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## Attention Business/Financial Editors:

### Hardwoods Distribution Income Fund Announces 2008 Fourth Quarter and Year-End Results

TRADING SYMBOL: Toronto Stock Exchange - HWD.UN

Hardwoods Distribution Income Fund will hold a conference call to discuss fourth quarter and year-end financial results on March 26, 2009 at 8:00 a.m. Pacific Time (11:00 a.m. Eastern). The call can be accessed by dialing: 1-800-594-3790 or 416-644-3421. A replay will be available until Thursday April 9, 2009 at: 1-877-289-8525 or 416-640-1917 (Passcode 21301543 followed by the number sign).

LANGLEY, BC, March 25 /CNW/ - Hardwoods Distribution Income Fund (the "Fund") today reported financial results for the fourth quarter and 12 months of 2008. The Fund's results are based on the performance of Hardwoods Specialty Products LP and Hardwoods Specialty Products USLP (collectively "Hardwoods") - one of North America's largest wholesale distributors of hardwood lumber and related sheet good products. Hardwoods serves over 2,000 industrial customers through a network of 29 distribution centres in nine regions of the US and Canada.

2008 Overview

(For the 12 months ended December 31, 2008)

- Full-year revenue declined 22.7% to $256.3 million year-over-year, as a result of deteriorating economic conditions

- Gross profit percentage was 18.0% compared to 18.9% in 2007

- Full-year EBITDA was $5.9 million compared to $21.3 million in 2007

- The Fund recorded a net loss of $36.2 million, primarily due to the non-cash writedown of goodwill and other intangible assets

- The Fund closed a total of seven satellite branches and implemented other cost-saving measures, helping to reduce selling and administrative expenses by $2.0 million, despite incurring a $1.8 million increase in bad debt expense and $1.5 million in one-time restructuring and reorganization costs in 2008

- The Fund reduced its bank indebtedness (net of cash) by $7.7 million

- The Fund further expanded its successful new line of green building products

"Business conditions continued to deteriorate in the fourth quarter of 2008 as the global economic crisis worsened," said Maurice Paquette, President and CEO of Hardwoods. "The US and Canadian economies are now in full recession and we are seeing the impact in reduced demand across virtually all of the sectors and regions that we serve. Our sales declined in each quarter of 2008, and with a shrinking market came increased competition for the remaining available sales, putting downward pressure on our margins. We also experienced an increase in bad debts with economic conditions forcing some of our customers out of business."

"In this environment, our ability to adapt quickly to changing economic realities has proved essential," said Mr. Paquette. "Throughout 2008, we closed a total of seven satellite branches, reducing both our branch network and employee count by 19%. In addition, we sublet underutilized warehouse space to reduce our premises expense, reduced our trucking contracts to save on freight, adjusted our US medical plan to reduce company-funded costs, cancelled our year-end bonus program for management and staff, and implemented a salary freeze."

"We also made a number of timely corporate moves through the year," added Mr. Paquette. "In March, we reorganized our business to achieve significant tax savings and we have since announced the reorganization of our Canadian holdings to ensure that the Fund will not be paying the new income trust tax that comes into effect in 2011. We also sold our remaining US currency hedge contracts for a profit just weeks in advance of a sharp decline in the value of the Canadian dollar, which would have turned these hedges into significant liabilities. In September, we secured a new US credit agreement on favourable terms, an important move in an increasingly challenging credit environment. Finally, we made the difficult but necessary decision to reduce and ultimately suspend cash distributions in recognition of the deteriorating economic environment. Through this and a variety of other measures, we have succeeded in reducing our long-term debt from $39.2 million two years ago, to $17.5 million at December 31, 2008. Going forward, the suspension of distributions will enable us to continue conserving cash flow as we responsibly manage our business through this difficult time."

"Overall, we believe we have taken the right steps to align our business with the new economic realities. As we move forward, we will continue to rationalize our costs in line with the slower sales pace and to manage the increased risk of bad debt that comes with the current economic environment."

"Our strategy will not be entirely defensive, however," added Mr. Paquette. "Following a positive initial response to our green building products in 2008, we have now created the new Hardwoods "Greenbelt" label and we are expanding our line-up of environmentally friendly products with a mix of both imported and domestic products. We are marketing these new products to our existing industrial customer base, as well as to architects and building project specifiers looking for "green" product solutions. In addition, we are continuing to work closely with customers to find innovative product and service solutions that help support their businesses through the current downturn. We also continue to service customers across all of our geographic regions. Although we closed seven satellite branches in 2008, we kept all of our regional hub centres open, enabling us to provide sales and product support to customers in all regions."

"Hardwoods is facing challenges with tight covenants on its financing at a time when our business is under pressure. We will continue to take all steps possible to respond to these issues. Overall, our focus remains on positioning Hardwoods to survive this recession, and to maintain a strong market position that will enable us to participate fully in the eventual recovery," said Mr. Paquette.

Summary of Results

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

| | 3 months | 3 months |
|---|---|---|

| | Year ended December 31, 2008 | Year ended December 31, 2007 | ended December 31, 2008 | ended December 31, 2007 |
|---|---|---|---|---|
| Total sales | $ 256,301 | $ 331,765 | $ 56,650 | $ 68,767 |
| Sales in the US (US$) | 156,398 | 210,785 | 29,270 | 46,643 |
| Sales in Canada | 89,581 | 105,171 | 19,423 | 23,665 |
| Gross profit | 46,096 | 62,737 | 9,485 | 12,488 |
| Gross profit % | 18.0% | 18.9% | 16.7% | 18.2% |
| Selling and administrative expenses | (41,425) | (43,360) | (10,915) | (10,024) |
| Realized gain on foreign currency contracts | 1,247 | 1,883 | - | 648 |
| Earnings before interest, taxes, depreciation and amortization and non-controlling interest ("EBITDA") | 5,918 | 21,260 | (1,430) | 3,112 |
| Add (deduct): | | | | |
| Amortization | (1,471) | (1,866) | (326) | (437) |
| Interest | (1,219) | (2,402) | (284) | (487) |
| Non-cash foreign currency gains (losses) | (333) | 641 | 1,498 | (634) |
| Intangibles impairment | (8,612) | - | (3,144) | - |
| Goodwill impairment | (82,083) | - | - | - |
| Non-controlling interest | 20,031 | (109) | 4,881 | 277 |
| Income tax recovery (expense) | 31,526 | (1,905) | 3,341 | 284 |
| Net earnings (loss) for the period | $ (36,243) | $ 15,619 | $ (12,941) | $ 2,115 |
| Basic and fully diluted earnings (loss) per Class A Unit | $ (2.515) | $ 1.084 | $ (0.898) | $ 0.147 |
| Average Canadian dollar exchange rate for one US dollar | 1.0660 | 1.075 | 1.2115 | 0.9812 |

