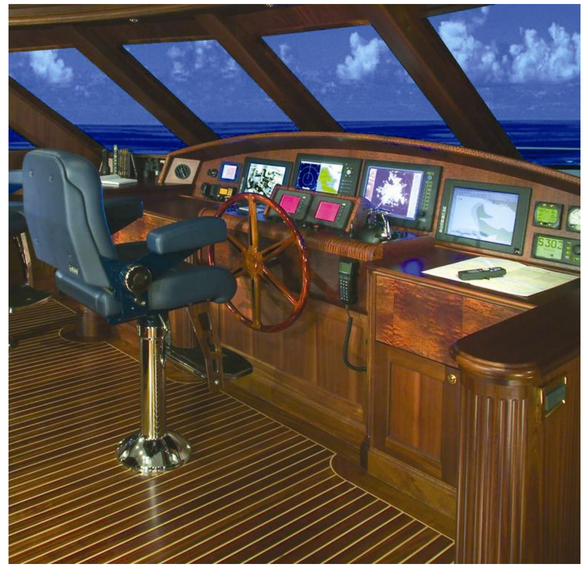

HARDWOODS DISTRIBUTION INCOME FUND

2008

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 over 45 years. At September 30, 2008, we are one of the largest distributors of hardwood lumber and sheet goods in North America, operating a network of 32 distribution centers organized into nine regional clusters.

To Our Unitholders:

The third quarter brought a marked worsening of economic conditions, including unprecedented turmoil in financial markets and uncertainty in the economy. Given the weakness in our results and our expectation that market conditions will continue to worsen, we are taking steps to ensure Hardwoods is positioned to withstand a prolonged downturn.

Our third quarter financial results were significantly weaker than a year ago, and our distribution payout ratio was 108.1%. Factoring out non-recurring cash gains received from selling our foreign currency contracts, the payout ratio for the third quarter was 154.0%. On November 3, we announced that monthly cash distributions to unitholders will be suspended until such time as market dynamics become more favourable. The suspension will take effect in with respect to the October 2008 distribution, which would have been paid in November 2008.

We closed two branches during the first quarter and two branches during the third quarter. We have also made the decision to close an additional three branches in the fourth quarter, bringing to seven the total branch closures that will occur in 2008. Four of these branch closures are located in California, where housing markets have been particularly hard hit. Our strategy is to close the smaller satellite branches and to continue serving the California market through our three remaining warehouses, complemented by local territory sales representatives.

With approximately two-thirds of our non-product costs directly linked to premises, people and freight, we benefit from a business model with some flexibility to expand or contract in response to changing demand. We have reduced our number of branches from a high of 39 in 2006 to an expected 29 branches by the end of 2008. We have reduced our employee count by 21%, and eliminated excess trucking capacity as market conditions have weakened. We have reduced the size of several of our branches by subletting underutilized space, and implemented salary freezes throughout our operations other than for employee promotion situations. Total compensation, particularly for management, has been reduced by significantly lower payout entitlements under our variable compensation plan. We will continue to take further cost-cutting action as necessary.

We recognize that protecting our access to capital is also vitally important in the current economic environment. With this in mind, we recently secured a new US banking facility, which provides committed financing until September 2011 at competitive interest rates, and with less onerous covenant requirements. We have also tightened our management of working capital, reducing our inventories by 22.7% compared to September 30, 2007, and we are closely monitoring accounts receivables.

As announced previously, we have discontinued our hedging program until such time as our US business resumes making distribution payments up to Canada. In the third quarter we completed the sale of our remaining foreign currency hedge contracts. The hedge contracts, which were fixed at an average rate of $1.06 US, would have represented a significant liability for us at today's Canadian dollar exchange rate. Instead, we realized proceeds of $0.2 million through a timely sale of these hedges in the third quarter, shortly before the value of the Canadian dollar fell sharply relative to the US currency.

Overall we believe we are taking the right steps to protect our business through the current economic and market turmoil, while continuing to pursue avenues that offer opportunities. The market for green building products is one of these. We are continuing to build market share for our line of green products and our new Echo Wood products are performing particularly well. We expect this momentum will continue to build in the months ahead.

While our financial expectations are realistic as we head into our seasonally slowest quarters and face unprecedented market uncertainty, we believe we have the size, the strength and the stability to manage through this downturn. Our priorities will be to continue growing market share for our most promising products, while working to ensure the size and cost of our distribution network is closely aligned with our business opportunities.

We thank you for your continued support.

Maurice E. Paquette

President and Chief Executive Officer

Management's Discussion and Analysis

November 3, 2008

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, 2008 ("Interim Financial Statements"). As well, it provides an update to the MD&A section contained in our 2007 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, 2007 and 2006. 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:

1.0 Background
- 1.1 About the Fund
- 1.2 About Our Business and Industry

2.0 Overview and Outlook

3.0 Results of Operations
- 3.1 Three Month Periods Ended September 30, 2008 and September 30, 2007
- 3.2 Nine Month Periods Ended September 30, 2008 and September 30, 2007

4.0 Liquidity and Capital Resources
- 4.1 Distributable Cash and Cash Distributions
- 4.2 Standardized Distributable Cash and Cash Distributions
- 4.3 Working Capital
- 4.4 Capital Expenditures and Productive Capacity
- 4.5 Utilization of Distributable Cash
- 4.6 Revolving Credit Facilities and Debt Management Strategy
- 4.7 Contractual Obligations
- 4.8 Off Balance Sheet Arrangements

5.0 Financial Instruments

6.0 Related Party Transactions

7.0 Critical Accounting Estimates and Adoption of Changes in Accounting Policies
- 7.1 Critical Accounting Estimates
- 7.2 Adoption of Changes in Accounting Policies

8.0 Risks and Uncertainties

9.0 Internal Control Over Financial Reporting

10.0 Quarterly Financial Information

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 includes, but is not limited to: our expectation that market conditions will continue to worsen, we are taking steps to ensure Hardwoods is positioned to withstand a prolonged downturn; we benefit from a business model with some flexibility to expand or contract in response to changing demand; we will continue to take further cost-cutting action as necessary; we believe we are taking the right steps to protect our business through the current economic and market turmoil, while continuing to pursue avenues that offer opportunities; we are continuing to build market share for our line of green products and our new Echo Wood products are performing particularly well, and we expect this momentum will continue to build in the months ahead; we believe we have the size the strength and the stability to manage through this downturn; we believe the turmoil in financial markets and related concerns about a worldwide recession could further depress housing starts as well as demand for furniture, cabinets, recreational vehicles and other products that utilize hardwood lumber and sheet goods; we expect to incur some one-time expenses of up to $0.5 million in the fourth quarter associated with the branch closures we have identified, allowing us to achieve a reduced run rate for expenses starting in Q1 of 2009; looking ahead inventory levels and working capital will also be tightly managed and we will continue to work to minimize customer credit risk, which typically becomes elevated in difficult economic times; these initiatives, together with the suspension in monthly cash distributions, will provide support to our balance sheet as we work through this downturn; our goal is to adjust our business to obtain a gross profit margin of 18.5% or better over the business cycle; annual maintenance capital requirements are expected to average approximately $1.0 million per year, but may be higher or lower than this in a particular year based on the needs of the business; management believes 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; we anticipate capital expenditures in 2008 will not exceed $0.5 million; a total of seven branches are expected to be closed by the end of the year, which will further reduce our capacity in terms of distribution square footage to 1.1 million s.f.; we believe these reductions to our distribution network are appropriate to better match our operating costs to present market demand; we believe the productive capacity of our business in terms of our human capital relative to available market demand, as measured by sales, has been largely sustained since the Fund’s IPO in March 2004; we believe that our credit facilities, combined with the retained portion of our Distributable Cash, are sufficient to meet our current working capital requirements; and 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, we do not target a specific financial leverage amount.

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 have available to distribute to our unitholders 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; 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; 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 in 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, 2008, 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, 2008 we operated 32 distribution facilities organized into nine geographic regions throughout North America. In a highly fragmented but stable industry, we match products supplied from hundreds of mills to over 2,500 manufacturing customers.

Approximately half of our product mix is made up of high-grade hardwood lumber. 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 that approximately 40% to 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 more pronounced 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

Market conditions worsened significantly in the third quarter of 2008 as a series of financial and economic crises put the US economy into recession and the world economy at risk. Further declines in US residential housing starts and remodeling sales, prolonged shutdowns in the recreational vehicle industry, and a rapid decline in consumer confidence all had a significant impact on our US operations, which represent approximately two-thirds of our business. While the Canadian market performed somewhat better, Canadian consumer confidence has also been weakened by recent economic events.

The sharp reduction in demand, combined with lower prices for hardwood lumber products, had a negative impact on our results. Total sales were down by 24.1% in both the third quarter and the first nine months of 2008, compared to the same periods in 2007. Our US business was hardest hit with third quarter sales down 28.0%, while Canadian sales fell by 16.0%.

The lower sales were accompanied by a lower gross profit margin, which declined to 17.7% in the third quarter, below our target level of 18.5% or better. The reduction in margin was primarily related to pricing discounts as we responded to increased competition and worked to reduce our inventory levels. The lower margins, combined with significantly lower sales, contributed to weaker EBITDA, net income and distributable cash results compared to a year ago.

