
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 6-K

**REPORT OF FOREIGN PRIVATE ISSUER PURSUANT TO RULE 13a-16 OR 15d-16
UNDER THE SECURITIES EXCHANGE ACT OF 1934**

For the month of December 2008.

Commission File Number: 333-139791

MASONITE INTERNATIONAL INC.

(Name of registrant)

**1820 Matheson Blvd., Unit B4
Mississauga, Ontario L4W 0B3 Canada**
(Address of Principal Executive Office)

Indicate by check mark whether the registrant files or will file annual reports under cover Form 20-F or Form 40-F.

Form 20-F

Form 40-F

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1):

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7):

Indicate by check mark whether by furnishing the information contained in this Form, the registrant is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934

Yes

No

If "Yes" is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): N/A

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

MASONITE INTERNATIONAL INC.

Date: December 23, 2008

By: /s/ Anthony (Tony) DiLucente
Name: Anthony (Tony) DiLucente
Title: Executive Vice President and Chief Financial Officer

EXHIBIT INDEX

Exhibit	Description of Exhibit
99.1	Third Quarter Unaudited Interim Consolidated Financial Statements
99.2	Management's Discussion & Analysis of Financial Results
99.3	Quantitative and Qualitative Disclosures about Market Risk
99.4	Other Information

Unaudited Interim Consolidated Financial Statements
(In thousands of U.S. dollars)

MASONITE INTERNATIONAL INC.

As at September 30, 2008 and December 31, 2007 and
for the Three and Nine Month Periods Ended September 30, 2008 and 2007

MASONITE INTERNATIONAL INC.

Unaudited Consolidated Statements of Operations

(In thousands of U.S. dollars)

For the Three and Nine Month Periods Ended September 30

	Note	Three Month Period Ended		Nine Month Period Ended	
		2008	2007	2008	2007
Sales		\$ 453,222	\$ 529,343	\$ 1,425,370	\$ 1,687,651
Cost of sales	5	381,083	408,132	1,172,051	1,297,600
		<u>72,139</u>	<u>121,211</u>	<u>253,319</u>	<u>390,051</u>
Selling, general and administration expenses	4, 19	40,051	50,410	128,415	157,072
Depreciation		20,643	21,478	63,781	68,093
Amortization of intangible assets	3	2,743	8,898	16,899	26,690
Impairment of goodwill and intangible assets	3	369,209	—	999,540	—
Interest		42,892	44,315	185,159	134,130
Other expense, net	15	31,309	9,235	49,132	21,558
Loss before income taxes and non-controlling interest		(434,708)	(13,125)	(1,189,607)	(17,492)
Income taxes recovery	16	(14,451)	(2,387)	(55,036)	(12,418)
Non-controlling interest		908	2,073	2,799	5,326
Net loss		<u>\$ (421,165)</u>	<u>\$ (12,811)</u>	<u>\$ (1,137,370)</u>	<u>\$ (10,400)</u>

Basis of presentation (notes 1 and 2)

See accompanying notes to consolidated financial statements.

MASONITE INTERNATIONAL INC.

Unaudited Consolidated Balance Sheets

(In thousands of U.S. dollars)

As at September 30, 2008 and December 31, 2007

	<u>Note</u>	<u>September 30, 2008</u>	<u>December 31, 2007</u> (Audited)
Assets			
Current assets:			
Cash and cash equivalents		\$ 208,253	\$ 41,754
Accounts receivable	4	307,715	264,931
Inventories	5	284,522	295,831
Prepaid expenses		24,435	15,153
Assets held for sale	6	1,791	1,849
Income taxes recoverable		1,904	1,784
Current future income taxes		28,957	39,388
		<u>857,577</u>	<u>660,690</u>
Property, plant and equipment		759,156	812,475
Goodwill		—	768,430
Intangible assets		148,665	377,997
Other assets	7	387	20,501
Long-term future income taxes		18,635	19,959
		<u>\$ 1,784,420</u>	<u>\$ 2,660,052</u>
Liabilities and Shareholder's Equity			
Current liabilities:			
Bank indebtedness	8	\$ 351,288	\$ 17,615
Accounts payable and accrued expenses	9, 10, 15	308,700	325,123
Income taxes payable		13,273	15,056
Current future income taxes		1,450	2,093
Debt due on demand	9	1,902,168	—
Current portion of debt	9	9,527	20,777
		<u>2,586,406</u>	<u>380,664</u>
Debt	9	1,449	1,852,646
Long-term future income taxes		77,861	147,541
Other long-term liabilities	11	33,565	38,946
		<u>2,699,281</u>	<u>2,419,797</u>
Non-controlling interest		26,816	42,654
Shareholder's equity:			
Share capital	13	567,177	567,177
Common shares, unlimited shares authorized, 113,435,362 shares issued and outstanding at September 30, 2008 and December 31, 2007			
Contributed surplus		7,365	6,780
Deficit		(1,544,395)	(407,025)
Accumulated other comprehensive income		28,176	30,669
		<u>(941,677)</u>	<u>197,601</u>
		<u>\$ 1,784,420</u>	<u>\$ 2,660,052</u>

Commitments and contingencies (note 14)

Related party transactions (notes 7 and 19)

Basis of presentation (notes 1 and 2)

See accompanying notes to consolidated financial statements.

MASONITE INTERNATIONAL INC.

Unaudited Consolidated Statements of Changes in Shareholder's Equity and Comprehensive Income

(In thousands of U.S. dollars)

For the Nine Month Periods Ended September 30, 2008 and September 30, 2007

	Common Shares		Contributed Surplus	Deficit	Accumulated Other Comprehensive Income (loss)	Total Deficit and Accumulated Other Comprehensive Income (loss)	Total
	Number	Value					
Balance, January 1, 2008	113,435,362	\$ 567,177	\$ 6,780	\$ (407,025)	\$ 30,669	\$ (376,356)	\$ 197,601
Net loss	—	—	—	(1,137,370)	—	(1,137,370)	(1,137,370)
Other comprehensive loss, net of tax:							
Foreign exchange loss on self-sustaining operations	—	—	—	—	(230)	(230)	(230)
(Gains) losses on derivatives designated as cash flow hedges in prior periods transferred to net income in the current period, net of tax of \$1,109	—	—	—	—	(2,263)	(2,263)	(2,263)
Comprehensive loss							(1,139,863)
Share based awards	—	—	585	—	—	—	585
Balance, September 30, 2008	<u>113,435,362</u>	<u>\$ 567,177</u>	<u>\$ 7,365</u>	<u>\$ (1,544,395)</u>	<u>\$ 28,176</u>	<u>\$ (1,516,219)</u>	<u>\$ (941,677)</u>
Balance, January 1, 2007	113,435,362	\$ 567,177	\$ 4,987	\$ (104,134)	\$ 29,298	\$ (74,836)	497,328
Net loss	—	—	—	(10,400)	—	(10,400)	(10,400)
Other comprehensive income (loss), net of tax:							
Foreign exchange gain on self-sustaining operations	—	—	—	—	14,763	14,763	14,763
Change in fair value of cash flow hedges, net of tax of \$1,369	—	—	—	—	(11,144)	(11,144)	(11,144)
Comprehensive loss							(6,781)
Share based awards	—	—	1,758	—	—	—	1,758
Balance, September 30, 2007	<u>113,435,362</u>	<u>\$ 567,177</u>	<u>\$ 6,745</u>	<u>\$ (114,534)</u>	<u>\$ 32,917</u>	<u>\$ (81,617)</u>	<u>\$ 492,305</u>

Basis of presentation (notes 1 and 2)

See accompanying notes to consolidated financial statements.

MASONITE INTERNATIONAL INC.

Unaudited Consolidated Statements of Comprehensive Income (loss)

(In thousands of U.S. dollars)

For the Three and Nine Month Periods Ended September 30

	<u>Three Month Period Ended</u>		<u>Nine Month Period Ended</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Net loss	\$ (421,165)	\$ (12,811)	\$ (1,137,370)	\$ (10,400)
Foreign exchange gain (loss) on self-sustaining operations	(24,693)	13,563	(230)	14,763
(Gains) losses on derivatives designated as cash flow hedges in prior periods transferred to net income in the current period, net of tax (1)	<u>377</u>	<u>(8,381)</u>	<u>(2,263)</u>	<u>(11,144)</u>
Other comprehensive income (loss)	<u>(24,316)</u>	<u>5,182</u>	<u>(2,493)</u>	<u>3,619</u>
Comprehensive loss	<u>\$ (445,481)</u>	<u>\$ (7,629)</u>	<u>\$ (1,139,863)</u>	<u>\$ (6,781)</u>

(1) Net of income tax expense (recovery) for the three month period ended September 30, 2008 of \$192 (2007 - \$(3,901)), and net of income tax expense (recovery) for the nine month period ended September 30, 2008 of \$(1,109) (2007 - \$(1,369))

MASONITE INTERNATIONAL INC.

Unaudited Consolidated Statements of Cash Flows

(In thousands of U.S. dollars)

For the Three and Nine Month Periods Ended September 30

	Three Month Period Ended		Nine Month Period Ended	
	2008	2007	2008	2007
Cash provided by (used in):				
Operating activities:				
Net loss	\$ (421,165)	\$ (12,811)	\$ (1,137,370)	\$ (10,400)
Items not involving cash:				
Depreciation	20,643	21,478	63,781	68,093
Amortization of intangible assets	2,743	8,898	16,899	26,690
Non-cash interest expense	982	2,909	62,100	7,949
Mark-to-market on interest rate swaps	(1,059)	—	(1,059)	—
(Gain) loss on sale of property, plant and equipment	(589)	555	(1,921)	1,505
Impairment of property, plant and equipment	—	3,611	5,920	6,231
Impairment of receivable due from parent	18,898	—	18,898	—
Impairment of goodwill and intangible assets	369,209	—	999,540	—
Share based awards	(317)	486	585	1,758
Future income taxes	(13,517)	(1,917)	(59,094)	(18,374)
Pension and post-retirement expense and funding, net	(840)	680	(1,038)	1,282
Unrealized foreign exchange loss (gain)	5,139	(3,542)	5,401	(6,512)
Non-controlling interest	908	2,073	2,799	5,326
Change in non-cash operating working capital:				
Accounts receivable	31,321	1,619	(42,729)	(30,387)
Inventories	5,604	(443)	10,477	26,036
Income taxes recoverable	(128)	—	(120)	—
Income taxes payable	(3,390)	(4,348)	(834)	(3,684)
Prepaid expenses	(533)	2,855	(5,766)	(279)
Accounts payable and accrued expenses	(21,525)	27,176	(15,924)	26,814
	<u>(7,616)</u>	<u>49,279</u>	<u>(79,455)</u>	<u>102,048</u>
Financing activities				
Change in bank indebtedness	(2,369)	(50,566)	333,673	(43,765)
Repayment of long-term debt	(8,624)	(9,883)	(22,455)	(18,611)
Forbearance fees	(3,649)	—	(3,649)	—
	<u>(14,642)</u>	<u>(60,449)</u>	<u>307,569</u>	<u>(62,376)</u>
Investing activities				
Proceeds from sale of property, plant and equipment	4,285	601	8,224	792
Additions to property, plant and equipment	(8,200)	(6,476)	(21,695)	(22,702)
Acquisitions	—	(3,264)	(30,507)	(6,997)
Distributions to non-controlling interests	(2,375)	(1,084)	(10,835)	(2,639)
Other investing activities	(434)	617	(530)	(1,039)
	<u>(6,724)</u>	<u>(9,606)</u>	<u>(55,343)</u>	<u>(32,585)</u>
Net foreign currency translation adjustment	(4,162)	2,701	(6,272)	4,501
Increase (decrease) in cash and cash equivalents	(33,144)	(18,075)	166,499	11,588
Cash and cash equivalents, beginning of period	241,397	77,086	41,754	47,423
Cash and cash equivalents, end of period	<u>\$ 208,253</u>	<u>\$ 59,011</u>	<u>\$ 208,253</u>	<u>\$ 59,011</u>

Basis of presentation (notes 1 and 2)

Supplemental cash flow information (note 17)

See accompanying notes to consolidated financial statements.

NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

As at September 30, 2008 and December 31, 2007 and for the Three and Nine Month Periods Ended September 30, 2008 and September 30, 2007

(In thousands of U.S. dollars, except share and option information)

NOTE 1: GOING CONCERN

These financial statements of Masonite International Inc. (the "Company" or "Masonite") have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. There is uncertainty about the appropriateness of the use of the going concern assumption because the Company is currently not in compliance with the financial covenants contained in the Senior Secured Credit Facilities ("Credit Agreement") with a principal amount of \$1,132,312 and a revolving credit facility with a principal amount outstanding of \$336,000, both as of September 30, 2008. This non-compliance constitutes an Event of Default as defined in the Credit Agreement. The covenant violations provide the lenders the right to demand repayment of the full amount of the term loan and revolving credit facility plus accrued interest. As of the date of issuance of these financial statements the lenders have not demanded repayment. The Company is also in default of its Senior Subordinated Notes due 2015 ("Notes") due to the failure to pay interest within 30 days of the scheduled interest payment date of October 15, 2008. This default provides the holders of the Notes the right to demand repayment of the full amount of the Notes plus accrued interest. The Notes have a principal amount of \$769,856 as of September 30, 2008. Accordingly, the Company has reclassified the balance outstanding under the Credit Agreement and the Notes as current liabilities. Management has been engaged in negotiations with the lenders party to the Credit Agreement and the holders of the Notes regarding an amendment to these agreements including a waiver of such non-compliance.