Distributable Cash and Cash Distributions

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

| | Year ended December 31, 2008 | Year ended December 31, 2007 | 3 months ended December 31, 2008 | 3 months ended December 31, 2007 |
|---|---|---|---|---|
| Net cash provided by operating activities | $ 20,229 | $ 20,629 | $ 6,028 | $ 10,514 |
| Decrease in non-cash operating working capital | (14,836) | (2,777) | (7,679) | (7,291) |
| Cash flow from operations before changes in non-cash operating working capital | 5,393 | 17,852 | (1,651) | 3,223 |
| Capital expenditures | (425) | (571) | (79) | (18) |
| Distributable Cash | $ 4,968 | $ 17,281 | $ (1,730) | $ 3,205 |
| Distributions relating to the period: | | | | |
| Class A Units | $ 7,565(1) | $ 12,355 | $ - | $ 3,243 |
| Class B Units(2) | - | - | - | - |
| Total Units | $ 7,565 | $ 12,355 | $ - | $ 3,243 |

| | | | | |
|---|---|---|---|---|
| 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 | $ 0.276 | $ 0.959 | $ (0.096) | $ 0.178 |

| | | | | |
|---|---|---|---|---|
| Distributions relating to the period: | | | | |
| Class A Units | $ 0.525(1) | $ 0.857 | $ - | $ 0.225 |
| Class B Units(2) | $ - | $ - | $ - | $ - |
| Total Units | $ 0.420 | $ 0.686 | $ - | $ 0.180 |
| Payout ratio(3) | 152.3% | 71.5% | 0.0% | 101.2% |

| | March 23, 2004 to December 31, 2008 |
|---|---|
| Cumulative since inception: | |
| Distributable Cash | 75,617 |
| Distributions relating to the period | 66,754 |
| Payout ratio(3) | 88.3% |

(1) Includes the cash distributions of $0.075 per Class A Unit per month which relate to the operations of the Fund for January to June 2008, and cash distributions of $0.025 per Class A Unit per month which relate to the operations of the Fund for July to September 2008.

(2) On January 10, 2006, Hardwoods Specialty Products LP and Hardwoods Specialty Products US LP, limited partnerships in each of which the Fund owns an 80% interest, announced that quarterly distributions were suspended on the Class B LP and Class B US LP units. The Class B LP units and Class B US LP units represent a 20% interest in Hardwoods Specialty Products LP and Hardwoods Specialty Products US LP, respectively. No distributions are to be paid on the Class B LP units and Class B US LP units unless distributions in stipulated minimum amounts are paid on the units in the limited partnerships held by the Fund, and in certain other circumstances. Accordingly, no distributions have been declared since the third quarter of 2005 to the non-controlling interests. No liability for distributions payable to the non-controlling interests is reflected in the December 31, 2008 balance sheet.

(3) Payout ratio measures the ratio of distributions by the Fund relating to the period to Distributable Cash for the period.

Results from Operations - Three Months Ended December 31, 2008

For the three months ended December 31, 2008 the Fund and its subsidiaries generated negative distributable cash of $(1.7) million, or $(0.096) per unit. No distributions were paid to either the public unitholders (Class A Units) or to the Class B Units, resulting in a payout ratio of 0% for the fourth quarter. By comparison, the Fund generated total distributable cash of $3.2 million or $0.178 per unit in the same period of 2007. Distributions of $3.2 million, or $0.225 per unit were declared to the Class A Units and no distributions were paid to the Class B Units, for a payout ratio of 101.2% in the fourth quarter of 2007.

Total fourth quarter sales declined by 17.6% to $56.7 million, from the $68.8 million reported in 2007. The change in sales revenue reflects a 30.0% decrease in underlying sales activity, partially offset by a 12.4% increase in sales due to the positive effect of a weaker Canadian dollar. Sales in the United States, as measured in US dollars, decreased by 37.2% to $29.3 million. Sales in Canada, as measured in Canadian dollars, declined by 17.9%.

Fourth quarter gross profit declined to $9.5 million, from $12.5 million in Q4 2007 as a result of the lower sales revenue and a lower gross profit margin. Gross profit as a percentage of sales declined to 16.7% from 18.2% in Q4 2007. The lower gross profit percentage reflects extremely competitive conditions amidst a contracting market, a continued downward trend in hardwood product prices, and a write-down in the fourth quarter to the carrying value of some specialized inventory held for a significant customer that went out of business.

Selling and administrative (S&A) expenses were $10.9 million in the fourth quarter, compared to $10.0 million in the same period of 2007. The increase in S&A reflects a $1.4 million negative foreign exchange impact of a weaker Canadian dollar on the conversion of S&A expenses at Hardwoods' US operations. Had exchange rates remained consistent with the fourth quarter of 2007, S&A expenses would have been $9.4 million. Fourth quarter 2008 S&A includes $0.5 million of non-recurring costs associated with closing branches and restructuring the Fund's California operations. Cost savings achieved by cancelling year-end incentive plan payments for management and staff were offset by increased bad debt expense in the fourth quarter of 2008, compared to the same period in the prior year.

EBITDA for the period was a loss of $(1.4) million, compared to a profit $3.1 million in Q4 2007. The change in EBITDA reflects the lower gross profit, lower realized gains on foreign currency contracts, and the higher S&A expenses.

The Fund recorded a fourth quarter net loss of $12.9 million, compared to net earnings of $2.1 million in the same period in 2007. The decrease in net earnings reflects the $4.5 million decrease in EBITDA and a $20.6 million increase in goodwill and intangible impairment. This was partially offset by a $2.1 million increase in non-cash foreign currency gains, a $4.6 million increase in recovery from non-controlling interest, a $3.0 million increase in income tax recovery, a $0.2 decrease in interest expense and a $0.1 million decrease in amortization expense.

Results from Operations - 12 months ended December 31, 2008

For the 12 months ended December 31, 2008, the Fund and its subsidiaries generated total distributable cash of $5.0 million, or $0.276 per unit. Distributions of $7.6 million, or $0.525 per unit, were declared to the public unitholders (Class A Units) and no distributions were paid to the Class B Units, resulting in a year-to-date payout ratio of 152.3%. By comparison, the Fund generated total distributable cash of $17.3 million or $0.959 per unit in 2007. Distributions of $12.4 million, or $0.857 per unit were declared to the Class A Units and no distributions were paid to the Class B Units, for a 2007 payout ratio of 71.5%.