As part of our strategic response to the current market conditions, we continue to focus on reducing costs. Approximately two-thirds of our non-product costs are directly linked to premises, people and freight. During the third quarter we closed two more branches, and made the decision to close an additional three branches, bringing to seven the total branch closures that will occur in 2008. Four of these branches are located in California, where housing markets have been particularly hard hit. With these closures we will have reduced our branch count by 21% from the market peak in 2006. We have also reduced our employee count by 21% since 2006, and eliminated excess trucking capacity as we work to match the size of our distribution network to the lower market demand. In addition, we have reduced the size of several branches and implemented salary freezes throughout our operations for employees other than those being promoted into new positions. Total compensation, particularly for management, will be further reduced by significantly lower payouts under our variable compensation plan. We will continue to take further cost-cutting action as necessary.

Maintaining a strong balance sheet is particularly important in a market downturn and we have taken decisive steps to ensure ours remains sound. With both sales and EBITDA under significant pressure and our distribution payout ratio remaining above 100%, we have announced a suspension to our monthly cash distributions related to October 2008, which would normally have been paid in November 2008. We have also continued to tightly manage our inventory, with inventory levels falling $9.0 million (-22.7%) at the end of the third quarter, from $39.9 million a year ago, and inventory turnover remaining relatively constant at 7.0 times annually.

To help us maintain adequate access to capital, we have also recently secured a new US banking facility, which provides committed financing until September 2011 at competitive interest rates, and with less onerous covenant requirements.

Looking ahead, we are moving into our seasonally slowest quarters at a time of unprecedented market and economic challenges. We believe the turmoil in financial markets and related concerns about a worldwide recession could further depress housing starts as well as demand for furniture, cabinets, recreational vehicles and other products that utilize hardwood lumber and sheet goods. While a decline in the value of the Canadian dollar traditionally benefits our Canadian customers by increasing their ability to sell into the United States, extremely weak US market conditions make it unlikely that we will see any near-term gain from the recent sharp drop in the Canadian dollar. Prices for hardwood lumber are also expected to remain low, despite production curtailments by many lumber mills.

With the expectation of a prolonged economic downturn, our focus will remain on continued cost reduction as we work to match expenditures as appropriately as possible to sales levels. We expect to incur some one-time expenses of up to $0.5 million in the fourth quarter associated with the branch closures we have identified, allowing us to achieve a reduced run rate for expenses starting in the first quarter of 2009. Inventory levels and working capital will also be tightly managed and we will continue to work to minimize customer credit risk, which typically becomes elevated in difficult economic times. These initiatives, together with the suspension of monthly cash distributions, will provide support to our balance sheet as we work through this downturn.

3.0 Results of Operations

3.1 Three Months Ended September 30, 2008 and September 30, 2007

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

	For the three months Ended September 30, 2008	For the three months Ended September 30, 2007
Total sales	$ 62,115	$ 81,878
Sales in the US (US$)	*38,352*	*53,247*
Sales in Canada	*22,055*	*26,251*
Gross profit	11,013	16,387
Gross profit %	*17.7%*	*20.0%*
Selling and administrative expenses	(9,967)	(10,517)
Realized gain on foreign currency contracts	298	541
Earnings before interest, taxes, depreciation and amortization and non-controlling interest (“EBITDA”)	1,344	6,411
Add (deduct):		
Amortization	(298)	(462)
Interest	(237)	(581)
Non-cash foreign currency gains (losses)	(522)	504
Non-controlling interest	560	(587)
Income recovery (expense)	38	(587)
Net earnings for the period	$ 885	$ 4,698
Basic and fully diluted earnings per Class A Unit	$ 0.061	$ 0.326
Average Canadian dollar exchange rate for one US dollar	1.0411	1.0461

Sales

For the three months ended September 30, 2008, total sales were $62.1 million, down 24.1% from $81.9 million in the third quarter of 2007. Sales in the United States, as measured in US dollars, decreased 28.0% to $38.4 million, compared to $53.2 million during the third quarter of 2007. As discussed in section 2.0 of this report, continued deterioration in housing and unprecedented turmoil in the financial markets weighed heavily on US sales performance in the third quarter. Sales were down in all five of our US geographic regions in Q3 compared to the same period in the prior year.

Sales in Canada, as measured in Canadian dollars, were $22.1 million, down 16.0% from $26.3 million during the second quarter of 2007. As was the case with our US results, sales in Canada were down in all regions across the country. A number of our Canadian customers that rely in part on exporting their manufactured product to the US continued to be negatively impacted by the stronger Canadian dollar that prevailed in the third quarter, as well as by reduced product demand from the US as described in section 2.0 of this report.

Gross Profit

Gross profit for the three months ended September 30, 2008 was $11.0 million, down $5.4 million compared to $16.4 million in the third quarter of 2007. The decrease in gross profits reflects lower sales, as well as a decrease in gross profit percentage to 17.7%, from 20.0% in Q3 2007. The lower gross margin reflects increased competition due to reduced market demand, as well as the discounting of some inventory in an effort to balance inventory levels to the reduced sales pace. 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 $10.0 million for the three months ended September 30, 2008, a decrease of $0.5 million, or 5.2%, from $10.5 million in the comparative 2007 period. This improvement primarily reflects a reduction in employee costs, which is the Fund's largest expense item. The reduction was achieved through the closure and downsizing of branches, as well as through a reduction in variable compensation accruals. Employee salaries have also been frozen throughout the company, except for employee promotion situations. The lower employee expense was partially offset by an increase in bad debt expense as some customers struggled to pay their bills in the slowing economy. S&A expenses represented 16.0% of sales in the third quarter of 2008, compared to 12.8% in the same period in 2007, reflecting lower sales.

Realized Gain on Foreign Currency Contracts

The Fund realized gains of $0.3 million on foreign currency contracts which matured or were sold in the third quarter of 2008, compared to realized gains of $0.5 million in the same period in 2007. The terms of our foreign currency contracts and the Fund's use of currency derivatives to mitigate the economic impact of fluctuations between the Canadian and US dollar are described in section 5.0 of this report.

EBITDA

Third quarter EBITDA was $1.3 million, down from $6.4 million in Q3 2007. The $5.1 million decrease in EBITDA reflects the $5.4 million decrease in gross profit, the $0.2 million reduction in realized gains on foreign currency contracts, partially offset by the $0.5 million reduction in S&A expenses.

Interest Expense

Interest expense was $0.2 million in the third quarter of 2008, compared to $0.6 million in the third quarter of 2007. The change in interest charges reflects lower debt due to a reduction in working capital, and lower interest rates.

Non-Cash Foreign Currency Gains and Losses

For the three months ended September 30, 2008, non-cash foreign currency losses were $0.5 million, compared to a non-cash gain of $0.5 million in the same period in 2007. Non-cash foreign currency gains and losses primarily relate to mark-to-market valuation adjustments on our outstanding foreign currency contracts. 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 $0.6 million in the third quarter of 2008, compared to an increase in NCI of $0.6 million in the comparable period in 2007. NCI includes the Class B Unit's interest in pretax 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

An income tax recovery of $38,000 was recorded in the third quarter of 2008, compared to an expense of $0.6 million in the comparable period in 2007. The lower income tax expense primarily reflects lower taxable income and the utilization of tax loss carry-forwards available to a subsidiary of the Fund.

Net Earnings

Net earnings for the three months ended September 30, 2008 was $0.9 million, compared to $4.7 million in the comparable period in 2007. The $3.8 million decrease in net earnings primarily reflects the $5.1 million decrease in EBITDA and the $1.0 million decrease in unrealized foreign currency gains. These decreases were partially offset by the $0.4 million reduction in interest expense, the $1.2 million reduction in non-controlling interest, and the $0.6 million decrease in income tax expense.

3.2 Nine Months Ended September 30, 2008 and September 30, 2007

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

	For the nine months Ended September 30, 2008	For the nine months Ended September 30, 2007
Total sales	$ 199,651	$ 262,998
Sales in the US (US$)	*127,128*	*164,142*
Sales in Canada	*70,158*	*81,506*
Gross profit	36,611	50,249
Gross profit %	*18.3%*	*19.1%*
Selling and administrative expenses	(30,510)	(33,336)
Realized gain on foreign currency contracts	1,247	1,235
Earnings before interest, taxes, depreciation and amortization and non-controlling interest (“EBITDA”)	7,348	18,148
Add (deduct):		
Amortization	(1,145)	(1,429)
Interest	(935)	(1,915)
Non-cash foreign currency gains (losses)	(1,831)	1,275
Intangibles impairment	(5,468)	-
Goodwill impairment	(64,606)	-
Non-controlling interest	15,150	(386)
Income taxe recovery (expense)	28,185	(2,189)
Net earnings (loss) for the period	$ (23,302)	$ 13,504
Basic and fully diluted earnings (loss) per Class A Unit	$ (1.617)	$ 0.937
Average Canadian dollar exchange rate for one US dollar	1.0186	1.1057

Sales

For the nine months ended September 30, 2008, total sales were $199.7 million, down from $263.0 million during the same period in 2007. The 24.1% decrease in total sales reflects a 19.9% decrease in underlying sales activity and a 4.2% decrease in sales due to the negative impact of a stronger Canadian dollar. The decrease in underlying sales reflects the challenging business conditions outlined in section 2.0. Year-to-date sales activity at our US operations, as measured in US dollars, declined 22.5% year-over-year, and sales in Canada were down by 13.9%.

