HARDWOODS DISTRIBUTION INCOME FUND

2009

Annual Report To Unitholders

About the Fund

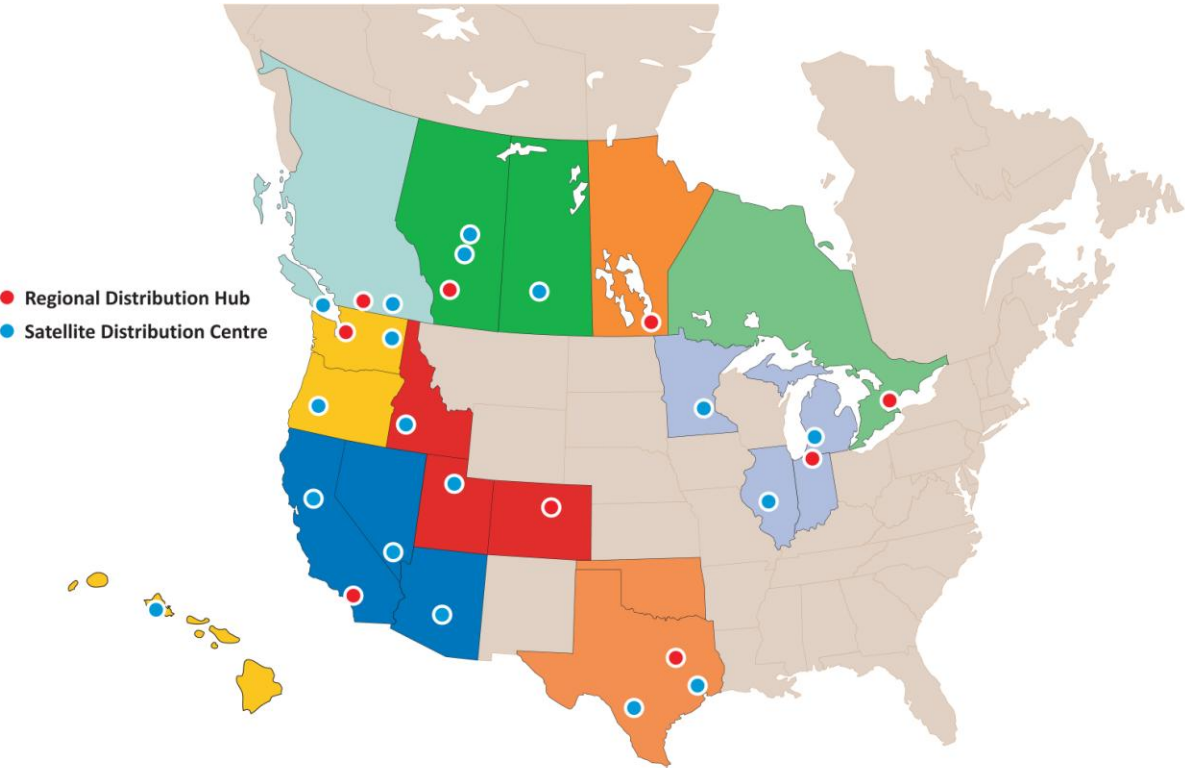
Hardwoods Distribution Income Fund (the “Fund”) is an unincorporated open-ended limited purpose trust. The Fund was launched on March 23, 2004 with the completion of an initial public offering (IPO) of 14.4 million trust units (“Class A Units”). Net proceeds of the IPO were used to acquire an 80% interest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

About the Business

Hardwoods has been in business for almost 50 years. We sell quality lumber, hardwood plywood and specialty products to cabinet makers, custom millworkers, furniture makers and other industrial customers that manufacture products made from hardwood. Demand for products made from hardwood comes from multiple sectors of the North American economy, including new home construction, renovation, non-residential construction and institutional markets. There is warmth to the look and touch of hardwoods that no other material can match, and people place a high value on products crafted from real wood. Hardwood products are a part of our daily lives in the homes we live in (cabinets, mouldings, custom finishing, and home furniture) and places we visit (furniture, cabinetry, and finishing millwork for office buildings, restaurant and bar interiors, hotel lobbies, retail point-of-purchase displays, schools, hospitals, custom motor coaches, yacht interiors and other specialty areas).

Our role in the industry is to provide the critical link between mills that manufacture large volumes of hardwood lumber and sheet goods, and industrial customers that require smaller quantities of many different hardwood products for their own manufacturing processes. We provide a means for hundreds of hardwood mills to get their product to thousands of small to mid-sized industrial manufacturers. We add value to our suppliers by buying their product in volume and paying them promptly, effectively acting as their third party sales force. We add value for our customers by providing them with the materials they need on a just-in-time basis, in smaller quantities and offering a wider range of product selection than the customer would be able to purchase directly from an individual mill. We are also important to our customers by allowing them to buy material from us on approved credit, which is an important source of financing for customers in our industry.

We are one of the largest distributors of hardwood lumber and sheet goods in North America. We are larger than most of our suppliers, customers, and direct competitors. The hardwood distribution industry is highly fragmented. While there are a number of hardwood distributors that operate from multiple locations, most are small, privately held companies serving discrete local markets.



As shown in the map above, we operate 27 distribution centres organized into nine regions, providing geographic coverage in 14 states and 5 provinces across the US and Canada. To

maximize inventory management, we operate utilizing a hub-and-spoke distribution system. Our major hub distribution centres hold the bulk of our inventory, and make regular truck transfers to replenish stock in satellite distribution centres that are located in smaller markets. We operate using a low capital expenditure model. We lease all of our facilities, utilize third party freight providers for all our product shipping needs, and focus strictly on wholesale distribution.

The North American economy is currently experiencing a significant economic downturn, particularly in housing and construction, which are key markets for the hardwoods products that we distribute. This reduction in hardwood demand has reduced our sales and financial performance. However current levels of housing and construction activity in North America are low relative to expected longer term population and housing trends, and we believe that when a sustained economic recovery takes hold prospects for our industry are attractive.

To Our Unitholders

Business conditions remained extremely challenging in 2009 with the collapse of the US housing market and recessionary conditions in both the US and Canada continuing to create a precarious environment in which to conduct business.

Since the market peak in 2005, demand and pricing for our products have suffered four years of decline and US residential construction has fallen from a peak of over two million annual housing starts to just 555,000 starts in 2009. Remodeling and non-residential construction markets have also declined. The negative impact on our sales of reduced demand has been further exacerbated by continued erosion in prices for hardwood lumber, despite continued reduction in supply from the hardwood mills. Average hardwood lumber prices fell by 9% in 2009, furthering a 7% price decline in 2008 and an 8% decline experienced in 2007. Although we saw indications of stability finally returning to the residential construction market in the second half of 2009, it is uncertain to what extent conditions will continue to improve. We have not yet seen any corresponding improvement in demand for our own products, which normally lag changes in housing start activity by 6 to 12 months.

With these challenges front and centre, we recognized that our business faced numerous risks in 2009. We communicated these challenges to you in our 2008 annual report and immediately went to work to address them. Here is what we accomplished:

Stemming Short-Term Sales Loss

Sales shrinkage was a key risk in 2009 with most of our customers experiencing declining sales in their own businesses, and some customers going out of business or no longer being viable sales targets due to their elevated credit risk. To help offset this impact, we implemented new incentive programs to reward our sales force for identifying and winning new customer accounts and for implementing new product programs that produce sustained sales. Approximately 18% of our second half sales were generated as a result of these new programs.

Enhancing our Market Position

In times of weaker market demand, competition increases and market battles tend to be fought on price – usually at the expense of profitability. To help sidestep this dynamic, we increased our focus on promising niche products that we can bring to market in innovative ways. In particular, we further developed our Hardwoods Greenbelt™ product line and marketed it directly to the architects and designers who specify environmentally friendly green building products in their building projects. We also identified additional new import products that strengthen our product

lines and offer significant value for customers. These strategies provided important support for our sales and margins in 2009, while laying a foundation for strong sales growth when markets recover. I'm pleased to report that our successful marketing efforts helped us achieve a 2009 gross profit margin percentage of 18.4% for the fourth quarter and 18.1% for the full year. These results were in line with, or better than, 2008 levels and kept us within our target range of 18%-19%, despite the adverse market conditions.

Reducing Costs

While working to support sales, we continued to reduce our costs of doing business. Personnel and leased facilities represent our two largest areas of operating expense and we continued to bring these into line with reduced market opportunities. We closed two satellite branches in Sacramento and Portland in 2009, following on the seven closures implemented in 2008, and we reduced our employee base by an additional 16%. We ended the year with a smaller business network comprising 27 distribution centres and 159 employees, but one that is still able to meet customer needs thanks to our flexible hub and satellite distribution model.

As a result of these and other cost reduction initiatives, we reduced our sales and administrative (S&A) costs by 14% or $5.8 million in 2009. Excluding the impact of higher bad debt expense and negative foreign exchange impacts, our underlying S&A costs were down by $8.5 million or 21% for the year.

A Better Financial Footing

While we made strides on the marketing and cost-cutting fronts, I believe our most important achievement of 2009 was strengthening our balance sheet and enhancing our financing arrangements.

We came into 2009 in the midst of extremely tight credit markets and with our ability to meet our bank covenants negatively affected by weak market conditions. We could not alter the market conditions, but we could manage our business in a way that minimized the risks. This meant tightening all aspects of our cost, cash and working capital management in an effective, but responsible manner. By doing so, we succeeded in generating positive net cash flow of $10.3 million from our operating activities in 2009, while keeping Distributable Cash results close to breakeven. This in turn, enabled us to reduce our bank indebtedness (net of cash) by a further $13.0 million. We ended the year with just $4.5 million of bank indebtedness (net of cash) and with $20.5 million of unused borrowings available to us.

With a stronger balance sheet supporting us, we were also able to improve our financing arrangements. We made two timely US credit amendments to improve flexibility under our US credit facility. We also secured a favourable new three-year credit facility in Canada. As a result of these initiatives, the Fund is now moving forward on a very stable financial footing, with significant credit available to help us through the market recovery – even if that recovery is slow to arrive.

What We See Ahead

Looking ahead, we believe that the worst of the market downturn is now behind us, but that a full recovery is still a year or more away. To date, the stabilization experienced in the US residential housing market has been supported by historically low mortgage rates, weaker housing prices and tax credits targeted to encourage US home buyers. With mortgage rates expected to climb higher in 2010 and the US homebuyers tax credits set to expire in April, we believe that any recovery that occurs in 2010 will be gradual. We see better potential for growth in 2011 and beyond. Accordingly, tight management of expenses, cash and working capital will remain a key focus for us in 2010, and we will continue to ensure that our distribution network and expenditures are appropriately aligned with market conditions. While defending the business on the financial side, we intend to remain aggressive on the marketing front with continued sales force motivation and further bolstering of strategic product lines that position us for the recovery. We will be pursuing a strategy similar to the one that worked effectively for us in 2009.

One thing that *will* change in 2010 is the leadership of Hardwoods. On January 25th, I announced my intention to retire from the business once the Board has identified my successor and we have had the chance to make a smooth transition. After 36 years with Hardwoods and its predecessor companies, I will greatly miss both the rewards and challenges of leading this fine organization, but I have no doubts about Hardwoods' ability to move on successfully following my retirement. We are an organization with exceptional depth. The average tenure of the top dozen managers at Hardwoods is over 20 years. These leaders and the employees that support them are talented, committed people who know the business inside and out, and who have been instrumental in building the company during the good years and protecting it during tougher years like the one just past. This exceptional team will ensure that we continue to thrive.

In closing, I want to offer my sincere thanks to our employees for the drive, smarts and enthusiasm that have made them a pleasure to work with and an industry force to be reckoned with. I thank our board members for their valuable insight and guidance and for their unwavering support of Hardwoods' management team. To our investors, I thank you for your continued confidence in Hardwoods. We have endured a long and challenging economic downturn together, which is gradually showing signs of coming to an end. I hope you will stay with us as we see what Hardwoods can accomplish as market conditions improve and the recovery finally gets underway.

Maurice E. Paquette

President and Chief Executive Officer

Management's Discussion and Analysis

March 29, 2010

This management's discussion and analysis ("MD&A") should be read in conjunction with the audited consolidated financial statements and accompanying notes ("Audited Financial Statements") of Hardwoods Distribution Income Fund (the "Fund) for the years ended December 31, 2009 and 2008. Results are reported in Canadian dollars unless otherwise stated, and have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). For additional information, readers should also refer to our Annual Information Form and other information filed on www.sedar.com.