Total sales declined by 22.7% to $256.3 million, from $331.8 million in 2007 as a result of significantly reduced demand and lower product prices. Sales at Hardwoods' US operations, as measured in US dollars, decreased by 25.8%, with the most significant impact felt in the company's California divisions. Sales in Canada, as measured in Canadian dollars, were down by 14.8% year-over-year, reflecting the weakening domestic economy and continued slowing of the Canadian housing market.

Gross profit for the year ended December 31, 2008 was $46.6 million, compared to $62.7 million in 2007. The reduction in gross profit primarily reflects lower sales, as well as a decline in gross margin percentage to 18.0%, from 18.9% in 2007.

Selling and administrative expenses were $41.4 million in 2008, down by $2.0 million compared to $39.8 million in 2007. Recognizing the more challenging sales environment facing our business, cost-savings measures were implemented to control expenses and achieve $5.3 million in cost reductions in 2008, principally in the area of people costs. These cost reductions were partially offset by $1.5 million of non-recurring costs incurred from closing branches and making corporate structure changes made in 2008, and by $1.8 million in additional bad debt expense incurred as economic conditions deteriorated during the year.

EBITDA for 2008 was $5.9 million, down from $21.3 million in 2007. The change in EBITDA reflects lower gross profit and a $0.7 decrease in realized gains on foreign currency contracts, partially offset by lower S&A expenses.

The Fund recorded a net loss of $36.2 million for 2009, compared to net earnings of $15.6 million in 2007. The change in net earnings primarily reflects the $90.7 million increase in impairment in goodwill and other intangible assets, a $1.0 million decrease in non-cash foreign currency gains and the $15.4 million decrease in EBITDA. These were partially offset by a $33.4 million decrease in income tax expense, a $20.1 million increase in recovery from non-controlling interest, a $1.2 million decrease in interest expense and a $0.4 million reduction in amortization.

Outlook

Hardwoods anticipates that extremely challenging business conditions will prevail through 2009 and possibly into 2010. A depressed housing market and the global recession are expected to continue reducing demand for furniture, cabinets, recreational vehicles and other products that utilize hardwood lumber and sheet goods. Prices for hardwood lumber are also expected to remain at low levels, despite production curtailments by many lumber mills.

The current economic environment has also elevated Hardwoods' business risk, particularly in the following areas:

1. Financing risk related to the ability of Hardwoods to debt-finance its operations has increased in the current tight credit environment. Hardwoods obtained an amendment to its US banking agreement in order to meet its financial covenant for the fourth quarter of 2008, but it is uncertain if Hardwoods US results will prove strong enough to remain in compliance with its bank agreement throughout 2009;
2. The risk of bad debts has increased, as Hardwoods' customers face reduced demand and similar pressures on credit availability in their own businesses;
3. The possibility that key suppliers could fail has increased, which could potentially disrupt Hardwoods supply chain; and,
4. Demand for Hardwoods' products could weaken still further, given that US housing starts fell to historic lows in the fourth quarter of 2008, and the impact on Hardwoods sales often lags changes in the residential construction cycle by six to twelve months. The lag exists because kitchen cabinets and furniture, which are a key end use for hardwood products, are purchased late in the building process.

With the expectation of a prolonged economic downturn and an enhanced level of risk, Hardwoods' focus will remain on continued cost reduction as it works to align expenditures as closely as possible to sales levels. Inventory levels and working capital will also be tightly managed and management will continue to work to minimize customer credit risk, which is expected to remain elevated until business conditions improve. These initiatives, together with a continued focus on debt reduction will help provide support to Hardwoods' balance sheet as it works through this downturn.

Simultaneously, Hardwoods will aggressively pursue market opportunities for its growing lines of "green" building products, while also continuing to support its successful import program. The Fund's goal is to maintain a strong market position through the downturn and to emerge positioned to participate fully in the eventual recovery.

Non-GAAP Measures - EBITDA and Distributable Cash

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" is to net cash provided by operating activities, before changes in non-cash operating working capital, less capital expenditures and contributions to any reserves that the Boards of Directors of 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, EBITDA and Distributable Cash are each a useful supplemental measures of operating performance that may assist investors in assessing their investment in units of the Fund. Neither EBITDA nor Distributable Cash are earnings measure recognized by GAAP and they do not have a standardized meaning prescribed by GAAP. Investors are cautioned that EBITDA should not replace net income or loss (as determined in accordance with GAAP) as an indicator of our performance, nor should Distributable Cash replace cash flows from operating, investing and financing activities or as a measure of liquidity and cash flows. The Fund's method of calculating EBITDA and Distributable Cash may differ from the methods used by other issuers. Therefore, the Fund's EBITDA and Distributable Cash may not be comparable to similar measures presented by other issuers. For reconciliation between EBITDA and net income or loss as determined in accordance with GAAP, and for reconciliation between Distributable Cash and net cash provided by operating activities as determined in accordance with GAAP, please refer to the Management Discussion and Analysis ("MD&A") included in the Fund's 2008 Annual Report to Unitholders, which will be filed at www.sedar.com.

Additional guidance regarding disclosure of distributable cash and cash distributions was issued in 2007 in an interpretative release by the Canadian Institute of Chartered Accountants (the "CICA") in respect of "Standardized Distributable Cash in Income Trusts and other Flow Through Entities" and National Policy 41-201 of the Canadian Securities Administrators "Income Trusts and other Indirect Offerings" (collectively, the "Interpretative Guidance"). For disclosure and discussion of the Fund's Standardized Distributable Cash in accordance with the Interpretive Guidance, please refer to the MD&A included in the Fund's 2008 Annual Report to Unitholders, which will be filed at www.sedar.com.

About the Fund

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

About Hardwoods

Hardwoods is North America's largest distributor of high-grade hardwood lumber and sheet goods to the cabinet, moulding, millwork, furniture and specialty wood products industries. The company currently operates a network of 29 distribution centres comprising 1.1 million square feet of warehouse and distribution space in the U.S. and Canada.