Gross Profit

Gross profit for the nine months ended September 30, 2008 was $36.6 million, down from $50.2 million in the first nine months of 2007. 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 18.3% in the first nine months of 2008, compared to 19.1% during the same period in 2007. The lower gross profit margin reflects more competitive market conditions, as well as a reduction in some selling prices as inventory levels were decreased.

Selling and Administrative Expenses

S&A expenses decreased $2.8 million to $30.5 million in the first nine months of 2008, from $33.3 million during the same period in 2007. The improvement in S&A expenses primarily reflects lower personnel costs due to reduced employee headcount and variable compensation pay accruals, and the benefit of the stronger Canadian dollar on the conversion of S&A expenses at our US operations. These S&A reductions were partially offset by $0.7 million of non-recurring expenses that were incurred in the first quarter of 2008 related to the Fund's internal reorganization as well as branch closure costs. As a percentage of sales, S&A expenses in the first nine months of 2008 were 15.3% of sales, compared to 12.6% in the same period in 2007.

Realized Gain on Foreign Currency Contracts

Foreign currency contracts provided $1.2 million in realized gains in both the first nine months of 2008 and 2007. The terms of our foreign currency contracts and the Fund's use of currency derivatives to mitigate the economic impact of fluctuations between the Canadian and US dollar are described in section 5.0 of this report.

EBITDA

EBITDA was $7.3 million during the nine months ended September 30, 2008, down from $18.1 million in the same period in 2008. The $10.8 million decrease in EBITDA reflects the $13.6 million decrease in gross profit, partially offset by the $2.8 million reduction in S&A.

Interest Expense

Interest expense was $0.9 million in the nine months ended September 30, 2008, compared to $1.9 million in the comparable period in 2007. The decrease in interest expense primarily reflects lower outstanding bank indebtedness (due to reduced working capital financing requirements as a result of lower inventory) and lower interest rates.

Non-Cash Foreign Currency Gains and Losses

For the nine months ended September 30, 2008, non-cash foreign currency losses were $1.8 million, compared to non-cash gains of $1.3 million in the same period in 2007. Non-cash foreign currency gains and losses primarily relate to mark-to-market valuation adjustments to our foreign currency contracts. 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

Impairment testing of intangibles and goodwill is undertaken annually, or more frequently in the event that circumstances occur that more likely than not reduces the fair value of a reporting unit below its carrying amount. In 2008, Hardwoods has experienced a significant change in circumstances in the form of reduced sales demand for its products and a resulting decline in its net earnings. This change of circumstance caused management to reduce its expectations for future cash flows from the Fund's US and Canadian subsidiary operations. Consequently, during the quarter ended June 30, 2008, management reviewed for impairment the recoverability of the carrying value of intangible assets and the carrying value of goodwill. Testing results indicated 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 comparative period in 2007.

Non-controlling Interest

Non-controlling interest ("NCI") was reduced by $15.2 million in the first nine months of 2008, compared to an increase in NCI of $0.3 million in the comparable period in 2007. NCI includes the Class B Unit's interest in pretax 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 $15.2 million reduction to NCI in the first nine months of 2008 primarily reflects the NCI's share of the $70.1 million in goodwill and intangibles impairment recognized in the period.

Income taxes

Income tax recovery in the nine months ended September 30, 2008 was $28.2 million, compared to income tax expense of $2.2 million in the same period in 2007. The $28.0 million income tax recovery primarily reflects $20.1 million in future income tax assets associated with the recording of the goodwill and intangibles impairment in the second quarter. It also reflects 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. The refinancing and reorganization was undertaken in the first quarter of 2008.

Net Loss

The Fund recorded a net loss of $23.3 million for the nine months ended September 30, 2008, compared to net earnings of $13.5 million in the comparable period in 2007. The $36.8 million decrease in net earnings primarily reflects the $10.8 million decrease in EBITDA, the $3.1 million decrease in unrealized foreign currency gains, and the combined $70.1 million in writedowns to goodwill and intangibles. Partially offsetting these negative earnings impacts were a $1.0 million decrease in interest expense, a $15.5 million increase in recovery from non-controlling interest, a $30.4 million decrease in income tax expense, and a $0.3 million reduction in amortization expense.

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, 2008	3 months ended September 30, 2007	9 months ended September 30, 2008	9 months ended September 30, 2007
Net cash provided by operating activities	$ 3,941	$ 3,861	$ 14,201	$ 10,115
Increase (decrease) in non-cash operating working capital	(2,893)	1,453	(7,157)	4,514
Cash flow from operations before changes in non-cash operating working capital	1,048	5,314	7,044	14,629
Capital expenditures	(48)	(103)	(346)	(553)
Distributable Cash	$ 1,000	$ 5,211	$ 6,698	$ 14,076
Distributions relating to the period:				
Class A Units	$ 1,081 (1)	$ 3,086	$ 7,565 (2)	$ 9,112
Class B Units (3)	-	-	-	-
Total Units	$ 1,081	$ 3,086	$ 7,565	$ 9,112
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	$ 0.056	$ 0.289	$ 0.372	$ 0.781
Distributions relating to the period:				
Class A Units	$ 0.075 (1)	$ 0.214	$ 0.525 (2)	$ 0.632
Class B Units (3)	$ -	$ -	$ -	$ -
Total Units	$ 0.060	$ 0.171	$ 0.420	$ 0.506
Payout ratio (4)	108.1%	59.2%	112.9%	64.7%

	March 23, 2004 to September 30, 2008
Cumulative since inception:	
Distributable Cash	77,347
Distributions relating to the period	66,754
Payout ratio (4)	86.3%

[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 to June 2008, and cash distributions of $0.025 per Class A Unit per month which relate to the operations of the Fund for July to September 2008.
[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, 2008 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. Further description of the subordination arrangement is included in note 10 of the accompanying Interim Financial Statements.

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. The terms of these tests are described in the notes to the accompanying Interim Financial Statements.

For the three months ended September 30, 2008, the Fund and its subsidiaries generated total Distributable Cash available to Class A and Class B Unitholders of $1.0 million, or $0.056 per unit. Distributions relating to the period were $1.1 million, or $0.075 per unit, to our public unitholders (Class A Units). For the nine months ended September 30, 2008, the Fund and its subsidiaries generated total Distributable Cash available to Class A and Class B Unitholders of $6.7 million, or $0.372 per unit, and declared distributions relating to the period of $7.6 million, or $0.525, to our public unitholders (Class A Units). In accordance with the terms of a subordination feature in place with the previous owners (Class B Units), no distributions were made to the previous owners related to the nine months ended September 30, 2008. These distributions represent an overall payout ratio of 108.1% for the third quarter of 2008, 112.9% for the first nine months of 2008, and 109.1% for the most recent 12-month period ended September 30, 2008.

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, 2008	3 months ended September 30, 2007	9 months ended September 30, 2008	9 months ended September 30, 2007
Net cash provided by operating activities	$ 3,941	$ 3,861	$ 14,201	$ 10,115
Capital expenditures	(48)	(103)	(346)	(553)
Standardized Distributable Cash	$ 3,893	$ 3,758	$ 13,855	$ 9,562
Distributions relating to the period:				
Class A Units	$ 1,081 (1)	$ 3,086	$ 7,565 (2)	$ 9,112
Class B Units (3)	-	-	-	-
Total Units	$ 1,081	$ 3,086	$ 7,565	$ 9,112
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	$ 0.216	$ 0.209	$ 0.769	$ 0.531
Distributions per Total Units	$ 0.060	$ 0.171	$ 0.420	$ 0.506
Standardized payout ratio (4)	27.8%	82.1%	54.6%	95.3%

	March 23, 2004 to September 30, 2008
Cumulative since inception:	
Standardized Distributable Cash	77,211 (5)
Distributions relating to the period	66,754
Standardized Payout ratio (4)	86.5%

[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 to June 2008, and cash distributions of $0.025 per Class A Unit per month which relate to the operations of the Fund for July to September 2008.
[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, 2008 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 also 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 the seasonality of our business and significant changes in market demand for our products. 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, 2008	3 months ended September 30, 2007	9 months ended September 30, 2008	9 months ended September 30, 2007
Standardized Distributable Cash	$ 3,893	$ 3,758	$ 13,855	$ 9,562
Increase (decrease) in non-cash operating working capital	(2,893)	1,453	(7,157)	4,514
Distributable Cash	$ 1,000	$ 5,211	$ 6,698	$ 14,076

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, 2008 is provided below.