This MD&A includes the following sections:

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

2.0 Overview and Outlook

3.0 Results of Operations
- 3.1 Years Ended December 31, 2009 and December 31, 2008
- 3.2 Three Month Periods Ended December 31, 2009 and December 31, 2008

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

5.0 Financial Instruments

6.0 Related Party Transactions

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

8.0 Risks and Uncertainties

9.0 Disclosure Controls and Procedures and Internal Control Over Financial Reporting

10.0 Selected Financial Information
- 10.1 Quarterly Financial Information
- 10.2 Annual Financial Information

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

The forward-looking information in this MD&A includes, but is not limited to: our belief that when a sustained economic recovery takes hold prospects for our industry are attractive; our belief that any economic recovery that occurs in 2010 will be gradual with better potential for growth in 2011 and beyond; our plans to continue to ensure that our distribution network and expenditures are appropriately aligned with market conditions; our intention to remain aggressive on the marketing front with continued sales force motivation and further bolstering of strategic product lines that position us for the expected recovery; our Chief Executive Officer's intention to retire from the business once the board has identified his successor and we have had the chance to make a smooth transition; our expectation that the introduction of the new income trust tax will not have any near-term impact on the Fund's tax situation; our uncertainty whether our U.S. subsidiary will remain in compliance with the financial covenant under its credit facility during the next 12 months; and, our planned debt management strategy.

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 our operating limited partnerships; 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 this MD&A.

All forward-looking information in this MD&A is qualified in its entirety by this cautionary statement and, except as may be required by law, we undertake no obligation to revise or update any forward-looking information as a result of new information, future events or otherwise after the date hereof.

In this MD&A, references to “EBITDA” are to earnings before interest, income taxes, depreciation and amortization, unrealized foreign currency gains and losses, goodwill and other intangible assets impairments, and the non-controlling interest in earnings. In addition to net income or loss, EBITDA is a useful supplemental measure of performance and cash available for distribution prior to debt service, changes in working capital, capital expenditures and income taxes.

References to “Distributable Cash” are to net cash provided by operating activities, before changes in non-cash operating working capital, less capital expenditures and contributions to any reserves that the Boards of Directors of our operating entities determine to be reasonable and necessary for the operation of the businesses owned by these entities.

We believe that, in addition to net income or loss, our EBITDA and our Distributable Cash are each a useful supplemental measure of operating performance that may assist investors in assessing their investment in Class A Units. Neither EBITDA nor Distributable Cash are earnings measures recognized by GAAP and they do not have a standardized meaning prescribed

by GAAP. Investors are cautioned that EBITDA should not replace net income or loss (as determined in accordance with GAAP) as an indicator of our performance, nor should Distributable Cash replace cash flows from operating, investing and financing activities or as a measure of our liquidity and cash flows. Our method of calculating EBITDA and Distributable Cash may differ from the methods used by other issuers. Therefore, our EBITDA and Distributable Cash may not be comparable to similar measures presented by other issuers. For a reconciliation between EBITDA and net income or loss as determined in accordance with GAAP, please refer to the discussion of Results of Operations described in section 3.0 of this report. For a reconciliation between Distributable Cash and net cash provided by operating activities as determined in accordance with GAAP, please refer to the discussion of Distributable Cash and Cash Distributions described in section 4.1 of this report.

We believe that this MD&A has been prepared in all material respects in accordance with recommendations issued by the Canadian Institute of Chartered Accountants (the "CICA") with respect to "Standardized Distributable Cash in Income Trusts and Other Flow Through Entities" and National Policy 41-201 of the Canadian Securities Administrators "Income Trusts and Other Indirect Offerings" (collectively, the "Interpretive Guidance"). The Interpretive Guidance provides guidance on standardized preparation and disclosure of distributable cash for income trusts ("Standardized Distributable Cash"). The CICA calculation of Standardized Distributable Cash, which is also a non-GAAP measure, is defined, for the purposes of the Fund, as the periodic cash provided by operating activities as reported in the GAAP financial statements, including the effects of changes in non-cash working capital, less total capital expenditures. For a summary of our Standardized Distributable Cash, please refer to section 4.2 of this report. For a reconciliation between Standardized Distributable Cash and our Distributable Cash, please see section 4.2.

1.0 Background

1.1 About the Fund

The Fund is an unincorporated open-ended limited purpose trust formed under the laws of the Province of British Columbia by a declaration of trust dated January 30, 2004. The Fund was launched on March 23, 2004 with the completion of an initial public offering ("IPO") of 14,410,000 trust Voting Units ("Class A Units"). Net IPO proceeds were used to acquire an 80% interest in the hardwood lumber and sheet goods distribution business ("Hardwoods" or the "Business") from the previous owners.

The owners of the predecessor companies have retained a 20% interest in the Business in the form of Special Voting Units of the Fund and Class B Limited Partnership units of the Fund's operating subsidiaries ("Class B Units"), which together are exchangeable into Class A Units provided that the Fund achieves certain objectives. Distributions by the Fund's operating subsidiaries to the previous owners are subject to subordination arrangements until certain financial tests established at the time of the IPO and described in the Audited Financial Statements are met. As at December 31, 2009, the following units of the Fund were issued and outstanding:

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

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

1.2 About our Business and Industry

Serving customers for almost 50 years, Hardwoods is one of North America's largest distributors of high-grade hardwood lumber and specialty sheet goods to the cabinet, moulding, millwork, furniture and specialty wood products industries. At December 31, 2009 we operated 27 distribution facilities organized into nine geographic regions covering 14 states and 5 provinces throughout North America. To maximize inventory management, we operate utilizing a hub and spoke distribution system, with major hub distribution centres holding the bulk of our inventory and making regular truck transfers to replenish stock in satellite distribution centres that are located in smaller markets. We operate using a low capital expenditure model. We lease all of our facilities, utilize third party freight providers for all our product shipping needs, and focus strictly on wholesale distribution.

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

Our role in the industry is to provide the critical link between mills that manufacture large volumes of hardwood lumber and sheet goods, and industrial customers that require smaller quantities of many different hardwood products for their own manufacturing processes. We

provide a means for hundreds of hardwood mills to get their product to thousands of small to mid-sized industrial manufacturers. We add value to our suppliers by buying their product in volume and paying them promptly, effectively acting as their third party sales force. We add value for our customers by providing them with the materials they need on a just-in-time basis, in smaller quantities and offering a wider range of product selection than the customer would be able to purchase directly from an individual mill. We are also important to our customers by allowing them to buy material from us on approved credit, which is an important source of financing for customers in our industry.

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

Approximately 95% of the hardwood lumber distributed in North America is harvested from North American hardwood forests, located principally in the Eastern United States, and is milled by hundreds of small mills. Imported hardwood lumber is largely limited to specialty species that generally do not compete with domestic hardwood lumber. Sheet goods are generally produced in North America by large manufacturers using domestic hardwoods and other materials, although imported hardwood plywood volumes have been increasing. Both domestic and imported hardwood lumber and plywood are distributed principally by third parties such as us. Historically, balanced supply and demand conditions have resulted in a stable pricing environment for hardwood lumber and hardwood plywood. More recently, the global economic crisis has resulted in supply/demand imbalances. While manufacturers have sharply curtailed production, supply continues to outpace demand which resulted in a pronounced downward trend in hardwood pricing in the past three years.

The North American economy is currently experiencing a significant economic downturn, particularly in housing and construction, which are key markets for the hardwoods products that

we distribute. This reduction in hardwood demand has reduced our sales and financial performance. However current levels of housing and construction activity in North America are low relative to expected longer-term population and housing trends, and we believe that when a sustained economic recovery takes hold, prospects for our industry are attractive.

2.0 Overview and Outlook

Market conditions remained extremely challenging through 2009 with demand and prices for hardwood products falling to historically low levels. US housing starts, which are a key driver of hardwood demand, reached a 50-year low of 555,000 housing units started in 2009 according to the US Census Bureau. Housing markets were also weaker in Canada, with new home construction starts down by 29% in 2009. While the residential construction market began to stabilize in the second half of 2009 with help from low mortgage rates and tax credits designed to encourage home buyers in the US, it remains uncertain how quickly and to what level market conditions will recover. We have not yet seen a corresponding improvement in customer demand for the hardwood products we sell, which normally lag changes in the housing market by 6 to 12 months.

In other end-use markets, US remodeling expenditures declined in each quarter of 2009 and spending on non-residential construction was down in both Canada and the US. Meanwhile, the Hardwood Review reported that average prices for hardwood products declined by 9.2% in 2009 compared to 2008, despite an estimated 33% curtailment in hardwood supply in the past three years. By year-end, hardwood prices were beginning to regain some lost ground, but remained at depressed levels.

The combination of reduced demand and lower hardwood prices had a negative impact on our financial results. Our total sales declined by 26.6% in the fourth quarter and by 25.5% on a full-year basis, compared to the same periods in 2008. Consistent with past quarters, our US business was hardest hit with sales (as measured in U.S. dollars) down 21.5% in the fourth quarter and by 35.2% for the full year. By comparison, Canadian sales were down by 9.9% in the fourth quarter and by 15.9% in 2009, compared to the same periods in 2008. To help stem sales loss in a declining market, we continued to enhance our product line, particularly our import and green-building product offering. We also implemented new incentive programs to reward our sales force for opening new customer accounts and generating new product programs that produce sustained sales. We estimate that in the second half of 2009 these new programs accounted for approximately 18% of our total sales in the period.

Despite a challenging sales environment, we achieved a stable gross margin performance in 2009. Our fourth quarter gross profit margin increased to 18.4%, from 16.7% last year, while full-year margin increased slightly to 18.1%, from 18.0% in 2008.

In 2009 we continued to execute upon the cost reduction program we initiated in 2008, resulting in the closure of a total of nine satellite branches and a 33% reduction in personnel over the two-year period. We began to see the full benefit of these actions as 2009 progressed, with selling and administrative (S&A) expenses falling by $5.8 million during the course of the year, despite incurring a $1.0 million increase in underlying bad debt expense and a $1.7 million negative foreign exchange impact on the conversion of our US operating costs.

Combined with responsible reductions to our working capital, we ended the year with positive net cash flow from operating activities of $10.3 million, Distributable Cash results that were close to break-even, and a significantly stronger balance sheet. As at December 31, 2009, we had reduced our bank indebtedness (net of cash) to just $4.5 million, from $17.5 million at the start of 2009, and had $20.5 million of unused borrowings available to us. We made two timely US credit amendments to improve flexibility under our US credit facility, and secured a favourable new three-year credit facility in Canada.

Overall, we believe we have acted appropriately to mitigate the significant loss of sales that has occurred since the market downturn began in mid-2006 and that we have successfully addressed the major risks we faced coming into 2009. We also believe that we have now reached the bottom of the market cycle, although our near-term outlook remains cautious.

Many economists predict that the recent encouraging signs in the residential construction market may be tempered by higher mortgage rates and the April 2010 expiry of the US government's home-buyers tax credit. Our risk of bad debt also remains elevated with many customers feeling the effects of the prolonged downturn. Overall, we anticipate that any improvement in market conditions that occurs in 2010 will be gradual, and that a more sustainable and robust market recovery will not occur prior to 2011. In light of these expectations, our focus in 2010 will remain on tight management of costs, cash and working capital, and we will also ensure that our distribution network and expenditures are appropriately aligned with market conditions. We will also keep our sales force focused on winning new customers and creating sustainable new sales programs, while continuing to build on our successful lines of import and green products.

The year ahead will also include a management transition as our President and CEO, Maurice Paquette, prepares to retire following a 36-year career in the industry. The Board is currently

working to identify a successor for Mr. Paquette and has set a smooth and seamless transition as a priority.

Regarding the January 2011 implementation of new taxes on Canadian income trusts, the Board of Trustees has assessed the expected impact on Hardwoods and announced that it will not convert the Fund to a corporate structure at this time. The Fund’s taxable earnings currently flow through corporate subsidiaries in both Canada and the US, which are already subject to corporate taxation. Accordingly, the introduction of the new income trust tax is not expected to have any near-term impact on the Fund’s tax situation. Furthermore, the move to a corporate structure would entail an estimated $0.3 million in costs at a time when we are focused on conserving cash. Given that the tax-free rollover rules for income trusts do not expire until the end of 2012, ample time remains to convert to an alternate structure should the Board determine it is advantageous to do so. We will continue to monitor the situation closely.