Forward Looking Statements

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

The forward-looking information in this press release includes, but is not limited to: we believe we have taken the right steps to align our business with the new economic realties; we will continue to rationalize our costs in line with the slower sales pace and to manage the increased risk of bad debt that comes with the current economic environment; Hardwoods' focus will remain on continued cost reduction as it works to align expenditures as closely as possible to sales levels; inventory levels and working capital will be tightly managed and management will continue to work to minimize customer credit risk, which is expected to remain elevated until business conditions improve; the aforementioned initiatives, together with a continued focus on debt reduction will help provide support to Hardwoods' balance sheet as it works through this downturn; Hardwoods will aggressively pursue market opportunities for its growing lines of "green" building products, while also continuing to support its successful import program; the Fund's goal is to maintain a strong market position through the downturn and to emerge positioned to participate fully in the eventual recovery; the current economic environment has elevated Hardwoods' business risk, particularly (1) financing risk related to the ability of Hardwoods to debt-finance its operations has increased in the current tight credit environment, (2) bad debt risk has increased, as Hardwoods customers face reduced demand, and pressure on credit availability in their own businesses, (3) the possibility that key suppliers could fail has increased, which could potentially disrupt Hardwoods supply chain, and (4) demand for Hardwoods' products could weaken still further, given that US housing starts fell to historic lows in the fourth quarter of 2008, and the impact on Hardwoods sales often lags changes in the residential construction cycle by six to twelve months.

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

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

All forward-looking information in this press release 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.

HARDWOODS DISTRIBUTION INCOME FUND
Consolidated Balance Sheets
(Expressed in thousands of Canadian dollars)

December 31, 2008 and 2007

| | 2008 | 2007 |
|---|---|---|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | $ 85 | $ 295 |

| | | |
|---|---|---|
| Accounts receivable (note 6(c)) | 32,218 | 36,474 |
| Income taxes recoverable | 2,316 | 1,041 |
| Inventory (note 5) | 30,868 | 38,400 |
| Prepaid expenses | 1,039 | 1,060 |
| Foreign currency contracts (note 8) | - | 1,533 |
| | 66,526 | 78,803 |
| Long-term receivables (note 6(c)) | 3,639 | 2,191 |
| Property, plant and equipment (note 7) | 2,168 | 2,413 |
| Deferred financing costs | 235 | 21 |
| Future income taxes (note 13) | 30,782 | - |
| Foreign currency contracts (note 8) | - | 528 |
| Intangible assets (note 9) | - | 9,013 |
| Goodwill (note 9) | - | 80,758 |
| | $ 103,350 | $ 173,727 |

Liabilities and Unitholders' Equity

| | | |
|---|---|---|
| Current liabilities: | | |
| Bank indebtedness (note 10) | $ 17,561 | $ 25,515 |
| Accounts payable and accrued liabilities | 3,365 | 6,950 |
| Distributions payable to Unitholders | - | 1,081 |
| | 20,926 | 33,546 |
| Deferred gain on sale-leaseback of land and building | 572 | 538 |
| Foreign currency contracts (note 8) | - | 47 |
| Future income taxes (note 13) | - | 3,534 |
| Non-controlling interests (note 11) | 13,080 | 30,068 |
| Unitholders' equity: | | |
| Fund Units (note 12) | 133,454 | 133,454 |
| Deficit | (49,958) | (5,895) |
| Accumulated other comprehensive loss | (14,724) | (21,565) |
| | 68,772 | 105,994 |
| Continuance of operations (note 1) | | |
| Commitments (note 15) | | |
| Contingencies (note 19) | | |
| Subsequent events (notes 1, 6(c)(ii) and 10) | | |
| | $ 103,350 | $ 173,727 |

See accompanying notes to consolidated financial statements.

HARDWOODS DISTRIBUTION INCOME FUND
Consolidated Statements of Earnings (Loss) and Deficit
(Expressed in thousands of Canadian dollars)

Years ended December 31, 2008 and 2007

| | 2008 | 2007 |
|---|---|---|
| Sales | $ 256,301 | $ 331,765 |
| Cost of sales | 210,205 | 269,028 |
| Gross profit | 46,096 | 62,737 |
| Expenses (income): | | |
| Selling and administrative | 41,425 | 43,360 |
| Amortization: | | |
| Plant and equipment | 941 | 1,091 |
| Deferred financing costs | 36 | 11 |
| Other intangible assets | 573 | 843 |
| Deferred gain on sale-leaseback of land and building | (79) | (79) |
| Interest | 1,219 | 2,402 |
| Foreign exchange gains | (914) | (2,524) |
| Intangibles impairment (note 9) | 8,612 | - |
| Goodwill impairment (note 9) | 82,083 | - |
| | 133,896 | 45,104 |
| Earnings (loss) before non-controlling interests and income taxes | (87,800) | 17,633 |
| Non-controlling interests (note 11) | 20,031 | (109) |
| Earnings (loss) before income taxes | (67,769) | 17,524 |
| Income tax expense (recovery) (note 13): | | |
| Current | (734) | 441 |
| Future | (30,792) | 1,464 |
| | (31,526) | 1,905 |
| Net earnings (loss) for the year | (36,243) | 15,619 |
| Deficit, beginning of year (note 3) | (6,150) | (9,159) |
| Distributions declared to Unitholders | (7,565) | (12,355) |
| Deficit, end of year | $ (49,958) | $ (5,895) |
| Basic and diluted earnings (loss) per Unit | $ (2.52) | $ 1.08 |
| Weighted average number of Units outstanding | 14,410,000 | 14,410,000 |

See accompanying notes to consolidated financial statements.

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

Years ended December 31, 2008 and 2007

| | 2008 | 2007 |
|---|---|---|
| Net earnings (loss) for the year | $ (36,243) | $ 15,619 |
| Other comprehensive income (loss): | | |
| Unrealized gains (losses) on translation of self-sustaining foreign operations | 6,841 | (10,385) |
| Comprehensive income (loss) | $ (29,402) | $ 5,234 |

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

Years ended December 31, 2008 and 2007

| | 2008 | 2007 |
|---|---|---|
| Accumulated other comprehensive loss, beginning of year | $ (21,565) | $ (11,180) |
| Other comprehensive income (loss) | 6,841 | (10,385) |
| Accumulated other comprehensive loss, end of year | $ (14,724) | $ (21,565) |

See accompanying notes to consolidated financial statements.