Source (use) of funds	Three months ended September 30, 2008	Three months ended September 30, 2007	Nine months ended September 30, 2008	Nine months ended September 30, 2007
Accounts receivable	$ 2,527	$ 497	$ (50)	$ (6,155)
Income taxes recoverable/payable	(3)	194	(861)	196
Inventory	188	(2,399)	8,826	267
Prepaid expenses	190	(211)	(137)	(409)
Accounts payable and accrued liabilities	(9)	466	(621)	1,587
Decrease (increase) in non-cash operating working capital	$ 2,893	$ (1,453)	$ 7,157	$ (4,514)

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. Annual maintenance capital requirements are expected to average approximately $1.0 million per year, but may be higher or lower than this in a particular year based on the needs of the business. Management believes 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. Our actual capital expenditures in the third quarter of 2008 totalled $48,000, compared to $0.1 million in the same period in 2007. Our actual capital expenditures in the first nine months of 2008 totalled $0.3 million, compared to $0.6 million in the same period in 2007. We anticipate capital expenditures in 2008 will not exceed $0.5 million.

In addition to maintaining the productive capacity of our property, plant and equipment, management also manages 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 the Fund's 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 3.0 of this report, we have experienced a significant market downturn in demand for hardwood products in 2008. In response to reduced market demand for hardwood products sold by our business, we have reduced our available distribution infrastructure by closing four branches in the first nine months of 2008. As discussed in section 2.0 of this report, an additional three branches are expected to be closed by the end of the year, which will further reduce our capacity in terms of distribution square footage to 1.1 million s.f. We believe these reductions to our distribution network are appropriate to better match our operating costs to present market demand.

Selected Unaudited Consolidated Financial Information						IPO
	September 30, 2008	December 31, 2007	December 31, 2006	December 31, 2005	December 31, 2004	March 23, 2004
Number of distribution centres in operation	32	36	36	39	37	37
Total square footage of distribution centres	1.2 million s.f.	1.3 million s.f.	1.3 million s.f.	1.3 million s.f.	1.3 million s.f.	1.3 million s.f.

Maintenance of a skilled workforce is also 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 in terms of our human capital relative to available market demand, as measured by sales, has been largely sustained since the Fund's IPO in March 2004.

Selected Unaudited Consolidated Financial Information

	September 30, 2008	December 31, 2007	December 31, 2006	December 31, 2005	December 31, 2004	IPO March 23, 2004
Number of employees	208	236	252	259	224	216
Annual sales per employee ($ millions)	1.3 [1]	1.4	1.4	1.4	1.7	

[1] Nine months sales to September 30, 2008 annualized

4.5 Utilization of Distributable Cash

Selected Unaudited Consolidated Financial Information (in thousands of dollars)

	3 months ended September 30, 2008	3 months ended September 30, 2007	9 months ended September 30, 2008	9 months ended September 30, 2007
Distributable Cash	$ 1,000	$ 5,211	$ 6,698	$ 14,076
Cash Distributions paid in the period	(1,801)	(3,087)	(8,286)	(9,064)
Distributable Cash retained (shortfall)	$ (801)	$ 2,124	$ (1,588)	$ 5,012
Decrease (increase) in non-cash operating working capital	2,893	(1,453)	7,157	(4,514)
Decrease (increase) in long-term receivables	302	360	186	1,503
Decrease (increase) in deferred financing fees	(204)	-	(204)	-
Proceeds from disposal of property, plant and equipment	-	5	-	26
Decrease (increase) in bank indebtedness, net of cash	$ 2,190	$ 1,036	$ 5,551	$ 2,027

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, 2008 the Fund generated Distributable Cash of $1.0 million, and paid cash distributions of $1.8 million. We decreased our investment in non-cash operating working capital (primarily accounts receivable) by $2.9 million, decreased our investment in long-term receivables by $0.3 million, and increased our investment in deferred financing fees by $0.2 million. Taking these factors together, the Fund reduced its bank indebtedness (net of cash) by $2.2 million in the third quarter of 2008.

For the nine months ended September 30, 2008 the Fund generated Distributable Cash of $6.7 million, and paid cash distributions of $8.3 million. We decreased our investment in non-cash operating working capital by $7.2 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, the Fund reduced its bank indebtedness (net of cash) by $5.6 million in the first nine months of 2008.

We believe that our credit facilities, combined with the retained portion of our Distributable Cash, are sufficient to meet our current working capital requirements. The terms of our revolving credit facilities are addressed in section 4.6 of this report.

4.6 Revolving Credit Facilities and Debt Management Strategy

Selected Unaudited Consolidated Financial Information (in thousands of dollars)

	As at September 30, 2008		As at December 31, 2007	
Cash and cash equivalents	$	(1,137)	$	(295)
Bank indebtedness		22,103		25,515
Net Debt	$	20,966	$	25,220
Unitholders' Equity	$	77,865	$	105,994
Total Capitalization	$	98,831	$	131,214
Net debt to total capitalization		21.2%		19.2%
Previous 12 months EBITDA	$	10,460	$	21,260
Net debt to previous 12 months EBITDA		2.00		1.19

We have independent credit facilities in both Canada and the U.S. In Canada, our operating line extends to November 30, 2009 and comprises a maximum facility of $22.0 million. The balance outstanding on the Canadian operating line as at September 30, 2008 was $3.5 million. In the US, on September 30, 2008 we entered into a new operating line which extends to September 30, 2011 and comprises a maximum facility of US$30 million. As at September 30, 2008 the US credit facility had a balance outstanding of $17.9 million (US $16.8 million). The amount made available under these revolving credit facilities from time to time is limited to the extent of the value of certain accounts receivable and inventories held by subsidiaries of the Fund. At September 30, 2008 the Canadian and US credit facilities have $11.0 million and $7.3 million (US$6.9million), respectively of available borrowing capacity. The principal terms of the credit facilities of Hardwoods LP and Hardwoods US LP are available in more detail at www.sedar.com.

As discussed previously in section 4.5 of this report, the Fund paid down its net debt by $5.6 million in the nine months ended September 30, 2008. The impact of the weaker Canadian dollar (as at September 30, 2008 compared to December 31, 2007) on the conversion of our US dollar-bank line increased our net debt by $1.4 million. Taken together, the Fund's net debt balance decreased by $4.2 million, from $25.2 million at December 31, 2007 to $21.0 million at September 30, 2008. Overall net debt compared to total capitalization stood at 21.2% as of September 30, 2008, compared to 19.2% at December 31, 2007. The Fund's overall ratio of net debt to EBITDA in the previous 12 months is 2.00 times at September 30, 2008, compared to 1.19 times at December 31, 2007. Net debt to EBITDA serves as an indicator of our financial leverage.

The terms of the agreements with our lenders provide that distributions cannot be made to our unitholders in the event that our subsidiaries do not meet certain credit ratios specified in the lending agreements. In the case of our US credit agreement, for Hardwoods US LP to make distributions also requires that it retain at least US$4.0 million of unused borrowing capacity after giving effect to any proposed distribution. Our operating subsidiaries were fully compliant with all required credit ratios as at September 30, 2008. Accordingly, there were no restrictions on distributions arising from compliance with financial covenants except as outlined in the terms above.

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 November 2009 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. 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, 2008. 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	2008	2009	2010	2011	2012	2013 & thereafter
$ 14,676	$ 1,749	$ 5,975	$ 4,057	$ 1,423	$ 737	$ 735

4.8 Off-Balance Sheet Arrangements

The Fund has no off-balance sheet arrangements. The foreign currency contracts discussed under Financial Instruments in section 5.0 of this report are marked-to-market at the end of each quarter, with the fair value recorded on the balance sheet.

5.0 Financial Instruments

Up to June 30, 2008, the Fund used currency contracts to assist in forward planning for the business as it related to managing the Fund's 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.

As discussed in the Fund's Second Quarter Report to Unitholders, effective July 2008 the Fund reduced its monthly distributions with the expectation that little or no cash flows would be converted from the Fund's US subsidiaries to pay distributions until such time as sales demand and associated business results for the Fund's US subsidiaries improved. Accordingly, in the third quarter the Fund ceased purchasing additional foreign exchange contracts until such time as the amount and timing of resumption of distributions from the Fund's US subsidiaries are known. In the third quarter of 2008 the Fund determined that its 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, 2008, sales of $0.1 million were made to related parties, and the subsidiaries of the Fund purchased $10,000 from related parties. For the nine months ended September 30, 2008, sales of $0.3 million were made to related parties, and the subsidiaries of the Fund purchased $51,000 from related parties.

These sales and purchases took place at prevailing market prices. Subsidiaries of the Fund also paid $27,000 in the third quarter and $81,000 in the nine months ended September 30, 2008 to related parties to provide services for management information systems.

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.

Valuation of Other Intangible Assets and Goodwill: Other intangible assets represent customer relationships acquired at the time of our IPO and are recorded at cost, less accumulated amortization. Amortization is provided for on a straight line basis over 15 years. Goodwill is recorded at cost and is not amortized. Management reviews the carrying value of goodwill and of other intangible assets annually, or more frequently if events or changes in circumstances indicate that an asset may be impaired. An excess of carrying value over fair value is charged to income in the period in which the impairment is determined.

