.9 million at September 30, 2009. Overall net debt compared to total capitalization stood at 10.9% as of September 30, 2009, compared to 20.3% at December 31, 2008. With the downturn in economic conditions, our trailing 12 month EBITDA results have decreased to a loss of $163,000. As a result the ratio of net debt to EBITDA in the previous 12 months is negative 42.1 times at September 30, 2009, compared to 3.0 times at December 31, 2008. Net debt to EBITDA serves as an indicator of our financial leverage.

We have independent credit facilities in both Canada and the U.S. In the third quarter a subsidiary of the Fund entered into a new three year credit facility in Canada, which may be drawn down to meet short-term financing requirements such as fluctuations in non-cash working capital or to make capital contributions to the Fund's US operating subsidiary. The amount made available under our Canadian and US revolving credit facilities is, from time-to-time, limited to the extent of the value of certain accounts receivable and inventories held by subsidiaries of the Fund. Credit facilities also require ongoing compliance with certain credit ratios. A summary of our credit facilities at September 30, 2009 is provided below.

Selected Unaudited Consolidated Financial Information (in thousands of dollars)

	Canadian Credit Facility	US Credit Facility
Maximum borrowings under credit facility	$15 million	$26.8 million (US$ 25 million)
Credit facility expiry date	August 7, 2012	September 30, 2011
Available to borrow	$11.4 million	$12.9 million (US$12.1 million)
Credit facility borrowings	$ 1.3 million	$ 6.6 million (US6.2 million)
Unused credit facility available	$10.1 million	$ 6.3 million (US$5.9 million)
Financial covenants:		
a. (EBITDA - Cash Taxes - Capital Expenditures) / Interest (1)		
Covenant minimum	1.1	
Covenant actual	37.3	
b. Minimum Trailing EBITDA covenant (2)		Covenant does not apply when the unused credit facility available exceeds US$4.0 million, which it did as at September 30, 2009

[1] Calculated on a trailing twelve month basis in accordance with the terms of the Canadian credit facility.
[2] Calculated in accordance with the terms of the US credit facility.

We have forecast our financial results and cash flows for the next 12 months (the "Forecast Period"). The forecasts are based on our 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 to be effective to the June 30, 2009 reporting period. The 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 September 30, 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 financial covenant at September 30, 2009, it would have been in compliance with its minimum trailing EBITDA covenant. However, due to the difficulty in predicting the continued severity and duration of the current economic and financial crisis, we are uncertain whether our U.S. subsidiary will remain in compliance with its financial covenant during the Forecast Period. Further weakening of the housing and renovation market or a significant increase in customer or credit losses could cause the U.S. subsidiary to violate 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 as circumstance, we could draw upon our Canadian credit facility, or if that does not suffice, we 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 Interim Financial Statements have been prepared assuming the Fund will continue as a going concern which 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 we be unable to continue as a going concern. The principal terms of the credit facilities of Hardwoods LP and Hardwoods US LP are available at www.sedar.com.

The terms of the agreements with our lenders provide that distributions cannot be made to our unitholders in the event that our subsidiaries are not compliant with their financial covenants. As shown in the preceding table, our operating subsidiaries were compliant with all required credit ratios as at September 30, 2009, and accordingly there were no restrictions on distributions arising from non-compliance with financial covenants.

Our debt management strategy is to roll and renew, as opposed to repay and retire, our revolving credit facilities in Canada and the US when they expire in August 2012 and September 2011, respectively. We do not intend to restrict future distributions in order to fully extinguish our bank debt obligations upon their maturity. The amount of bank debt that will actually be drawn upon our available revolving credit facilities will depend upon the seasonal needs of the business and cash generating capacity of the Fund. When making distribution decisions, we will consider the amount of financial leverage, and therefore bank debt, we believe is appropriate for the Fund given existing and expected market conditions and available business opportunities. During the present economic downturn, our focus is on cash conservation and maximizing liquidity until such time as market conditions and the Fund's financial performance and cash generating performance have improved. We do not target a specific financial leverage amount.