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

Years ended December 31, 2008 and 2007

| | 2008 | 2007 |
|---|---|---|
| Cash flows provided by (used in) | | |

| | | |
|---|---|---|
| operating activities: | | |
| Net earnings (loss) for the year | $ (36,243) | $ 15,619 |
| Items not involving cash: | | |
| Amortization | 1,471 | 1,866 |
| Imputed interest income on employee loans | (67) | (60) |
| Loss (gain) on sale of property, plant and equipment | (14) | (21) |
| Unrealized foreign exchange losses (gains) | 333 | (641) |
| Intangibles impairment | 8,612 | - |
| Goodwill impairment | 82,083 | - |
| Non-controlling interests | (20,031) | 109 |
| Future income taxes | (30,751) | 980 |
| | 5,393 | 17,852 |
| Change in non-cash operating working capital (note 14) | 14,836 | 2,777 |
| Net cash provided by operating activities | 20,229 | 20,629 |
| Cash flows used in financing activities: | | |
| Decrease in bank indebtedness | (11,575) | (9,769) |
| Increase in deferred financing fees | (221) | - |
| Distributions paid to Unitholders | (8,646) | (12,254) |
| Net cash used in financing activities | (20,442) | (22,023) |
| Cash flows provided by (used in) investing activities: | | |
| Additions to property, plant and equipment | (425) | (571) |
| Proceeds on disposal of property, plant and equipment | 25 | 26 |
| Decrease in long-term receivables, net | 403 | 1,640 |
| Net cash provided by investing activities | 3 | 1,095 |
| Decrease in cash | (210) | (299) |
| Cash, beginning of year | 295 | 594 |
| Cash, end of year | $ 85 | $ 295 |
| Supplemental information: | | |
| Interest paid | $ 1,219 | $ 2,402 |
| Income taxes paid | 75 | 936 |
| Transfer of accounts receivable to long-term customer notes receivable, net of write offs, being a non-cash transaction | 2,508 | 667 |

See accompanying notes to consolidated financial statements.

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1. Nature and continuance of operations:

Hardwoods Distribution Income Fund (the "Fund") is an unincorporated, open ended, limited purpose trust established under the laws of the Province of British Columbia on January 30, 2004 by a Declaration of Trust. The Fund commenced operations on March 23, 2004 when it completed an initial public offering (the "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.

Effective for the year ended December 31, 2008, the Fund has adopted Canadian Institute of Chartered Accountants ("CICA") Handbook Section 1400, General Standards of Financial Statement Presentation. Section 1400 was amended to require management to assess and disclose an entity's ability to continue as a going concern. The Fund has forecast its financial results and cash flows for 2009. The forecasts are based on management's best estimates of operating conditions in the context of the current economic climate, today's capital market conditions and the depressed state of the housing and renovation markets in both Canada and the United States.

At December 31, 2008, preliminary financial results for a U.S. subsidiary of the Fund indicated that it would breach its fixed charge coverage ratio, the only financial covenant which it is subject to under its U.S. credit agreement. Subsequent to year end, the Fund's U.S. subsidiary and its lender amended their credit agreement with changes to be retroactively effective to the December 31, 2008 reporting period. Under the amendment, the Fund's U.S. subsidiary was compliant with its financial covenant at December 31, 2008. Currently management does not anticipate being in default of the fixed charge covenant ratio under its U.S. lending agreement in the first quarter of 2009. However, due to the difficulty in predicting the continued severity and duration of the current economic and financial crisis, management is uncertain whether its U.S. subsidiary will remain in compliance with its financial covenant during the remainder of 2009. Further weakening of the housing and renovation market, or incurring significant customer or credit losses, could cause the U.S. subsidiary to violate its fixed charge coverage ratio in 2009. This could cause the Fund's U.S. subsidiary bank indebtedness to become immediately due and payable, and the Fund and its U.S. subsidiary may not be able to access funds under its revolving credit facility. In the event of such as circumstance, the Fund anticipates it would need to raise additional capital in the form of equity or debt to supplement or replace its existing credit facilities in order to have sufficient liquidity to meet its obligations in 2009.

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

2. Significant accounting policies:

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

(a) Basis of presentation:

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

(b) Cash and cash equivalents:

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

(c) Accounts receivable:

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

(d) Inventory:

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

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

(e) Property, plant and equipment:

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

-----------------------------------------------------------------

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

(f) Deferred financing costs:

Financing costs incurred to obtain credit facilities are deferred and amortized on a straight-line basis over the term of the related debt facility.

(g) Intangible assets:

Intangible assets represent customer relationships acquired at the time the Business was purchased from SIL (note 1) and are recorded at cost less accumulated amortization and any write-downs. Amortization is provided for on a straight-line basis over 15 years. During the year ended December 31, 2008, management performed impairment tests at June 30, 2008 and at December 31, 2008 and recorded aggregate intangibles impairments of $8.6 million (2007 - nil). See also note 9 to these consolidated financial statements.

(h) Goodwill:

Goodwill is recorded at cost less any write-downs and is not amortized. Management reviews the carrying value of goodwill 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 earnings in the period in which the impairment is determined. During the year ended December 31, 2008, management performed impairment tests at June 30, 2008 and at December 31, 2008 and recorded aggregate goodwill impairments of $82.1 million (2007 - nil). See also note 9 to these consolidated financial statements.

(i) Impairment of long-lived assets:

Long-lived assets, including property, plant and equipment and other 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 assets is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount for the asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount that the carrying amount of the asset exceeds its fair value.

(j) Sales-leaseback of land and building:

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

(k) Income taxes:

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

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

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

(l) Revenue recognition:

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

(m) Translation of foreign currencies:

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

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

(n) Foreign currency contracts:

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

(o) Earnings (loss) per Unit:

Basic earnings (loss) per Unit is calculated by dividing net earnings (loss) by the weighted average number of Units outstanding during the reporting period. Diluted earnings (loss) per Unit is calculated by application of the if-converted method for convertible securities (being exchangeable Units held by the non-controlling interest). As the conversion of convertible securities would not have a dilutive effect on earnings (loss) per Unit, diluted and basic earnings (loss) per Unit are the same amount.

(p) Use of estimates:

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

(q) Future changes in accounting standards:

(i) 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.

(ii) 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. As the Fund does not have any goodwill or intangible assets at December 31, 2008, the adoption of this new standard will not impact the amounts presented in the financial statements.

3. Adoption of new accounting standards:

Effective January 1, 2008, the Fund adopted four new 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 reflects trade discounts from suppliers for inventory purchases that previously had been recognized in earnings when received.