3.0 Results of Operations

3.1 Years Ended December 31, 2009 and December 31, 2008

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

		For the year Ended December 31, 2009		For the year Ended December 31, 2008
Total sales	$	190,923	$	256,301
Sales in the US (US$)		*101,212*		*156,398*
Sales in Canada		*75,339*		*89,581*
Gross profit		34,482		46,096
Gross profit %		*18.1%*		*18.0%*
Selling and administrative expenses		(35,636)		(41,425)
Realized gain on foreign currency contracts		-		1,247
Earnings before interest, taxes, depreciation and amortization and non-controlling interest (“EBITDA”)		(1,154)		5,918
Add (deduct):				
Amortization		(870)		(1,471)
Interest		(586)		(1,219)
Non-cash foreign currency losses		(1,553)		(333)
Intangibles impairment		-		(8,612)
Goodwill impairment		-		(82,083)
Non-controlling interest		2,347		20,031
Income tax recovery (expense)		(8,424)		31,526
Net loss for the period	$	(10,240)	$	(36,243)
Basic and fully diluted loss per Class A Unit	$	(0.711)	$	(2.515)
Average Canadian dollar exchange rate for one US dollar		1.142		1.0660

Sales

For the year ended December 31, 2009, total sales were $190.9 million, down 25.5% from $256.3 million in 2008. This reduction reflects a 28.6% decrease in underlying sales activity, partially offset by a 3.1% increase in sales due to the positive effect of a weaker Canadian dollar. As described in section 2.0 of this report, housing starts, remodelling expenditures, and non-residential construction activity all declined in 2009, resulting in reduced demand for the hardwoods products we sell, particularly in the United States where market conditions were weakest. However, customers in all of our regions suffered significantly reduced order files and year-over-year sales declines. Some customers were unable to weather the multi-year downturn and went out of business or sought bankruptcy protection during the year. In response, we implemented aggressive efforts to generate replacement sales by attracting new customers and capturing additional product sales from existing accounts. In the second half of 2009 we estimate that we generated 18% of our sales from new business (i.e. new customers or an expansion of the product lines sold to existing customers). This strategy helped to mitigate, but could not fully offset, the contraction in the overall size of our market. Sales in the US, as measured in US dollars, decreased 35.2% to $101.2 million, from $156.4 million in 2008. Sales in Canada, as measured in Canadian dollars, were $75.3 million, down 15.9% from $89.6 million in 2008.

Gross Profit

Gross profit for the year ended December 31, 2009 was $34.5 million, compared to $46.1 million in 2008. The 25.2% reduction in gross profit primarily reflects the 25.5% decrease in sales, slightly offset by a higher gross profit margin. As a percentage of sales, gross profit was 18.1% in 2009, compared to 18.0% in 2008, within our target range of 18% to 19%. While we view 18.5% as an optimal level for our business under normal market conditions, the current challenging conditions have intensified competition based on price, resulting in a gross profit at the lower end of our target range.

Selling and Administrative Expenses

Selling and Administrative (S&A) expenses were successfully reduced to $35.6 million in 2009, from $41.4 million in 2008. Recognizing the more challenging sales environment facing our business, we took steps to control expenses across most expense categories, with the largest savings in the area of personnel costs (fewer employees) and premises costs (fewer branches in operation). In total, we achieved underlying cost reductions of $8.5 million, which were partially offset by a $1.7 million negative impact of a weaker Canadian dollar on the conversion of S&A

expenses at our US operations, and $1.0 million in additional bad debt expense related to increased customer credit failures in the current economic environment. Taken together, S&A was reduced by $5.8 million, or 14.0%. As a percentage of sales, S&A expenses were 18.7% of sales in 2009, compared to 16.2% in 2008, reflecting lower sales.

Realized Gain on Foreign Currency Contracts

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

EBITDA

We recorded a 2009 EBITDA loss of $1.2 million, compared to a profit of $5.9 million in 2008. The $7.1 million decrease in EBITDA reflects lower gross profit and the $1.2 million decrease in realized gains on foreign currency contracts, partially offset by the $5.8 million reduction in S&A.

Amortization Expense

Amortization expense was $0.9 million in 2009, compared to $1.5 million in the prior year. The $0.6 million reduction reflects the absence of amortization of intangible assets in the 2009 year. In 2008 the Fund wrote down the remaining value of its intangible assets to zero.

Interest Expense

Interest expense fell to $0.6 million in 2009, from $1.2 million in 2008 as we continued to reduce debt and strengthen our balance sheet. The reduction in our bank indebtedness is described more fully in section 4.6 of this report.

Non-Cash Foreign Currency Gains and Losses

For the year ended December 31, 2009, non-cash foreign currency losses were $1.6 million. These losses primarily relate to the translation of US dollar-denominated intercompany debt advanced by the Fund to a wholly-owned US subsidiary. Under GAAP, a portion of our intercompany debt is not considered to be a permanent investment, and accordingly foreign currency gains or losses that arise on translation of the non-permanent portion of the intercompany debt are recognized in the calculation of net earnings. By comparison, we recorded non-cash foreign currency losses of $0.3 million in 2008. This included, $2.0 million

in mark-to-market valuation losses on foreign currency contracts held at that time, partially offset by $1.3 million in foreign exchange gains that arose on translation of US dollar-denominated intercompany debt in the 2008 period. Further discussion of our foreign currency contracts can be found under Financial Instruments in section 5.0 of this report.

Goodwill and Intangibles Impairment

In 2008, the Fund completed impairment testing and determined that the value of intangibles and goodwill exceeded their carrying value by $8.6 million and $82.1 million respectively. These impairments were charged to the income statement and reduced the value of intangibles and goodwill to zero at December 31, 2008.

Non-controlling Interest

Non-controlling interest ("NCI") was reduced by $2.3 million in 2009, compared to a reduction in NCI of $20.0 million in the comparable period in 2008. NCI includes the Class B Unit's interest in pre-tax earnings or loss in the period, less an adjustment to NCI to reflect the value of subordinated distributions that were not made to the Class B Units and that can no longer be recovered by the Class B Units under the terms of the Fund's subordination feature. The Fund's subordination feature is further described in section 4.0 of this report and in the Audited Financial Statements. The $20.0 million reduction to NCI in 2008 primarily reflects the NCI's share of the $90.7 million in goodwill and intangibles impairment recognized during the period.

Income Taxes

Income tax expense in 2009 was $8.4 million, compared to an income tax recovery of $31.5 million in 2008. The 2009 income tax expense reflects a $10.3 million reduction in future income tax recoveries, which arose primarily due to an internal reorganization that impacted upon our tax pools. Partially offsetting this amount was a $1.9 million recovery of current income taxes, which arose primarily due to changes in tax law enacted in the fourth quarter of 2009 by the US Congress as part of their economic stimulus plan. The comparative $31.5 million income tax recovery in 2008 primarily reflects $23.0 million of future income tax assets associated with the recording of goodwill and intangibles impairments, and $7.8 million of current and future income tax benefits from the refinancing and reorganization of the Fund's internal affairs undertaken in 2008.

Net Loss

Net loss for 2009 was $10.2 million, compared to a net loss of $36.2 million in 2008. This $26.0 million reduction in net loss primarily reflects a $90.7 million decrease in impairment in goodwill and other intangible assets, a $0.6 million decrease in amortization, and a $0.6 million decrease in interest expense. This was partially offset by a $7.1 million decrease in EBITDA, a $1.2 million increase in non-cash foreign currency losses, a $17.7 million decrease in recovery from non-controlling interest, and a $39.9 million increase in income tax expense.

3.2 Three Months Ended December 31, 2009 and December 31, 2008

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

	For the three months Ended December 31, 2009	For the three months Ended December 31, 2008
Total sales	$ 41,577	$ 56,650
Sales in the US (US$)	*22,987*	*29,270*
Sales in Canada	*17,500*	*19,423*
Gross profit	7,636	9,485
Gross profit %	*18.4%*	*16.7%*
Selling and administrative expenses	(10,057)	(10,915)
Earnings before interest, taxes, depreciation and amortization and non-controlling interest ("EBITDA")	(2,421)	(1,430)
Add (deduct):		
Amortization	(198)	(326)
Interest	(152)	(284)
Non-cash foreign currency gains (losses)	(171)	1,498
Intangibles impairment	-	(3,144)
Goodwill impairment	-	(17,477)
Non-controlling interest	590	4,881
Income tax recovery	1,808	3,341
Net loss for the period	$ (544)	$ (12,941)
Basic and fully diluted loss per Class A Unit	$ (0.038)	$ (0.898)
Average Canadian dollar exchange rate for one US dollar	1.0571	1.2115

Sales

For the three months ended December 31, 2009 sales were $41.6 million, compared to $56.7 million during the same period in 2008. The 26.6% reduction in sales reflects a 20.0% decrease in underlying sales activity, and a 6.6% decrease in sales due to the negative effect of a stronger Canadian dollar. Fourth quarter sales activity at our US operations (as measured in US dollars) was down 21.5%, while sales in Canada declined by 9.9%. Lower sales reflect the challenging business conditions previously discussed in section 2.0 of this MD&A.

Gross Profit

Gross profit for the three months ended December 31, 2009 was $7.6 million, a decrease of $1.9 million, or 19.5%, from the $9.5 million reported in the same period in 2008. The decrease in gross profit reflects lower sales, partially offset by an increase in gross profit as a percentage of sales to 18.4% in the fourth quarter of 2009, compared to 16.7% in the same period in 2008. Gross margin percentage in the fourth quarter of 2008 was weaker than normal due to a write-down to the carrying value of some specialized inventory held for a significant customer that went out of business.

Selling and Administrative Expenses

S&A expenses decreased $0.8 million to $10.1 million in the fourth quarter of 2009, from $10.9 million during the same period in 2008. The $0.8 million decrease to S&A expenses reflects a $1.5 million reduction in operating expenses as a result of our cost control initiatives as well as a $0.9 million positive foreign exchange impact of a stronger Canadian dollar on the conversion of S&A expenses at our US operations. These cost reductions were partially offset by a $0.4 million increase in bad debt expense, and by the absence of a $1.1 million credit against S&A which occurred in the Q4 2008 period. The 2008 credit was related to the cancellation of year-end incentive plan payments for management and staff, which had previously been accrued in S&A expenses. As a percentage of sales, fourth quarter 2009 S&A expenses were 24.2% of sales, compared to 19.3% in 2008.

EBITDA

For the three months ended December 31, 2009, we recorded an EBITDA loss of $2.4 million, compared to an EBITDA loss of $1.4 million during the same period in 2008. The $1.0 million increase in EBITDA loss reflects the $1.9 million decrease in gross profit, partially offset by the $0.8 million decrease in S&A expenses.

Amortization Expense

Fourth quarter amortization expense was $0.2 million, compared to $0.3 million during the same period in 2008. Amortization of intangible assets was higher in the 2008 period, prior to the write down of the Fund's intangible assets to zero at December 31, 2008.

Interest Expense

Fourth quarter interest expense decreased to $0.2 million, from $0.3 million in the same period in 2008. The $0.1 million decrease reflects lower bank indebtedness outstanding as described more fully in section 4.6 of this report.

Non-Cash Foreign Currency Gains and Losses

For the three months ended December 31, 2009, non-cash foreign currency losses were $0.2 million. This gain arose due to translation of US dollar denominated intercompany debt advanced by the Fund to a wholly-owned US subsidiary, as explained previously in section 3.1 of this report. In the comparative three-month period ended December 31, 2008, a non-cash gain of $1.5 million arose related to the translation of US dollar-denominated income tax receivables, and translation of US dollar-denominated intercompany debt advanced by the Fund to a wholly-owned US subsidiary.

Goodwill and Intangibles Impairment

As described in section 3.1 of this report, the Fund conducted impairment testing on its goodwill and intangible asset values in 2008 as a result of the dramatic downtown in market conditions. It was determined that the carrying value of goodwill for the three months ended December 31, 2008 exceeded the fair value of goodwill by $17.5 million, while the carrying value of other intangibles exceeded the fair value of other intangibles by $3.1 million. As this reduced the carrying value of goodwill and intangible assets to zero, no such impairment charges arose in the fourth quarter of 2009.