4.7 Contractual Obligations

The table below sets forth our contractual obligations as at September 30, 2009. These obligations relate to operating leases on various premises and automobiles, and become due in the fiscal years indicated:

(in thousands of Canadian dollars)

Total	2009	2010	2011	2012	2013	2014 & thereafter
$ 15,069	$ 1,687	$ 5,196	$ 3,057	$ 2,140	$ 1,458	$ 1,531

4.8 Off-Balance Sheet Arrangements

The Fund has no off-balance sheet arrangements.

5.0 Financial Instruments

Up to June 30, 2008, we used currency contracts to assist in forward planning for the business as it related to managing our exposure to fluctuations in exchange rates between the Canadian dollar and the United States dollar. In particular, monthly foreign currency contracts were purchased to cover the estimated amount of US dollar denominated Distributable Cash that must be converted to Canadian dollars to pay distributions to Class A Unitholders.

Effective July 2008, we reduced monthly distributions with the expectation that little or no cash flows would be converted from our US subsidiaries to pay distributions until such time as sales demand and associated business results for our US subsidiaries improved. Accordingly, in the third quarter of 2008 we ceased purchasing additional foreign exchange contracts until such time as the amount and timing of resumption of distributions from our US subsidiaries are known. In the third quarter of 2008 we determined that our remaining currency contracts were no longer needed to hedge US dollar cash flow, and realized cash proceeds of $0.2 million from the sale of these contracts.

6.0 Related-Party Transactions

Related parties refers to affiliates of the previous owners of the Business who have retained a 20% interest in Hardwoods through ownership of Class B Hardwoods LP units and Class B Hardwoods USLP units, respectively. For the three months ended September 30, 2009, sales of $0.1 million were made to related parties, and the subsidiaries of the Fund purchased $15,000 from related parties. For the nine months ended September 30, 2009, sales of $0.4 million were made to related parties, and the subsidiaries of the Fund purchased $0.1 million from related parties.

7.0 Critical Accounting Estimates and Adoption of Changes in Accounting Policies

7.1 Critical Accounting Estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires that we make estimates and assumptions that can have a material impact on our results of operations as reported on a periodic basis. We base our estimates and assumptions on past experience and other factors that are deemed reasonable under the circumstances. Actual results could differ from these estimates. The critical estimates used in preparing our financial statements are:

Accounts Receivable Provision: Due to the nature of our business and the credit terms we provide to our customers, we anticipate that a certain portion of required customer payments will not be made, and we maintain an allowance for these doubtful accounts. The allowance is based on our estimate of the potential of recovering our accounts receivable, and incorporates current and expected collection trends.

Valuation of Inventories: We anticipate that the net realizable value of our inventory could be affected by market shifts or damage to our products. Our inventory is valued at the lower of cost and net realizable value.

Future Income Taxes: We are required to make estimates and assumptions regarding future business results as well as the amount and timing of certain future discretionary tax deductions available to the Fund. These estimates and assumptions can have a material impact upon the amount of future income tax assets and liabilities that we recognize.

7.2 Adoption of Changes in Accounting Policies

On January 1, 2011, International Financial Reporting Standards ("IFRS") will replace current Canadian standards and interpretations as Canadian generally accepted accounting principles (Canadian GAAP) for public companies. Changing from current Canadian GAAP to IFRS will be a significant undertaking that may materially affect the Fund's reported financial position and results of operations. It may also affect certain business functions. We have adopted an IFRS changeover plan. It is expected that our changeover plan will be modified and updated as we proceed through the changeover process. Key elements of our current changeover plan include:

Year	Key Activities
2008	Completed IFRS education and training with our accounting staff. Identify an IFRS project manager. Determined the intended use of outside consultants, if any. Analyzed differences between our current accounting policies and IFRS.
2009	Make preliminary selections of IFRS accounting policies. Identify one-time elective exemptions available on initial IFRS adoption. Identify the information required to deliver the preliminary selections of IFRS accounting policies. Identify system changes (accounting, policies, procedures, information technology) required to get that information. Develop a master conversion plan for changes identified. Adopt formal project plan. Automate and test data collection. Identify and address the impact of changes IFRS makes to our business drivers, including debt covenants, incentive plans, and management reporting, budgeting, and other items. Link IFRS to CEO/CFO certification processes and update certification documentation. Estimate anticipated impacts of IFRS adoption on our financial statements.
2010	Commence IFRS accounting to provide comparative figures for 2011 IFRS startup date. Prepare IFRS communication plan for stakeholders.
2011	Commence IFRS reporting.