On September 16, 2008, the Company entered into a forbearance agreement with its bank lenders that provides the Company more time and flexibility to negotiate a potential amendment to the terms of its credit facility. Under terms of the forbearance agreement, which became effective upon Masonite's payment of certain fees, neither the administrative agent (the "Agent") nor the lenders will (i) take action to accelerate the maturity of or terminate the Company's revolving credit facility or to otherwise enforce payment of the Company's obligations under the credit agreement, or (ii) exercise any other rights and remedies available to them under the credit agreement or applicable law. The forbearance agreement applies to the non-compliance of the covenants as of June 30 and, provisionally, any such non-compliance as of September 30, 2008. The Company paid a fee of \$3,649 to lenders that consented to the forbearance. The unamortized balance of the forbearance fees of \$2,703 is included in prepaid expenses.

On November 25, 2008, the Company entered into an amendment to its credit agreement and an extension of the forbearance agreement dated September 16, 2008, with its bank lenders. This extension provides the Company time to develop a revised business plan for 2009, which will serve as the basis of its efforts to create an appropriate capital structure to support Masonite's long-term business objectives. Pursuant to the amendment, neither the Agent nor the lenders will (i) take action to accelerate the maturity of or terminate the Company's revolving credit facility or to otherwise enforce payment of the Company's obligations under the credit agreement, or (ii) exercise any other rights and remedies available to them under the credit agreement or applicable law. The forbearance agreement applies to the non-compliance of the covenants as of June 30 and September 30, 2008. The forbearance agreement termination date is the earliest of December 19, 2008, any other Event of Default, and any Termination Event as defined in the Bondholder Forbearance Agreement dated November 17, 2008 (and described below). The forbearance agreement can also be terminated if the Company fails to deliver certain financial information by agreed upon dates.

The amendment with the lenders provides for the December 19, 2008 deadline to be further extended to January 15, 2009, provided that Masonite: (1) delivers a draft business plan by December 19, 2008, (2) reviews the plan with the bank lenders by December 22, 2008, (3) delivers a final business plan by January 15, 2009; and (4) complies with a number of other provisions related to the negotiation of a consensual restructuring plan. To date, no agreement has been reached and there can be no guarantee that an agreement will be reached on terms acceptable to the Company or its lenders.

On September 16, 2008, the Agent, on behalf of the lenders, under the Company's credit facility provided notice under the company's senior subordinated note indentures of the imposition of a payment blockage period with respect to the Company's Notes. Such notice was permitted by the terms of the indentures as a result of the Company's non-compliance with certain financial covenants under its credit facility.

As a result of such notice, the Company is not permitted for a period of up to 179 days from September 16, 2008 to make interest or principal payments under the Notes. In accordance with this restriction, the Company did not make a scheduled payment of interest on the Notes when due on October 15, 2008 although it had sufficient cash on hand to make such

NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

As at September 30, 2008 and December 31, 2007 and for the Three and Nine Month Periods Ended September 30, 2008 and September 30, 2007

(In thousands of U.S. dollars, except share and option information)

payment. Failure to make such interest payment within 30 days of October 15, 2008 constituted an event of default under the note indentures, permitting holders of at least 30% in principal amount of outstanding notes to declare the full amount of the notes immediately due and payable.

On November 17, 2008, the Company entered into a forbearance agreement with holders of a majority of the Notes issued by two of the Company's subsidiaries. Masonite expects that this forbearance agreement will provide the Company additional time and flexibility as it continues to pursue opportunities to develop an appropriate capital structure to support its long-term strategic plan and business objectives. Under terms of the forbearance agreement, which is effective through December 31, 2008, the noteholders executing the forbearance agreement agreed that during such period they will not exercise rights and remedies against the Company solely with respect to the Company's failure to make the interest payment due on October 15, 2008. The forbearance agreement terminates prior to December 31, 2008 upon certain events.

The Company's ability to continue as a going concern is dependent upon its ability to complete a successful renegotiation of its Credit Agreement terms and Notes. These financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts nor to the amounts and classification of the liabilities that may be necessary should the Company be unable to continue as a going concern.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

These unaudited interim consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). These unaudited interim consolidated financial statements include the accounts of Masonite as at September 30, 2008 and December 31, 2007 and for the three and nine month periods ended September 30, 2008 and September 30, 2007. The financial statements were prepared using accounting principles applicable to a going concern, which assumes that the Company will continue in operation for a reasonable period of time and will be able to realize its assets and discharge its liabilities in the normal course of operations.

These unaudited interim consolidated financial statements do not include all of the disclosures required by GAAP for annual financial statements and should be read in conjunction with the annual audited consolidated financial statements, including the notes thereto, for the year ended December 31, 2007. In the opinion of management, these unaudited interim consolidated financial statements reflect all adjustments which are necessary for a fair presentation of the operating results and financial condition of the Company for such periods and as of such dates. These unaudited interim consolidated financial statements are prepared using the same accounting policies and methods of application as the annual audited consolidated financial statements except as described below in Recently Adopted Accounting Standards. Operating results for the interim periods included herein are not necessarily indicative of the results that may be expected for the year ending December 31, 2008.

The Company's fiscal year is the 52 or 53-week period ending on the Sunday closest to December 31. In a 52 week year, each fiscal quarter consists of 13 weeks. The three month periods ended September 30, 2008 and September 30, 2007 consist of 13 weeks. For presentation purposes, the financial statements and notes refer to September 30 as the Company's quarter-end.

Principles of Consolidation

The unaudited interim financial statements include the accounts of the Company and its subsidiaries, the accounts of any variable interest entities ("VIE") for which the Company is the primary beneficiary and its proportionate share of assets, liabilities, revenues and expenses from joint ventures. Intercompany accounts and transactions have been eliminated on consolidation. The results of subsidiaries acquired during the periods presented are consolidated from their respective dates of acquisition using the purchase method. Joint ventures are proportionately consolidated from the date of formation.

NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

As at September 30, 2008 and December 31, 2007 and for the Three and Nine Month Periods Ended September 30, 2008 and September 30, 2007

(In thousands of U.S. dollars, except share and option information)

Use of estimates

The preparation of financial statements in conformity with GAAP 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 dates of the financial statements and the reported amounts of revenue and expenses during the reporting period. Significant areas requiring the use of management estimates include the valuation of the allowance for doubtful accounts, the net realizable value of inventories, the determination of the fair value of derivative instruments, the determination of obligations under employee future benefit plans, the determination of share based awards, the valuation of acquired assets, the determination of the fair value of financial instruments, the fair value of goodwill, intangible assets, property, plant and equipment, the useful lives of long-lived assets, as well as determination of impairment thereon, and the recoverability of future income tax assets. Actual results could differ from those estimates.

Recently Adopted Accounting Standards:

(a) Change in accounting policies

Effective January 1, 2008, the Company adopted the following new accounting standards issued by the Canadian Institute of Chartered Accountants (CICA):

(i) Inventory

CICA Section 3031, *Inventories*, replaces Section 3030, *Inventories*, and harmonizes the Canadian standards related to inventories with International Financial Reporting Standards (IFRS). This section provides more extensive guidance on the determination of cost, narrows the permitted cost formulas, requires impairment testing and expands the disclosure requirements to increase transparency. There was no impact on the financial results of the Company from the adoption of Section 3031.

(ii) Capital disclosures

CICA Section 1535, *Capital Disclosures*, establishes guidelines for the disclosure of information on an entity's capital and how it is managed. This enhanced disclosure enables users to evaluate the entity's objectives, policies and processes for managing capital. This new requirement is for disclosure purposes only and upon adoption did not impact the financial results of the Company. See Note 21 Capital Management, for further disclosure.

(iii) Financial instruments – disclosure and presentation

CICA Section 3862, *Financial Instruments – Disclosure*, and Section 3863, *Financial Instruments – Presentation*, replace the existing Section 3861, *Financial Instruments – Disclosure and Presentation*. Section 3862 requires enhanced disclosure on the nature and extent of financial instrument risks and how an entity manages those risks. Section 3863 carries forward the existing presentation requirements and provides additional guidance for the classification of financial instruments. This new requirement is for disclosure purposes only and upon adoption did not impact the financial results of the Company. See Note 20 Financial Instruments and Risk Management, for further disclosure.

(b) Future accounting policies

Goodwill and Intangible Assets

CICA Section 3064, *Goodwill and Intangible Assets* replaces the existing Section 3062, *Goodwill and Other Intangible Assets* and Section 3450, *Research and Development Costs*. Section 3064 establishes standards for the recognition, measurement, presentation and disclosure of intangible assets. Standards relating to goodwill are unchanged from those included in Section 3062. This section comes into effect on January 1, 2009. The Company is currently in the process of assessing the impact on its financial statements of adopting Section 3064.

NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

As at September 30, 2008 and December 31, 2007 and for the Three and Nine Month Periods Ended September 30, 2008 and September 30, 2007

(In thousands of U.S. dollars, except share and option information)

International Financial Reporting Standards

In January 2006, the Canadian Accounting Standards Board (AcSB) announced its decision to replace Canadian GAAP with IFRS for all Canadian Publicly Accountable Enterprises (PAE). On February 13, 2008, the AcSB confirmed January 1, 2011 as the official changeover date for PAEs to commence reporting under IFRS. Although IFRS is principles-based and uses a conceptual framework similar to Canadian GAAP, there are significant differences and choices in accounting policies, as well as increased disclosure requirements under IFRS. The Company is currently in the process of assessing the impact of IFRS on its financial statements.

NOTE 3: ACQUISITIONS, GOODWILL AND INTANGIBLES

In the first quarter of 2008, the Company purchased the remaining 25% ownership interest of the Company's operations located in the Czech Republic and Poland. The consideration was approximately \$18,600 consisting of approximately \$13,700 paid for the shares and the balance as repayment of advances made by the minority interest shareholder. The excess purchase price over the fair value of net identifiable assets acquired of \$6,620 was allocated to customer list intangible assets in the amount of \$5,430 and goodwill in the amount of \$1,190. In the second quarter of 2008, the holder of one-half of the minority interest ownership position in a North American manufacturing facility exercised their right requiring the Company, pursuant to the terms in the shareholder agreement, to purchase their ownership interest for approximately \$16,800. The excess purchase price over the fair value of net identifiable assets acquired of \$10,572 was allocated to goodwill. All these intangibles were subsequently impaired in the third quarter of 2008.

Goodwill is not amortized but instead is tested for impairment annually on December 31, or more frequently if events or changes in circumstances indicate the carrying amount may not be recoverable. Impairment is tested at the reporting unit level by comparing the reporting unit's carrying amount to its fair value. Fair values of reporting units are estimated using an income approach and market values of the Company's debt and equity instruments. If the carrying amount exceeds fair value, there is impairment in goodwill. Any impairment in goodwill is measured by allocating the fair value of the reporting unit in a manner similar to a purchase price allocation and comparing the notional goodwill from the fair value allocation to the carrying value of goodwill. Due to the continued decline of the U.S. housing market, the Company completed an impairment test for its North American reporting unit as at June 30, 2008. This test concluded that there was impairment in the goodwill in the North American segment in the amount of \$471,350. Further, the impairment test also concluded that the North American customer relationship intangible was impaired requiring a charge in the amount of \$152,644 as well as an impairment charge of \$662 of the customer relationship intangible in the Europe and Other segment.

The Company completed an additional impairment test as at September 30, 2008 due to global economic conditions, specifically the continued decline in the U.S. and other housing markets. This test concluded that there was impairment of all remaining goodwill in both the North American and Europe and Other segments in the amount of \$246,612 and \$58,638, respectively. Further, the impairment test also concluded that the remaining Europe and Other customer relationship intangible of \$17,459 was impaired. Additional impairments charges of \$36,900 for the trademark and tradename intangible, \$7,469 for the North American patents intangible and \$2,131 for the Europe and Other patents intangible also resulted from this test.

For the nine months ended September 30, 2008 and for the twelve months ended December 31, 2007, the changes in the carrying amount of goodwill were as follows:

2008	North America	Europe and Other	Total
Goodwill, December 31, 2007	\$ 707,390	\$ 61,040	\$ 768,430
Acquisitions	10,572	1,190	11,762
Impairments	(717,962)	(63,651)	(781,613)
Translation adjustment	—	1,421	1,421
Goodwill, September 30, 2008	\$ —	\$ —	\$ —

NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

As at September 30, 2008 and December 31, 2007 and for the Three and Nine Month Periods Ended September 30, 2008 and September 30, 2007

(In thousands of U.S. dollars, except share and option information)

2007	North America	Europe and Other	Total
Goodwill, December 31, 2006	\$ 915,790	\$ 53,690	\$ 969,480
Acquisitions	—	4,374	4,374
Impairments	(208,400)	—	(208,400)
Translation adjustment	—	2,976	2,976
Goodwill, December 31, 2007	<u>\$ 707,390</u>	<u>\$ 61,040</u>	<u>\$ 768,430</u>

The carrying amount of intangibles at September 30, 2008 and December 31, 2007 was as follows:

2008	Cost	Accumulated Amortization	Net Book Value
Amortizable intangible assets			
Customer relationships	\$ 81,797	\$ 81,797	\$ —
Order backlogs	4,105	4,105	—
Patents	82,393	31,828	50,565
	<u>168,295</u>	<u>117,730</u>	<u>50,565</u>
Indefinite life intangible assets			
Trademarks and tradenames	98,100	—	98,100
	<u>\$ 266,395</u>	<u>\$ 117,730</u>	<u>\$ 148,665</u>

2007	Cost	Accumulated Amortization	Net Book Value
Amortizable intangible assets			
Customer relationships	\$ 247,954	\$ 71,947	\$ 176,007
Order backlogs	4,105	4,105	—
Patents	92,023	25,033	66,990
	<u>344,082</u>	<u>101,085</u>	<u>242,997</u>
Indefinite life intangible assets			
Trademarks and tradenames	135,000	—	135,000
	<u>\$ 479,082</u>	<u>\$ 101,085</u>	<u>\$ 377,997</u>

The estimated amortization for existing intangible assets over the next five years ending September 30 is as follows:

2009	\$ 8,019
2010	8,019
2011	8,019
2012	8,019
2013	8,019
	<u>\$ 40,095</u>

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(In thousands of U.S. dollars, except share and option information)

NOTE 4: ACCOUNTS RECEIVABLE

The Company had an agreement (the "Facilities Agreement") to sell up to \$135,000 of non-interest bearing trade accounts receivable. The charges incurred under the Facilities Agreement were calculated based on the receivables sold and the prevailing LIBOR interest rate plus a spread of 1.25% (December 31, 2007 – 1.25%).