Non-controlling Interest

The non-controlling interest generated a $0.6 increase to earnings in the fourth quarter of 2009, comprised of NCI's interest in the pre-tax loss for the period, as well as an adjustment to NCI to reflect the value of subordinated distributions that can no longer be recovered by the Class B Units under the terms of the Fund's subordination feature. Recovery from the NCI during the same period in 2008 was $4.9 million, which primarily reflected recognition of the NCI's share of the $20.6 million in goodwill and intangibles impairment recognized during that period.

Income Tax Recovery

An income tax recovery of $1.8 million was recorded in the fourth quarter of 2009, primarily related to changes in tax law enacted by the US Congress as part of its economic stimulus plan. The changes enabled us to carry back an additional two years of tax losses from one of our US subsidiaries. By comparison, an income tax recovery of $3.3 million in the fourth quarter of 2008

primarily reflected future income tax recoveries arising from the goodwill and intangibles impairment recorded during that period.

Net Loss

We recorded a net loss of $0.5 million in the fourth quarter of 2009, compared to a net loss of $12.9 million during the same period in 2008. The $12.4 million reduction to net loss primarily reflects the $20.6 million decrease in goodwill and intangible impairment, the $0.1 million decrease in amortization and the $0.1 million decrease in interest expense. This was partially offset by the $1.0 million increase in EBITDA loss, the $1.7 million decrease in non-cash foreign currency gains, the $4.3 million decrease in recovery from the non-controlling interest, and the $1.5 million decrease in income tax recovery.

4.0 Liquidity and Capital Resources

4.1 Distributable Cash and Cash Distributions

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

	Year ended December 31, 2009	Year ended December 31, 2008	3 months ended December 31, 2009	3 months ended December 31, 2008
Net cash provided by operating activities	$ 10,247	$ 20,229	$ 1,380	$ 6,028
Increase (decrease) in non-cash operating working capital	(10,291)	(14,836)	(1,885)	(7,679)
Cash flow from operations before changes in non-cash operating working capital	(44)	5,393	(505)	(1,651)
Capital expenditures	(95)	(425)	-	(79)
Distributable Cash	$ (139)	$ 4,968	$ (505)	$ (1,730)
Distributions relating to the period:				
Class A Units	$ -	$ 7,565 [1]	$ -	$ -
Class B Units [2]	-	-	-	-
Total Units	$ -	$ 7,565	$ -	$ -
Outstanding units and per unit amounts:				
Class A Units outstanding	14,410,000	14,410,000	14,410,000	14,410,000
Class B Units outstanding	3,602,500	3,602,500	3,602,500	3,602,500
Total Units outstanding	18,012,500	18,012,500	18,012,500	18,012,500
Distributable Cash per Total Units	$ (0.008)	$ 0.276	$ (0.028)	$ (0.096)
Distributions relating to the period:				
Class A Units	$ -	$ 0.525 [1]	$ -	$ -
Class B Units [2]	$ -	$ -	$ -	$ -
Total Units	$ -	$ 0.420	$ -	$ -
Payout ratio [3]	0.0%	152.3%	0.0%	0.0%

	March 23, 2004 to December 31, 2009
Cumulative since inception:	
Distributable Cash	75,478
Distributions relating to the period	66,754
Payout ratio [3]	88.4%

[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, 2009 balance sheet.
[3] Payout ratio measures the ratio of distributions by the Fund relating to the period to Distributable Cash for the period.

We pay distributions on Class A Units at the end of the month following the month in which the cash is earned. Distributions may also be made quarterly on Class B Units in an amount equivalent on an after-tax per-unit basis to distributions made on Class A Units, pursuant to the terms of a subordination agreement as outlined in the Fund's Annual Information Form. Except as outlined in the terms of the subordination agreement with the Class B Units, there are no limitations on distributions from the subsidiaries of the Fund arising from the existence of a

minority interest in a subsidiary of the Fund. Further description of the subordination arrangement is included in the notes to the accompanying Audited Financial Statements.

The Fund's subordination feature is designed to stay in place until the EBITDA and certain distributable cash tests established at the time of the IPO are met. The terms of these tests are described in the notes to the accompanying Audited Financial Statements.

In 2009, the Fund and its subsidiaries generated negative total Distributable Cash available to Class A and Class B Unitholders of $0.1 million, or $0.008 per unit. In the fourth quarter of 2009 the Fund and its subsidiaries generated negative total Distributable Cash available to Class A and Class B Unitholders of $0.5 million, or $0.028 per unit. No distributions were made related to the year ended December 31, 2009.

4.2 Standardized Distributable Cash and Cash Distributions

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

	Year ended December 31, 2009	Year ended December 31, 2008	3 months ended December 31, 2009	3 months ended December 31, 2008
Net cash provided by operating activities	$ 10,247	$ 20,229	$ 1,380	$ 6,028
Capital expenditures	(95)	(425)	-	(79)
Standardized Distributable Cash	$ 10,152	$ 19,804	$ 1,380	$ 5,949
Distributions relating to the period:				
Class A Units	$ -	$ 7,565 (1)	$ -	$ -
Class B Units (2)	-	-	-	-
Total Units	$ -	$ 7,565	$ -	$ -
Outstanding units and per unit amounts:				
Class A Units outstanding	14,410,000	14,410,000	14,410,000	14,410,000
Class B Units outstanding	3,602,500	3,602,500	3,602,500	3,602,500
Total Units outstanding	18,012,500	18,012,500	18,012,500	18,012,500
Standardized Distributable Cash per Total Units	$ 0.564	$ 1.099	$ 0.077	$ 0.330
Distributions per Total Units	$ -	$ 0.420	$ -	$ -
Standardized payout ratio (3)	0.0%	38.2%	0.0%	0.0%

	March 23, 2004 to December 31, 2009
Cumulative since inception:	
Standardized Distributable Cash	93,312 (4)
Distributions relating to the period	66,754
Standardized Payout ratio (3)	71.5%

[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, 2009 balance sheet.
[3] Payout ratio measures the ratio of distributions by the Fund relating to the period to Standardized Distributable Cash for the period.
[4] Calculation of cumulative Standardized Distributable Cash since inception excludes a $10.3 million increase in non-cash operating working capital, which relates to a final working capital adjustment payment made to the former owners to complete the initial purchase of the Business.

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

Cash, which excludes the impact of changes in non-cash working capital, is a better measure for determining our operating performance.

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

Selected Unaudited Consolidated Financial Information
(in thousands of dollars)

	Year ended December 31, 2009	Year ended December 31, 2008	3 months ended December 31, 2009	3 months ended December 31, 2008
Standardized Distributable Cash	$ 10,152	$ 19,804	$ 1,380	$ 5,949
Increase (decrease) in non-cash operating working capital	(10,291)	(14,836)	(1,885)	(7,679)
Distributable Cash	$ (139)	$ 4,968	$ (505)	$ (1,730)

4.3 Working Capital

Our business requires an ongoing investment in working capital, comprised of accounts receivable, income taxes recoverable, inventory, and prepaid expenses, partly offset by short-term credit provided by suppliers in the form of accounts payable and accrued liabilities. Our investment in working capital fluctuates from quarter-to-quarter based on factors such as seasonal sales demand, strategic purchasing decisions taken by management, and the timing of collections from customers and payments made to our suppliers. Historically the first and fourth quarters are seasonally slower periods for construction activity and therefore demand for hardwood products decreases. As a result, sales and working capital requirements may be lower in these quarters. A summary of changes in our non-cash operating working capital during the years ended December 31, 2009 and 2008 is provided below.

(in thousands of Canadian dollars)

Source (use) of funds	12 months ended December 30, 2009	12 months ended Dectember 31, 2008
Accounts receivable	$ 3,842	$ 7,858
Income taxes recoverable	(223)	(805)
Inventory	4,355	11,820
Prepaid expenses	74	155
Accounts payable and accrued liabilities	2,243	(4,192)
Decrease in non-cash operating working capital	$ 10,291	$ 14,836

Continued compliance with financial covenants under our credit facilities is important to ensure that we maintain adequate availability of financing to meet our working capital requirements. The terms of our revolving credit facilities are addressed in section 4.6 of this report.

4.4 Capital Expenditures and Productive Capacity

Our capital expenditures are typically low as we lease all of our buildings and contract out all freight delivery services. Capital expenditures are principally for the replacement of forklifts, furniture and fixtures, leasehold improvements and computer equipment. Annual maintenance capital requirements are expected to average approximately $1.0 million per year, but may be higher or lower than this in a particular year based on the needs of the business. More recently, and consistent with our current focus on cost reduction and cash conservation, we have decreased our discretionary cash outlays for capital items. In 2009 our total capital expenditures amounted to just $0.1 million and in 2008 were $0.4 million. The closing of nine branch locations in the past two years has freed up additional forklift capacity and reduced our need to purchase replacement forklift equipment. Despite our reduced spending on capital expenditures in response to the recent economic downturn, management believes it has made sufficient expenditures to sustain productive capacity of the business as it relates to our needs for property, plant and equipment.

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

Available distribution infrastructure refers to the physical capacity of the distribution network maintained by our business, and may be measured in terms of the number and total square footage of distribution centres in operation. Since the Fund's IPO in March 2004, we have made a number of adjustments to our distribution network, including opening, closing, and relocating some of our distribution facilities. As discussed in section 2.0 of this report, we are currently experiencing a significant downturn in demand for hardwoods products. In response, we have downsized our distribution infrastructure, closing nine branches in the past two years. We believe these reductions are appropriate to better match our productive capacity to current market demand.

Selected Unaudited Consolidated Financial Information

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

Maintenance of a skilled workforce is also important to managing the productive capacity of our business. Our staffing levels reflect decisions regarding our distribution network and our expectations for sales demand based upon prevalent economic conditions. Trends in our

workforce capacity, as measured in terms of number of employees and average annual sales dollars per employee, are summarized below. Although the productive capacity of our human capital is difficult to measure directly, we believe the productive capacity of our business in terms of our human capital relative to available market demand, as measured by sales, has been largely sustained.

Selected Unaudited Consolidated Financial Information

	December 31, 2009	December 31, 2008	December 31, 2007	December 31, 2006	December 31, 2005
Number of employees	159	190	236	252	259
Annual sales per employee ($ millions)	1.2	1.3	1.4	1.4	1.4

4.5 Utilization of Distributable Cash

Selected Unaudited Consolidated Financial Information (in thousands of dollars)

	Year ended December 31, 2009	Year ended December 31, 2008	3 months ended December 31, 2009	3 months ended December 31, 2008
Distributable Cash	$ (139)	$ 4,968	$ (505)	$ (1,730)
Cash Distributions paid in the period	-	(8,646)	-	(360)
Distributable Cash retained (shortfall)	$ (139)	$ (3,678)	$ (505)	$ (2,090)
Decrease (increase) in non-cash operating working capital	10,291	14,836	1,885	7,679
Decrease (increase) in long-term receivables	1,545	403	743	217
Decrease (increase) in deferred financing fees	(345)	(221)	(26)	(17)
Proceeds from disposal of property, plant and equipment	57	25	15	-
Decrease (increase) in bank indebtedness, net of cash	$ 11,409	$ 11,365	$ 2,112	$ 5,789

Our utilization of Distributable Cash and its relation to working capital use and bank line financing are summarized above.

For the year ended December 31, 2009, the Fund generated negative Distributable Cash of $0.1 million and paid no cash distributions. We generated cash by reducing our investment in non-cash operating working capital (primarily accounts receivable and inventory, less accounts payable and accrued liabilities) by $10.3 million, our investment in long-term receivables by $1.5 million, and through the sale of property, plant and equipment by $0.1 million. We invested $0.3 million in deferred financing fees primarily associated with our new Canadian credit line described in section 4.6 below. Taking these factors together, we were able to pay down our bank indebtedness (net of cash) by $11.4 million in 2009.

For the three months ended December 31, 2009, the Fund generated negative Distributable Cash of $0.5 million and paid no cash distributions. We decreased our investment in non-cash operating working capital by $1.9 million, reflecting the seasonality of the business and slowing market demand, and reduced our investment in long-term receivables by $0.7 million.

Combined, these actions enabled us to pay down our bank indebtedness (net of cash) by $2.1 million in the fourth quarter of 2009.