Effective January 1, 2009, we adopted 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 we did not have any goodwill or intangible assets at December 31, 2008, the adoption of this new standard did not impact the amounts presented in the financial statements.

8.0 Risks and Uncertainties

We are exposed to a number of risks and uncertainties in the normal course of business that could have a negative effect on our financial condition or results of operations. We identified significant risks that we were aware of in our Annual Information Form dated March 23, 2009, which is available to readers at www.sedar.com. In addition, we believe the current economic environment has elevated our business risk, particularly in the following areas:

1. Financing risk related to our ability to debt-finance our operations has increased in the current tight credit environment. While we obtained an amendment to our US banking agreement in the second quarter to gain additional financial covenant flexibility, it is uncertain if our US results will prove strong enough to remain in compliance with our bank agreement in the next 12 months;

2. The risk of bad debts has increased as our customers face reduced demand and pressure on credit availability in their own businesses;

3. The possibility that key suppliers could fail has increased, which could potentially disrupt our supply chain; and,

4. Demand for our products could weaken still further, given that US housing starts fell to historic lows in early 2009, and the impact on our sales often lags changes in the residential construction cycle by nine-to-twelve months. The lag exists because kitchen cabinets and furniture, which are a key end-use for hardwood products, are purchased late in the building process.

9.0 Internal Control over Financial Reporting

During the three months ended September 30, 2009, no changes were made in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting

10.0 Quarterly Financial Information

(in thousands of dollars)	Q3 2009	Q2 2009	Q1 2009	Q4 2008	Q3 2008	Q2 2008	Q1 2008	Q4 2007
Total sales	$ 46,435	$ 49,489	$ 53,422	$ 56,650	$ 62,115	$ 66,488	$ 71,048	$ 68,767
Net earnings	$ (11,072)	$ (491)	$ 1,867	$ (12,941)	$ 885	$ (33,716)	$ 9,529	$ 2,115
Basic and fully diluted earnings (loss) per Class A Unit	$ (0.768)	$ (0.034)	$ 0.130	$ (0.898)	$ 0.061	$ (2.340)	$ 0.661	$ 0.147
EBITDA	$ 543	$ (192)	$ 916	$ (1,430)	$ 1,344	$ 3,091	$ 2,913	$ 3,112
Distributable Cash	$ 230	$ (569)	$ 705	$ (1,730)	$ 1,000	$ 2,427	$ 3,271	$ 3,205
Total distributions to Class A and Class B Units	$ -	$ -	$ -	$ -	$ 1,081	$ 3,242	$ 3,242	$ 3,243
Payout ratio	0.0%	0.0%	0.0%	0.0%	108.2%	133.6%	99.1%	101.2%

The table above provides selected quarterly financial information for our eight most recently completed fiscal quarters. This information is unaudited, but reflects all adjustments of a normal, recurring nature which are, in our opinion, necessary to present a fair statement of the results of operations for the periods presented. Quarter-to-quarter comparisons of our financial results are not necessarily meaningful and should not be relied upon as an indication of future performance. Historically, the first and fourth quarters have been seasonally slower periods for our business. In addition, net earnings reported in each quarter may be impacted by changes to the foreign exchange rate of the Canadian and US dollar, write-downs in the carrying value of goodwill and other intangible assets (which occurred in the three months ended June 30, 2008, and in the three months ended December 31, 2008), and gains or losses on foreign currency contracts which are described under Financial Instruments in section 5.0 of this report.

HARDWOODS DISTRIBUTION INCOME FUND

Consolidated Balance Sheets
(Expressed in thousands of Canadian dollars)

