News release via Canada NewsWire, Vancouver 604-669-7764

Attention Business/Financial Editors:
Hardwoods Distribution Income Fund Announces 2008 Third Quarter Results and Suspension of Distribution

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TRADING SYMBOL: Toronto Stock Exchange - HWD.UN

Hardwoods Distribution Income Fund will hold a conference call and webcast to discuss third quarter financial results on Tuesday, November 4, 2008 at 8:00 a.m. Pacific Time (11:00 a.m. Eastern). The call can be accessed by dialing: 1-800-732-6179 or 416-644-3416. A replay will be available until November 18, 2008 at: 1-877-289-8525 or 416-640-1917 (Passcode 21286262 followed by the number sign).

The live and archived webcast can be accessed at http://www.investorcalendar.com/IC/CEPage.asp?ID(equal sign)136457 or on the Fund's website at www.hardwoods-inc.com.
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LANGLEY, BC, Nov. 3 /CNW/ - Hardwoods Distribution Income Fund (the "Fund") today released results for the third quarter and first nine 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.

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Third Quarter 2008 Overview

- Third quarter revenue declined 24.1% from Q3 2007

- Third quarter gross profit percentage was 17.7%, compared to 20.0% in the third quarter of 2007

- The Fund reduced third quarter selling and administrative expenses by $0.5 million, to $10.0 million, from $10.5 million in Q3 2007 with a continued strong focus on cost reduction

- Third quarter EBITDA was $1.3 million, compared to $6.4 million in Q3 2007

- The Fund concluded a timely sale of its foreign currency hedge contracts for proceeds of $0.2 million

- The Fund reported a third quarter distribution payout ratio of 108.1%, compared to 59.2% in Q3 2007. Factoring out non-recurring cash gains received from selling the Fund's foreign currency contracts, the third quarter payout ratio was 154.0%

- The Fund entered into a new US banking facility, which provides committed financing at competitive interest rates until September 2011

- The Fund closed two branches in Q3 2008, and announced three additional distribution centres will close in Q4 2008 as the Fund continues to restructure its distribution network and reduce costs
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"Economic conditions worsened significantly in the third quarter as a series of financial and economic crises put the US economy into recession and the world economy at risk," said Maurice Paquette, Hardwoods' President and CEO. "Not only did US housing starts continue to decline during the quarter, but house values also fell, diminishing the value of many consumers' largest asset and curbing their purchasing power. Higher fuel prices added to the challenges by delivering a major blow to the recreational vehicle manufacturing industry, which is a significant consumer of our products."

"In light of these events and our expectation that conditions will continue to worsen, we are taking steps to ensure Hardwoods is positioned to withstand a prolonged downturn," said Paquette. "Today we announced that monthly cash distributions to unitholders will be suspended until such time as market dynamics become more favourable. This will take effect with respect to the October 2008 distribution, which would have been paid in November 2008."

"We closed one of our satellite distribution centres in California in the third quarter, and announced three more California branches will be closed in the fourth quarter. California is a market that has been particularly hard hit by the downturn in the US housing market. Going forward, we will serve the California market from our three remaining warehouse locations, complemented by local sales territory representatives," said Paquette.

"In other parts of our network, in third quarter we also closed our Lethbridge, Alberta branch. Including the two branch closures we completed in first quarter, this brings to seven the total branch closures that will occur in 2008. In addition, we have reduced the size of several of our branches by subletting underutilized warehouse space, eliminated excess trucking capacity and implemented salary freezes throughout our operations. Salaries, particularly for management, will be further affected by lower payouts under our variable compensation plan. We are fortunate to have a business model with some flexibility to expand or contract according to economic conditions and we will continue to take further cost-cutting action as necessary."

"We recognize that protecting our access to capital is vitally important in the current economic environment. We recently secured a new US banking facility, which provides committed financing until September 2011 at competitive interest rates. We have also tightened our management of working capital, reducing our inventories by 23% from a year ago," said Paquette. "Also on the financial front, we executed on our previously announced decision to sell our remaining currency hedge contracts. We sold our hedges shortly before the value of the Canadian dollar dropped sharply in relation to the US currency. 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 values. Instead, the hedges were sold on a timely basis during the third quarter for proceeds of $0.2 million," said Paquette.

"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 ensuring the size and cost of our distribution network are closely aligned with our business opportunities," said Paquette.