4.6 Revolving Credit Facilities and Debt Management Strategy

Selected Unaudited Consolidated Financial Information (in thousands of dollars)

	As at December 31, 2009		As at December 31, 2008	
Cash and cash equivalents	$	(463)	$	(85)
Bank indebtedness		4,960		17,561
Net Debt	$	4,497	$	17,476
Unitholders' Equity	$	55,158	$	68,772
Total Capitalization	$	59,655	$	86,248
Net debt to total capitalization		7.5%		20.3%
Previous 12 months EBITDA	$	(1,154)	$	5,918
Net debt to previous 12 months EBITDA		(3.9)		3.0

During the 12 months ended December 31, 2009, the Fund paid down its net debt by $11.4 million. The impact of a stronger Canadian dollar (as at December 31, 2009 compared to December 31, 2008) on the conversion of our US dollar bank line reduced our debt by a further $1.6 million. Combined, the Fund's net debt balance decreased by $13.0 million to $4.5 million at December 31, 2009, from $17.5 million at December 31, 2008. Overall net debt compared to total capitalization stood at 7.5% as of December 31, 2009, compared to 20.3% at December 31, 2008. With the downturn in economic conditions, our trailing 12-month EBITDA results have decreased to a loss of $1.2 million. As a result the ratio of net debt-to-EBITDA for the previous 12 months is negative 3.9 times, compared to a positive 3.0 times as at December 31, 2008. Net debt-to-EBITDA serves as an indicator of our financial leverage.

We have independent credit facilities in both Canada and the U.S. In the third quarter of 2009, a subsidiary of the Fund entered into a new three-year credit facility in Canada, which may be drawn down to meet short-term financing requirements such as fluctuations in non-cash working capital or to make capital contributions to the Fund's US operating subsidiary. The amount made available under our Canadian and US revolving credit facilities is, from time-to-time, limited to the extent of the value of certain accounts receivable and inventories held by subsidiaries of the Fund. Credit facilities also require ongoing compliance with certain credit ratios. A summary of our credit facilities at December 31, 2009 is provided below.

Selected Unaudited Consolidated Financial Information (in thousands of dollars)

	Canadian Credit Facility	US Credit Facility
Maximum borrowings under credit facility	$15 million	$26.8 million (US$ 25 million)
Credit facility expiry date	August 7, 2012	September 30, 2011
Available to borrow	$11.2 million	$ 13.4 million (US$12.6 million)
Credit facility borrowings	$ 1.9 million	$ 1.9 million (US$1.8 million)
Unused credit facility available	$ 9.2 million	$ 11.3 million (US$10.8 million)

Financial covenants:		
a. (EBITDA - Cash Taxes - Capital Expenditures) / Interest (1)		
Covenant minimum	1.1	
Covenant actual	45.6	
b. Minimum Trailing EBITDA covenant		Covenant does not apply when the unused credit facility available exceeds US$4.0 million, which it did as at December 31, 2009

[1] EBITDA and Interest calculated on a trailing twelve month basis in accordance with the terms of the Canadian credit facility.

We have forecast our financial results and cash flows for the next 12 months (the "Forecast Period"). The forecasts are based on our best estimates of operating conditions in the context of the current economic climate, today's capital market conditions and the depressed state of the housing and renovation markets in both Canada and the United States. In the second quarter of 2009, the Fund's U.S. subsidiary and its lender amended their credit agreement with changes to be effective for the June 30, 2009 reporting period. The amendment removed the U.S. subsidiary's previous fixed charge coverage ratio financial covenant, and replaced it with a minimum trailing EBITDA covenant. Under the amendment, the minimum trailing EBITDA covenant is only applicable in the event the U.S. subsidiary's unused credit availability falls below US$4.0 million. At December 31, 2009, the U.S. subsidiary's unused credit availability was in excess of US$4.0 million, and accordingly the U.S. subsidiary was not subject to any financial covenant and was compliant with its credit facility. If the U.S. subsidiary had been subject to its financial covenant at December 31, 2009, it would have been in compliance with its minimum trailing EBITDA covenant. However, due to the difficulty in predicting the continued severity and duration of the current economic and financial crisis, we are uncertain whether our U.S. subsidiary will become subject to its financial covenant, and if so will remain in compliance with its financial covenant, during the Forecast Period. Further weakening of the housing and renovation market or a significant increase in customer or credit losses could cause the U.S. subsidiary to violate its financial covenant. This could cause the subsidiary's bank indebtedness to become immediately due and payable, and the Fund and its U.S. subsidiary might not be able

to access funds under its revolving credit facility. In the event of such as circumstance, we could draw upon our Canadian credit facility, or if that does not suffice, we would need to raise additional capital in the form of equity or debt to supplement or replace existing credit facilities in order to have sufficient liquidity to meet our obligations in the Forecast Period.

The accompanying Audited Financial Statements have been prepared assuming the Fund will continue as a going concern, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts should we be unable to continue as a going concern. The principal terms of the credit facilities of Hardwoods LP and Hardwoods US LP are available at www.sedar.com.

The terms of the agreements with our lenders provide that distributions cannot be made to our unitholders in the event that our subsidiaries are not compliant with their financial covenants. As shown in the preceding table, our operating subsidiaries were compliant with all required credit ratios as at December 31, 2009, and accordingly there were no restrictions on distributions arising from non-compliance with financial covenants.

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

4.7 Contractual Obligations

The table below sets forth our contractual obligations as at December 31, 2009. These obligations relate to operating leases on various premises and automobiles, and become due in the fiscal years indicated:

(in thousands of Canadian dollars)

Total	2010	2011	2012	2013	2014	2015 & thereafter
$ 16,371	$ 5,746	$ 3,735	$ 2,733	$ 2,041	$ 1,536	$ 580

4.8 Off-Balance Sheet Arrangements

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

5.0 Financial Instruments

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

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

6.0 Related Party Transactions

Related parties refers to affiliates of the previous owners of the Business who have retained a 20% interest in Hardwoods through ownership of Class B Hardwoods LP units and Class B Hardwoods USLP units, respectively. For the year ended December 31, 2009, sales of $0.4 million were made to related parties, and the subsidiaries of the Fund purchased $0.1 million from related parties. These sales and purchases took place at prevailing market prices.

7.0 Critical Accounting Estimates and Adoption of Changes in Accounting Policies

7.1 Critical Accounting Estimates

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

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

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

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

7.2 Adoption of New Accounting Standards

Effective January 1, 2009, we adopted new CICA Handbook Section 3064, Goodwill and Intangible Assets. This section replaces CICA Handbook Section 3062, Goodwill and Intangible Assets, and establishes revised standards for the recognition, measurement, presentation and

disclosure of goodwill and intangible assets. As we did not have any goodwill or intangible assets at December 31, 2008, the adoption of this new standard did not impact the amounts presented in the financial statements.

On January 23, 2009, the CICA Emerging Issues Committee (EIC) issued EIC-173, Credit Risk and the Fair Value of Financial Assets and Liabilities. EIC-173 is effective for interim and annual financial statements ending on or after January 20, 2009. EIC-173 provides guidance that an entity's own credit risk of counterparties should be taken into account in determining the fair value of financial assets and liabilities. Adoption of this guidance is to be applied retrospectively without restatement to prior periods. The Fund has evaluated the impact of this new standard and concluded that it does not have a material impact on its financial statements.

In 2009 we adopted CICA Amended Handbook Section 3862, Financial Instruments – Disclosures, which establishes revised standards for the disclosure of financial instruments. The new standard establishes a three-tier hierarchy as a framework for disclosing fair value of financial instruments based on inputs used to value the Fund's investments. The hierarchy of inputs and description of inputs is described as follows:

> Level 1 – fair values are based on quoted prices (unadjusted) in active markets for identical assets or liabilities;
>
> Level 2 – fair values are based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices); or
>
> Level 3 – fair values are based on unobservable inputs for which no market data exists, therefore, requiring the Fund to develop its own assumptions.

Changes in valuation methods may result in transfers into or out of an investment's assigned level. The additional disclosures have been provided in Note 6 to the Audited Financial Statements.

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

we proceed through the changeover process. Key elements of our current changeover plan include:

Year	Key Activities
2008	Completed IFRS education and training with our accounting staff. Identified an IFRS project manager. Determined the intended use of outside consultants, if any. Analyzed differences between our current accounting policies and IFRS.
2009	Made preliminary selections of IFRS accounting policies. Identified one-time elective exemptions available on initial IFRS adoption. Identified the information required to deliver the preliminary selections of IFRS accounting policies. Identified system changes (accounting, policies, procedures, information technology) required to get that information. Developed a master conversion plan for changes identified. Automated and tested data collection. Identified and addressed the impact of changes IFRS makes to our business drivers, including debt covenants, incentive plans, and management reporting, budgeting, and other items.
2010	Calculate impacts of IFRS adoption on our financial statements at transition date and collect information on adjustments related to 2010 comparatives. Commence IFRS accounting to provide comparative figures for 2011 IFRS startup date. Prepare IFRS communication plan for stakeholders. Link IFRS to CEO/CFO certification processes and update certification documentation relating to internal controls over financial reporting and disclosure controls.
2011	Commence IFRS reporting.

While the effects of IFRS have not yet been fully determined, we have identified a number of key areas which are likely to be impacted and will take effect upon the IFRS transition date of January 1, 2011. The deferred gain on sale-leaseback of a previously sold land and building will be eliminated against opening retained deficit. We expect to utilize the optional election under IFRS 1 *First Time Adoption of International Financial Reporting Standards* to deem unrealized losses on translation of self-sustaining foreign operations to be zero, and reclassify any amounts previously recognized against opening retained deficit.

We are still completing our final assessment in other financial reporting areas, but have identified some further impacts that may arise. Automobile leases that are currently classified as operating leases under Canadian GAAP may be classified as capital leases under IFRS, resulting in the recording of a capital lease asset and corresponding lease payable obligation on our balance sheet. The reporting of non-controlling interests and Fund units require further analysis under IAS-32 *Financial Instruments: Presentation*, to conclude whether they should be presented as equity or long-term liabilities on our balance sheet under IFRS.

Finally we anticipate that some financial statement presentation changes will be required to conform to IFRS requirements, such as a reclassification of certain expenses to present the statement of earnings in a functional format, and more detailed notes to the financial statements to meet the more comprehensive disclosure requirements of IFRS.

8.0 Risks and Uncertainties

We are exposed to a number of risks and uncertainties in the normal course of business that could have a negative effect on our financial condition or results of operations. We identified significant risks that we were aware of in our Annual Information Form dated March 29, 2010, which is available to readers at www.sedar.com. Particular risks we see facing the Business in 2010 include:

1. US economic performance: Approximately two thirds of our business originates in the US. It is unclear to what degree and how quickly the US economy will recover in 2010. Until such time as sustained and positive economic indicators return to housing and construction markets, demand for hardwood products remains highly uncertain, and our ability to predict our sales and profitability is an elevated business risk.

2. Bad debt expenses: The fallout of over two years of contraction in market demand and pricing for hardwoods products has been that a number of our customers have closed operations, been forced out of business, or no longer qualify for credit and have been cut off from further sales. Our bad debt expense in 2009 was significantly higher than what we have experienced in the past under normal market conditions. To the extent that the economic downturn continues for an extended period or worsens, we could experience further credit losses if additional customers are forced out of business. We believe our bad debt risk will remain elevated through 2010.

3. Leadership change: After 36 years in the industry, our CEO has announced his intention to retire in 2010. Under the direction of our board of directors, a process is underway to

select his successor. Making a leadership change at the CEO level is done infrequently by Hardwoods, and represents an uncertainty facing the business in the upcoming year.

9.0 Disclosure Controls and Procedures and Internal Control Over Financial Reporting

As required by Multilateral Instrument 52-109 issued by the Canadian Securities Administrators, the Fund carried out an evaluation of the effectiveness of the Fund's disclosure controls and procedures as of December 31, 2009. The evaluation was carried out under the supervision of, and with the participation of the Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO"). Based on this evaluation, the CEO and CFO concluded that the Fund's disclosure controls and procedures were effective as of December 31, 2009.

As required by Multilateral Instrument 52-109 issued by the Canadian Securities Administrators, the Fund carried out an evaluation of the effectiveness of the Fund's internal controls over financial reporting ("ICFR") as of December 31, 2009. The evaluation was carried out within the COSO framework and under the supervision of, and with the participation of the CEO and the CFO. Based on the evaluation, the CEO and CFO concluded that the Fund's ICFR were effective as of December 31, 2009.