	September 30, 2009	December 31, 2008
	(unaudited)	
Assets		
Current assets:		
Cash and cash equivalents	$ 1,263	$ 85
Accounts receivable (note 6)	31,123	32,218
Income tax recoverable	347	2,316
Inventory (note 5)	23,478	30,868
Prepaid expenses	1,053	1,039
	57,264	66,526
Long-term receivables (note 6)	2,241	3,639
Property, plant and equipment	1,488	2,168
Deferred financing costs	415	235
Future income taxes	17,936	30,782
	$ 79,344	$ 103,350
Liabilities and Unitholders' Equity		
Current liabilities:		
Bank indebtedness (note 7)	$ 8,124	$ 17,561
Accounts payable and accrued liabilities	5,368	3,365
	13,492	20,926
Deferred gain on sale-leaseback of land and building	443	572
Non-controlling interests (note 8)	9,535	13,080
Unitholders' equity:		
Fund units	133,454	133,454
Deficit	(59,654)	(49,958)
Accumulated other comprehensive loss	(17,926)	(14,724)
	55,874	68,772
Continuance of operations (note 1)		
Contingencies (note 15)		
	$ 79,344	$ 103,350

See accompanying notes to consolidated financial statements.

Approved on behalf of the Trustees:

(Signed) GRAHAM M. WILSON Trustee   (Signed) TERRY M. HOLLAND Trustee

HARDWOODS DISTRIBUTION INCOME FUND

Consolidated Statement of Earnings (Loss) and Deficit
(Unaudited)
(Expressed in thousands of Canadian dollars)

	Three months ended September 30, 2009	Three months ended September 30, 2008	Nine months ended September 30, 2009	Nine months ended September 30, 2008
Sales	$ 46,435	$ 62,115	$ 149,346	$ 199,651
Cost of sales	37,848	51,102	122,500	163,040
Gross profit	8,587	11,013	26,846	36,611
Expenses:				
Selling and administrative	8,044	9,967	25,579	30,510
Amortization:				
Plant and equipment	189	229	620	703
Deferred financing costs	37	8	117	14
Other intangible assets	-	80	-	484
Deferred gain gain on sale - leaseback of land and building	(20)	(19)	(65)	(56)
Interest	165	237	434	935
Unrealized foreign currency losses	1,049	224	1,382	584
Intangibles impairment	-	-	-	5,468
Goodwill impairment	-	-	-	64,606
	9,464	10,726	28,067	103,248
Earnings (loss) before non-controlling interests and income taxes	(877)	287	(1,221)	(66,637)
Non-controlling interests (note 8)	(391)	(560)	(1,757)	(15,150)
Earnings (loss) before income taxes	(486)	847	536	(51,487)
Income tax expense (recovery) (note 13):				
Current	86	114	193	(638)
Future	10,500	(152)	10,039	(27,547)
	10,586	(38)	10,232	(28,185)
Net earnings (loss) for the period	(11,072)	885	(9,696)	(23,302)
Deficit, beginning of period	(48,582)	(36,821)	(49,958)	(6,150)
Distributions declared to Unitholders	-	(1,081)	-	(7,565)
Deficit, end of period	$ (59,654)	$ (37,017)	$ (59,654)	$ (37,017)
Basic and diluted earnings (loss) per Unit	$ (0.77)	$ 0.06	$ (0.67)	$ (1.62)
Weighted average number of Units outstanding	14,410,000	14,410,000	14,410,000	14,410,000

See accompanying notes to consolidated financial statements.

HARDWOODS DISTRIBUTION INCOME FUND

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

	Three months ended September 30, 2009	Three months ended September 30, 2008	Nine months ended September 30, 2009	Nine months ended September 30, 2008
Net earnings (loss) for the period	$ (11,072)	$ 885	$ (9,696)	$ (23,302)
Other comprehensive income (loss):				
Unrealized gain (loss) on translation of self-sustaining foreign operations	(1,977)	1,335	(3,202)	2,993
Other comprehensive income (loss)	(1,977)	1,335	(3,202)	2,993
Comprehensive income (loss)	$ (13,049)	$ 2,220	$ (12,898)	$ (20,309)

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

	Three months ended September 30, 2009	Three months ended September 30, 2008	Nine months ended September 30, 2009	Nine months ended September 30, 2008
Accumulated other comprehensive loss, beginning of period	$ (15,949)	$ (19,907)	$ (14,724)	$ (21,565)
Other comprehensive income (loss)	(1,977)	1,335	(3,202)	2,993
Accumulated other comprehensive loss, end of period	$ (17,926)	$ (18,572)	$ (17,926)	$ (18,572)