Future Income Taxes: In response to the Canadian federal government's legislation to tax publicly traded income trusts, which was substantively enacted in the second quarter of 2007, the Fund is now required to recognize the value of future income tax assets and liabilities that are expected to reverse subsequent to January 1, 2011. Management is 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 management estimates and assumptions can have a material impact upon the amount of future income tax assets and liabilities that are recognized by the Fund.

All significant accounting policies have been included in note 2 to the consolidated audited financial statements of the Fund for the year ended December 31, 2007.

7.2 Adoption of Changes in Accounting Policies

In the second quarter of 2008 the Canadian Accounting Standards Board confirmed January 1, 2011, as the date 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. The Fund has adopted an IFRS changeover plan. It is expected that the Fund's changeover plan will be modified and updated as the Fund proceeds through the changeover process. Key elements of the Fund's present changeover plan include:

Year	Key Activities
2008	Complete IFRS education and training with Hardwoods accounting staff. Identify an IFRS project manager. Determine intended use of outside consultants, if any. Analyze differences between Fund 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 the Fund's 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 the Fund's 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, 2008, the Fund adopted four new Canadian Institute of Chartered Accountants ("CICA") accounting standards: (a) Handbook Section 1535, Capital Disclosures; (b) Handbook Section 3031, Inventories; (c) Handbook Section 3862, Financial Instruments - Disclosures; and Handbook Section 3863, Financial Instruments - Presentation. The main requirements of these new standards and the resulting financial statement impact are described below.

(a) Capital Disclosures (Section 1535):

CICA Section 1535 requires disclosure of: (i) an entity's objectives, policies and process for managing capital; (ii) quantitative data about what the entity considers as capital; (iii) whether the entity has complied with any capital requirements and, if it has not complied, the consequences of such non-compliance. Refer to note 4 of the Interim Financial Statements for additional disclosures.

(b) Inventories (Section 3031):

CICA Section 3031 provides significantly more guidance on the measurement of inventories, with an expanded definition of cost and the requirement that inventory must be measured at the lower of cost and net realizable value. In addition the section has additional disclosure requirements, including accounting policies, carrying values, and the amount of any inventory write-downs. Refer to note 5 Interim Financial Statements for additional disclosures.

Consistent with the transitional rules for Section 3031, the Fund has not restated any prior period amounts as a result of adopting the accounting changes. As allowed under the transition rules, the opening deficit has been adjusted to reflect the cumulative impact of adopting the changes in accounting policy related to inventory. The adoption of this new standard resulted in a decrease in the carrying value of opening inventory of $317,000, a decrease in non-controlling interests of $62,000, and an increase in deficit of $255,000 on the balance sheet at January 1, 2008, to reflect trade discounts from suppliers for inventory purchases that previously had been recognized in earnings when received.

(c) Financial Instruments – Disclosures (Section 3862) and Financial Instruments - Presentation (Section 3863):

CICA Section 3032 and 3063 replaces CICA Handbook Section 3861, Financial Instruments – Disclosures and Presentation, revising and enhancing disclosure requirements to provide additional information on the nature and extent of risks arising from financial instruments to which the entity is exposed and how it manages those risks. Refer to note 6 for additional disclosures.

Effective January 1, 2009, the Fund will adopt 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. The Fund is still evaluating the impact of this standard on its consolidated 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 17, 2008, which is available to readers at www.sedar.com.

As discussed previously in section 2.0 of this report, in the third quarter the US economy experienced a widely reported financial crisis and severe contraction of credit market conditions, associated with problems originating in the US sub-prime lending market. These issues spread to international markets and resulted in market responses including government loans, guarantees and direct investment in financial institutions, as well as coordinated global interest rate cuts. The impact these events will have on the Fund cannot be predicted with certainty, but may include: heightened risk of bad debts, as Hardwoods customers cope with the newly emerged reduction in credit availability to finance their operations, as well as potentially reduced consumer demand including demand for hardwood products; heightened risk of supply line disruption, as Hardwoods suppliers also face more scarce availability of financing and reduced market demand; and heightened financing risk to all businesses including Hardwoods should additional borrowings or equity be required to provide the Business with liquidity in a prolonged market downturn.

9.0 Internal Control over Financial Reporting

During the three months ended September 30, 2008 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 2008	Q2 2008	Q1 2008	Q4 2007	Q3 2007	Q2 2007	Q1 2007	Q4 2006
Total sales	$ 62,115	$ 66,488	$ 71,048	$ 68,767	$ 81,878	$ 89,400	$ 91,720	$ 83,120
Net earnings[(1)]	$ 885	$ (33,716)	$ 9,529	$ 2,115	$ 4,698	$ 4,800	$ 4,006	$ (4,826)
Basic and fully diluted earnings (loss) per Class A Unit[(1)]	$ 0.061	$ (2.340)	$ 0.661	$ 0.147	$ 0.326	$ 0.333	$ 0.278	$ (0.335)
EBITDA	$ 1,344	$ 3,091	$ 2,913	$ 3,112	$ 6,411	$ 6,350	$ 5,387	$ 4,088
Distributable Cash	$ 1,000	$ 2,427	$ 3,271	$ 3,205	$ 5,211	$ 4,868	$ 3,997	$ 3,714
Total distributions to Class A and Class B Units	$ 1,081	$ 3,242	$ 3,242	$ 3,243	$ 3,086	$ 3,086	$ 2,940	$ 2,940
Payout ratio	108.1%	133.6%	99.1%	101.2%	59.2%	63.4%	73.6%	79.2%

[1] Quarterly net earnings and basic and fully diluted earnings per Class A Unit for 2007 have been restated to reflect an adjustment to the non-controlling interest's share of earnings resulting from the Fund's subordination feature, further discussion of which is provided in section 3.1 of the Fund's Annual Report and in the consolidated audited financial statements of the Fund dated December 31, 2007. The impact of the adjustment is to increase net earnings by $1.5 million in Q1 2007, $0.7 million in Q2 2007 and $0.6 million in Q3 2007. The adjustment has no impact on the Fund's EBITDA, cash flow from operations, or distributable cash for any period presented.

The table above provides selected quarterly financial information for the eight most recently completed fiscal quarters of the Fund. 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 December 31, 2006, and in the three months ended June 30, 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, 2008	December 31, 2007
	(unaudited)	
Assets		
Current assets:		
Cash and cash equivalents	$ 1,137	$ 295
Accounts receivable (note 6(c))	36,581	36,474
Income tax recoverable	1,917	1,041
Inventory (note 5)	30,836	38,400
Prepaid expenses	1,249	1,060
Foreign currency contracts (note 7)	-	1,533
	71,720	78,803
Long-term receivables (note 6(c))	3,969	2,191
Property, plant and equipment	2,152	2,413
Deferred financing costs	220	21
Foreign currency contracts (note 7)	-	528
Future income taxes	24,762	-
Intangible assets (note 8)	3,220	9,013
Goodwill (note 8)	17,477	80,758
	$ 123,520	$ 173,727
Liabilities and Unitholders' Equity		
Current liabilities:		
Bank indebtedness (note 9)	$ 22,103	$ 25,515
Accounts payable and accrued liabilities	6,611	6,950
Distribution payable to Unitholders	360	1,081
	29,074	33,546
Foreign currency contracts (note 7)	-	47
Deferred gain on sale - leaseback of land and building	519	538
Non-controlling interests (note 10)	16,062	30,068
Future income taxes	-	3,534
Unitholders' equity:		
Fund Units	133,454	133,454
Deficit	(37,017)	(5,895)
Accumulated other comprehensive loss	(18,572)	(21,565)
	77,865	105,994
Subsequent event (note 4)		
Contingencies (note 17)		
	$ 123,520	$ 173,727

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, 2008	Three months ended September 30, 2007	Nine months ended September 30, 2008	Nine months ended September 30, 2007
		(Restated - note 10)		(Restated - note 10)
Sales	$ 62,115	$ 81,878	$ 199,651	$ 262,998
Cost of sales	51,102	65,491	163,040	212,749
Gross profit	11,013	16,387	36,611	50,249
Expenses:				
Selling and administrative	9,967	10,517	30,510	33,336
Amortization:				
Plant and equipment	229	271	703	838
Deferred financing costs	8	2	14	8
Other intangible assets	80	208	484	644
Deferred gain on sale - leaseback of land and building	(19)	(19)	(56)	(61)
Interest	237	581	935	1,915
Foreign currency losses (gains)	224	(1,045)	584	(2,510)
Intangibles impairment (note 8)	-	-	5,468	-
Goodwill impairment (note 8)	-	-	64,606	-
	10,726	10,515	103,248	34,170
Earnings (loss) before non-controlling interests and income taxes	287	5,872	(66,637)	16,079
Non-controlling interests (note 10)	(560)	587	(15,150)	386
Earnings (loss) before income taxes	847	5,285	(51,487)	15,693
Income tax expense (recovery) (note 15):				
Current	114	265	(638)	1,058
Future	(152)	322	(27,547)	1,131
	(38)	587	(28,185)	2,189
Net earnings (loss) for the period	885	4,698	(23,302)	13,504
Deficit, beginning of period (note 3(b))	(36,821)	(6,379)	(6,150)	(9,159)
Distributions declared to Unitholders	(1,081)	(3,086)	(7,565)	(9,112)
Deficit, end of period	$ (37,017)	$ (4,767)	$ (37,017)	$ (4,767)
Basic and diluted earnings (loss) per Unit	$ 0.06	$ 0.33	$ (1.62)	$ 0.94
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, 2008	Three months ended September 30, 2007	Nine months ended September 30, 2008	Nine months ended September 30, 2007
		(Restated - note 10)		(Restated - note 10)
Net earnings (loss) for the period	$ 885	$ 4,698	$ (23,302)	$ 13,504
Other comprehensive income:				
Unrealized gain (loss) on translation of self-sustaining foreign operations	1,335	(4,325)	2,993	(10,374)
Other comprehensive income (loss)	1,335	(4,325)	2,993	(10,374)
Comprehensive income (loss)	$ 2,220	$ 373	$ (20,309)	$ 3,130