On April 18, 2008, the Company was notified by the counterparty to the Facilities Agreement of termination of the program effective June 17, 2008.

The Company also had an additional agreement (the "Acquired Facilities Agreement") which was terminated in March of 2007.

Information regarding balances sold and charges incurred, which are included in selling, general and administration expenses, on the Facilities Agreement, is included in the table below:

	September 30, 2008	December 31, 2007
Receivables sold at period end		
Facilities Agreement	\$ —	\$ 52,150
	July 1, 2008 – September 30, 2008	July 1, 2007 – September 30, 2007
Charges incurred in the period		
Facilities Agreement	\$ —	\$ 1,065
Acquired Facilities Agreement	—	—
	\$ —	\$ 1,065
	January 1, 2008 – September 30, 2008	January 1, 2007 – September 30, 2007
Charges incurred in the period		
Facilities Agreement	\$ 753	\$ 4,167
Acquired Facilities Agreement	—	280
	\$ 753	\$ 4,447

NOTE 5: INVENTORIES

	September 30, 2008	December 31, 2007
Raw materials	\$ 168,184	\$ 185,146
Finished goods	116,338	110,685
	\$ 284,522	\$ 295,831

The Company recognized an inventory write-down of \$1,285 in the three month period ended September 30, 2008 (three month period ended September 30, 2007 - \$647) and \$5,742 in the nine month period ended September 30, 2008 (nine month period ended September 30, 2007 - \$2,311).

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NOTE 6: ASSETS HELD FOR SALE

Due to the closure of manufacturing facilities in Canada, land and buildings have been held for sale, and as a result, the carrying value of \$1,791 has been reclassified from property, plant and equipment to assets held for sale. The carrying value of the assets held for sale in the North American segment is \$1,791 and are expected to be sold during the next twelve months.

During the three month period ended September 30, 2008, \$3,517 of assets previously held for sale (three month period ended September 30, 2007 - \$nil) were disposed of for proceeds of \$4,371 (three month period ended September 30, 2007 - \$nil).

During the nine month period ended September 30, 2008, \$5,412 of assets previously held for sale (nine month period ended September 30, 2007 - \$nil) were disposed of for proceeds of \$8,010 (nine month period ended September 30, 2007 - \$nil).

NOTE 7: OTHER ASSETS

	September 30, 2008	December 31, 2007
Receivable from parent	\$ —	\$ 18,408
Long-term receivables and other	387	2,093
	<u>\$ 387</u>	<u>\$ 20,501</u>

Included in long-term receivables and other at September 30, 2008 is \$nil (December 31, 2007 - \$1,690) in receivables due over the next four years pursuant to a royalty agreement. The receivable of \$nil (December 31, 2007 - \$18,408) due from Masonite Holding Corporation ("Holdings"), the Company's parent, represents share purchase and redemption transactions of the Parent's shares that were funded by a subsidiary of the Company. The amount receivable from Holdings is non-interest bearing, unsecured, and has no set terms of repayment. A provision in the amount of \$18,898 was recorded in the third quarter of 2008 due to the uncertainty of the ultimate collection of this receivable.

NOTE 8: BANK INDEBTEDNESS

	September 30, 2008	December 31, 2007
Revolving credit facility	\$ 336,000	\$ —
Other borrowings and overdrafts	15,288	17,615
	<u>\$ 351,288</u>	<u>\$ 17,615</u>

The Company has a \$350,000 revolving credit facility as part of its Credit Agreement. Interest on the revolving credit facility is subject to a pricing grid ranging from LIBOR plus 1.75% to LIBOR plus 2.50%, and is secured by fixed and floating charges over substantially all of Masonite's assets. As of September 30, 2008, the revolving credit facility interest rate would have been LIBOR plus 2.50% (December 31, 2007 - LIBOR plus 2.50%) had the Event of Default not occurred. As a result of the Event of Default, in conjunction with the forbearance agreement described in Note 1 Going Concern, the Company began paying a Prime Rate of interest plus 1.5% with respect to the drawn obligation under the revolving credit facility commencing September 18, 2008. As well all interest on revolving credit facilities is now payable at the end of each calendar quarter. The fair market value of the revolving credit facility as represented by its September 30, 2008 trading value is estimated to be \$258,720.

The revolving credit facility also provides for payment to the lenders of a commitment fee on the average daily undrawn commitments at a rate ranging from 0.375% to 0.5% per annum, a fronting fee of 0.125%, and a letter of credit fee ranging from 1.75% to 2.5% (less the 0.125% fronting fee).

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Interest on bank indebtedness for the three month period ended September 30, 2008 was \$4,529 (three month period ended September 30, 2007 - \$987). Interest on bank indebtedness for the nine month period ended September 30, 2008 was \$8,887 (nine month period ended September 30, 2007 - \$3,364).

NOTE 9: DEBT

	<u>September 30, 2008</u>	<u>December 31, 2007</u>
Senior Secured Credit Facilities, bearing interest at Prime plus 1.00% due on demand, net of deferred financing fees of \$nil (2007 - \$29,199)	\$ 1,132,312	\$ 1,116,426
Senior Subordinated Notes, bearing interest at 11%, due on demand, net of deferred financing fees of \$nil (2007 - \$31,841)	769,856	738,015
Bank term loan bearing interest at LIBOR plus 1.50%, due November 27, 2009	—	2,100
Bank term loan bearing interest at LIBOR plus 0.50% (2007 - 0.49%) due January 17, 2009	2,500	7,500
Bank term loan bearing interest at LIBOR plus 0.49% (2007 - 0.49%) due January 2, 2009	5,000	5,000
Other loans, at various interest dates and maturities	3,476	4,382
	<u>1,913,144</u>	<u>1,873,423</u>
Current portion of debt	9,527	20,777
Debt due on demand	1,902,168	—
Debt	<u>\$ 1,449</u>	<u>\$ 1,852,646</u>

The aggregate amount of principal repayments in the twelve month periods ending September 30 in each of the next five years and thereafter is as follows:

2009	\$ 1,911,695
2010	948
2011	501
2012	—
2013	—
Thereafter	—
	<u>\$ 1,913,144</u>

The Company's Credit Agreement includes an eight year \$1,175,000 term loan that bears interest at LIBOR plus 2.00% and amortizes at 1% per year. This agreement requires the Company to meet a minimum interest coverage ratio starting at 1.5 times and increasing over time to 2.2 times adjusted earnings before interest, taxes, depreciation and amortization, as defined in the Credit Agreement ("Adjusted EBITDA"), and a maximum leverage ratio, which is defined generally as total indebtedness including outstanding letters of credit less cash on hand, starting at 7.9 times, and decreasing over time to 4.75 times, Adjusted EBITDA. The fair market value of the term loan obligation as represented by its September 30, 2008 trading value is estimated to be \$893,825. The prevailing 3-month LIBOR rate at September 30, 2008 was 4.05%.

At September 30, 2008, the Company was required to have met a minimum interest coverage ratio of 1.65 times Adjusted EBITDA, and a maximum leverage ratio of 6.8 times Adjusted EBITDA. In addition, the Credit Agreement limits, among other things, the incurrence of additional indebtedness, investments, dividends, transactions with affiliates, asset sales, acquisitions, mergers and consolidations, prepayments of other indebtedness, liens and other encumbrances, additional payments based on excess cash flows, and other matters customarily restricted in such agreements. This facility also contains certain customary events of default, subject to grace periods, as appropriate. The Credit Agreement is secured by a fixed and floating charge over the assets of the Company and the guarantor subsidiaries, as defined in the Credit Agreement. At

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(In thousands of U.S. dollars, except share and option information)

September 30, 2008, the Company was not in compliance with either of these ratios. The non-compliance with these ratios constitutes an Event of Default and permits the lenders party to the Credit Agreement to demand immediate repayment of the senior secured credit facility. The Company is currently in negotiations with the lenders party to the Credit Agreement regarding an amendment to the Credit Agreement and a waiver of the Company's non-compliance. There can be no guarantee that an agreement will be reached among the parties on terms that are acceptable to the Company and its lenders. As a result of the non-compliance, deferred financing fees of \$55,988 relating to the Credit Agreement and the Notes were charged to interest expense in the second quarter of 2008. During an Event of Default, the Agent or a majority of the lenders may elect to prohibit the Company from continuing the interest basis of loans that are LIBOR loans at the end of the relevant interest period and convert the loans to ABR/Prime rate loans. In addition to the above consequences, during an Event of Default various limitations on actions apply in respect of sale of assets, investments, dividends, debt payments and amendments. As part of the forbearance agreement described in Note 1 Going Concern, the Company agreed to convert the basis of the Senior Secured Credit Facility from LIBOR to the Prime Rate of interest as of the date of the forbearance agreement. Additionally, all interest payments on the term loan are now due at the end of each calendar quarter. On November 25, 2008 the Company entered into an amendment to its credit agreement and an extension of the forbearance agreement dated September 16, 2008, with its bank lenders as described in Note 1 Going Concern. In addition, pursuant to the amendment, the Company agreed to a 2% increase in the interest rate under the Credit Agreement which increase is payable in the form of additional indebtedness.

The Company's Notes of \$769,856 bear interest at 11% and are due October 6, 2015. The indentures relating to the Notes limit the Company's ability to incur additional indebtedness or issue certain preferred shares; pay dividends on or make other distributions or repurchase its capital stock or make other restricted payments; make certain investments; sell certain assets; create liens on certain assets to secure debt; consolidate, merge, sell or otherwise dispose of all or substantially all of their assets; enter into certain transactions with affiliates; and designate subsidiaries as unrestricted subsidiaries. Subject to certain exceptions, the indentures relating to the Notes permit the Company and its restricted subsidiaries to incur additional indebtedness, including secured indebtedness. The fair market value of the Notes as represented by their September 30, 2008 trading values is estimated to be \$224,383. Due to the payment blockage notice described in Note 1 Going Concern, the Company did not make the scheduled interest payment on the Notes that was due October 15, 2008 and is in default under the Notes. As a result the Notes have been reclassified as current liabilities. The Company entered into a forbearance agreement with holders of a majority of the Notes on November 17, 2008 as described in Note 1 Going Concern.

The Company's weighted average interest rate at September 30, 2008 was 7.9% (December 31, 2007 – 8.2%).

	July 1, 2008 – September 30, 2008	July 1, 2007 – September 30, 2007
Interest on debt		
Interest	\$ 36,814	\$ 44,227
Interest rate swap	2,108	(2,625)
Deferred financing fees	744	2,550
	<u>\$ 39,666</u>	<u>\$ 44,152</u>
	January 1, 2008 – September 30, 2008	January 1, 2007 – September 30, 2007
Interest on debt		
Interest	\$ 113,038	\$ 133,473
Interest rate swap	5,109	(8,373)
Deferred financing fees	61,770	7,590
	<u>\$ 179,917</u>	<u>\$ 132,690</u>

On April 26, 2005, Masonite entered into interest rate swap agreements to convert \$1,150,000 of floating rate debt into fixed rate debt. These swaps amortize over a five year period and mature in 2010. On April 26, 2006, 2007, and 2008, \$100,000, \$150,000 and \$300,000 respectively, of the interest rate swaps amortized, leaving \$600,000 at a fixed rate as of September 30, 2008. On April 26, 2009 and 2010, respectively, \$300,000 of notional principal amortizes. At September 30, 2008, a total of \$600,000 of floating rate debt remained converted into fixed rate debt, at an interest rate of 4.22% plus a credit spread of 2.00%. At September 30, 2008, the fair value of these agreements represented a liability of \$5,538 and is included in Note 10

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Accounts Payable and Accrued Expenses. The income tax benefit associated with the recognition of this loss is \$1,871. During the third quarter of 2008, \$377 of expense related to the interest rate swaps (net of the related tax asset) was moved from accumulated other comprehensive income to net income as this interest was realized during the period. The floating reference rate is the 3-month LIBOR rate. The interest rate swaps were valued utilizing the forward swap rates as derived from the swap curve as at period end and is sensitive to changes in forward rates. The effective interest rate method was utilized to discount the liability. The swaps are considered to be debt for purposes of our Credit Agreement. The swaps settle on a quarterly basis. The Company has established a hedging relationship with formal documentation between the interest rate swap and the long-term debt. As a result of the non-compliance with the covenants in the Credit Agreement, which is the hedged item in the designated hedging relationship on the swap, the swap constituted an ineffective hedge at September 30, 2008. The mark-to-market adjustment for the interest rate swaps is \$1,059 as described in Note 15 Other Expense, Net.