HARDWOODS DISTRIBUTION INCOME FUND

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

	Three months ended September 30, 2009	Three months ended September 30, 2008	Nine months ended September 30, 2009	Nine months ended September 30, 2008
Cash flows provided by (used in) operating activities:				
Net earnings (loss) for the period	$ (11,072)	$ 885	$ (9,696)	$ (23,302)
Items not involving cash:				
Amortization	206	298	672	1,145
Imputed interest income in employee loans	(11)	(17)	(148)	(48)
Gain on sale of property, plant and equipment	(6)	1	(31)	1
Unrealized foreign exchange losses	1,049	522	1,382	1,831
Non-controlling interests	(391)	(560)	(1,757)	(15,150)
Future income taxes	10,500	(81)	10,039	(27,507)
Intangibles impairment	-	-	-	5,468
Goodwill impairment	-	-	-	64,606
	275	1,048	461	7,044
Change in non-cash operating working capital (note 9)	1,680	2,893	8,406	7,157
Net cash provided by operating activities	1,955	3,941	8,867	14,201
Cash flows provided by (used in) investing activities:				
Additions to property, plant and equipment	(45)	(48)	(95)	(346)
Proceeds on disposal of property, plant and equipment	13	-	42	-
Decrease in long-term receivables, net	179	302	802	186
Net cash provided by (used in) investing activities	147	254	749	(160)
Cash flows provided by (used in) financing activities:				
Decrease in bank indebtedness	(790)	(2,287)	(8,118)	(4,709)
Increase in deferred bank fees	(239)	(204)	(320)	(204)
Distributions paid to Unitholders	-	(1,801)	-	(8,286)
Net cash used in financing activities	(1,029)	(4,292)	(8,438)	(13,199)
Increase (decrease) in cash	1,073	(97)	1,178	842
Cash, beginning of period	190	1,234	85	295
Cash, end of period	$ 1,263	$ 1,137	$ 1,263	$ 1,137
Supplementary information (cash amounts):				
Interest paid	$ 165	$ 237	$ 434	$ 935
Income taxes paid	90	19	193	771
Income taxes received	-	-	1,975	-
Transfer of accounts receivable to long-term customer notes receivable, net of write offs, being a non-cash transaction	-	-	958	2,364

See accompanying notes to consolidated financial statements.

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.

In accordance with the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 1400, *General Standards of Financial Statement Presentation*, the Fund is required to assess and disclose its ability to continue as a going concern. 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 to be effective to the June 30, 2009 reporting period. The 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 September 30, 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 financial covenant at September 30, 2009, it would have met its minimum trailing EBITDA 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 incurring significant customer or credit losses, could cause the U.S. subsidiary to violate 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 which 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.

(Tabular amounts expressed in thousands of Canadian dollars)

2. Basis of presentation:

The Fund prepares its consolidated interim financial statements in accordance with Canadian generally accepted accounting principles on a basis consistent with those used and described in the annual consolidated financial statements for the year ended December 31, 2008. The disclosures contained in these consolidated interim financial statements do not include all the requirements of Canadian generally accepted accounting principles for annual financial statements, and accordingly, these consolidated interim financial statements should be read in conjunction with the annual consolidated financial statements for the period ended December 31, 2008. Certain comparative figures have been restated to conform to the current period's financial statement presentation.

3. Adoption of changes in accounting standards:

Effective January 1, 2009, the Fund adopted 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 did not have any goodwill or intangible assets at December 31, 2008, the adoption of this new standard did not impact the amounts presented in 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:

	September 30, 2009	December 31, 2008
Cash and cash equivalents	$ (1,263)	$ (85)
Bank indebtedness	8,124	17,561
Net debt	6,861	17,476
Unitholders' equity	55,874	68,772
Total capitalization	$ 62,735	$ 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 did not meet the foregoing earnings and cash flow tests as well as certain additional credit ratios. The Fund's operating subsidiaries were compliant with all required credit ratios under the US and Canadian credit facilities as at September 30, 2009, and accordingly there were no restrictions on distributions arising from compliance with financial covenants.

(Tabular amounts expressed in thousands of Canadian dollars)

4. Capital Disclosures (continued):

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 period ended September 30, 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:

	September 30, 2009	December 31, 2008
Lumber	$ 8,308	$ 12,077
Sheet goods	11,653	14,990
Specialty	2,132	2,356
Goods in-transit	1,385	1,445
	$ 23,478	$ 30,868

During the three months ended September 30, 2009 inventory write-downs totaling $0.4 million (nine months ended September 30, 2009 - $1.2 million) were recorded to reduce certain inventory items to their net realizable value.