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

	Three months ended September 30, 2008	Three months ended September 30, 2007	Nine months ended September 30, 2008	Nine months ended September 30, 2007
Accumulated other comprehensive loss, beginning of period	$ (19,907)	$ (17,229)	$ (21,565)	$ (11,180)
Other comprehensive income (loss)	1,335	(4,325)	2,993	(10,374)
Accumulated other comprehensive loss, end of period	$ (18,572)	$ (21,554)	$ (18,572)	$ (21,554)

HARDWOODS DISTRIBUTION INCOME FUND

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

	Three months ended September 30, 2008	Three months ended September 30, 2007	Nine months ended September 30, 2008	Nine months ended September 30, 2007
		(Restated - note 10)		(Restated - note 10)
Cash flows provided by (used in) operating activities:				
Net earnings for the period	$ 885	$ 4,698	$ (23,302)	$ 13,504
Items not involving cash:				
Amortization	298	462	1,145	1,429
Imputed interest income in employee loans	(17)	(30)	(48)	(46)
Gain on sale of property, plant and equipment	1	(5)	1	(24)
Foreign currency losses (gains)	522	(504)	1,831	(1,275)
Non-controlling interests	(560)	587	(15,150)	386
Future income taxes	(81)	106	(27,507)	655
Intangibles impairment	-	-	5,468	-
Goodwill impairment	-	-	64,606	-
	1,048	5,314	7,044	14,629
Change in non-cash operating working capital (note 11)	2,893	(1,453)	7,157	(4,514)
Net cash provided by operating activities	3,941	3,861	14,201	10,115
Cash flows provided by (used in) investing activities:				
Additions to property, plant and equipment	(48)	(103)	(346)	(553)
Proceeds on disposal of property, plant and equipment	-	5	-	26
Increase in long-term receivables, net	302	360	186	1,503
Net cash provided by (used in) investing activities	254	262	(160)	976
Cash flows (used in) financing activities:				
Decrease in bank indebtedness	(2,287)	(1,241)	(4,709)	(2,429)
Increase in deferred finance fees	(204)	-	(204)	-
Distributions paid to Unitholders	(1,801)	(3,087)	(8,286)	(9,064)
Net cash used in financing activities	(4,292)	(4,328)	(13,199)	(11,493)
Increase (decrease) in cash	(97)	(205)	842	(402)
Cash, beginning of period	1,234	397	295	594
Cash, end of period	$ 1,137	$ 192	$ 1,137	$ 192
Supplementary information (cash amounts):				
Interest paid	$ 237	$ 581	$ 935	$ 1,915
Income taxes paid	19	89	771	890
Transfer of accounts receivable to long-term customer notes receivable, net of write offs, being a non-cash transaction	-	-	2,364	1,106

See accompanying notes to consolidated financial statements

1. Nature 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.

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, 2007 except as discussed in note 3. 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, 2007. Certain comparative figures have been restated to conform to the current period’s financial statement presentation.

3. Adoption of changes in accounting polices:

Effective January 1, 2008, the Fund adopted four new Canadian Institute of Chartered Accountants (“CICA”) accounting standards: (a) Handbook Section 1535, *Capital Disclosures*; (b) Handbook Section 3031, *Inventories*; (c) Handbook Section 3862, *Financial Instruments - Disclosures*; and Handbook Section 3863, *Financial Instruments - Presentation*. The main requirements of these new standards and the resulting financial statement impact are described below.

(a) Capital Disclosures (Section 1535):

CICA Section 1535 requires disclosure of: (i) an entity’s objectives, policies and process for managing capital; (ii) quantitative data about what the entity considers as capital; (iii) whether the entity has complied with any capital requirements and, if it has not complied, the consequences of such non-compliance. Refer to note 4 for additional disclosures.

(b) Inventories (Section 3031):

CICA Section 3031 provides significantly more guidance on the measurement of inventories, with an expanded definition of cost and the requirement that inventory must be measured at the lower of cost and net realizable value. In addition the section has additional disclosure requirements, including accounting policies, carrying values, and the amount of any inventory write-downs. Refer to note 5 for additional disclosures.

Consistent with the transitional rules for Section 3031, the Fund has not restated any prior period amounts as a result of adopting the accounting changes. As allowed under the transition rules, the opening deficit has been adjusted to reflect the cumulative impact of adopting the changes in accounting policy related to inventory. The adoption of this new standard resulted in a decrease in the carrying value of opening inventory of $317,000, a decrease in non-controlling interests of $62,000, and an increase in deficit of $255,000 on the balance sheet at January 1, 2008, to reflect trade discounts from suppliers for inventory purchases that previously had been recognized in earnings when received.

(Tabular amounts expressed in thousands of Canadian dollars)

3. Adoption of changes in accounting polices (continued):

(b) Inventories (Section 3031) (continued):

The effect of the adoption of Section 3031 is summarized in the following table:

	As at December 31, 2007	Adjustment on adoption of new standards	As at January 1, 2008
Inventory	$ 38,400	$ (317)	$ 38,083
Non-controlling interests	30,068	(62)	30,006
Unitholders equity:			
Deficit	$ (5,895)	$ (255)	$ (6,150)

(c) Financial Instruments - Disclosures (Section 3862) and Financial Instruments - Presentation (Section 3863):

CICA Section 3032 and 3063 replaces CICA Handbook Section 3861, *Financial Instruments - Disclosures and Presentation,* revising and enhancing disclosure requirements to provide additional information on the nature and extent of risks arising from financial instruments to which the entity is exposed and how it manages those risks. Refer to note 6 for additional disclosures.

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, 2008	December 31, 2007
Cash and cash equivalents	$ (1,137)	$ (295)
Bank indebtedness	22,103	25,515
Net debt	20,966	25,220
Unitholders' equity	77,865	105,994
Total capitalization	$ 98,831	$ 131,214

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 maximum ratio of net debt to EBITDA allowed under our Canadian credit facility is 2.50 times. Under our US credit facility a Fixed Charge Coverage Ratio ((EBITDA less capital expenditures less cash taxes)/(interest plus distributions) must be greater than .75 for the period September 30, 2008 to June 30, 2009, and greater than 1.0 thereafter. Refer to note 9 for additional disclosures.

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 leverage as well as certain additional credit ratios. After negotiating a new US bank credit facility (see note 9), our operating subsidiaries were fully compliant with all required credit ratios as at September 30, 2008, 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 three and nine month periods ended September 30, 2008. On November 3, 2008 the Trustees of the Fund suspended further monthly distributions until such time as market conditions improve and the Fund's generation of cash has improved.

5. Inventory:

	September 30, 2008	December 31, 2007
Lumber	$ 13,254	$ 15,077
Sheet goods	13,043	17,884
Specialty	2,784	3,067
Goods in-transit	1,755	2,372
	$ 30,836	$ 38,400

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

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

During the three months ended September 30, 2008 inventory write-downs totaling $0.6 million (nine months ended September 30, 2008 - $1.9 million) were recorded to reduce certain inventory items to their net realizable value.

Cost of sales for the three months ended September 30, 2008 were $51.1 million (nine months ended September 30, 2008 - $163.0 million), which included $49.3 million (nine months ended September 30, 2008 - $158.5 million) of costs associated with inventory. The other $1.5 million (nine months ended September 30, 2008 - $4.5 million) related principally to freight and other related selling expenses.

6. Financial instruments:

Financial instrument assets include cash and cash equivalents, which are designated as held-for-trading and measured at fair value, and current and long-term receivables which are designated as loans and receivables and measured at amortized cost. Financial instrument liabilities include bank indebtedness, accounts payable, accrued liabilities and distributions payable. All financial liabilities are designated as other liabilities and are measured at amortized cost. There are no financial instruments classified as available-for- sale or held-to-maturity. Financial instruments of the Fund also include foreign currency contracts which are derivative financial instruments (note 6(b)) and measured at fair value.

6. Financial instruments (continued):

(a) Fair values of financial instruments:

The carrying values of cash and cash equivalents, accounts receivable, income tax recoverable, accounts payable and accrued liabilities and distributions payable approximate their fair values due to the relatively short period to maturity of the instruments. The fair value of long-term receivables is not expected to differ materially from the carrying value. The carrying values of the credit facilities approximate their fair values due to the existence of floating market based interest rates. The foreign currency contracts are carried at market values as disclosed in note 7.