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Summary of Results

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

	3 months ended September 30, 2008	3 months ended September 30, 2007	9 months ended September 30, 2008	9 months ended September 30, 2007
Total sales	$ 62,115	$ 81,878	$ 199,651	$ 262,998
Sales in the US (US$)	38,352	53,247	127,128	164,142
Sales in Canada	22,055	26,251	70,158	81,506
Gross profit	11,013	16,387	36,611	50,249
Gross profit %	17.7%	20.0%	18.3%	19.1%

Selling and administrative expenses	(9,967)	(10,517)	(30,510)	(33,336)
Realized gain on foreign currency contracts	298	541	1,247	1,235
Earnings before interest, taxes, depreciation and amortization and non-controlling interest ("EBITDA")	1,344	6,411	7,348	18,148
Add (deduct):				
Amortization	(298)	(462)	(1,145)	(1,429)
Interest	(237)	(581)	(935)	(1,915)
Non-cash foreign currency gains (losses)	(522)	504	(1,831)	1,275
Intangibles impairment	-	-	(5,468)	-
Goodwill impairment	-	-	(64,606)	-
Non-controlling interest	560	(587)	15,150	(386)
Income tax recovery (expense)	38	(587)	28,185	(2,189)
Net earnings (loss) for the period	$ 885	$ 4,698	$ (23,302)	$ 13,504
Basic and fully diluted earnings (loss) per Class A Unit	$ 0.061	$ 0.326	$ (1.617)	$ 0.937
Average Canadian dollar exchange rate for one US dollar	1.0411	1.0461	1.0186	1.1057

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.

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Results from Operations - Three Months Ended September 30, 2008

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. Third quarter distributions paid to public unitholders (Class A Units) were $1.1 million, or $0.075 per unit. No distributions were made to the Class B Units. These distributions represent an overall payout ratio of 108.1% for the third quarter of 2008, compared to 59.2% in the third quarter of 2007.

For the three months ended September 30, 2008, 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. This decline reflects continued deterioration in the US residential construction market and unprecedented turmoil in financial markets, both of which have negatively affected the US economy. Sales in Canada, as measured in Canadian dollars, decreased by 16.0% to $22.1 million, from $26.3 million a year ago, reflecting reduced demand in all regions, as well as the cross-border impact of weakness in the US market.

Third quarter gross profit was $11.0 million, compared to $16.4 million in Q3 2007. The change in gross profit reflects lower sales and a decrease in gross profit percentage to 17.7%, from 20.0%. Third quarter gross profit percentage came under pressure from product price reductions in response to increased competition and the discounting of some inventory in an effort to proactively balance inventory levels to the reduced sales pace. Some quarter-to-quarter variation in gross profit percentage is considered normal with 18% to 19% representing a typical range. Hardwoods' goal is to obtain a gross profit margin of 18.5% or better over a business cycle.

Selling and administrative expenses decreased by $0.5 million to $10 million, from $10.5 million in Q3 2007. This improvement primarily reflects a reduction in personnel costs, which is the Fund's largest expense item, partially offset by an increase in bad debt expense.

Third quarter EBITDA was $1.3 million, compared to $6.4 million in Q3 2007. The decrease in EBITDA primarily reflects the $5.4 million decrease in gross profit, partially offset by the $0.5 million reduction in S&A expenses.

The Fund recorded third quarter net earnings of $0.9 million, compared to net earnings of $4.7 million in the comparable period in 2007. The $3.8 million decrease in earnings primarily reflects the $5.1 million decrease in EBITDA and a $1.0 million decrease in non-cash foreign currency gains, partially offset by $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.

Results from Operations - Nine Months Ended September 30, 2008

For the nine months ended September 30, 2008, the Fund and its subsidiaries generated total distributable cash of $6.7 million, or $0.373 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 112.9%. By comparison, the Fund generated total distributable cash of $14.1 million, or $0.781 per unit, in the first nine months of 2007 and declared distributions of $9.1 million, or $0.632 per unit to the Class A Units, for a payout ratio of 64.7%. No distributions were paid to the Class B Units.

Sales for the first nine months of 2008 declined by 24.1% to $199.7 million, from $263.0 million in 2007 as a result of this year's more challenging market conditions. The decline 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. Sales at Hardwoods' US operations, as measured in US dollars, decreased by 22.5%, and sales in Canada, as measured in Canadian dollars, were down by 13.9% year-over-year.

Gross profit for the first nine months of 2008 was $36.6 million, down from $50.2 million in 2007. The reduction in gross profit primarily reflects lower sales, as well as a reduction in gross margin percentage. 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.

Hardwoods was successful in decreasing selling and administrative expenses to $30.5 million, from $33.3 million in the first nine months of 2007. This improvement primarily reflects a reduction in personnel costs, along with the benefit of the stronger Canadian dollar on translation of costs at Hardwoods' US operations. The reductions were partially offset by non-recurring expenses related to the Fund's internal reorganization in the first quarter of 2008, as well as costs related to branch closures.