Cost of sales for the three months ended September 30, 2009 were $37.8 million (nine months ended September 30, 2009 - $122.5 million), which included $36.6 million (nine months ended September 30, 2009 - $118.8 million) of costs associated with inventory. The other $1.2 million (nine months ended September 30, 2009 - $3.7 million) related principally to freight and other related selling expenses.

(Tabular amounts expressed in thousands of Canadian dollars)

6. Receivables:

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:

Accounts receivable	September 30, 2009	December 31, 2008
Trade accounts receivable - Canada	$ 11,456	$ 8,404
Trade accounts receivable - United States	20,312	23,423
Sundry receivable	158	495
Current portion of long-term receivables	3,198	2,243
	35,124	34,565
Less: allowance for doubtful accounts	4,001	2,347
	$ 31,123	$ 32,218

Long-term receivables	September 30, 2009	December 31, 2008
Employee housing loans	$ 1,117	$ 1,507
Customer notes	3,787	3,772
Security deposits	535	603
	5,439	5,882
Less: current portion, included in accounts receivable	3,198	2,243
	$ 2,241	$ 3,639

The aging of trade receivables was:

	September 30, 2009	December 31, 2008
Current	$ 18,151	$ 17,037
Past due 31-60 days	5,144	6,696
Past due 61-90 days	2,192	3,706
Past due 90+ days	6,201	4,388
	$ 31,688	$ 31,827

The Fund 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, 2009 was $4.0 million (December 31, 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.

Bad debt expense for the three months ended September 30, 2009 was $1.0 million which equates to 2.2% of sales (three month period ended September 30, 2008 – $0.9 million, being 1.4% of sales). Historically bad debt as a percentage of sales has averaged approximately 0.7%.

(Tabular amounts expressed in thousands of Canadian dollars)

7. Bank indebtedness:

	September 30, 2009	December 31, 2008
Checks issued in excess of funds on deposit	$ 239	$ 1,087
Credit facility, Hardwoods LP	1,261	265
Credit facility, Hardwoods USLP (September 30, 2009 - US$6,187; December 31, 2008 - US$13,308)	6,624	16,209
	$ 8,124	$ 17,561

In the US, a subsidiary of the Fund has a revolving credit facility of up to $26.8 million (US$25.0 million) and the credit facility matures September 30, 2011.

During the quarter ended September 30, 2009 Hardwoods LP negotiated a new three year credit facility that provides financing of up to $15.0 million. The new credit facility can be drawn down to meet short-term financing requirements, or to make capital contributions to the Fund's U.S. operating subsidiary. The new Canadian facility matures on August 7, 2012.

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 these credit facilities is limited to the extent of the value of certain accounts receivable and inventories held by subsidiaries of the Fund in Canada and the US respectively. At September 30, 2009 the Canadian and US credit facilities have $10.1 million and $6.3 million (US$5.9 million), respectively, of additional borrowing capacity, subject to the subsidiaries being able to continue to meet their respective financial covenants as described in note 4.

8. Non-controlling interests:

Balance, January 1, 2009	$ 13,080
Interest in earnings:	
Interest in earnings before taxes	(244)
Adjustment to non-controlling interest from subordination of Class B Unit Holders	(1,513)
	11,323
Foreign currency translation adjustment of non-controlling interest in Hardwoods USLP	(1,788)
Balance, end of period	$ 9,535

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.

8. Non-controlling interests (continued):

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 US 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 at September 30, 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 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 September 30, 2009, the amount of such deficiency was $14.4 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;

(Tabular amounts expressed in thousands of Canadian dollars)

8. Non-controlling interests (continued):

- 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 September 30, 2009, the amount of such deficiency was $90,063.
- 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 prior to September 30, 2009, 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 $0.2 million for the three-month period ended September 30, 2009 ($1.5 million for the nine-month period ended September 30, 2009).