NOTE 10: ACCOUNTS PAYABLE AND ACCRUED EXPENSES

	September 30, 2008	December 31, 2007
Trade payables	\$ 111,486	\$ 135,049
Interest	56,097	35,752
Customer incentives	34,863	46,417
Payroll and related remittances	40,447	41,041
Restructuring liability	7,662	14,368
Interest rate swaps	5,538	3,225
Other	52,607	49,271
	<u>\$ 308,700</u>	<u>\$ 325,123</u>

NOTE 11: OTHER LONG-TERM LIABILITIES

	September 30, 2008	December 31, 2007
U.S. defined benefit plan	\$ 13,069	\$ 13,577
Advances from minority interest shareholders	3,885	9,425
United Kingdom defined benefit plan	7,367	8,488
Severances payable and restructuring liability	4,653	3,302
Other post employment benefits and other	4,591	4,154
	<u>\$ 33,565</u>	<u>\$ 38,946</u>

NOTE 12: NON-CONTROLLING INTEREST

	September 30, 2008	December 31, 2007
Balance, beginning of period	\$ 42,654	\$ 36,841
Share of results	2,799	8,147
Impact of:		
Acquisitions	(14,507)	(1,271)
Distributions to minority shareholders	(4,850)	(1,065)
Foreign exchange and other	720	2
Balance, end of period	<u>\$ 26,816</u>	<u>\$ 42,654</u>

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(In thousands of U.S. dollars, except share and option information)

NOTE 13: SHAREHOLDER'S EQUITY

Masonite is a wholly owned subsidiary of Holdings. As at September 30, 2008, management owns a 4.6% interest in Holdings (December 31, 2007 – 4.7%). Holdings provides a stock option plan to allow management and key employees of Masonite to purchase shares of Holdings. Information with respect to Masonite's participation in Holdings' stock option plan is included below.

July 1, 2008 - September 30, 2008	Time Based Options	Performance Based Options	Cumulative Performance Options	Immediate Vesting	Total Number of Options	Weighted Average Exercise Price
Number of options:						
Outstanding, beginning of period	5,009,125	4,598,125	200,000	300,000	10,107,250	5.00
Granted	2,237,250	2,237,250	—	—	4,474,500	1.50
Exercised	—	—	—	—	—	—
Cancelled	(89,375)	(89,375)	—	—	(178,750)	3.60
Outstanding, end of period	<u>7,157,000</u>	<u>6,746,000</u>	<u>200,000</u>	<u>300,000</u>	<u>14,403,000</u>	<u>3.93</u>
July 1, 2007 - September 30, 2007						
Number of options:						
Outstanding, beginning of period	6,554,375	6,554,375	400,000	300,000	13,808,750	5.00
Granted	167,500	167,500	—	—	335,000	—
Exercised	—	—	—	—	—	—
Cancelled	(45,625)	(45,625)	—	—	(91,250)	5.00
Outstanding, end of period	<u>6,676,250</u>	<u>6,676,250</u>	<u>400,000</u>	<u>300,000</u>	<u>14,052,500</u>	<u>5.00</u>
January 1, 2008 - September 30, 2008						
Number of options:						
Outstanding, beginning of period	6,075,625	6,075,625	400,000	300,000	12,851,250	5.00
Granted	2,242,875	2,242,875	—	—	4,485,750	1.51
Exercised	—	—	—	—	—	—
Cancelled	(1,161,500)	(1,572,500)	(200,000)	—	(2,934,000)	4.92
Outstanding, end of period	<u>7,157,000</u>	<u>6,746,000</u>	<u>200,000</u>	<u>300,000</u>	<u>14,403,000</u>	<u>3.93</u>
Average Remaining Contractual Life (years)	7.91	7.99	6.52	7.10		
Number of options exercisable	<u>2,663,250</u>	<u>—</u>	<u>—</u>	<u>300,000</u>	<u>2,963,250</u>	

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(In thousands of U.S. dollars, except share and option information)

<u>January 1, 2007 - September 30, 2007</u>	<u>Time Based Options</u>	<u>Performance Based Options</u>	<u>Cumulative Performance Options</u>	<u>Immediate Vesting</u>	<u>Total Number of Options</u>	<u>Weighted Average Exercise Price</u>
Number of options:						
Outstanding, beginning of period	7,200,625	7,856,625	400,000	300,000	15,757,250	5.00
Granted	167,500	167,500	—	—	335,000	—
Exercised	—	—	—	—	—	—
Cancelled	(691,875)	(1,347,875)	—	—	(2,039,750)	5.00
Outstanding, end of period	<u>6,676,250</u>	<u>6,676,250</u>	<u>400,000</u>	<u>300,000</u>	<u>14,052,500</u>	<u>5.00</u>

Although 2,663,250 time-based and 300,000 immediate vesting options have vested and are exercisable, the Option Agreement restricts option holders from exercising, selling or transferring their options until December 31, 2009 unless certain conditions occur.

The Company has determined that the total stock-based awards expense for awards granted to employees, using the Black-Scholes method for the 2005 Options, 2006 Options 2007 Options and 2008 Options was \$(317) in the three month period ended September 30, 2008 (three month period ended September 30, 2007 - \$486) and \$585 in the nine month period ended September 30, 2008 (nine month period ended September 30, 2007 - \$1,758). The determination of total stock-based awards was adjusted for options that have been cancelled and/or are not expected to vest. The Black Scholes Model was utilized to derive the value of the options.

	<u>2008 Options</u>	<u>2007 Options</u>
Option Value	—	\$ 2.35
Risk-free rate	3.5%	4.4%
Expected dividend yield	0%	0%
Expected volatility of the market price of the Company's shares	44%	37%
Expected option life (in years)	7	7

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NOTE 14: COMMITMENTS AND CONTINGENCIES

For lease agreements that provide for escalating rent payments or rent-free occupancy periods, the Company recognizes rent expense on a straight line basis over the non-cancellable lease term and any option renewal period where failure to exercise such option would result in an economic penalty in such amount that renewal appears, at the inception of the lease, to be reasonably assured. The lease term commences on the date when all conditions precedent to the Company's obligation to pay rent are satisfied. The leases generally contain provisions for one to three renewal options of five years each. Future minimum payments, in the twelve month periods ending September 30, under non-cancellable operating leases with initial or remaining terms of one year or more consisted of the following:

2009	\$	26,888
2010		19,196
2011		14,359
2012		10,804
2013		7,427
Thereafter		16,295
	\$	<u>94,969</u>

Masonite has provided standard indemnifications to its landlords under certain property lease agreements for claims by third parties in connection with its use of the premises. The maximum amount of these indemnifications cannot be reasonably estimated due to their nature. Historically, the Company has not made any significant payments relating to such indemnifications.

In addition to the above indemnifications, Masonite has also provided routine indemnifications, whose terms range in duration and often are not explicitly defined. These may include indemnifications against adverse effects to changes in tax laws and patent infringements by third parties. The maximum amounts from these indemnifications cannot be reasonably estimated. In some cases, Masonite has recourse against other parties to mitigate its risk of loss from these indemnifications. Historically, the Company has not made significant payments relating to these types of indemnifications.

Operations in the United States are subject to regulations enacted by the US Environmental Protection Agency ("EPA") related to Maximum Achievable Control Technology ("MACT"). MACT regulations govern the manner in which the company measures and controls the emissions from manufacturing facilities into the air. As a result of a June 2007 decision by the US Court of Appeals, the EPA has eliminated certain compliance options which were based on low health risk determinations in relation to compliance with MACT regulations for wood products. The Company anticipates the cost of complying with the amended rules would require the Company to spend between \$37,000 and \$45,000 in addition to the \$8,700 already spent.

The Company is involved in various claims and legal actions. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the Company's consolidated financial position or liquidity.

NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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(In thousands of U.S. dollars, except share and option information)

NOTE 15: OTHER EXPENSE, NET

	July 1, 2008 – September 30, 2008	July 1, 2007 – September 30, 2007
Restructuring and severance (a)	\$ 4,783	\$ 7,813
Financial professional fees (b)	4,229	—
Impairment of property, plant and equipment (c)	—	3,611
(Gain) loss on disposal of property, plant and equipment (d)	(589)	555
Interest rate swaps (e)	(1,059)	—
Provision for receivable due from Holdings (f)	18,898	—
Other (g)	5,047	(2,744)
	<u>\$ 31,309</u>	<u>\$ 9,235</u>
	January 1, 2008 – September 30, 2008	January 1, 2007 – September 30, 2007
Restructuring and severance (a)	\$ 17,177	\$ 19,421
Financial professional fees (b)	4,715	—
Impairment of property, plant and equipment (c)	5,920	6,231
(Gain) loss on disposal of property, plant and equipment (d)	(1,921)	1,505
Interest rate swaps (e)	(1,059)	—
Provision for receivable due from Holdings (f)	18,898	—
Other (g)	5,402	(5,599)
	<u>\$ 49,132</u>	<u>\$ 21,558</u>

(a) Restructuring and severance expenses:

The restructuring and severance expense for the three and nine month periods ended September 30, 2008 relates to costs incurred in connection with the closure and consolidation of manufacturing sites as well as reductions in salaried workforce. During the nine month period ended September 30, 2008, the Company permanently closed two manufacturing sites and consolidated manufacturing activities from four sites into other existing sites. The restructuring and severance expense for the three month and nine month periods ended September 30, 2007 relates principally to closures announced by the Company as a result of a customer transferring significant business to a competitor. During the nine month period ended September 30, 2007, the Company announced the closure of four manufacturing facilities in the United States, and significantly curtailed activities at two additional manufacturing facilities in the United States, one of which was subsequently disposed of. In addition, the Company closed an interior door manufacturing facility in Canada and reduced the workforce at manufacturing sites in the United States and Ireland. Also included are severance benefits for certain former senior executives of the Company.

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(In thousands of U.S. dollars, except share and option information)

The following tables detail the activity in the accrued restructuring liability for the nine month period ended September 30, 2008 and September 30, 2007:

	Provision December 31, 2007	Provision	Payments	Provision September 30, 2008
Reduction in staff levels 2006	\$ 1,048	\$ (184)	\$ 653	\$ 211
Executive and management compensation	3,096	82	2,846	332
Facility closures and reductions as a result of lost business	5,861	2,369	2,828	5,402
Capacity rationalization due to housing market slowdown	5,383	5,203	7,160	3,426
Woodbridge, Ontario plant closure	34	—	34	—
Reduction in staff levels 2007	2,248	132	1,925	455
Reduction in staff levels 2008	—	9,906	7,417	2,489
	<u>\$ 17,669</u>	<u>\$ 17,508</u>	<u>\$ 22,862</u>	<u>\$ 12,315</u>

	Provision December 31, 2007	Provision	Payments	Provision September 30, 2008
North America	\$ 14,901	\$ 12,933	\$ 17,250	\$ 10,584
Europe and Other	2,768	4,575	5,612	1,731
	<u>\$ 17,669</u>	<u>\$ 17,508</u>	<u>\$ 22,862</u>	<u>\$ 12,315</u>

	Provision December 31, 2006	Provision	Payments	Provision September 30, 2007
Reduction in staff levels 2006	\$ 4,899	\$ 71	\$ 3,702	\$ 1,268
Executive and management compensation	6,679	2,530	5,222	3,987
Facility closures and reductions as a result of lost business	—	16,681	8,707	7,974
Capacity rationalization due to housing market slowdown	—	498	34	464
Woodbridge, Ontario plant closure	130	—	87	43
	<u>\$ 11,708</u>	<u>\$ 19,780</u>	<u>\$ 17,752</u>	<u>\$ 13,736</u>

	Provision December 31, 2006	Provision	Payments	Provision September 30, 2007
North America	\$ 11,708	\$ 18,886	\$ 16,963	\$ 13,631
Europe and Other	—	894	789	105
	<u>\$ 11,708</u>	<u>\$ 19,780</u>	<u>\$ 17,752</u>	<u>\$ 13,736</u>

Included in the provision column in the table above for the nine month period ended September 30, 2008 is \$331 in charges related to the accretion of a previously discounted severance liability and accretion on discounted long term lease liabilities. The current portion of the accrued restructuring liability is included in accounts payable and accrued expenses on the balance sheet, with the long-term portion recorded in other long-term liabilities.

NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

As at September 30, 2008 and December 31, 2007 and for the Three and Nine Month Periods Ended September 30, 2008 and September 30, 2007

(In thousands of U.S. dollars, except share and option information)

(b) Financial professional fees:

These costs are professional fees related to ongoing negotiations regarding an amendment to the Credit Agreement.

(c) Impairment of property, plant and equipment:

As a result of the decision to close and consolidate certain facilities, the Company tested related property, plant and equipment for impairment. After determining that the undiscounted cash flows were lower than the carrying value for these fixed assets, the Company used a discounted cash flow approach to determine the impairment charge required to reduce the carrying value of these fixed assets to their net realizable value.