(b) Derivative financial instruments:

Until August 2008 the Fund used foreign currency contracts to assist in forward planning for the business relating to managing its exposure to fluctuations in exchange rates between the Canadian dollar and the US dollar. The foreign currency contracts were recognized in the balance sheet and measured at their fair value, with changes in fair value recognized currently in the statement of earnings.

All of the outstanding foreign currency contracts were settled with the counterparty during the quarter ended September 30, 2008. Refer to note 7 for additional disclosure.

(c) Financial risk management:

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

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

(i) Credit risk:

Credit risk is the risk of financial loss to the Fund if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Fund's receivables from customers. Employee housing loans, customer notes and security deposits also present credit risk to the Fund. The credit risk associated with foreign currency contracts is addressed in note 6(b).

(Tabular amounts expressed in thousands of Canadian dollars)

6. Financial instruments (continued):

(c) Financial risk management (continued):

(i) Credit risk (continued):

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:

	September 30, 2008	December 31, 2007
Trade accounts receivable - Canada	$ 11,667	$ 11,086
Trade accounts receivable - United States	26,796	25,131
Sundry receivable	321	645
Current portion of long-term receivables	1,275	658
	40,059	37,520
Less: allowance for doubtful accounts	3,478	1,046
	$ 36,581	$ 36,474

Long-term receivables	September 30, 2008	December 31, 2007
Employee housing loans	$ 1,367	$ 1,130
Customer notes	3,307	1,166
Security deposits	570	553
	5,244	2,849
Less: current portion, included in accounts receivable	1,275	658
	$ 3,969	$ 2,191

Trade accounts receivable:

The Fund's exposure to credit risk is influenced mainly by individual characteristics of each customer. The Fund is exposed to credit risk in the event it is unable to collect in full amounts receivable from its customers. The Fund employs established credit approval practices and engages credit attorneys when appropriate to mitigate the credit risk. It is the Fund's policy to secure credit advanced to customers whenever possible by registering security interests in the assets of the customer and by obtaining personal guarantees. Credit limits are established for each customer and are regularly reviewed. In some instances the Fund may choose to transact with a customer on a cash-on-delivery basis. Our largest individual customer balance amounted to 6.5% of trade accounts receivable and customer notes receivable at September 30, 2008.

(Tabular amounts expressed in thousands of Canadian dollars)

6. Financial instruments (continued):

(c) Financial risk management (continued):

(i) Credit risk (continued):

The aging of trade receivables was:

	September 30, 2008	December 31, 2007
Current	$ 23,164	$ 20,245
Past due 31-60 days	6,641	8,345
Past due 61-90 days	2,707	3,453
Past due 90+ days	5,951	4,174
	$ 38,463	$ 36,217

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, 2008 was $3.5 million (December 31, 2007- $1.0 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, 2008 was $0.9 million which equates to 1.4% of sales. For the nine months ended September 30, 2008 bad debt expense was $1.9 million which equates to 0.95% of sales. Historically bad debt as a percentage of sales has averaged approximately 0.5%.

Employee housing loans:

Employee loans are non-interest bearing and are granted to employees who are relocated. Employee loans are secured by a deed of trust or mortgage depending upon the jurisdiction. Employees are required to make an annual payment from their profit share. These loans are measured at their fair market value upon granting the loan and subsequently measured at amortized cost.

Customer notes:

Customer notes are issued to certain customers to provide fixed repayment schedules for amounts owing that have been agreed will be repaid over longer periods of time. The terms of each note are negotiated with the customer. For notes issued the Fund requires a fixed payment amount, personal guarantees, general security agreements, and in some cases security over specific property or assets. Customer notes bear market interest rates ranging from 8%-18%.

Security deposits:

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

6. Financial instruments (continued):

(c) Financial risk management (continued):

(ii) Liquidity risk:

Liquidity risk is the risk that the Fund will not be able to meet its financial obligations as they fall due. The Fund's approach to managing liquidity is to ensure that it will have sufficient cash available to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Fund's reputation. In Canada, a subsidiary of the Fund has a revolving credit facility of up to an aggregate amount of $22.0 million. In the US, a subsidiary of the Fund has a revolving credit facility of up to an aggregate amount of $31.9 million (US$30.0 million). These credit facilities can be drawn down to meet short-term financing requirements, including fluctuations in non-cash working capital. The amount made available under the revolving credit facilities from time to time is limited to the extent of the value of certain accounts receivable and inventories held by subsidiaries of the Fund, as well as by continued compliance with credit ratios and certain other terms under the credit facilities. At September 30, 2008 the Canadian and US credit facilities have $11.0 million and $7.3 million (US$6.9 million), respectively of available borrowing capacity. Refer to note 9 for additional disclosure.

(iii) Market risk:

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

Interest rate risk:

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

Based upon September 30, 2008 bank indebtedness balance of $22.1 million, a 1% increase or decrease in the interest rates charged will result in decrease or increase to annual net earnings by $0.2 million.

Currency risk:

As the Fund conducts business in both Canada and the United States it is exposed to currency risk. Most of the hardwood lumber sold by the Fund in Canada is purchased in US dollars from suppliers in the United States. Although the Fund reports its financial results in Canadian dollars, approximately two-thirds of its sales are generated in the United States. Changes in the currency exchange rates of the Canadian dollar against the US dollar will affect the results presented in the Fund's financial statements and cause its earnings to fluctuate. In addition, while changes in the costs of hardwood lumber purchased by the Fund in the United States as a result of the appreciation of the Canadian dollar against the US dollar are usually absorbed by the Canadian market, when the hardwood lumber is resold in Canada it is generally sold at a lower Canadian dollar equivalent selling price, and accordingly revenues in Canada are effectively reduced. Increases in the value of the Canadian dollar against the US dollar will affect the amount of cash available to the Fund for distribution to its Unitholders.

The Fund no longer maintains foreign currency contracts to mitigate the potential impact of foreign exchange on US dollar distributions made by its' US operations. These contracts did not eliminate the Fund's exposure to fluctuations in the exchange rate between the Canadian dollar and the US dollar.

6. Financial instruments (continued):

(c) Financial risk management (continued):

(iii) Market risk (continued):

Currency risk (continued)*:*

The foreign currency contracts allowed the Fund to determine in advance, for the period and amount covered by the contracts, the rates of exchange that would be realized when translating into Canadian dollars that portion distributable cash contributed by our United States operation. Currently no distributions are being made from the Fund's U.S. subsidiary.

At September 30, 2008 the Fund's Canadian subsidiaries exposure to foreign denominated working capital financial instruments was in relation to accounts receivable from US customers (US$0.3 million), income taxes recoverable (US$1.5 million), and accounts payable to US suppliers ($0.5 million).

Based on the Fund's exposure to foreign denominated financial instruments, the Fund estimates a $0.05 weakening in the Canadian dollar as compared to the US dollar would have increased net earnings for the quarter ended September 30, 2008 by approximately $0.1 million. A $0.05 strengthening of the Canadian dollar as compared to the US dollar would have had the equal but opposite effect.

This foreign currency sensitivity is focused solely on the currency risk associated with Fund's Canadian subsidiaries exposure to foreign denominated financial instruments as at September 30, 2008 and does not take into account the effect of a change in currency rates will have on the translation of the balance sheet and operations of the Fund's US subsidiaries nor is it intended to estimate the potential impact changes in currency rates would have on the Fund's sales and purchases.

Commodity price risk:

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

7. Foreign currency contracts:

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

For the nine month period ended September 30, 2008, the Fund's subsidiary has realized a cash gain of $1.2 million (three months ended September 30, 2008 - $0.3 million) from the settlement of foreign currency contracts. For the nine month period ended September 30, 2008, a loss of $0.8 million is recorded in the statement of earnings as the cash gains realized were less than the $2.0 million fair value of the contracts recorded at December 31, 2007 due to the strengthening of the U.S. dollar during the current period. For the three months ended September 30, 2008, a loss of $0.4 million is recorded in the statement of earnings as the cash gains realized were less than the $0.7 million fair value of the contracts recorded at June 30, 2008, also a result of the strengthening of the U.S. dollar during the quarter.

(Tabular amounts expressed in thousands of Canadian dollars)

8. Intangible assets and goodwill:

Long lived assets, including intangible assets, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of intangible assets is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount for the intangibles exceeds its estimated future cash flows, an impairment charge is recognized by the amount that the carrying amount for the asset exceeds its fair value. Other intangible assets represent customer relationships acquired by the Fund at the time of the business combination described in note 1.

The carrying value of goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the asset may be impaired. Any excess of carrying value over fair value is charged to income in the period in which the impairment is determined. The fair value of the goodwill was determined with reference to the present value of future cash flows.

In the first six months of 2008, the Business experienced a significant change in circumstances in the form of reduced sales demand for its products, and a resulting decline in its net earnings. This change of circumstance caused management to reduce its expectations for future cash flows from the Fund's US and Canadian subsidiary operations. Consequently, during the quarter ended June 30, 2008, management reviewed for impairment the carrying value of intangible assets and the carrying value of goodwill. Results of testing indicated impairment in the carrying value of intangible assets in the Fund's US reporting unit of $5.5 million (US$5.4 million). Testing also indicated impairment in the carrying value of goodwill in the Fund's US reporting unit of $47.6 million (US$46.7 million), and in the Fund's Canadian reporting unit of $17.0 million.