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

	Three months ended September 30, 2009	Three months ended September 30, 2008	Nine months ended September 30, 2009	Nine months ended September 30, 2008
Accounts receivable	$ (21)	$ 2,527	$ (1,931)	$ (50)
Income taxes recoverable/payable	(13)	(3)	1,902	(861)
Inventory	71	188	5,221	8,826
Prepaid expenses	139	190	(100)	(137)
Accounts payable and accrued liabilities	1,504	(9)	3,314	(621)
	$ 1,680	$ 2,893	$ 8,406	$ 7,157

CICA 1540, *Cash Flow Statements*, require 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 three month period ended September 30, 2009 no discretionary cash distributions were paid to Unitholders (2008 - $1.8 million). During the nine month period ended September 30, 2009 no discretionary cash distributions were paid to Unitholders (2008 - $8.3 million).

(Tabular amounts expressed in thousands of Canadian dollars)

10. Segment disclosure:

Information about geographic areas is as follows:

	Three months ended September 30, 2009	Three months ended September 30, 2008	Nine months ended September 30, 2009	Nine months ended September 30, 2008
Revenue from external customers:				
Canada	$ 18,596	$ 22,055	$ 57,839	$ 70,158
United States	27,839	40,060	91,507	129,493
	$ 46,435	$ 62,115	$ 149,346	$ 199,651

	September 30, 2009	December 31, 2008
Property, plant and equipment:		
Canada	$ 533	$ 752
United States	955	1,416
	$ 1,488	$ 2,168

11. 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 three months ended September 30, 2009, Hardwoods USLP contributed and expensed $56,545 (US$51,498) (three months ended September 30, 2008 - $78,777 (US$77,436)) in relation to the USLP Plan. During the nine months ended September 30, 2009, Hardwoods USLP contributed and expensed $185,224 (US$158,338 (nine months ended September 30, 2008 - $294,933 (US$292,766)) 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 three months ended September 30, 2009, Hardwoods LP contributed and expensed $49,744 (three months ended September 30, 2008 - $56,667) in relation to the LP Plan. During the nine months ended September 30, 2009, Hardwoods LP contributed and expensed $149,906 (nine months ended September 30, 2008 - $233,636) in relation to the LP Plan.

12. Related party transactions:

For the three months ended September 30, 2009, sales of $86,226 (three months ended September 30, 2008 - $84,435) were made to affiliates of SIL, and the Fund made purchases of $14,684 (three months ended September 30, 2008 - $10,275) from affiliates of SIL. For the nine months ended September 30, 2009, sales of $354,734 (nine months ended September 30, 2008 - $319,658) were made to affiliates of SIL, and the Fund made purchases of $46,844 (nine months ended September 30, 2008 - $51,052) from affiliates of SIL. All these sales and purchases took place at prevailing market prices.

13. Income taxes:

During the quarter ended September 30, 2009, the Fund recorded a provision against its net future income tax asset of $11.2 million as a result of the continued downturn in financial results in the Fund's US operating subsidiary.

Effective March 31, 2008 the Fund completed an internal reorganization that involved the refinancing of inter-corporate debt in the form of notes issued and held by subsidiaries of the Fund. The reorganization did not have any effect upon the management or business activities of the Fund's operating subsidiaries. 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 amounts 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 is comprised of an estimated $0.8 million current income tax recovery and $2.8 million future income tax recovery.

During the quarter ended March 31, 2008, tax pools consisting principally of Canadian tax losses carried forward, of approximately $16.0 million were recorded by a subsidiary of the Fund as a result of the Fund's re-organization plan. The tax losses carried forward will result in a reduction of tax otherwise payable under the Canadian federal government's tax on publicly traded income trusts. 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.

During the quarter ended June 30, 2008, the Fund recorded a future tax asset of approximately $20.1 million as a result of the write-down of the goodwill and intangible assets. Goodwill and intangible assets remain deductible for Canadian and U.S. tax purposes.

14. Seasonality:

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

15. 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.

Unitholder Information

Head Office

#306 – 9440 202nd Street
Langley, BC Canada V1M 4A6
Telephone: 604-881-1988
Facsimile: 604-881-1995

Auditors

KPMG LLP
Vancouver, British Columbia

Listings

The Toronto Stock Exchange
Trading under HWD.UN

Transfer Agent

Computershare Trust
Company of Canada

Investor Relations

Rob Brown
Chief Financial Officer
Telephone: 604-881-1990
Email: robbrown@hardwoods-inc.com