(d) Loss on disposal of property, plant and equipment:

For the three month period ended September 30, 2008, the Company disposed of assets held for sale, idle property, plant and equipment, as well as other machinery and equipment for cash consideration of \$4,285 (three month period ended September 30, 2007 - \$601). The disposal of these assets resulted in a net gain of \$589 (three month period ended September 30, 2007 -\$555 loss), which is included in other expense, net. For the nine month period ended September 30, 2008, the Company disposed of assets held for sale, idle property, plant and equipment, as well as other machinery and equipment for cash consideration of \$8,224 (nine month period ended September 30, 2007 - \$792). The disposal of these assets resulted in a net gain of \$1,921 (nine month period ended September 30, 2007 -\$1,505 loss), which is included in other expense, net

(e) Interest rate swaps:

These costs are related to the change in the value of interest rate swap since it became an ineffective hedge at June 30, 2008.

(f) Provision for receivable due from Holdings:

A provision was established and charged to expense during the quarter for the full amount of the receivable due from Holdings due to the uncertainty of the ultimate collection of this receivable.

(g) Other:

These costs are related to foreign exchange translation gains and losses on working capital and long-term liabilities denominated in currencies other than the United States dollar.

NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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(In thousands of U.S. dollars, except share and option information)

NOTE 16: INCOME TAXES

	July 1, 2008 – September 30, 2008	July 1, 2007 – September 30, 2007
Current	\$ (934)	\$ (470)
Future	(13,517)	(1,917)
	<u>\$ (14,451)</u>	<u>\$ (2,387)</u>
	January 1, 2008 – September 30, 2008	January 1, 2007 – September 30, 2007
Current	\$ 4,058	\$ 5,956
Future	(59,094)	(18,374)
	<u>\$ (55,036)</u>	<u>\$ (12,418)</u>

The Company currently has future tax assets in certain jurisdictions resulting from net operating losses and other deductible temporary differences, which will reduce taxable income in these jurisdictions in future periods. The Company has determined that a valuation allowance of \$139,470 is required in respect of its future income tax assets as at September 30, 2008 (December 31, 2007 - \$50,994). The Company has provided valuation allowances for future tax benefits resulting from net operating loss carry forwards and other carry forward attributes arising in Canada, the U.S., and certain countries in South America, Eastern Europe and Asia. The Company expects to record valuation allowances on future tax assets arising in these jurisdictions until a sustained level of taxable income is reached.

NOTE 17: SUPPLEMENTAL CASH FLOW INFORMATION

	July 1, 2008 – September 30, 2008	July 1, 2007 – September 30, 2007
Transactions involving cash:		
Interest paid	\$ 21,305	\$ 25,762
Interest received	1,302	3,457
Income taxes paid	2,566	3,162
Income tax refunds	366	66
	January 1, 2008 – September 30, 2008	January 1, 2007 – September 30, 2007
Transactions involving cash:		
Interest paid	\$ 106,689	\$ 120,410
Interest received	3,644	10,305
Income taxes paid	7,080	9,586
Income tax refunds	1,469	2,889

NOTE 18: SEGMENTED INFORMATION

The senior management team has established the practice of reviewing performance measurement of each geographic segment based on the measures of sales and operating EBITDA. Operating EBITDA is defined as net income (loss) plus depreciation, amortization, interest, income taxes, other expense and non-controlling interest. Senior management feels that operating EBITDA, from an operations standpoint, provides a better way to measure and assess performance as it is more comprehensive and inclusive. Operating EBITDA generally provides a lower absolute measure of performance as compared to Adjusted EBITDA. Adjusted EBITDA is a financial measure defined by Masonite's Credit Agreement and allows for certain expenses incurred to be added back for the purpose of the measure.

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Intersegment transfers are negotiated as if the transactions were to third parties, at market prices. The accounting policies of the segments are the same as those described in the summary of significant accounting policies. Certain information with respect to geographic segments is as follows:

	July 1, 2008 – September 30, 2008	July 1, 2007 – September 30, 2007
Geographic segment data		
Sales:		
North America	\$ 304,714	\$ 367,003
Europe and Other	160,237	176,878
Intersegment	(11,729)	(14,538)
	<u>453,222</u>	<u>529,343</u>
Operating EBITDA:		
North America	19,169	46,832
Europe and Other	12,919	23,969
	<u>32,088</u>	<u>70,801</u>
Depreciation	20,643	21,478
Amortization of intangible assets	2,743	8,898
Interest	42,892	44,315
Impairment of goodwill and intangible assets	369,209	—
Other expense, net	31,309	9,235
Income taxes (recovery)	(14,451)	(2,387)
Non-controlling interest	908	2,073
	<u>453,253</u>	<u>83,612</u>
Net (loss) income	<u>\$ (421,165)</u>	<u>\$ (12,811)</u>
	January 1, 2008 – September 30, 2008	January 1, 2007 – September 30, 2007
Geographic segment data		
Sales:		
North America	\$ 931,700	\$ 1,203,540
Europe and Other	525,727	526,282
Intersegment	(32,057)	(42,171)
	<u>1,425,370</u>	<u>1,687,651</u>
Operating EBITDA:		
North America	74,739	159,869
Europe and Other	50,165	73,110
	<u>124,904</u>	<u>232,979</u>
Depreciation	63,781	68,093
Amortization of intangible assets	16,899	26,690
Interest	185,159	134,130
Impairment of goodwill and intangible assets	999,540	—
Other expense, net	49,132	21,558
Income taxes (recovery)	(55,036)	(12,418)
Non-controlling interest	2,799	5,326
	<u>1,262,274</u>	<u>243,379</u>
Net (loss) income	<u>\$ (1,137,370)</u>	<u>\$ (10,400)</u>

NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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(In thousands of U.S. dollars, except share and option information)

	September 30, 2008	December 31, 2007
Identifiable assets:		
North America	\$ 1,004,782	\$ 1,921,318
Europe and Other	553,997	595,558
Corporate assets, including cash	225,641	143,176
	<u>\$ 1,784,420</u>	<u>\$ 2,660,052</u>

The Company derives revenue from two major product lines, interior and exterior products as follows:

	July 1, 2008 – September 30, 2008	July 1, 2007 – September 30, 2007
Sales:		
Interior products	\$ 312,767	\$ 379,410
Exterior products	140,455	149,933
	<u>\$ 453,222</u>	<u>\$ 529,343</u>

	January 1, 2008 – September 30, 2008	January 1, 2007 – September 30, 2007
Sales:		
Interior products	\$ 1,010,925	\$ 1,184,459
Exterior products	414,445	503,192
	<u>\$ 1,425,370</u>	<u>\$ 1,687,651</u>

The Company does not review or analyze its two major product lines below sales other than with respect to sales information.

Information about geographic areas, exceeding 10% of consolidated sales, is as follows:

	July 1, 2008 – September 30, 2008	July 1, 2007 – September 30, 2007
Sales to all external customers from facilities in:		
Canada	\$ 79,104	\$ 96,928
United States	207,647	261,305
United Kingdom	35,742	56,651
France	42,616	36,997

	January 1, 2008 – September 30, 2008	January 1, 2007 – September 30, 2007
Sales to all external customers from facilities in:		
Canada	\$ 229,261	\$ 268,186
United States	651,129	888,807
United Kingdom	130,766	168,479
France	153,130	127,647

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(In thousands of U.S. dollars, except share and option information)

Additional segmented information regarding long-lived assets, exceeding 10% of consolidated property, plant and equipment, and goodwill, is as follows:

	September 30, 2008	December 31, 2007
Property, plant and equipment:		
Canada	\$ 80,159	\$ 86,838
United States	341,781	359,763
Other	10,891	11,629
North America	<u>432,831</u>	<u>458,230</u>
Ireland	\$ 124,362	\$ 129,531
Other	201,963	224,714
Europe and Other	<u>326,325</u>	<u>354,245</u>
	<u>\$ 759,156</u>	<u>\$ 812,475</u>
Goodwill:		
Canada	\$ —	\$ 145,790
United States	—	561,600
North America	—	707,390
Europe and Other	—	61,040
	<u>\$ —</u>	<u>\$ 768,430</u>

Total sales to one customer within the North American segment for the three month period ending September 30, 2008 was \$71,210 (three month period ended September 30, 2007 - \$81,739). Total sales to this customer within the North American segment for the nine month period ending September 30, 2008 was \$219,576 (nine month period ended September 30, 2007 - \$353,064). Included in accounts receivable are balances owing from this customer of \$60,521, at September 30, 2008 (December 31, 2007 - \$21,336).

NOTE 19: RELATED PARTY TRANSACTIONS

The Company has an agreement to pay Kohlberg Kravis Roberts & Co. L.P. (“KKR”) annual management fees of \$2,000 for services provided, which are payable quarterly in advance and may be increased up to 5% each year.

	July 1, 2008 – September 30, 2008	July 1, 2007 – September 30, 2007
Expense	\$ 579	\$ 526
Liability at period end	579	—
	January 1, 2008 – September 30, 2008	January 1, 2007 – September 30, 2007
Expense	\$ 1,742	\$ 1,579
Liability at period end	579	—

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(In thousands of U.S. dollars, except share and option information)

In addition, the Company has engaged KKR Capstone (“Capstone”) on a per-diem basis for management consulting services. Although neither KKR nor any entity affiliated with KKR owns any of the equity of Capstone, prior to January 1, 2007, KKR had provided financing to Capstone.

	<u>July 1, 2008</u> <u>– September 30, 2008</u>	<u>July 1, 2007</u> <u>– September 30, 2007</u>
Expense	\$ 264	\$ 450
Liability at period end	—	—
	<u>January 1, 2008</u> <u>– September 30, 2008</u>	<u>January 1, 2007</u> <u>– September 30, 2007</u>
Expense	\$ 824	\$ 1,816
Liability at period end	—	—

These costs are reflected as part of selling, general and administration expense on the unaudited interim consolidated financial statements.

NOTE 20: FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

(a) Fair value of financial assets and liabilities

The Company’s financial assets and liabilities consist primarily of cash and cash equivalents, accounts receivable, interest rate swaps, accounts payable and accrued expenses and long-term debt. The following table sets out the Company’s classification based on the measurement categories set out in the CICA Handbook Section 3855, *Financial Instruments – Recognition and Measurement*, and the carrying amount for each of its financial assets and liabilities as at September 30, 2008.

	<u>Held for trading</u>	<u>Loans and Receivables</u>	<u>Other financial liabilities</u>	<u>Total carrying amount</u>
Asset (liability)				
Cash and cash equivalents	\$ 208,253	\$ —	\$ —	\$ 208,253
Accounts receivable	—	307,715	—	307,715
Interest rate swaps (i)	(5,538)	—	—	(5,538)
Accounts payable and accrued expenses (ii)	—	—	(303,162)	(303,162)
Bank indebtedness	—	—	(351,288)	(351,288)
Debt due on demand (iii)	—	—	(1,902,168)	(1,902,168)
Debt (iv)	—	—	(10,976)	(10,976)
	<u>\$ 202,715</u>	<u>\$ 307,715</u>	<u>\$ (2,567,594)</u>	<u>\$ (2,057,164)</u>

(i) Interest rate swaps included in Accounts payable and accrued expenses on the balance sheet.

(ii) Accounts payable and accrued expenses exclude the interest rate swaps for the purpose of this table.

(iii) Includes \$1,132,312 of Senior Secured Credit Facilities and \$769,856 of Senior Subordinated Notes.

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(In thousands of U.S. dollars, except share and option information)

(iv) Includes current portion of debt of \$9,527 and the long-term portion of \$1,449.

(v) Excluded from the table above is a loan receivable from the Company's parent. Its carrying value is \$nil at September 30, 2008 (December 31, 2007 – \$18,408). There is not an identifiable market for this asset.

The fair values of financial assets and liabilities, together with carrying amounts, shown in the balance sheet as at September 30, 2008 and December 31, 2007, are as follows:

Asset (liability)	September 30, 2008		December 31, 2007	
	Carrying Amount	Fair value	Carrying Amount	Fair value
Cash and cash equivalents (i)	\$ 208,253	\$ 208,253	\$ 41,754	\$ 41,754
Accounts receivable (i)	307,715	307,715	264,931	264,931
Interest rate swaps (ii)	(5,538)	(5,538)	(3,225)	(3,225)
Accounts payable and accrued expenses (iii)	(303,162)	(303,162)	(321,898)	(321,898)
Bank indebtedness	(351,288)	(274,008)	(17,615)	(17,615)
Debt due on demand (iv)	(1,902,168)	(1,118,208)	—	—
Debt (v)	(10,976)	(10,976)	(1,873,423)	(1,659,839)
	<u>\$ (2,057,164)</u>	<u>\$ (1,195,924)</u>	<u>\$ (1,909,476)</u>	<u>\$ (1,695,892)</u>

Due to the use of judgment and uncertainties in the determination of estimated fair values, these values should not be interpreted as being realizable in the immediate term.

The fair values of financial instruments are calculated on the basis of information available on the balance sheet date using the following methods:

- (i) The fair value of cash and cash equivalents and accounts receivable approximates their carrying amounts due to the short-term nature of the instruments.
- (ii) The fair value of the interest rate swaps is measured based on the difference between the contracted or fixed rate of 4.22% and the forward swap rates obtained from the counterparty at the balance sheet date. The value of the swap is implicitly discounted utilizing the forward swap rates. The forward swap rates utilize 3-month US LIBOR and range from 2.80% to 3.93% between the balance sheet date and January 26, 2010 (date of final rate adjustment prior to full amortization of the notional amount). The carrying value of the swaps are recorded within the Accounts payable and accrued expenses on the face of the balance sheet.
- (iii) The fair value of Accounts payable and accrued expenses approximates their carrying amounts due to the short-term nature of the instruments.
- (iv) The fair value of the Company's Debt due on demand is determined by reference to the trading value established by the market.
- (v) Includes current portion of debt of \$9,527 and the long-term portion of \$1,449. This debt principally consists of bank debt in foreign subsidiaries. Fair value approximates the face value due to the short term nature of these instruments and the lack of an identifiable market for these instruments.