9. Bank indebtedness:

	September 30, 2008	December 31, 2007
Checks issued in excess of funds on deposit	$ 689	$ 1,034
Credit facility, Hardwoods LP	3,490	5,538
Credit facility, Hardwoods USLP (September 30, 2008 - US$16,843; December 31, 2007 - US$19,109)	17,924	18,943
	$ 22,103	$ 25,515

On September 30, 2008, Hardwoods USLP entered into a new, three year revolving credit facility with its existing lender, Bank of America. The new credit facility permits borrowings up to 85% of the book value of certain eligible accounts receivable (80% previously) and up to 65% of the book value of eligible inventory (55% previously). Hardwoods USLP will be subject to one financial covenant under the new credit facility, a Fixed Charge Coverage Ratio ("FCCR"). Calculated for Hardwoods USLP on a trailing-twelve-month basis, the FCCR shall not be less than 0.75 until June 30, 2009, and not less than 1.00 thereafter.

(Tabular amounts expressed in thousands of Canadian dollars)

9. Bank indebtedness (continued):

Distributions from Hardwoods USLP are permitted to be made to the extent that after giving effect to the distribution, the FCCR is in compliance with the covenant, and at least US$4.0 million of unused borrowing capacity is available in Hardwoods USLP. Interest will be charged at the rate of prime rate plus an applicable margin on prime rate loans, and for LIBOR revolver loans at LIBOR plus an applicable margin. The applicable margin is dependant on the FCCR and ranges from 0.25% to 0.75% for prime rate loans and from 1.75% and 2.25% on LIBOR revolving loans. To December 31, 2009 the applicable margin has been set at 0.5% on prime rate loans and 2.0% on LIBOR revolver loans. After December 31, 2009 rates will be adjusted based upon Hardwoods USLP's FCCR performance.

The new credit facility is secured by a continuing security interest in and lien upon all property of Hardwoods USLP. Estimated costs to be paid to the lender with respect to entering into the new facility of US $200,000 will be amortized over the three year term of the credit facility.

10. Non-controlling interests:

Balance, January 1, 2008 (note 3(b))	$ 30,006
Interest in earnings:	
Interest in earnings before taxes	(13,328)
Adjustment to non-controlling interest from subordination of Class B Unit Holders	(1,822)
	(15,150)
Foreign currency translation adjustment of non-controlling interest in Hardwoods USLP	1,206
Balance, end of period	$ 16,062

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

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

- the consolidated Adjusted EBITDA, as defined in the Subordination Agreement dated March 23, 2004, of the Fund for the 12 month period ending on the last day of the month immediately preceding such date is at least $21,300,000; and

10. Non-controlling interests (continued):

- 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, 2008.

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, 2008, the amount of such deficiency was $4.0 million;
  - Third, to the holders of Class B LP Units and Class B USLP Units in a combined amount for one Class B LP Unit and one Class B USLP Unit equal, on a pro-rated basis, to the combined amount advanced or distributed on one Class A LP Unit and one Class A USLP Unit during such fiscal quarter or, if there is insufficient available cash to make advances or distributions in such amount, such lesser amount as is available;
  - Fourth, to the holders of Class B LP Units and Class B USLP Units, to the extent only that combined advances or distributions in respect of any fiscal quarter(s) during the 12 month period then ended (and not, for greater certainty, in any previous 12 month period) on one Class B LP Unit and one Class B USLP Unit were not made, or were made in amounts less, on a pro-rated basis, that the combined amount advanced or distributed on one Class A LP Unit and one Class A USLP Unit during such 12 month period, the amount of such deficiency. As of September 30, 2008, the amount of such deficiency was $2.7 million.
  - 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).

(Tabular amounts expressed in thousands of Canadian dollars)

10. Non-controlling interests (continued):

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, 2007, 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 $0.6 million for the three-month period, and $1.8 million for the nine month period, ended September 30, 2008. This adjustment was first recorded during the fourth quarter of 2007, resulting in a reduction of the non-controlling interest's share of earnings of $3.4 million for the year ended December 31, 2007. Of the amount recorded in 2007, $1.5 million should have been recorded in the first quarter of 2007, $0.7 million in the second quarter, and $0.6 million should have been recorded in the third quarter of 2007 and as such the comparative amounts presented in the statements of earnings and retained earnings (deficit) and comprehensive income have been restated accordingly, resulting in an increase in net earnings and comprehensive income from the amounts previously reported.

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

Source (use) of funds	Three months ended September 30, 2008	Three months ended September 30, 2007	Nine months ended September 30, 2008	Nine months ended September 30, 2007
Accounts receivable	$ 2,527	$ 497	$ (50)	$ (6,155)
Income taxes recoverable/payable	(3)	194	(861)	196
Inventory	188	(2,399)	8,826	267
Prepaid expenses	190	(211)	(137)	(409)
Accounts payable and accrued liabilities	(9)	466	(621)	1,587
Decrease (increase) in non-cash operating working capital	$ 2,893	$ (1,453)	$ 7,157	$ (4,514)

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, 2008 $1.8 million (2007 - $3.1 million) in discretionary cash distributions were paid to Unitholders. During the nine month period ended September 30, 2008 $8.3 million (2007 - $9.1 million) in discretionary cash distributions were paid to Unitholders.

(Tabular amounts expressed in thousands of Canadian dollars)

12. Segment disclosure:

Information about geographic areas is as follows:

	Three months ended September 30, 2008	Three months ended September 30, 2007	Nine months ended September 30, 2008	Nine months ended September 30, 2007
Revenue from external customers:				
Canada	$ 22,055	$ 26,251	$ 70,158	$ 81,506
United States	40,060	55,627	129,493	181,492
	$ 62,115	$ 81,878	$ 199,651	$ 262,998

	September 30, 2008	December 31, 2007
Property, plant and equipment:		
Canada	$ 797	$ 1,003
United States	1,355	1,410
	$ 2,152	$ 2,413
Goodwill		
Canada	$ 17,477	$ 34,477
United States	-	46,281
	$ 17,477	$ 80,758

13. 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, 2008, Hardwoods USLP contributed and expensed $78,777 (US$77,436) (three months ended September 30, 2007 - $92,279 (US$88,212)) in relation to the USLP Plan. During the nine months ended September 30, 2008, Hardwoods USLP contributed and expensed $294,933 (US$292,766) (nine months ended September 30, 2007 - $331,986 (US$300,249)) 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, 2008, Hardwoods LP contributed and expensed $56,667 (three months ended September 30, 2007 - $53,262) in relation to the LP Plan. During the nine months ended September 30, 2008, Hardwoods LP contributed and expensed $233,636 (nine months ended September 30, 2007 - $196,767) in relation to the LP Plan.

14. Related party transactions:

For the three months ended September 30, 2008, sales of $84,435 (three months ended September 30, 2007 - $200,004) were made to affiliates of SIL, and the Fund made purchases of $10,275 (three months ended September 30, 2007 - $13,045) from affiliates of SIL. For the nine months ended September 30, 2008, sales of $319,658 (nine months ended September 30, 2007 - $574,132) were made to affiliates of SIL, and the Fund made purchases of $51,052(nine months ended September 30, 2007 - $169,913) from affiliates of SIL. All these sales and purchases took place at prevailing market prices.

During the three months ended September 30, 2008, the Fund paid $27,000 (three months ended September 30, 2007 - $27,000) to affiliates of SIL under the terms of an agreement to provide services for management information systems. During the nine months ended September 30, 2008, the Fund paid $81,000 (nine months ended September 30, 2007 - $81,000) to affiliates of SIL under the terms of an agreement to provide transitional services for management information systems. This cost is included in the selling and administrative expense in the statement of earnings.

15. Income taxes:

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 does 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 arose of approximately, US$10.3 million which are available to reduce US taxable income. 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.

In addition, during the quarter ending March 31, 2008, tax pools consisting principally of Canadian tax loss carry forward, of approximately $16.0 million have been recorded by a subsidiary of the Fund as a result of the Fund’s re-organization plan. The tax loss carry forwards 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, and 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 Company 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.

16. 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.

17. 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.

18. Future accounting changes:

(a) International Financial Reporting Standards:

The CICA will transition Canadian generally accepted accounting principles ("GAAP") for publicly accountable entities to International Financial Reporting Standards ("IFRS"). The Fund's consolidated financial statements are to be prepared in accordance with IFRS for the fiscal year commencing January 1, 2011. The impact of the transition to IFRS on the Fund's consolidated financial statements has not been determined.

(b) Goodwill and intangible assets:

Effective January 1, 2009, the Fund will adopt 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. The Fund is still evaluating the impact of this standard on its consolidated financial statements.

Unitholder Information

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Trustee

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President, Krystal Financial Corp.

Graham M. Wilson
President, Grawil Consultants Inc.

Directors

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Graham M. Wilson
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E. Lawrence Sauder
Vice Chair, Sauder Industries

William Sauder
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