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

| | As at | Adjustment on adoption | As at |
|---|---|---|---|

| | December 31, 2007 | of new standards | 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:

| | 2008 | 2007 |
|---|---|---|
| Cash and cash equivalents | $ (85) | $ (295) |
| Bank indebtedness | 17,561 | 25,515 |
| Net debt | 17,476 | 25,220 |
| Unitholders' equity | 68,772 | 105,994 |
| Total capitalization | $ 86,248 | $ 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 the Canadian credit facility is 2.50 times, and the minimum ratio of EBITDA to interest is 3.0 times. Under the U.S. credit facility, as amended on March 17, 2009, a Fixed Charge Coverage Ratio ((EBITDA less capital expenditures less cash taxes)/(interest plus distributions)) is not permitted to be less than 0.75 for the periods ended September 30, 2008 and December 31, 2008, not less than 0.50 for the period ended March 31, 2009, not less than 0.75 for the period ended June 30, 2009, and not less than 1.0 thereafter. Refer to note 10 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. Following the amendment to the USLP credit facility on March 17, 2009 (notes 1 and 10), the operating subsidiaries were fully compliant with all required credit ratios as at December 31, 2008, and accordingly there were no restrictions on distributions arising from compliance with financial covenants.

Distributions are one of the ways the Fund manages its capital. Distributions of the Fund's available cash are made to the maximum extent possible, subject to reasonable reserves established by the Trustees of the Fund. Distributions are made by the Fund having given consideration to a variety of factors including the outlook for the business, financial leverage, and the ratio of distributions to available cash of the Fund. There were no changes in the Fund's approach to capital management during the year ended December 31, 2008. On November 3, 2008 the Trustees of the Fund suspended further monthly distributions until such time as market conditions and the Fund's generation of cash has improved.

5. Inventory:

| | 2008 | 2007 |
|---|---|---|
| Lumber | $ 12,077 | $ 15,077 |
| Sheet goods | 14,990 | 17,884 |
| Specialty | 2,356 | 3,067 |
| Goods in-transit | 1,445 | 2,372 |
| | $ 30,868 | $ 38,400 |

During the year ended December 31, 2008 inventory write-downs totaling $3.1 million (2007 - $2.4 million) were recorded to reduce certain inventory items to their net realizable value. The write-down for the year ended December 31, 2008 included $0.6 million for inventory stocked specifically for a large customer which declared bankruptcy subsequent to year end.

Cost of sales for the year ended December 31, 2008 were $210.2 million (2007 - $269.0 million), which included $201.8 million (2007 - $259.8 million) of costs associated with inventory. The other $8.4 million (2007 - $9.2 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 included foreign currency contracts which are derivative financial instruments (note 6(b)) and measured at fair value prior to settlement in August 2008.

(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 were carried at market values as disclosed in note 8 prior to their settlement.

(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 U.S. 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 year ended December 31, 2008. Refer to note 8 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 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:

| | 2008 | 2007 |
|---|---|---|
| Trade accounts receivable - Canada | $ 8,404 | $ 11,086 |
| Trade accounts receivable - United States | 23,423 | 25,131 |
| Sundry receivable | 495 | 645 |
| Current portion of long-term receivables | 2,243 | 658 |
| | 34,565 | 37,520 |
| Less: allowance for doubtful accounts | 2,347 | 1,046 |
| | $ 32,218 | $ 36,474 |
| Long-term receivables: | | |
| Employee housing loans | $ 1,507 | $ 1,130 |
| Customer notes | 3,772 | 1,166 |
| Security deposits | 603 | 553 |
| | 5,882 | 2,849 |
| Less: current portion, included in accounts receivable | 2,243 | 658 |
| | $ 3,639 | $ 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 8.2% of trade accounts receivable and customer notes receivable at December 31, 2008.

The aging of trade receivables was:

| | 2008 | 2007 |
|---|---|---|
| Current | $ 17,037 | $ 20,245 |
| Past due 31-60 days | 6,696 | 8,345 |
| Past due 61-90 days | 3,706 | 3,453 |
| Past due 90+ days | 4,388 | 4,174 |
| | $ 31,827 | $ 36,217 |

The Fund determines its allowance for doubtful accounts based on its best estimate of the net recoverable amount by customer. Accounts that are considered uncollectable are written off. The total allowance at December 31, 2008 was $2.3 million (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 year ended December 31, 2008 was $3.9 million which equates to 1.5% of sales. For the year ended December 31, 2007 bad debt expense was $2.1 million which equates to 0.6% of sales. Historically bad debt expense has averaged approximately 0.6% of sales.

Employee housing loans:

Employee loans are non-interest bearing and are granted to employees who are relocated. Employee loans are secured by a deed of trust or mortgage depending upon the jurisdiction. 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 related lease term. The Fund does not believe there is any material credit risk associated with its security deposits.

(ii) Liquidity risk:

Liquidity risk is the risk that the Fund will not be able to meet its financial obligations as they fall due. The Fund's approach to managing liquidity is to ensure that it will have sufficient cash available to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Fund's reputation. At December 31, 2008, in Canada, a subsidiary of the Fund had a revolving credit facility of up to $22.0 million. In the US, a subsidiary of the Fund has a revolving credit facility of up to $36.5 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 December 31, 2008 the Canadian and U.S. credit facilities have $11.5 million and $7.2 million (US$5.9 million), respectively of additional borrowing capacity.

Subsequent to December 31, 2008, the Fund reduced the size of its Canadian credit facility to $12.0 million from a previous maximum of $22.0 million. The reduction in facility size was initiated in order to save approximately $20,000 in standby fees for unused borrowing capacity during 2009. The revised facility maximum of $12.0 million is considered adequate to the working capital financing needs of the Canadian operation, which at December 31, 2008 had borrowings under the facility of $0.3 million.

(iii) Market risk:

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

Interest rate risk:

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

Based upon December 31, 2008 bank indebtedness balance of

$17.6 million, a 1% increase or decrease in the interest rates charged will result in decrease or increase to annual net earnings by $0.1 million.

Currency risk:

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

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

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 of distributable cash contributed by the United States operation. Currently no distributions are being made from the Fund's U.S. subsidiary.

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

Based on the Fund's exposure to foreign denominated financial instruments, the Fund estimates a $0.05 weakening in the Canadian dollar as compared to the U.S. dollar would have reduced the net loss for the year ended December 31, 2008 by approximately $0.1 million. A $0.05 strengthening of the Canadian dollar as compared to the U.S. dollar would have had the equal but opposite effect.

This foreign currency sensitivity is focused solely on the currency risk associated with the Fund's Canadian subsidiaries exposure to foreign denominated financial instruments as at December 31, 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 U.S. subsidiaries nor is it intended to estimate the potential impact changes in currency rates would have on the Fund's sales and purchases.