Year-to-date EBITDA was $7.3 million, compared to $18.1 million in the same period in 2008. The decrease in EBITDA reflects the lower gross profit, partially offset by lower S&A expenses. The Fund recorded a net loss of $23.3 million compared to net earnings of $13.5 million in the comparable period in 2007. The decrease in net earnings primarily reflects the $10.8 million decrease in EBITDA, a $3.1 million decrease in non-cash foreign currency gains, and a combined $70.1 million in writedowns to goodwill and intangibles. Partially offsetting these 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.

Outlook

Hardwoods is moving into its seasonally slowest quarters at a time of unprecedented market and economic challenges. 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 Hardwoods' Canadian customers by increasing their ability to sell into the United States, extremely weak US market conditions make it unlikely that any near-term gain can be realized from the recent significant weakening 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, Hardwoods' focus will remain on continued cost reduction as it works to match expenditures as appropriately as possible to sales levels. Some one-time costs of up to $0.5 million are expected in the fourth quarter associated with branch closures that have been identified, allowing for a reduced run rate in expenses starting in Q1 2009. Inventory levels and working capital will also be tightly managed and management 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 help provide support to Hardwoods' balance sheet as it works through this downturn.

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 Third Quarter 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 Third Quarter 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, an 80% interest in the securities of Hardwoods Specialty Products LP and Hardwoods Specialty Products USLP (collectively, "Hardwoods"). The Fund was launched on March 23, 2004, with the completion of an initial public offering of 14,410,000 shares.

About Hardwoods

Hardwoods is one of North America's largest distributors of high-grade hardwood lumber and sheet goods to the cabinet, moulding, millwork, furniture and specialty wood products industries. At September 30, 2008 Hardwoods operated 32 distribution centres in the U.S. and Canada.

Forward-Looking Information

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

The forward-looking information in this press release includes, but is not limited to: our expectation that conditions will continue to worsen; three more California branches are expected to be closed in the fourth quarter; we will continue to take further cost-cutting action as necessary; we believe Hardwoods has 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 ensuring the size and cost of our distribution network are closely aligned with our business opportunities; 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 Hardwoods' Canadian customers by increasing their ability to sell into the United States, extremely weak US market conditions make it unlikely that any near-term gain can be realized from the recent significant weakening 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, Hardwoods' focus will remain on continued cost reduction as it works to match expenditures as appropriately as possible to sales levels; some one-time costs of up to $0.5 million are expected in the fourth quarter associated with branch closures that have been identified, allowing for a reduced run rate in expenses starting in Q1 2009; inventory levels and working capital will also be tightly managed and management 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 help provide support to Hardwoods' balance sheet as it works through this downturn.

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 Hardwoods has available to distribute to unitholders in Canadian dollars; Hardwoods does 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 the business; Hardwoods does not incur material losses related to credit provided to customers; products are not subjected to negative trade outcomes; Hardwoods is able to sustain its level of sales and EBITDA margins; Hardwoods is able to grow its business and to manage growth; there is no new market competition that leads to reduced revenues and profitability; Hardwoods does 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 Hardwoods' results; the company's management information systems are not impaired; Hardwoods' insurance is sufficient to cover losses that may occur as a result of its operations; and, the financial condition and results of operations of the business 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 available to distribute to unitholders in Canadian dollars; Hardwoods depends on key personnel, the loss of which could harm the business; decreases in the supply of, demand for, or market values of hardwood lumber or sheet goods could harm the business; Hardwoods may incur losses related to credit provided to customers; Hardwoods' products may be subject to negative trade outcomes; the company may not be able to sustain its level of sales or EBITDA margins; Hardwoods may be unable to grow the business or to manage any growth; market competition may lead to reduced revenues and profitability; Hardwoods 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; Hardwoods' results are dependent upon the general state of the economy; the company is dependent upon its management information systems; Hardwoods' insurance may be insufficient to cover losses that may occur as a result of its operations; Hardwoods' credit facilities contain restrictions on its ability to borrow funds and restrictions on distributions that can be made; there are tax risks associated with an investment in the Fund's units; the Fund's future growth may be restricted by the payout of substantially all of its operating cash flow; and, other risks described in the Fund's 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, the Fund undertakes no obligation to revise or update any forward-looking information as a result of new information, future events or otherwise after the date hereof.

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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.

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

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

For the periods ended September 30, 2008 and 2007

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.

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.

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,	December 31,

	2008	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.

(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).

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.

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.

(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.

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.

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.

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

- 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).

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.

12. Segment disclosure:

Information about geographic areas is as follows:

	Three months ended September 30,	Three months ended September 30,	Nine months ended September 30,	Nine months ended September 30,

	2008	2007	2008	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.

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(HWD.UN.)

CO: Hardwoods Distribution Income Fund

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