The CEO and CFO acknowledge responsibility for the design of ICFR, and confirm that there were no changes in these controls that occurred during the most recent interim period ended December 31, 2009 which materially affected, or are reasonably likely to materially affect, the Fund's ICFR.

10.0 Selected Financial Information

10.1 Quarterly Financial Information

(in thousands of dollars)	Q4 2009	Q3 2009	Q2 2009	Q1 2009	Q4 2008	Q3 2008	Q2 2008	Q1 2008
Total sales	$ 41,577	$ 46,435	$ 49,489	$ 53,422	$ 56,650	$ 62,115	$ 66,488	$ 71,048
Net earnings (loss)	$ (544)	$ (11,072)	$ (491)	$ 1,867	$ (12,941)	$ 885	$ (33,716)	$ 9,529
Basic and fully diluted earnings (loss) per Class A Unit	$ (0.038)	$ (0.768)	$ (0.034)	$ 0.130	$ (0.898)	$ 0.061	$ (2.340)	$ 0.661
EBITDA	$ (2,421)	$ 543	$ (192)	$ 916	$ (1,430)	$ 1,344	$ 3,091	$ 2,913
Distributable Cash	$ (505)	$ 230	$ (569)	$ 705	$ (1,730)	$ 1,000	$ 2,427	$ 3,271
Total distributions to Class A and Class B Units	$ -	$ -	$ -	$ -	$ -	$ 1,081	$ 3,242	$ 3,242
Payout ratio	0.0%	0.0%	0.0%	0.0%	0.0%	108.2%	133.6%	99.1%

The table above provides selected quarterly financial information for our eight most recently completed fiscal quarters. This information is unaudited, but reflects all adjustments of a normal, recurring nature which are, in our opinion, necessary to present a fair statement of the results of operations for the periods presented. Quarter-to-quarter comparisons of our financial results are not necessarily meaningful and should not be relied upon as an indication of future performance. Historically, the first and fourth quarters have been seasonally slower periods for our business. In addition, net earnings reported in each quarter may be impacted by changes to the foreign exchange rate of the Canadian and US dollar, write-downs in the carrying value of goodwill and other intangible assets (which occurred in the three months ended June 30, 2008, and three months ended December 31, 2008), write-downs in the carrying value of future income tax assets which may not be recoverable due to the continued downturn in results at our US operations (which occurred in the three months ended September 30, 2009), and gains or losses on foreign currency contracts which are described under Financial Instruments in section 5.0 of this report.

10.2 Annual Financial Information

(in thousands of dollars except per unit amounts)	Year ended December 31, 2009	Year ended December 31, 2008	Year ended December 31, 2007	Year ended December 31, 2006	Year ended December 31, 2005
Total sales	$ 190,923	$ 256,301	$ 331,765	$ 362,528	$ 355,775
Net earnings (loss)	(10,240)	(36,243)	15,619	3,637	13,351
Basic and fully diluted earnings (loss) per Class A Unit	(0.711)	(2.515)	1.084	0.252	0.927
Total assets	74,270	103,350	173,727	198,404	214,669
Total long-term financial liabilities	9,164	13,652	34,187	37,372	34,215
EBITDA	(1,154)	5,918	21,260	21,821	23,584
Distributable Cash	(139)	4,968	17,281	16,748	18,713
Total distributions to Class A and Class B Units	-	7,565	12,355	13,265	18,562
Distributions per Unit relating to the period:					
Class A Units	$ -	$ 0.525	$ 0.857	$ 0.921	$ 1.075
Class B Units	$ -	$ -	$ -	$ -	$ 0.851
Total Units	$ -	$ 0.420	$ 0.686	$ 0.736	$ 1.031

Management's Statement of Responsibilities

The accompanying consolidated financial statements are the responsibility of management and have been reviewed and approved by the Boards of Directors and the Trustees. The consolidated financial statements have been prepared by management, in accordance with Canadian generally accepted accounting principles and, where appropriate, reflect management's best estimates and judgements. Management has also prepared financial and all other information in the annual report and has ensured that this information is consistent with the consolidated financial statements.

The Fund maintains appropriate systems of internal control, policies and procedure, which provide management with reasonable assurance that assets are safeguarded and the financial records are reliable and form a proper basis for preparation of financial statements.

The Boards of Directors and the Trustees ensure that management fulfills its responsibilities for financial reporting and internal control through an Audit Committee. This committee reviews the consolidated financial statements and is comprised of independent Trustees. The auditors have full and direct access to the Audit Committee.

The consolidated financial statements have been independently audited by KPMG LLP, in accordance with Canadian generally accepted auditing standards. Their report herewith expresses their opinion on the consolidated financial statements of the Fund.

Maurice E. Paquette
President and Chief Executive Officer

Auditor's Report to the Unitholders

We have audited the consolidated balance sheets of Hardwoods Distribution Income Fund (the "Fund") as at December 31, 2009 and 2008 and the consolidated statements of operations and deficit, comprehensive income (loss), accumulated other comprehensive loss and cash flows for the years then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Chartered Accountants
Vancouver, Canada
March 26, 2010

HARDWOODS DISTRIBUTION INCOME FUND

Consolidated Balance Sheets
(Expressed in thousands of Canadian dollars)

December 31, 2009 and 2008

	2009	2008
Assets		
Current assets:		
Cash and cash equivalents	$ 463	$ 85
Accounts receivable (note 6(c))	25,585	32,218
Income taxes recoverable	2,286	2,316
Inventory (note 5)	23,901	30,868
Prepaid expenses	878	1,039
	53,113	66,526
Long-term receivables (note 6(c))	1,883	3,639
Property, plant and equipment (note 7)	1,291	2,168
Deferred financing costs	396	235
Future income taxes (note 13)	17,587	30,782
	$ 74,270	$ 103,350
Liabilities and Unitholders' Equity		
Current liabilities:		
Bank indebtedness (note 10)	$ 4,960	$ 17,561
Accounts payable and accrued liabilities	4,988	3,365
	9,948	20,926
Deferred gain on sale-leaseback of land and building	416	572
Non-controlling interests (note 11)	8,748	13,080
Unitholders' equity:		
Fund Units (note 12)	133,454	133,454
Deficit	(60,198)	(49,958)
Accumulated other comprehensive loss	(18,098)	(14,724)
	55,158	68,772
Nature and continuance of operations (note 1)		
Commitments (note 15)		
Contingencies (note 19)		
	$ 74,270	$ 103,350

See accompanying notes to consolidated financial statements.

Approved on behalf of the Trustees:

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

HARDWOODS DISTRIBUTION INCOME FUND

Consolidated Statements of Operations and Deficit
(Expressed in thousands of Canadian dollars, except per unit amounts)

Years ended December 31, 2009 and 2008

	2009	2008
Sales	$ 190,923	$ 256,301
Cost of sales	156,441	210,205
Gross profit	34,482	46,096
Expenses (income):		
Selling and administrative	35,636	41,425
Amortization:		
Plant and equipment	795	941
Deferred financing costs	159	36
Other intangible assets	-	573
Deferred gain on sale-leaseback of land and building	(84)	(79)
Interest	586	1,219
Foreign exchange losses (gains)	1,553	(914)
Intangibles impairment (note 9)	-	8,612
Goodwill impairment (note 9)	-	82,083
	38,645	133,896
Loss before non-controlling interests and income taxes	(4,163)	(87,800)
Non-controlling interests (note 11)	2,347	20,031
Loss before income taxes	(1,816)	(67,769)
Income tax expense (recovery) (note 13):		
Current	(1,896)	(734)
Future	10,320	(30,792)
	8,424	(31,526)
Loss for the year	(10,240)	(36,243)
Deficit, beginning of year	(49,958)	(6,150)
Distributions declared to Unitholders	-	(7,565)
Deficit, end of year	$ (60,198)	$ (49,958)
Basic and diluted loss per Unit	$ (0.71)	$ (2.52)
Weighted average number of Units outstanding	14,410,000	14,410,000

See accompanying notes to consolidated financial statements.

HARDWOODS DISTRIBUTION INCOME FUND

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

Years ended December 31, 2009 and 2008

	2009	2008
Net loss for the year	$ (10,240)	$ (36,243)
Other comprehensive income (loss):		
Unrealized gains (losses) on translation of self-sustaining foreign operations	(3,374)	6,841
Comprehensive loss	$ (13,614)	$ (29,402)

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

Years ended December 31, 2009 and 2008

	2009	2008
Accumulated other comprehensive loss, beginning of year	$ (14,724)	$ (21,565)
Other comprehensive income (loss)	(3,374)	6,841
Accumulated other comprehensive loss, end of year	$ (18,098)	$ (14,724)

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, 2009 and 2008

	2009	2008
Cash flows provided by (used in) operating activities:		
Net loss for the year	$ (10,240)	$ (36,243)
Items not involving cash:		
Amortization	954	1,550
Imputed interest income on employee loans	(158)	(67)
Deferred gain on sale-leaseback of land and building	(84)	(79)
Gain on sale of property, plant and equipment	(42)	(14)
Unrealized foreign exchange losses	1,553	333
Non-controlling interests	(2,347)	(20,031)
Future income taxes	10,320	(30,751)
Intangibles impairment	-	8,612
Goodwill impairment	-	82,083
	(44)	5,393
Change in non-cash operating working capital (note 14)	10,291	14,836
Net cash provided by operating activities	10,247	20,229
Cash flows used in financing activities:		
Bank indebtedness	(11,031)	(11,575)
Deferred financing fees	(345)	(221)
Distributions paid to Unitholders	-	(8,646)
Net cash used in financing activities	(11,376)	(20,442)
Cash flows provided by (used in) investing activities:		
Additions to property, plant and equipment	(95)	(425)
Proceeds on disposal of property, plant and equipment	57	25
Long-term receivables, net	1,545	403
Net cash provided by investing activities	1,507	3
Increase (decrease) in cash	378	(210)
Cash, beginning of year	85	295
Cash, end of year	$ 463	$ 85
Supplemental information:		
Interest paid	$ 586	$ 1,219
Income taxes paid	207	75
Transfer of accounts receivable to long-term customer notes receivable, being a non-cash transaction	685	2,508

See accompanying notes to consolidated financial statements.

1. Nature and continuance of operations:

Hardwoods Distribution Income Fund (the "Fund") is an unincorporated, open ended, limited purpose trust established under the laws of the Province of British Columbia on January 30, 2004 by a Declaration of Trust. The Fund commenced operations on March 23, 2004 when it completed an initial public offering of Units and acquired an 80% interest in a hardwood lumber and sheet goods distribution business in North America (the "Business") from affiliates of Sauder Industries Limited ("SIL"). The Fund holds, indirectly, 80% of the outstanding limited partnership units of Hardwoods Specialty Products LP ("Hardwoods LP") and Hardwoods Specialty Products US LP ("Hardwoods USLP"), limited partnerships established under the laws of the Province of Manitoba and the state of Delaware, respectively.

The Fund has forecast its financial results and cash flows for the next 12 months (the "Forecast Period"). The forecasts are based on management's best estimates of operating conditions in the context of the current economic climate, today's capital market conditions and the depressed state of the housing and renovation markets in both Canada and the United States.

In the second quarter of 2009, the Fund's U.S. subsidiary and its lender amended their credit agreement with changes effective for the June 30, 2009 reporting period. This amendment removed the U.S. subsidiary's previous fixed charge coverage ratio financial covenant and replaced it with a minimum trailing EBITDA covenant. Under the amendment, the minimum trailing EBITDA covenant is only applicable in the event the U.S. subsidiary's unused credit availability falls below US$4.0 million. At December 31, 2009, the U.S. subsidiary's unused credit availability was in excess of US$4.0 million, and accordingly the U.S. subsidiary was not subject to any financial covenant and was compliant with its credit facility. If the U.S. subsidiary had been subject to its trailing EBITDA covenant at December 31, 2009, it would have been in compliance with this covenant. Due to the difficulty in predicting the continued severity and duration of the current economic and financial crisis, management is uncertain whether its U.S. subsidiary will remain in compliance with its financial covenant during the Forecast Period. Further weakening of the housing and renovation market, or significant customer or credit losses, could cause the U.S. subsidiary to be in violation of its financial covenant. This could cause the Fund's U.S. subsidiary bank indebtedness to become immediately due and payable, and the Fund and its U.S. subsidiary may not be able to access funds under its revolving credit facility. In the event of such a circumstance, the Fund could draw on its Canadian credit facility, or if that does not suffice, it would need to raise additional capital in the form of equity or debt to supplement or replace its existing credit facilities in order to have sufficient liquidity to meet its obligations in the Forecast Period.