Commodity price risk:

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

7. Property, plant and equipment:

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

| December 31, 2007 | Cost | Accumulated amortization | Net book value |
|---|---|---|---|
| Machinery and equipment | $ 2,345 | $ 1,534 | $ 811 |
| Mobile equipment | 3,195 | 1,853 | 1,342 |
| Leasehold improvements | 792 | 532 | 260 |
| | $ 6,332 | $ 3,919 | $ 2,413 |

8. 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 year ended December 31, 2008, the Fund's subsidiary has realized cash of $1.2 million (2007 - $1.9 million) from the settlement of foreign currency contracts. For the year ended December 31, 2008, a loss of $0.8 million (2007 - $0.6 million gain) is recorded in the statement of earnings as the cash realized was less than the $2.0 million fair value of the contracts recorded at December 31, 2007 due to the strengthening of the U.S. dollar during that period.

9. Intangible assets and goodwill:

During the year ended December 31, 2008, management reviewed for impairment the carrying value of intangible assets and the carrying value of goodwill. Results of testing indicated impairment in the carrying value of intangible assets in the Fund's U.S. reporting unit of $5.5 million (US$5.4 million), and in the Fund's Canadian reporting unit of $3.1 million. Testing also indicated impairment in the carrying value of goodwill in the Fund's U.S. reporting unit of $47.6 million (US$46.7 million), and in the Fund's Canadian reporting unit of $34.5 million. This impairment reduces all intangible asset and goodwill balances to zero, and is attributable primarily to the significant decline in sales in both the U.S. and in Canada. Sales declined due to reduced residential housing starts and remodeling sales, branch shutdowns in the recreational vehicle industry, and a decline in consumer confidence and overall economic activity.

10. Bank indebtedness:

| | 2008 | 2007 |
|---|---|---|
| Checks issued in excess of funds on deposit | $ 1,087 | $ 1,034 |
| Credit facility, Hardwoods LP | 265 | 5,538 |
| Credit facility, Hardwoods USLP (December 31, 2008 - US$13,308; December 31, 2007 - US$19,109) | 16,209 | 18,943 |
| | $ 17,561 | $ 25,515 |

Bank indebtedness consists of checks issued in excess of funds on deposit and advances under operating lines of credit available to Hardwoods LP and Hardwoods USLP. At December 31, 2008, Hardwoods LP had a revolving credit facility of up to an aggregate amount of $22.0 million. On January 30, 2009, the maximum aggregate amount of the Hardwoods LP revolving credit facility was reduced to $12.0 million. Hardwoods USLP has a revolving credit facility of up to an aggregate amount of $36.5 million (US$30.0 million). As described in note 6(c)(ii), the amount made available under these credit facilities is limited to the extent of the value of certain accounts receivable and inventories held by subsidiaries of the Fund.

The Hardwoods LP credit facility expires November 30, 2009, and is secured by a first security interest in all of the present and after acquired property of Hardwoods LP and its operating subsidiaries, and by the Hardwoods LP Units held indirectly by the Fund. The Hardwoods USLP credit facility was renegotiated in September 2008 and now expires September 30, 2011. Subsequent to year end, on March 17, 2009 Hardwoods USLP and the lender agreed to amend certain financial covenants in the Hardwoods USLP credit facility (note 1). Costs paid to the lender with respect to entering into the new facility of US $207,000 are being amortized over the three year term of the credit facility. The Hardwoods USLP facility is secured by a first security interest in all of the present and after acquired property of Hardwoods USLP and by the Hardwoods USLP Units held indirectly by the Fund.

The credit facilities are repayable without any prepayment penalties and bear interest at a floating rate based on the Canadian dollar or U.S. dollar prime rate (as the case may be), LIBOR or bankers acceptance rates plus, in each case, an applicable margin. Letters of credit are also available under the credit facilities.

Hardwoods LP's interest rates vary with the ratio of total debt for borrowed money, capital leases and letters of credit (as adjusted for certain items) to earnings before interest, taxes, depreciation and amortization ("Debt to EBITDA ratio"), as defined by the credit agreement. The Debt to EBITDA ratio as calculated under the Hardwoods LP credit agreement is not permitted to exceed 2.5 times. In addition, the ratio of Hardwoods LP's earnings before interest, taxes, depreciation and amortization to interest is not permitted to be less than 3.0 times, all as defined by the Hardwoods LP credit agreement.

Hardwoods USLP's rates vary with its Fixed Charge Coverage Ratio ("FCCR"), the ratio of earnings before interest, taxes, depreciation, and amortization less cash taxes and capital expenditures (as adjusted for certain items), to the sum of interest expense plus distributions, all as defined by the credit agreement. Hardwoods USLP's applicable margin is dependent upon the FCCR and ranges from 0.25% to 0.75% for prime rate loans and from 1.75% to 2.25% on LIBOR revolving loans. The FCCR as calculated under the Hardwoods USLP credit agreement is not permitted to be less than 0.5 until March 31, 2009, not less than 0.75 from April 1to June 30, 2009, and not less than 1.00 thereafter. Distributions by Hardwoods USLP are permitted to be made to the extent that after giving effect to the distribution, the FCCR does not fall below its minimum required level, and at least $4.0 million of unused borrowing capacity is available in Hardwoods USLP.

The average annual interest rates paid for the year ended December 31, 2008 were 6.26% and 5.18% (2007 - 6.7% and 7.2%) for the Hardwoods LP and Hardwoods USLP credit facilities, respectively.

11. Non-controlling interests:

| | 2008 | 2007 |
|---|---|---|
| Balance, beginning of year (note 3(b)) | $ 30,006 | $ 33,788 |

| | | |
|---|---|---|
| Interest in earnings: | | |
| Interest in earnings before taxes | (17,560) | 3,527 |
| Adjustment to non-controlling interest from subordination of Class B Unit Holders | (2,471) | (3,418) |
| Increase (decrease) | (20,031) | 109 |
| Foreign currency translation adjustment of non-controlling interest in Hardwoods USLP | 3,105 | (3,829) |
| Balance, end of year | $ 13,080 | $ 30,068 |

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

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

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

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

The Subordinated End Date had not occurred at December 31, 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 December 31, 2008, the amount of such deficiency was $7.2 million;

  - Third, to the holders of Class B LP Units and Class B USLP Units in a combined amount for one Class B LP Unit and one Class B USLP Unit equal, on a pro-rated basis, to the combined amount advanced or distributed on one Class A LP Unit and one Class A USLP Unit during such fiscal quarter or, if there is insufficient available cash to make advances or distributions in such amount, such lesser amount as is available;

  - Fourth, to the holders of Class B LP Units and Class B USLP Units, to the extent only that combined advances or distributions in respect of any fiscal quarter(s) during the 12 month period then ended (and not, for greater certainty, in any previous 12 month period) on one Class B LP Unit and one Class B USLP Unit were not made, or were made in amounts less, on a pro-rated basis, that the combined amount advanced or distributed on one Class A LP Unit and one Class A USLP Unit during such 12 month period, the amount of such deficiency. As of December 31, 2008, the amount of such deficiency was $1.9 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).

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 December 31, 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 $2.5 million for the year ended December 31, 2008 and $3.4 million for the year ended December 31, 2007.

12. Fund Units:

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

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

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

13. Income taxes:

| | 2008 | 2007 |
|---|---|---|
| Current | $ (734) | $ 441 |
| Future | (30,792) | 1,464 |
| | $ (31,526) | $ 1,905 |

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 U.S. taxable income. Based on statutory income tax rates in effect for the Fund's U.S. 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 were 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, an additional $4.2 million of future income tax benefit was recorded by the Fund at March 31, 2008.

During the year ended December 31, 2008, the Company recorded a future tax recovery of approximately $22.3 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.

Under current income tax regulations subsidiaries of the Fund are only subject to U.S. tax, thus income tax expense differs from that calculated by applying U.S. federal and state statutory income tax rates in effect in that jurisdiction in which the U.S. subsidiary is subject to tax of 39.4% (2007 - 39.4%) to earnings before income taxes for the following reasons:

| | | 2008 | | 2007 |
|---|---|---|---|---|
| Earnings before income tax | $ | (67,769) | $ | 17,524 |
| Computed tax expenses at statutory rate | $ | (26,701) | $ | 6,904 |
| Income of Fund distributed directly to Unitholders | | (2,382) | | (4,317) |
| Income and deductions not subject to tax | | (422) | | (812) |
| Taxes paid as a result of Subordination Agreement | | 92 | | 712 |
| Adjustment to non-controlling interest not subject to tax | | (698) | | (930) |
| State and branch profits tax | | 50 | | 75 |
| Reconciling items related to goodwill and intangible impairment | | 5,611 | | - |
| Restructuring | | (7,802) | | - |
| Other | | 726 | | 273 |
| | $ | (31,526) | $ | 1,905 |

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

The tax effect of temporary differences that give rise to significant portions of the future income tax assets and liabilities at December 31, 2008 is as follows:

| | | 2008 | | 2007 |
|---|---|---|---|---|
| Future income tax assets: | | | | |
| Accounts receivable | $ | 380 | $ | 154 |
| Inventory | | 351 | | 383 |
| Employee housing loans | | 77 | | 73 |
| Property, plant and equipment | | 309 | | 249 |
| Goodwill | | 19,307 | | - |
| Tax loss carry forwards and future interest deductions | | 10,318 | | - |
| Deferred gain on sale-leaseback of land and building | | 180 | | 170 |
| | | 30,922 | | 1,029 |
| Future income tax liabilities: | | | | |
| Prepaid expenses | | (88) | | (84) |
| Property, plant and equipment | | (52) | | (111) |

| | 2008 | 2007 |
|---|---|---|
| Goodwill | - | (4,368) |
| | (140) | (4,563) |
| Net future income tax asset (liability) | $ 30,782 | $ (3,534) |

At December 31, 2008, subsidiaries of the Fund have operating loss carry forwards for income tax purposes of approximately $16.6 million in Canada and US$10.0 million in the United States that may be utilized to offset future taxable income. These losses, if not utilized expire between 2014 and 2028.

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

| | 2008 | 2007 |
|---|---|---|
| Source (use) of funds | | |
| Accounts receivable | $ 7,858 | $ 1,470 |
| Income taxes recoverable/payable | (805) | (445) |
| Inventory | 11,820 | 1,627 |
| Prepaid expenses | 155 | (70) |
| Accounts payable and accrued liabilities | (4,192) | 195 |
| Decrease in non-cash operating working capital | $ 14,836 | $ 2,777 |

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 year ended December 31, 2008, $8.6 million (2007 - $12.3 million) in discretionary cash distributions were paid to Unitholders.

15. Commitments:

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

| | |
|---|---|
| 2009 | $ 7,389 |
| 2010 | 5,742 |
| 2011 | 2,703 |
| 2012 | 1,726 |
| 2013 | 1,026 |

| | |
|---|---|
| | 18,586 |
| Thereafter | 658 |
| | $ 19,244 |

(b) At December 31, 2008, the Fund's subsidiaries had no commitments (2007 - $22,304 (US$22,500)) under letters of credit.

16. Segment disclosure:

Information about geographic areas is as follows:

| | 2008 | 2007 |
|---|---|---|
| Revenue from external customers: | | |
| Canada | $ 89,581 | $ 105,171 |
| United States | 166,720 | 226,594 |
| | $ 256,301 | $ 331,765 |
| Property, plant and equipment: | | |
| Canada | $ 752 | $ 1,003 |
| United States | 1,416 | 1,410 |
| | $ 2,168 | $ 2,413 |
| Goodwill | | |
| Canada | $ - | $ 34,477 |
| United States | - | 46,281 |
| | $ - | $ 80,758 |

17. Pensions:

Hardwoods USLP maintains a defined contribution 401 (k) retirement savings plan (the "USLP Plan"). The assets of the USLP Plan are held and related investment transactions are executed by the Plan's Trustee, ING National Trust, and, accordingly, are not reflected in these consolidated financial statements. During the year ended December 31, 2008, Hardwoods USLP contributed and expensed $377,750 (US$354,362) (2007- $403,817 (US$375,643)) in relation to the USLP Plan.

Hardwoods LP does not maintain a pension plan. Hardwoods LP does, however, administer a group registered retirement savings plan ("LP Plan") that has a matching component whereby Hardwoods LP makes contributions to the LP Plan which match contributions made by employees up to a certain level. The assets of the LP Plan are held and related investment transactions are executed by LP Plan's Trustee, Sun Life Financial Trust Inc., and, accordingly, are not reflected in these consolidated financial statements. During the year ended December 31, 2008, Hardwoods LP contributed and expensed $256,469 (2007 - $246,475) in relation to the LP Plan

18. Related party transactions:

For the year ended December 31, 2008, sales of $427,795 (2007 - $736,573) were made to affiliates of SIL, and the Fund made purchases of $98,005 (2007 - $184,732) from affiliates of SIL. All these sales and purchases took place at prevailing market prices.

During year ended December 31, 2008, the Fund paid $108,000 (2007 - $108,000) to affiliates of SIL under the terms of an agreement to provide services for management information systems. This cost is included in the selling and administrative expense in the statement of earnings.

19. Contingencies:

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

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