The accompanying consolidated financial statements have been prepared assuming the Fund will continue as a going concern and 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 is stated at cost less accumulated amortization. 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 credit facility.

2. Significant accounting policies (continued):

(g) Intangible assets:

Intangible assets represent customer relationships acquired at the time the Business was purchased from SIL (note 1) and were recorded at cost less accumulated amortization and any write-downs. Amortization was 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, leaving no intangible asset value at December 31, 2008.

(h) Goodwill:

Goodwill was recorded at cost less any write-downs and was not amortized. Management reviewed the carrying value of goodwill for impairment annually, or more frequently if events or changes in circumstances indicated that the asset may be impaired. Any excess of carrying value over fair value was 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, leaving no goodwill at December 31, 2008.

(i) Impairment of long-lived assets:

Long-lived assets, including property, plant and equipment, 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.

2. Significant accounting policies (continued):

(k) Income taxes (continued):

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 as a proxy for the exchange rates prevailing at the transaction dates. 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 for the period.

(n) Foreign currency contracts:

The Fund has used, in preceding years, 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 in the statement of operations.

(o) Loss per Unit:

Basic loss per Unit is calculated by dividing net loss by the weighted average number of Units outstanding during the reporting period. Diluted 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 loss per Unit, diluted and basic loss per Unit are the same amount.

2. Significant accounting policies (continued):

(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 estimate include the assessment of the Fund's ability to continue as a going concern, the valuation and impairment analysis of goodwill and intangible assts, 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:

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. While IFRS uses a conceptual framework similar to Canadian GAAP, there are significant differences on recognition, measurement, and disclosures. While the effects of IFRS have not yet been fully determined, the Fund has identified a number of key areas which are likely to be impacted, including: deferred gain on sale-leaseback of land and building; accumulated other comprehensive loss; property plant and equipment, leased vehicles, and potentially the classification of non-controlling interests and Fund units. In addition, financial statement presentation changes and additional disclosure requirements are anticipated under IFRS. The adoption of IFRS is not expected to have a material impact on the Fund's reported cash flows.

3. Adoption of new accounting standards:

Goodwill and Intangible Assets:

Effective January 1, 2009, the Fund adopted the 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 no longer has goodwill or intangible assets, the adoption of this new standard does not impact the amounts presented in the financial statements.

Credit risk and the fair value of financial assets and liabilities:

On January 23, 2009, the CICA Emerging Issues Committee (EIC) issued EIC-173, *Credit Risk and the Fair Value of Financial Assets and Liabilities*. EIC-173 is effective for interim and annual financial statements ending on or after January 20, 2009. EIC-173 provides guidance that an entity's own credit risk of counterparties should be taken into account in determining the fair value of financial assets and liabilities. Adoption of this guidance is to be applied retrospectively without restatement of prior periods. The Fund has evaluated the impact of this new standard and concluded that it does not have a material impact on its financial statements.

3. Adoption of new accounting standards (continued):

Financial instruments disclosures:

Amended Handbook Section 3862, Financial Instruments – Disclosures, establishes revised standards for the disclosure of financial instruments. The new standard establishes a three-tier hierarchy as a framework for disclosing fair value of financial instruments based on inputs used to value the Fund's investments. The hierarchy of inputs and description of inputs is described as follows:

Level 1 – fair values are based on quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 – fair values are based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices); or

Level 3 – fair values are based on unobservable inputs for which no market data exists, therefore, requiring the Fund to develop its own assumptions.

Changes in valuation methods may result in transfers into or out of an investment's assigned level.

These additional disclosures have been provided in Note 6 to the Financial Statements.

4. Capital disclosures:

The Fund's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Fund considers its capital to be bank indebtedness (net of cash) plus Unitholders' equity. The Fund's capitalization is as follows:

	2009	2008
Cash and cash equivalents	$ (463)	$ (85)
Bank indebtedness	4,960	17,561
Net debt	4,497	17,476
Unitholders' equity	55,158	68,772
Total capitalization	$ 59,655	$ 86,248

The Fund monitors on a monthly basis the ratio of net debt to earnings before interest, income taxes, depreciation and amortization ("EBITDA"). Net debt to EBITDA serves as an indicator of the Fund's financial leverage. The U.S. credit facility is subject to a minimum trailing EBITDA covenant that is only applicable in the event the U.S. subsidiary's unused credit availability falls below US $4.0 million. The Canadian credit facility is subject to a Fixed Charge Coverage Ratio ("FCCR") calculated as (EBITDA – capital expenditures – cash taxes)/(interest expense) which cannot be less than 1.1 for Hardwoods LP.

The terms of the agreements with the Fund's lenders provide that distributions cannot be made to its unitholders in the event that its subsidiaries do not meet the above covenant requirements as well as certain additional credit ratios. The Fund's operating subsidiaries were compliant with all required credit ratios as at December 31, 2009, and accordingly there were no restrictions on distributions arising from compliance with financial covenants.

4. Capital disclosures (continued):

Distributions are one of the ways the Fund manages its capital. Distributions of the Fund's available cash are made to the maximum extent possible, subject to reasonable reserves established by the Trustees of the Fund. Distributions are made by the Fund having given consideration to a variety of factors including the outlook for the business, financial leverage, and the ratio of distributions to available cash of the Fund.

There were no changes in the Fund's approach to capital management during the year ended December 31, 2009. On November 3, 2008 the Trustees of the Fund suspended further monthly distributions until such time as market conditions and the Fund's generation of cash has improved.

5. Inventory:

	2009	2008
Lumber	$ 8,224	$ 12,077
Sheet goods	12,171	14,990
Specialty	2,099	2,356
Goods in-transit	1,407	1,445
	$ 23,901	$ 30,868

During the year ended December 31, 2009 inventory write-downs totaling $2.7 million (2008 - $3.1 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.

Cost of sales for the year ended December 31, 2009 were $156.4 million (2008 - $210.2 million), which included $148.3 million (2008 - $201.8 million) of costs associated with inventory. The other $8.1 million (2008 - $8.4 million) related principally to freight and other related expenses.

6. Financial instruments:

Financial assets include cash and cash equivalents, which are designated as held-for-trading and measured at fair value, current and long-term receivables, and income taxes recoverable which are designated as loans and receivables and measured at amortized cost. Financial liabilities include bank indebtedness and accounts payable and accrued liabilities. 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. Until August 2008, financial instruments of the Fund also included 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 taxes recoverable, accounts payable and accrued liabilities 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 carrying value. The carrying values of the credit facilities approximate their fair values due to the existence of floating market based interest rates.

6. Financial instruments (continued):

(b) Derivative financial instruments:

Until August 2008 the Fund used foreign currency contracts to assist in 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 based on the level two valuation inputs as described in Note 3, with changes in fair value recognized in the statement of operations.

All of the outstanding foreign currency contracts were settled with the counterparty during the year ended December 31, 2008.

(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. Credit risk arises principally from the Fund's receivables from its customers. Employee housing loans, customer notes and security deposits also present credit risk to the Fund.

6. Financial instruments (continued):

(c) Financial risk management (continued):

The following is a breakdown of the Fund's current and long-term receivables and represents the Fund's exposure to credit risk related to its financial assets:

	2009	2008
Trade accounts receivable - Canada	$ 9,756	$ 8,404
Trade accounts receivable - United States	16,117	23,423
Sundry receivable	203	495
Current portion of long-term receivables	919	2,243
	26,995	34,565
Less: allowance for doubtful accounts	1,410	2,347
	$ 25,585	$ 32,218
Long-term receivables:		
Employee housing loans	$ 450	$ 1,507
Customer notes	1,834	3,772
Security deposits	518	603
	2,802	5,882
Less: current portion, included in accounts receivable	919	2,243
	$ 1,883	$ 3,639

Trade accounts receivable:

The Fund's exposure to credit risk is influenced mainly by the 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 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. The Fund's largest individual customer balance amounted to 9.1% (2008 – 8.2%) of trade accounts receivable and customer notes receivable at December 31, 2009.

6. Financial instruments (continued):

(c) Financial risk management (continued):

(*i*) Credit risk (continued):

The aging of trade receivables was:

	2009	2008
Current	$ 14,557	$ 17,037
Past due 31-60 days	5,283	6,696
Past due 61-90 days	2,181	3,706
Past due 90+ days	3,852	4,388
	$ 25,873	$ 31,827

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, 2009 was $1.4 million (2008 - $2.3 million). The amount of the allowance is considered sufficient based on the past experience of the business, the security the Fund has in place for past due accounts and management's regular review and assessment of customer accounts and credit risk.

The change in the allowance for doubtful accounts can be reconciled as follows:

	2009	2008
Balance as at January 1	$ 2,347	$ 1,046
Additions during the period	2,774	2,121
Changes due to currency rate fluctuations	(263)	359
Use during the period	(3,448)	(1,179)
Balance as at December 31	$ 1,410	$ 2,347

Bad debt expense comprises additions to the allowance for doubtful accounts plus the value of receivables directly written off. Bad debt expense, net of recoveries, for the year ended December 31, 2009 was $5.2 million which includes $3.4 million related to trade accounts receivable and $1.8 million to long-term receivables. For the year ended December 31, 2008 bad debt expense was $3.9 million, all of which related to trade accounts receivable. Historically bad debt expense has averaged approximately 0.8% 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. Employee loans are repaid in accordance with the loan agreement. These loans are measured at their fair market value upon granting the loan and subsequently measured at amortized cost.

6. Financial instruments (continued):

(c) Financial risk management (continued):

(*i*) Credit risk (continued):

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%-10%.

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, 2009, in Canada, a subsidiary of the Fund had a revolving credit facility of up to $15.0 million. In the US, a subsidiary of the Fund had a revolving credit facility of up to $26.3 million (US$25.0 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, 2009 the Canadian and U.S. credit facilities had $9.2 million and $11.3 million (US$10.8 million), respectively of additional borrowing capacity.

(*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, 2009 bank indebtedness balance of $5.0 million, a 1% increase or decrease in the interest rates charged would result in decrease or increase to annual net earnings by $0.05 million.

6. Financial instruments (continued):

(c) Financial risk management (continued):

(*iii*) Market risk (continued):

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. 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. Currently no distributions are being made from the Fund's U.S. subsidiary. The Fund previously maintained foreign currency contracts to assist in forward planning cash flows to be received from its U.S. subsidiary.

At December 31, 2009 the Fund's Canadian subsidiaries primary exposure to foreign denominated working capital financial instruments was in relation to accounts receivable from U.S. customers (US$0.2 million, (2008 – US$0.1 million)), income taxes recoverable (US$1.9 million, (2008 – US$1.3 million)), and accounts payable to U.S. suppliers ($0.2 million, (2008 – US$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, 2009 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, 2009 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.

6. Financial instruments (continued):

(c) Financial risk management (continued):

(*iii*) Market risk (continued):

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 in the Fund's selling prices to customers.

7. Property, plant and equipment:

December 31, 2009	Cost	Accumulated amortization	Net book value
Machinery and equipment	$ 2,095	$ 1,685	$ 410
Mobile equipment	3,225	2,394	831
Leasehold improvements	786	736	50
	$ 6,106	$ 4,815	$ 1,291

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

8. Foreign currency contracts:

In August 2008, a subsidiary of the Fund agreed to settle all of its remaining foreign currency contracts with the counterparty. 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 realized cash of $1.2 million from the settlement of foreign currency contracts. For the year ended December 31, 2008, a loss of $0.8 million was recorded in the statement of operations 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 goodwill. Results of testing indicated impairment of the carrying value of intangible assets of $8.6 million and goodwill of $82.1 million. This impairment reduced the intangible asset and goodwill balances to zero, and is attributable primarily to the significant decline in sales in the U.S. and Canada resulting from reduced residential housing starts and remodeling sales and a decline in consumer confidence and overall economic activity.

10. Bank indebtedness:

	2009	2008
Checks issued in excess of funds on deposit	$ 1,077	$ 1,087
Credit facility, Hardwoods LP	1,945	265
Credit facility, Hardwoods USLP (December 31, 2009 - US$1,844; December 31, 2008 - US$13,308)	1,938	16,209
	$ 4,960	$ 17,561

Bank indebtedness consists of checks issued in excess of funds on deposit and advances under operating lines of credit available to Hardwoods LP and Hardwoods USLP (the "Credit Facilities").

Each of the Credit Facilities is separate, is not guaranteed by the other partnership, and does not contain cross default provisions to the other Credit Facility. The Credit Facility made available to Hardwoods LP is secured by a first security interest in all of the present and after acquired property of Hardwoods LP and its operating subsidiaries, and by the LP Units held by a subsidiary of the Fund and SIL. The Credit Facility made available to Hardwoods USLP is secured by a first security interest in all of the present and after acquired property of Hardwoods USLP and by the USLP Units held by a subsidiary of the Fund and by SIL.

The Hardwoods LP Credit Facility has a three year term, provides financing up to $15.0 million and has a maturity date of August 7, 2012. The Hardwoods USLP Credit Facility has a three year term, provides financing of up to US$ 25.0 million and has a maturity date of September 30, 2011. Each facility is payable in full at maturity. The Hardwoods LP Credit Facility is repayable subject to prepayment penalties of $225,000 if repaid in the first 12 months of the credit facility term, $150,000 if repaid in the second 12 months of the credit facility term, and $75,000 thereafter if repaid prior to the maturity date of the credit facility. The Hardwoods USLP Credit Facility is repayable without prepayment penalties. The Credit Facilities bear interest at a floating rate based on the Canadian or US prime rate (as the case may be), LIBOR or bankers acceptance rates plus, in each case, an applicable margin. Letters of credit are also available under the Credit Facilities on customary terms for facilities of this nature. The Credit Facilities' rates vary with the ratio of EBITDA minus capital expenditures and cash taxes, divided by interest. Commitment fees and standby charges usual for borrowings of this nature were and are payable.

10. Bank indebtedness (continued):

The amount made available under the Credit Facility to Hardwoods LP from time to time is limited to the extent of 85% of the book value of accounts receivable and the lesser of 60% of the book value or 85% of appraised value of inventories with the amount based on inventories not to exceed 60% of the total amount to be available. Certain identified accounts receivable and inventories are excluded from the calculation of the amount available under the Credit Facility. Hardwoods LP is required to maintain a fixed charge coverage ratio (calculated as the ratio of EBITDA less cash taxes less capital expenditures, divided by interest) of not less than 1.1 to 1. At December 31, 2009 the Hardwoods LP credit facility had $9.2 million of additional borrowing capacity.

The amount to be made available under the Credit Facility to Hardwoods USLP from time to time is limited to the extent of 85% of the book value of certain accounts receivable and 50% of the book value of inventories (with certain accounts receivable and inventory being excluded). Hardwoods USLP is required to maintain a minimum trailing EBITDA covenant until December 31, 2010, and a fixed charge coverage ratio (calculated as EBITDA less cash taxes less capital expenditures, divided by interest plus distributions) of 1.0 to 1 thereafter. These covenants of the Hardwoods USLP Credit Facility do not need to be met however when the unused availability under the credit facility is in excess of US$4.0 million. At December 31, 2009 the Hardwoods USLP credit facility had unused availability of $11.3 million (US$10.8 million).

The average annual interest rates paid in respect of bank indebtedness for the year ended December 31, 2009 were 3.82% and 4.88% (2008 – 5.19% and 5.09%) for the Hardwoods LP and Hardwoods USLP credit facilities, respectively. In addition, standby fees of 0.5% and 0.75% (2008 – 0.25% and 0.25%) related to the unused portion of the credit facilities was charged by the banks for Hardwoods LP and Hardwoods USLP respectively.

11. Non-controlling interests:

	2009	2008
Balance, beginning of year	$ 13,080	$ 30,006
Interest in earnings:		
Interest in earnings (loss) before taxes	(833)	(17,560)
Adjustment to non-controlling interest from subordination of Class B Unit Holders	(1,514)	(2,471)
Increase (decrease)	(2,347)	(20,031)
Foreign currency translation adjustment of non-controlling interest in Hardwoods USLP	(1,985)	3,105
Balance, end of year	$ 8,748	$ 13,080

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.

11. Non-controlling interests (continued):

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

- the consolidated Adjusted EBITDA, as defined in the Subordination Agreement dated March 23, 2004, of the Fund for the 12 month period ending on the last day of the month immediately preceding such date is at least $21,300,000; and
- cash distributions of at least $29,540,000 ($2.05 per Unit) have been paid on the Units and a combined amount of cash advances or distributions of at least $7,385,000 has been paid on the Class B LP Units and Class B USLP Units, being $2.05 per combined Class B LP and Class B USLP Units (as adjusted for issuances, redemptions and repurchases of Units, LP Units and USLP Units subsequently and by converting the cash distributions or advances by Hardwoods USLP on the USLP Units at the rate of exchange used by the Fund to convert funds received by it in 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 as at December 31, 2009.

Prior to the Subordination End Date, advances and distributions on the LP Units and the USLP Units will be made in the following order of priority:

- At the end of each month, cash advances or distributions will be made to the holders of Class A LP Units and Class A USLP Units in a combined amount that is sufficient to provide available cash to the Fund to enable the Fund to make cash distributions upon the Units for such month at least equal to $0.08542 per Unit or, if there is insufficient available cash to make distributions or advances in such amount, such lesser amount as is available and 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, 2009, the amount of such deficiency was $14.8 million (2008 - $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;

11. Non-controlling interests (continued):

- Fourth, to the holders of Class B LP Units and Class B USLP Units, to the extent only that combined advances or distributions in respect of any fiscal quarter(s) during the 12 month period then ended (and not, for greater certainty, in any previous 12 month period) on one Class B LP Unit and one Class B USLP Unit were not made, or were made in amounts less, on a pro-rated basis, that the combined amount advanced or distributed on one Class A LP Unit and one Class A USLP Unit during such 12 month period, the amount of such deficiency. As of December 31, 2009, the amount of such deficiency was nil (2008 - $1.9 million); and
- 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 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 $1.5 million for the year ended December 31, 2009 and $2.5 million for the year ended December 31, 2008.

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.

12. Fund Units (continued):

(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:

	2009	2008
Current	$ (1,896)	$ (734)
Future	10,320	(30,792)
	$ 8,424	$ (31,526)

During the year ended December 31, 2009, a subsidiary of the Fund recorded a future tax expense of $10.1 million related to the refinancing of inter-entity debt resulting from the continued downturn in financial results in the Fund's US operating subsidiary. The future tax expense was comprised of a reduction to the US operating loss carry forwards of a subsidiary of the Fund and a reduction in the associated tax basis in the subsidiary's investment in Hardwoods USLP.

During the year ended December 31, 2008 the Fund completed an internal reorganization that involved the refinancing of inter-entity debt in the form of notes issued and held by subsidiaries of the Fund. As a result of the internal re-organization, income tax losses which are available to reduce US taxable income of approximately US$10.3 million arose. Based on statutory income tax rates in effect for the Fund's US subsidiary, this amounted 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 was comprised of an estimated $0.8 million current income tax recovery and $2.8 million future income tax recovery.

Also during the year ended December 31, 2008 a Canadian subsidiary of the Fund recognized tax pools consisting principally of Canadian tax losses carried forward, of approximately $16.0 million as a result of the Fund's re-organization plan. 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.

13. Income taxes (continued):

The reorganizations and inter-entity refinancing noted in the preceding paragraphs did not have any effect upon the management or business activities of the Fund's operating subsidiaries.

During the year ended December 31, 2008, the Fund recorded a future tax recovery of approximately $22.3 million as a result of the write-down of 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 subject to income taxes in Canada and the United States. The applicable statutory rate in Canada for the year ending December 31, 2009 is 30.4% (2008 – 31.0%) and in the United States is 39.4% (2008 – 39.4%). As the tax expense related to the Canadian subsidiaries of the Fund is only $0.3 million, the following table reconciles the Fund's consolidated income tax expense to the statutory rate applicable in the United States. Income tax expense differs from that calculated by applying the U.S. federal and state income tax rates to earnings before income taxes for the following reasons:

	2009	2008
Earnings before income tax	$ (1,816)	$ (67,769)
Computed tax recovery at statutory rate	$ (716)	$ (26,701)
Internal restructuring and re-financing	10,129	(7,802)
Income of Fund distributed directly to Unitholders	-	(2,382)
Income and deductions not subject to tax	-	(422)
Taxes paid as a result of Subordination Agreement	-	92
Adjustment to non-controlling interest not subject to tax	(596)	(698)
State and branch profits tax	228	50
Reconciling items related to goodwill and intangible impairment	-	5,611
Rate changes	(475)	-
Other	(146)	726
Income tax expense (recovery)	$ 8,424	$ (31,526)

13. Income taxes (continued):

Taxes paid as a result of the 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 proportionate basis.

The tax effect of temporary differences that give rise to significant portions of the future income tax assets and liabilities at December 31, 2009 is as follows:

	2009	2008
Future income tax assets:		
Accounts receivable	$ 438	$ 380
Accounts payable	207	-
Inventory	290	351
Employee housing loans	44	77
Property, plant and equipment	351	309
Goodwill	15,926	19,307
Tax loss carry forwards and future interest deductions	4,427	10,318
Deferred gain on sale-leaseback of land and building	131	180
Financing charges and other	200	-
	22,014	30,922
Future income tax liabilities:		
Prepaid expenses	(45)	(88)
Property, plant and equipment	(62)	(52)
Investment in Hardwoods USLP	(4,320)	-
	(4,427)	(140)
Net future income tax asset	$ 17,587	$ 30,782

At December 31, 2009, subsidiaries of the Fund have operating loss carry forwards for income tax purposes of approximately $14.1 million in Canada and US$ nil in the United States that may be utilized to offset future taxable income. These losses, if not utilized expire between 2014 and 2027.

At December 31, 2009 the Fund and its Canadian subsidiaries have capital losses of approximately $23.4 million (2008 - $nil), and suspended capital losses of approximately $44.2 million available to offset future Canadian taxable capital gains. These capital losses arose as a result of internal restructuring and inter-entity transactions during the year ended December 31, 2009. A full valuation allowance has been recorded against the associated future income tax asset of $8.5 million.

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

	2009	2008
Source (use) of funds		
Accounts receivable	$ 3,842	$ 7,858
Income taxes recoverable/payable	(223)	(805)
Inventory	4,355	11,820
Prepaid expenses	74	155
Accounts payable and accrued liabilities	2,243	(4,192)
Decrease in non-cash operating working capital	$ 10,291	$ 14,836

CICA 1540, *Cash Flow Statements*, requires 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, 2009 no discretionary cash distributions were paid to Unitholders (2008 - $8.6 million).

15. Commitments:

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:

2010	$ 5,746
2011	3,735
2012	2,733
2013	2,041
2014	1,536
	15,791
Thereafter	580
	$ 16,371

16. Segment disclosure:

Information about geographic areas is as follows:

	2009	2008
Revenue from external customers:		
Canada	$ 75,339	$ 89,581
United States	115,584	166,720
	$ 190,923	$ 256,301
Property, plant and equipment:		
Canada	$ 450	$ 752
United States	841	1,416
	$ 1,291	$ 2,168

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, 2009, Hardwoods USLP contributed and expensed $239,378 (US$209,378) (2008- $377,750 (US$354,362)) 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, 2009, Hardwoods LP contributed and expensed $196,561 (2008 - $256,469) in relation to the LP Plan

18. Related party transactions:

For the year ended December 31, 2009, sales of $448,257 (2008 - $427,795) were made to affiliates of SIL, and the Fund made purchases of $53,210 (2008 - $98,005) from affiliates of SIL. All sales and purchases took place at prevailing market prices.

During the year ended December 31, 2008, the Fund paid $108,000 to affiliates of SIL under the terms of an agreement to provide services for management information systems. This agreement ended December 31, 2008.

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.

The Beauty of Hardwood

Unitholder Information

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R. Keith Purchase
Trustee

Terry M. Holland
President, Krystal Financial Corp.

Graham M. Wilson
President, Grawil Consultants Inc.

Directors

R. Keith Purchase
Director

Terry M. Holland
President, Krystal Financial Corp.

Graham M. Wilson
President, Grawil Consultants Inc.

E. Lawrence Sauder
Chair, Sauder Industries

William Sauder
Vice President, Sauder Industries

Officers

Maurice E. Paquette
President & Chief Executive Officer

Robert J. Brown
Vice President & CFO

Daniel A. Besen
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Garry W. Warner
Vice President,Northwestern Region

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HARDWOODS