(b) Risk Management

The Company is exposed to a number of risks as a result of holding financial instruments. These risks include credit risk, liquidity risk, interest rate risk and currency risk.

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Credit Risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to meet its contractual obligations. The Company does not believe it is subject to significant concentration of credit risk on its accounts receivable and cash and cash equivalents balances. The carrying amount of accounts receivable and cash and cash equivalent balances represents the maximum credit exposure.

(i) Cash and cash equivalents include cash held through major U.S. and international financial institutions and short-term investments. As at September 30, 2008, the Company had a total principal amount invested of \$146,484 in U.S. dollar short term investments with a maturity date of 90 days or less and a credit rating of "AAA" or an equivalent. The Company's Credit Agreement defines these types of investments as acceptable. The Company does not expect the counterparties to fail to meet their obligations.

(ii) Accounts receivable

Credit risk arises from the potential default of a customer in meeting its financial obligations to the Company. The Company's exposure to credit risk associated with non-payment of these customers is affected by conditions or occurrences within its industry and the global marketplace. The Company currently believes these conditions are deteriorating significantly. The Company has credit evaluation, approval and monitoring processes, including credit insurance, intended to mitigate potential credit risk. Due to the global credit crisis, the ability of the Company to obtain adequate credit insurance on its customers has diminished. The Company's top 10 customer accounts receivable balances represented approximately 42% of the total accounts receivable balance as at September 30, 2008. The Company evaluates the collectability of accounts receivable and records an allowance for doubtful accounts, which reduces the receivables to the amount management believes will be collected. The allowance for doubtful accounts as at September 30, 2008 was \$3,465 (December 31, 2007 - \$5,010). The total percentage of past due accounts at September 30, 2008 was 13.1%. As at September 30, 2008, 92.5% of the past due balances were less than 120 days past due.

Analysis of trade accounts receivable aging

	<u>September 30, 2008</u>
Current	\$ 262,855
1-29 Days	21,607
30-59 Days	9,324
60-89 Days	2,967
90-119 Days	2,681
120 + Days	2,954
Total	<u>\$ 302,389</u>

Credit loss detail

	<u>September 30, 2008</u>
Balance, beginning of period	\$ 5,010
Foreign exchange impact	152
Provision for credit losses	1,387
Recoveries	(88)
Write-offs	(2,996)
Balance, end of period	<u>\$ 3,465</u>

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(iii) There is no immediate credit risk related to the interest rate swaps liability of \$5,538 recorded in Note 10 Accounts Payable and Accrued Expenses. However, in the future, should the swaps become an asset to the Company, there is a risk that the counterparty to the swaps will not be able to fulfill its side of the agreement. The Company monitors the creditworthiness of the counterparty on a quarterly basis to determine whether or not they will be able to fulfill its obligation. At September 30, 2008, the Company reviewed the creditworthiness of the counterparty, and determined that there was no credit risk on the counterparty fulfilling its obligation under the interest rate swap agreement.

Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities.

Inherent in a highly leveraged company is the requirement to pay substantial interest costs on an on-going basis. The Company manages liquidity risk through regular cash-flow forecasting in conjunction with an adequate revolving credit facility.

As at September 30, 2008, the Company has accounts payable and accrued expenses of \$303,161 (excluding the interest rate swap liability) which fall due for payment within one year of the balance sheet date and current debt obligations of \$1,902,168 which are due on demand. Refer to Note 8 Bank Indebtedness and Note 9 Debt for further detail.

	<u>1 Year</u>	<u>2 Years</u>	<u>3 Years</u>	<u>4 Years</u>	<u>5 Years</u>	<u>Thereafter</u>	<u>Total</u>
Accounts payable and accrued expenses	\$ 303,162	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 303,162
Bank indebtedness	351,288	—	—	—	—	—	351,288
Debt due on demand	1,902,168	—	—	—	—	—	1,902,168
Debt	9,527	948	501	—	—	—	10,976
Interest rate swaps	3,414	2,124	—	—	—	—	5,538
Long-term restructuring liability	3,385	1,959	1,442	1,492	178	—	8,456
Pension liability funding*	4,204	9,385	8,399	9,174	9,188	—	40,350
	<u>\$ 2,577,148</u>	<u>\$ 14,416</u>	<u>\$ 10,342</u>	<u>\$ 10,666</u>	<u>\$ 9,366</u>	<u>\$ —</u>	<u>\$ 2,621,938</u>

* The minimum pension funding is defined by the current law in place.

Interest Rate Risk

Interest rate risk is the risk that earnings will fluctuate as a result of changes in market interest rates.

i) Bank indebtedness and Debt

The variable nature (interest rate) of approximately 65% of the Company's long-term and short-term debt exposes the Company to significant uncertainty regarding interest costs. As at September 18, 2008, the Company began accruing and paying interest based on the posted U.S. and Canadian Prime Rates as it relates to the revolving credit facility and term loan (prior to this date LIBOR was the applicable rate). This change was dictated by the terms of the forbearance agreement effective September 18, 2008. As a result of this change, the LIBOR interest rate swap discussed in Note 9 ceased to be an effective cash-flow hedge from a financial perspective. The applicable U.S. and Canadian Prime Rates of interest in effect from September 18 to September 30, 2008 were 5% and 5.5%, respectively. Had the U.S. Prime Rate and Canadian Prime Rate inclusive of the applicable 1% margin on the term loan and 1.5% margin on the revolving credit facility been in effect for the entire quarter, in place of LIBOR, the incremental effect on interest expense would have been \$1,057. A 100 basis point increase or decrease in the U.S. and Canadian Prime Rates of interest would affect the quarterly interest expense by \$3,671. Based on the prevailing interest rate environment, the Company deems the 100 basis point move to be an appropriate example.

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ii) Cash and cash equivalents

The Company is exposed to interest rate fluctuations on its cash and cash equivalents balance, which at September 30, 2008 totalled \$208,253 (December 31, 2007 – \$41,754). A change of 100 basis points in the market interest rate would have had an approximate impact on interest income of \$521 for the three months ended September 30, 2008.

Foreign currency exchange risk

Foreign currency exchange risk is the risk that the fair value of recognized assets and liabilities or future cash flows will fluctuate as a result of changes in foreign exchange rates.

The Company utilizes certain financial instruments, principally forward currency exchange contracts to manage the risk associated with fluctuations in currency exchange rates. Forward currency exchange contracts are used to reduce the impact of fluctuating exchange rates on the Company's purchases of materials and sale of goods in foreign currencies.

The Company has exposure to movements in foreign currency rates when transactions are undertaken by foreign subsidiaries in currencies other than their functional currency. These transactions could be sales, purchases of materials or services or financing transactions. Realized and unrealized gains and losses on these transactions are recorded in the statement of operations. As at September 30, 2008, there were no forward currency exchange contracts representing a material liability or asset outstanding. The existing foreign currency forward contracts are not currently designated as hedging instruments for accounting purposes.

The following table summarizes the Company's derivative financial instruments relating to commitments to buy and sell foreign currencies through forward foreign exchange contracts as at September 30, 2008:

	<u>Average Rate</u> (1)	<u>Notional Amount</u> (USD) (2)	<u>Fair Value</u>	<u>Year of Settlement</u>
Forwards (Sell/ Purchase)				
GBP/EUR	0.7915	\$ 8,738	\$ 36	2008
ZAR/USD	7.9114	578	7	2008
USD/ZAR	0.1220	3,967	740	08/09
GBP/ZAR	0.0626	53	29	2008
ZAR/EUR	12.3001	6,904	(173)	08/09
EUR/ZAR	0.0835	218	40	2008
Total		<u>\$ 28,589</u>	<u>\$ 679</u>	

(1) Rates are expressed as the number of units of the currency sold for one unit of currency bought.

(2) Exchange rates as at September 30, 2008 were used to translate amounts in foreign currencies.

The following outlines the exchange rates applied at the end of the reporting period:

	<u>September 30, 2008</u> Rate
GBP TO USD	0.54
ZAR TO USD	8.14
EUR TO USD	0.68

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The following table shows the company's exposure to exchange risk and the pre-tax effects on income and other comprehensive income ("OCI") of reasonably possible changes in the relevant foreign currency (relative to the US dollar). The analysis assumes all other variables remain constant.

	Foreign Exchange Risk			
	5% increase in \$ US		5% decrease in \$ US	
	Income	OCI	Income	OCI
Held for Trading investments				
Trade Receivables	\$ (2,060)	\$ (6,601)	\$ 2,060	\$ 6,601
Trade Payables	676	1,720	(676)	(1,720)
Derivative Instruments				
Forward currency contracts	(1,023)		1,023	
Total	\$ (2,407)	\$ (4,881)	\$ 2,407	\$ 4,881

NOTE 21: CAPITAL MANAGEMENT

The Company's objectives when managing capital are to provide for (a) an appropriate rate of return to shareholders in relation to the risks underlying the Company's assets, and (b) a prudent capital structure for raising capital at a reasonable cost for the funding of ongoing operations, capital expenditures and new growth initiatives. The Company defines its capital as the aggregate of net debt and shareholder's equity. Net debt consists of interest-bearing debt less cash and cash equivalents and excludes any unamortized deferred financing costs.

The Company manages capital principally by monitoring the leverage ratio contained in the Company's Credit Agreement. This ratio is described in Note 9 Debt. The Company regularly monitors current and forecasted debt levels and debt covenant compliance. Generally, the most significant financing restrictions relate to the maintenance of certain financial ratios. These financial ratios are primarily linked to trailing Adjusted EBITDA. The Company must maintain a ratio below 7.00x of net debt to Adjusted EBITDA from January 1, 2008 to June 30, 2008, 6.80x for July 1, 2008 to September 30, 2008, and 6.50x for October 1, 2008 to December 31, 2008. The Company must also maintain a ratio above 1.65x of Adjusted EBITDA to interest expense as defined in the Credit Agreement for January 1, 2008 to September 30, 2008 and 1.75x for October 1, 2008 to December 31, 2008. Failure to meet the terms of one or more of the covenants contained in the Company's Credit Agreement may constitute a default, potentially resulting in accelerating the repayment of the debt obligation. As at September 30, 2008, the Company was not in compliance with the required ratios. The non compliance and resulting Event of Default are more fully described in Note 1 Going Concern.

	<u>September 30, 2008</u>	<u>December 31, 2007</u>
Bank indebtedness	\$ 351,288	\$ 17,615
Debt due on demand	1,902,168	—
Debt, including the current portion	10,976	1,934,463
Plus:		
Value of Interest rate swaps	5,538	3,225
Other debt	1,469	1,483
Net cash (debt) of unrestricted subsidiaries	2,134	(74)
Less:		
Cash and cash equivalents	208,253	41,754
Net Debt	<u>\$ 2,065,320</u>	<u>\$ 1,914,958</u>

NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

As at September 30, 2008 and December 31, 2007 and for the Three and Nine Month Periods Ended September 30, 2008 and September 30, 2007

(In thousands of U.S. dollars, except share and option information)

	October 1, 2007 – September 30, 2008	January 1, 2007 – December 31, 2007
Net Loss	\$ (1,422,343)	\$ (302,891)
Plus:		
Interest	165,391	178,219
Incomes taxes	(114,684)	(72,229)
Depreciation	86,021	91,840
Amortization of intangible assets	25,783	35,580
Non-controlling interest	5,620	8,147
Impairment of goodwill and intangibles	1,303,340	303,800
Defined adjustments under our Credit Agreement	151,075	76,893
Adjusted EBITDA	<u>\$ 200,203</u>	<u>\$ 319,359</u>

	October 1, 2007 – September 30, 2008	January 1, 2007 – December 31, 2007
Total Net Debt	\$ 2,065,320	\$ 1,914,958
Adjusted EBITDA	200,203	319,359
Net Debt : Adjusted EBITDA	10.32x	6.00x

	October 1, 2007 – September 30, 2008	January 1, 2007 – December 31, 2007
Adjusted EBITDA	\$ 200,203	\$ 319,359
Cash interest expense	165,391	167,487
Adjusted EBITDA : Interest expense	1.21x	1.91x

The following table provides a reconciliation of total interest expense to cash interest expense.

	October 1, 2007 – September 30, 2008	January 1, 2007 – December 31, 2007
Total Interest expense	\$ 229,075	\$ 178,219
Deferred financing fees	(63,559)	(10,136)
Interest accretion and other	(125)	(596)
Cash interest expense	<u>\$ 165,391</u>	<u>\$ 167,487</u>

NOTE 22: SUBSEQUENT EVENTS

Subsequent to the end of the period, the Company entered into an amendment to its credit agreement and an extension of the forbearance agreement with its bank lenders as well as entering into a forbearance agreement with holders of a majority of the Notes. Both these events are more fully described in Note 1 Going Concern. In addition, pursuant to the amendment, the Company agreed to a 2% increase in the interest rate under the Credit Agreement which increase is payable in the form of additional indebtedness. The Company also announced the completion of a Accounts receivable sale program which accommodates a 100% advance rate on the accounts receivable balance from a large retail customer. Further, the Company announced that it will suspend production at an interior door facility in the U.S. and that it will permanently close its manufacturing operations in Costa Rica. As required pursuant to the terms of the forbearance agreement, on December 19, 2008 the Company delivered to the agent a preliminary draft business plan in form consistent with business plans previously prepared by it and presented to lenders under the credit agreement.

NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

As at September 30, 2008 and December 31, 2007 and for the Three and Nine Month Periods Ended September 30, 2008 and September 30, 2007

(In thousands of U.S. dollars, except share and option information)

NOTE 23: CONSOLIDATING FINANCIAL INFORMATION

Masonite International Inc. (formerly known as Stile Consolidated, "Parent") through its subsidiaries, Masonite International Corporation (formerly known as Stile Acquisition, "Canadian Issuer") and Masonite Corporation (formerly known as Masonite US Corporation, formerly known as Stile US Acquisition, "US Issuer"), entered into a Senior Secured Credit Facility agreement and a Senior Subordinated Loan agreement. The Senior Secured Credit Facility and the Senior Subordinated Loan, which was replaced with the Senior Subordinated Term Loan and subsequently the Senior Subordinated Notes (the "Guaranteed Debt") are fully and unconditionally guaranteed on a joint and several basis by Masonite and certain of its 100% owned subsidiaries ("Guarantor Subsidiaries"). The Guaranteed Debt is not guaranteed by the Company's less than 100% owned subsidiaries and certain other subsidiaries of the Company (collectively, the "Non-Guarantor Subsidiaries").

The consolidating financial information below for the three month periods ended September 30, 2008 and September 30, 2007 is presented consistent with Article 3-10(d) of Regulation S-X.

The consolidating financial information reflects the investments of the Parent Company in the Issuers, and of the Issuer in their respective Guarantor and Non-Guarantor subsidiaries using the equity method.

NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

As at September 30, 2008 and December 31, 2007 and for the Three and Nine Month Periods Ended September 30, 2008 and September 30, 2007

(In thousands of U.S. dollars)

Consolidating Statement of Operations

For the three month period ended September 30, 2008

	<u>Parent</u>	<u>Canadian Issuer</u>	<u>US Issuer</u>	<u>Guarantor Subsidiaries</u>	<u>Guarantor Adjustments</u>	<u>Combined</u>	<u>Non-Guarantor Subsidiaries</u>	<u>Adjustments</u>	<u>Consolidated</u>
Sales	\$ —	\$ 89,184	\$ 214,167	\$ 86,521	\$ (39,270)	\$ 350,602	\$ 120,583	\$ (17,963)	\$ 453,222
Cost of sales	—	78,194	183,996	79,758	(39,270)	302,678	96,368	(17,963)	381,083
	—	10,990	30,171	6,763	—	47,924	24,215	—	72,139
Selling, general and administration expenses	—	5,350	20,777	3,412	—	29,539	10,512	—	40,051
Depreciation and amortization	—	1,771	11,978	4,132	—	17,881	5,505	—	23,386
Impairment of goodwill and intangible assets	—	174,331	96,219	26,262	—	296,812	62,087	10,310	369,209
Interest	—	21,461	25,434	(581)	—	46,314	(3,422)	—	42,892
Loss (income) from equity investments	421,165	92,962	(1,707)	—	(450,767)	61,653	—	(61,653)	—
Other expense, net	—	21,920	2,964	2,590	—	27,474	7,280	(3,445)	31,309
(Loss) income before income taxes and non-controlling interest	(421,165)	(306,805)	(125,494)	(29,052)	450,767	(431,749)	(57,747)	54,788	(434,708)
Income taxes (recovery)	—	(9,868)	(438)	(278)	—	(10,584)	(3,867)	—	(14,451)
Non controlling interest	—	—	—	—	—	—	—	908	908
Net (loss) income	\$ (421,165)	\$ (296,937)	\$ (125,056)	\$ (28,774)	\$ 450,767	\$ (421,165)	\$ (53,880)	\$ 53,880	\$ (421,165)

NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

As at September 30, 2008 and December 31, 2008 and for the Three and Nine Month Periods Ended September 30, 2008 and September 30, 2007

(In thousands of U.S. dollars)

Consolidating Statement of Operations

For the three month period ended September 30, 2007

	<u>Parent</u>	<u>Canadian Issuer</u>	<u>US Issuer</u>	<u>Guarantor Subsidiaries</u>	<u>Guarantor Adjustments</u>	<u>Combined</u>	<u>Non-Guarantor Subsidiaries</u>	<u>Adjustments</u>	<u>Consolidated</u>
Sales	\$ —	\$ 112,760	\$ 260,914	\$ 116,491	\$ (49,248)	\$ 440,917	\$ 113,024	\$ (24,598)	\$ 529,343
Cost of sales	—	87,350	209,176	98,077	(49,248)	345,355	87,375	(24,598)	408,132
	—	25,410	51,738	18,414	—	95,562	25,649	—	121,211
Selling, general and administration expenses	—	6,387	30,057	4,768	—	41,212	9,198	—	50,410
Depreciation and amortization	—	3,515	16,625	4,860	—	25,000	5,219	157	30,376
Interest	—	21,299	29,493	(389)	—	50,403	(6,088)	—	44,315
Loss (income) from equity investments	12,811	(16,322)	(2,746)	—	(6,464)	(12,721)	—	12,721	—
Other expense, net	—	(1,117)	8,502	1,083	—	8,468	767	—	9,235
(Loss) income before income taxes and non-controlling interest	(12,811)	11,648	(30,193)	8,092	6,464	(16,800)	16,553	(12,878)	(13,125)
Income taxes (recovery)	—	(839)	(4,782)	1,632	—	(3,989)	1,642	(40)	(2,387)
Non controlling interest	—	—	—	—	—	—	—	2,073	2,073
Net (loss) income	<u>\$ (12,811)</u>	<u>\$ 12,487</u>	<u>\$ (25,411)</u>	<u>\$ 6,460</u>	<u>\$ 6,464</u>	<u>\$ (12,811)</u>	<u>\$ 14,911</u>	<u>\$ (14,911)</u>	<u>\$ (12,811)</u>

NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

As at September 30, 2008 and December 31, 2007 and for the Three and Nine Month Periods Ended September 30, 2008 and September 30, 2007

(In thousands of U.S. dollars)

Consolidating Statement of Operations

For the nine month period ended September 30, 2008

	<u>Parent</u>	<u>Canadian Issuer</u>	<u>US Issuer</u>	<u>Guarantor Subsidiaries</u>	<u>Guarantor Adjustments</u>	<u>Combined</u>	<u>Non-Guarantor Subsidiaries</u>	<u>Adjustments</u>	<u>Consolidated</u>
Sales	\$ —	\$ 270,754	\$ 671,204	\$ 287,655	\$ (126,037)	\$ 1,103,576	\$ 380,315	\$ (58,521)	\$ 1,425,370
Cost of sales	—	232,761	563,891	256,756	(126,037)	927,371	303,201	(58,521)	1,172,051
	—	37,993	107,313	30,899	—	176,205	77,114	—	253,319
Selling, general and administration expenses	—	15,050	68,105	11,575	—	94,730	33,685	—	128,415
Depreciation and amortization	—	8,405	41,631	13,603	—	63,639	17,041	—	80,680
Impairment of goodwill and intangible assets	—	222,627	672,579	26,262	—	921,468	67,762	10,310	999,540
Interest	—	91,265	111,909	(1,855)	—	201,319	(16,160)	—	185,159
Loss (income) from equity investments	1,137,370	77,600	(6,095)	—	(1,160,952)	47,923	—	(47,923)	—
Other expense, net	—	25,301	10,204	4,180	—	39,685	12,892	(3,445)	49,132
(Loss) income before income taxes and non-controlling interest	(1,137,370)	(402,255)	(791,020)	(22,866)	1,160,952	(1,192,559)	(38,106)	41,058	(1,189,607)
Income taxes (recovery)	—	(8,171)	(46,984)	(34)	—	(55,189)	153	—	(55,036)
Non controlling interest	—	—	—	—	—	—	—	2,799	2,799
Net (loss) income	\$ (1,137,370)	\$ (394,084)	\$ (744,036)	\$ (22,832)	\$ 1,160,952	\$ (1,137,370)	\$ (38,259)	\$ 38,259	\$ (1,137,370)

NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

As at September 30, 2008 and December 31, 2008 and for the Three and Nine Month Periods Ended September 30, 2008 and September 30, 2007

(In thousands of U.S. dollars)

Consolidating Statement of Operations

For the nine month period ended September 30, 2007

	<u>Parent</u>	<u>Canadian Issuer</u>	<u>US Issuer</u>	<u>Guarantor Subsidiaries</u>	<u>Guarantor Adjustments</u>	<u>Combined</u>	<u>Non-Guarantor Subsidiaries</u>	<u>Adjustments</u>	<u>Consolidated</u>
Sales	\$ —	\$ 345,040	\$ 903,371	\$ 354,942	\$ (178,943)	\$ 1,424,410	\$ 337,657	\$ (74,416)	\$ 1,687,651
Cost of sales	—	277,317	719,851	295,375	(178,943)	1,113,600	258,416	(74,416)	1,297,600
	—	67,723	183,520	59,567	—	310,810	79,241	—	390,051
Selling, general and administration expenses	—	19,408	92,492	14,384	—	126,284	30,788	—	157,072
Depreciation and amortization	—	10,667	53,386	14,423	—	78,476	15,837	470	94,783
Interest	—	64,330	88,625	(817)	—	152,138	(18,008)	—	134,130
Loss (income) from equity investments	10,400	(52,814)	(7,768)	—	12,685	(37,497)	—	37,497	—
Other expense, net	—	2,485	16,668	2,037	—	21,190	368	—	21,558
(Loss) income before income taxes and non-controlling interest	(10,400)	23,647	(59,883)	29,540	(12,685)	(29,781)	50,256	(37,967)	(17,492)
Income taxes (recovery)	—	(9,939)	(15,559)	6,117	—	(19,381)	7,233	(270)	(12,418)
Non controlling interest	—	—	—	—	—	—	—	5,326	5,326
Net (loss) income	\$ (10,400)	\$ 33,586	\$ (44,324)	\$ 23,423	\$ (12,685)	\$ (10,400)	\$ 43,023	\$ (43,023)	\$ (10,400)

NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

As at September 30, 2008 and December 31, 2007 and for the Three and Nine Month Periods Ended September 30, 2008 and September 30, 2007

(In thousands of U.S. dollars)

Consolidating Balance Sheet
September 30, 2008

	Parent	Canadian Issuer	US Issuer	Guarantor Subsidiaries	Guarantor Adjustments	Combined	Non-Guarantor Subsidiaries	Adjustments	Consolidated
Assets									
Current assets:									
Cash and cash equivalents	\$ —	\$ 135,688	\$ 29,169	\$ 15,341	\$ —	\$ 180,198	\$ 28,055	\$ —	\$ 208,253
Accounts receivable	—	52,380	107,752	50,546	—	210,678	97,037	—	307,715
Intercompany receivable	—	6,929	20,059	23,716	(42,108)	8,596	11,001	(19,597)	—
Inventories	—	46,926	114,022	54,012	—	214,960	69,562	—	284,522
Income tax recoverable	—	—	—	1,547	—	1,547	357	—	1,904
Prepaid expenses	—	6,479	10,195	4,399	—	21,073	3,362	—	24,435
Assets held for sale	—	1,791	—	—	—	1,791	—	—	1,791
Current future income taxes	—	2,663	14,475	2,234	—	19,372	9,585	—	28,957
	—	252,856	295,672	151,795	(42,108)	658,215	218,959	(19,597)	857,577
Property, plant and equipment	—	47,007	325,593	191,745	—	564,345	194,811	—	759,156
Goodwill	—	—	—	—	—	—	—	—	—
Intangible assets	—	102,103	39,827	6,735	—	148,665	—	—	148,665
Investments and advances	(828,789)	469,880	174,152	188,447	455,057	458,747	176,786	(635,533)	—
Other assets	—	(646)	573	211	—	138	249	—	387
Long-term future income taxes	—	—	—	(2)	—	(2)	18,637	—	18,635
	<u>\$ (828,789)</u>	<u>\$ 871,200</u>	<u>\$ 835,817</u>	<u>\$ 538,931</u>	<u>\$ 412,949</u>	<u>\$ 1,830,108</u>	<u>\$ 609,442</u>	<u>\$ (655,130)</u>	<u>\$ 1,784,420</u>
Liabilities and Shareholder's Equity									
Current liabilities:									
Bank indebtedness	\$ —	\$ 250,000	\$ 85,958	\$ —	\$ —	\$ 335,958	\$ 15,330	\$ —	\$ 351,288
Accounts payables and accrued expenses	—	73,952	126,771	35,538	—	236,261	72,439	—	308,700
Intercompany payable	—	13,668	19,614	20,087	(42,108)	11,261	8,336	(19,597)	—
Income taxes payable	—	2,840	7,461	822	—	11,123	2,150	—	13,273
Current future income taxes	—	—	—	284	—	284	1,166	—	1,450
Debt due on demand	—	921,795	980,373	—	—	1,902,168	—	—	1,902,168
Current portion of debt	—	749	81	61	—	891	8,636	—	9,527
	—	1,263,004	1,220,258	56,792	(42,108)	2,497,946	108,057	(19,597)	2,586,406
Debt	—	—	101	52,690	—	52,791	70,605	(121,947)	1,449
Long-term future income taxes	—	21,790	19,457	11,878	—	53,125	24,736	—	77,861
Other long-term liabilities	—	1,106	19,036	7,367	—	27,509	6,056	—	33,565
	—	1,285,900	1,258,852	128,727	(42,108)	2,631,371	209,454	(141,544)	2,699,281
Non-controlling interest	—	—	—	—	—	—	—	26,816	26,816
Shareholders' equity	(828,789)	(414,700)	(423,035)	410,204	455,057	(801,263)	399,988	(540,402)	(941,677)
	<u>\$ (828,789)</u>	<u>\$ 871,200</u>	<u>\$ 835,817</u>	<u>\$ 538,931</u>	<u>\$ 412,949</u>	<u>\$ 1,830,108</u>	<u>\$ 609,442</u>	<u>\$ (655,130)</u>	<u>\$ 1,784,420</u>

NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

As at September 30, 2008 and December 31, 2007 and for the Three and Nine Month Periods Ended September 30, 2008 and September 30, 2007

(In thousands of U.S. dollars)

Consolidating Balance Sheet

December 31, 2007

	Parent	Canadian Issuer	US Issuer	Guarantor Subsidiaries	Guarantor Adjustments	Combined	Non-Guarantor Subsidiaries	Adjustments	Consolidated
Assets									
Current assets:									
Cash and cash equivalents	\$ —	\$ 4,814	\$ 3,329	\$ 7,549	\$ —	\$ 15,692	\$ 26,062	\$ —	\$ 41,754
Accounts receivable	—	51,551	49,239	69,662	—	170,452	94,479	—	264,931
Intercompany receivable	—	37,416	22,854	26,514	(71,376)	15,408	11,355	(26,763)	—
Inventories	—	50,322	113,890	62,498	—	226,710	69,121	—	295,831
Income tax recoverable	—	395	—	477	—	872	912	—	1,784
Prepaid expenses	—	2,965	4,186	3,589	—	10,740	4,413	—	15,153
Assets held for sale	—	—	1,849	—	—	1,849	—	—	1,849
Current future income taxes	—	3,603	22,013	2,561	—	28,177	11,211	—	39,388
	—	151,066	217,360	172,850	(71,376)	469,900	217,553	(26,763)	660,690
Property, plant and equipment	—	51,576	342,454	207,168	—	601,198	211,277	—	812,475
Goodwill	—	135,354	561,967	24,836	—	722,157	26,548	19,725	768,430
Intangible assets	—	192,479	161,924	9,768	—	364,171	9,258	4,568	377,997
Investments and advances	197,601	774,970	109,843	186,241	(598,440)	670,215	241,170	(911,385)	—
Other assets	—	17,846	2,162	249	—	20,257	244	—	20,501
Long-term future income taxes	—	—	—	1,513	—	1,513	18,446	—	19,959
	\$ 197,601	\$ 1,323,291	\$ 1,395,710	\$ 602,625	\$ (669,816)	\$ 2,849,411	\$ 724,496	\$ (913,855)	\$ 2,660,052
Liabilities and Shareholder's Equity									
Current liabilities:									
Bank indebtedness	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 17,615	\$ —	\$ 17,615
Trade payable and accrued expenses	—	66,295	129,754	57,229	—	253,278	71,845	—	325,123
Intercompany payable	—	17,111	51,537	20,097	(71,376)	17,369	9,394	(26,763)	—
Income taxes payable	—	2,817	8,924	261	—	12,002	3,054	—	15,056
Current future income taxes	—	—	—	—	—	—	2,093	—	2,093
Current portion of long-term debt	—	6,293	5,956	61	—	12,310	8,467	—	20,777
	—	92,516	196,171	77,648	(71,376)	294,959	112,468	(26,763)	380,664
Long-term debt	—	896,268	1,181,970	56,828	—	2,135,066	76,296	(358,716)	1,852,646
Long-term future income taxes	—	31,241	72,043	15,667	—	118,951	27,676	914	147,541
Long-term liabilities	—	260	18,581	8,488	—	27,329	11,617	—	38,946
	—	1,020,285	1,468,765	158,631	(71,376)	2,576,305	228,057	(384,565)	2,419,797
Non-controlling interest	—	—	—	—	—	—	—	42,654	42,654
Shareholders' equity	197,601	303,006	(73,055)	443,994	(598,440)	273,106	496,439	(571,944)	197,601
	\$ 197,601	\$ 1,323,291	\$ 1,395,710	\$ 602,625	\$ (669,816)	\$ 2,849,411	\$ 724,496	\$ (913,855)	\$ 2,660,052

NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

As at September 30, 2008 and December 31, 2007 and for the Three and Nine Month Periods Ended September 30, 2008 and September 30, 2007

(In thousands of U.S. dollars)

Consolidating Statement of Cash Flows

For the three month period ended September 30, 2008

	Parent	Canadian Issuer	US Issuer	Guarantor Subsidiaries	Guarantor Adjustments	Combined	Non-Guarantor Subsidiaries	Adjustments	Consolidated
Cash provided by (used in):									
Operating activities:									
Net (loss) income	\$ (421,165)	\$ (296,937)	\$ (125,056)	\$ (28,774)	\$ 450,767	\$ (421,165)	\$ (53,880)	\$ 53,880	\$ (421,165)
Items not involving cash:									
Depreciation and amortization	—	1,771	11,978	4,132	—	17,881	5,505	—	23,386
Non-cash interest expense	—	647	335	—	—	982	—	—	982
Impairment of receivable due from parent	—	18,898	—	—	—	18,898	—	—	18,898
Mark-to-market in interest rate swaps	—	(530)	(530)	—	—	(1,059)	—	—	(1,059)
Impairment of goodwill and intangible assets	—	174,331	96,219	26,262	—	296,812	62,087	10,310	369,209
Loss (gain) on sale of property, plant and equipment	—	9	65	(652)	—	(578)	(11)	—	(589)
Loss (income) from equity investments	421,165	92,962	(1,707)	—	(450,767)	61,654	—	(61,654)	—
Share based awards	—	—	(317)	—	—	(317)	—	—	(317)
Future income taxes	—	(9,868)	1,819	(1,771)	—	(9,820)	(3,697)	—	(13,517)
Pension and post retirement expense (income) and funding, net	—	—	(765)	(75)	—	(840)	1	—	(840)
Unrealized foreign exchange losses (gains)	—	314	1	0	—	315	4,824	—	5,139
Non-controlling interest	—	—	—	—	—	—	—	908	908
Change in non-cash operating working capital:									
Accounts receivable	—	(1,767)	11,818	9,060	—	19,111	12,210	—	31,321
Inventories	—	(2,738)	3,032	3,901	—	4,195	1,409	—	5,604
Income taxes recoverable	—	—	—	179	—	179	(307)	—	(128)
Income taxes payable	—	452	(1,467)	(820)	—	(1,835)	(1,555)	—	(3,390)
Prepaid expenses	—	(527)	(1,760)	772	—	(1,514)	981	—	(533)
Accounts payable and accrued expenses	—	8,192	(10,234)	(9,325)	—	(11,368)	(10,157)	—	(21,525)
Intercompany receivable	—	(35,228)	(597)	(1,488)	37,588	275	1,359	(1,634)	—
Intercompany payable	—	1,158	34,296	1,028	(37,588)	(1,106)	(528)	1,634	—
	—	(48,859)	17,131	2,429	—	(29,300)	18,241	3,444	(7,616)
Financing activities									
Change in bank and other indebtedness	—	—	(57)	—	—	(57)	(2,312)	—	(2,369)
Repayment of long-term debt	—	(6,403)	(236,828)	(3,743)	—	(246,974)	7,268	231,082	(8,624)
Deferred financing fees	—	(1,825)	(1,825)	—	—	(3,649)	—	—	(3,649)
	—	(8,227)	(238,710)	(3,743)	—	(250,680)	4,956	231,082	(14,642)
Investing activities									
Proceeds from sale of property, plant and equipment	—	(3,079)	32	4,371	3,050	4,374	(89)	—	4,285
Additions to property, plant and equipment	—	1,925	(4,411)	(1,228)	(3,050)	(6,764)	(1,436)	—	(8,200)
Acquisitions	—	—	—	—	—	—	—	—	—
Distributions to non-controlling interests	—	—	—	—	—	—	(2,375)	—	(2,375)
Investments and advances	—	29,814	205,426	17,522	(3,148)	249,614	(23,738)	(225,876)	0
Other investing activities	—	(209)	(1)	(4)	—	(214)	(439)	219	(434)
	—	23,601	201,046	20,661	(3,148)	242,160	(23,227)	(225,657)	(6,724)
Net foreign currency translation adjustment	—	2,127	222	(8,531)	3,148	(3,033)	7,740	(8,869)	(4,162)
Increase (decrease) in cash and cash equivalents	—	(26,508)	(20,310)	10,816	—	(36,001)	2,866	—	(33,144)
Cash and cash equivalents, beginning of period	—	162,196	49,479	4,524	—	(216,199)	25,189	—	241,397
Cash and cash equivalents, end of period	\$ —	\$ 135,688	\$ 29,169	\$ 15,341	\$ —	\$ 180,198	\$ 28,055	\$ —	\$ 208,253

NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

As at September 30, 2008 and December 31, 2008 and for the Three and Nine Month Periods Ended September 30, 2008 and September 30, 2007

(In thousands of U.S. dollars)

Consolidating Statement of Cash Flows

For the three month period ended September 30, 2007

	Parent	Canadian Issuer	US Issuer	Guarantor Subsidiaries	Guarantor Adjustments	Combined	Non-Guarantor Subsidiaries	Adjustments	Consolidated
Cash provided by (used in):									
Operating activities:									
Net (loss) income	\$ (12,811)	\$ 12,487	\$ (25,411)	\$ 6,460	\$ 6,464	\$ (12,811)	\$ 14,911	\$ (14,911)	\$ (12,811)
Items not involving cash:									
Depreciation and amortization	—	3,515	16,625	4,860	—	25,000	5,219	157	30,376
Non-cash interest expense	—	1,597	1,312	—	—	2,909	—	—	2,909
Impairment of property, plant and equipment	—	964	1,861	786	—	3,611	—	—	3,611
Loss (gain) on sale of property, plant and equipment	—	11	571	(27)	—	555	—	—	555
Loss (income) from equity investments	12,811	(16,322)	(2,746)	—	(6,464)	(12,721)	—	12,721	—
Share based awards	—	15	433	16	—	464	23	—	487
Future income taxes	—	3,341	(4,225)	(895)	—	(1,779)	(98)	(40)	(1,917)
Pension and post retirement expense (income) and funding, net	—	—	271	(48)	—	223	457	—	680
Unrealized foreign exchange (gains) losses	—	(4,523)	—	214	—	(4,309)	767	—	(3,542)
Non-controlling interest	—	—	—	—	—	—	—	2,073	2,073
Change in non-cash operating working capital:									
Accounts receivable	—	1,613	(6,463)	5,427	—	577	1,042	—	1,619
Inventories	—	4,456	(3,725)	(1,285)	—	(554)	111	—	(443)
Income taxes payable	—	(5,143)	(304)	964	—	(4,483)	135	—	(4,348)
Prepaid expenses	—	(165)	1,473	1,206	—	2,514	341	—	2,855
Accounts payable and accrued expenses	—	6,842	21,127	(851)	—	27,118	57	—	27,175
Intercompany receivable	—	(970)	13,917	(1,898)	(8,348)	2,701	(9,724)	7,023	—
Intercompany payable	—	(13,554)	9,339	5,439	8,348	9,572	(2,549)	(7,023)	—
	—	(5,836)	24,055	20,368	—	38,587	10,692	—	49,279
Financing activities									
Change in bank and other indebtedness	—	—	(54,000)	—	—	(54,000)	3,434	—	(50,566)
Repayment of long-term debt	—	(1,664)	(1,495)	(6,877)	—	(10,036)	(14,635)	14,788	(9,883)
	—	(3,489)	(57,320)	(6,877)	—	(67,685)	(11,201)	14,788	(64,098)
Investing activities									
Proceeds from sale of property, plant and equipment	—	7,305	583	—	(7,300)	588	13	—	601
Additions to property, plant and equipment	—	163	(6,101)	(898)	7,300	464	(6,940)	—	(6,476)
Acquisitions	(3,264)	—	—	—	—	(3,264)	—	—	(3,264)
Distributions to non-controlling interests	—	—	—	—	—	—	(1,103)	19	(1,084)
Investments and advances	(1,110)	(27,603)	45,381	(16,647)	—	21	14,786	(14,807)	—
Other investing activities	4,374	607	(3)	8	—	4,986	(4,369)	—	617
	—	(19,528)	39,860	(17,537)	—	2,795	2,387	(14,788)	(9,606)
Net foreign currency translation adjustment	—	(2,903)	5	4,773	—	1,875	826	—	2,701
Decrease (increase) in cash and cash equivalents	—	(31,756)	6,601	727	—	(24,428)	2,704	—	(21,724)
Cash and cash equivalents, beginning of period	—	40,620	259	16,510	—	57,389	19,697	—	77,086
Cash and cash equivalents, end of period	\$ —	\$ 8,865	\$ 6,860	\$ 17,237	\$ —	\$ 32,961	\$ 22,401	\$ —	\$ 55,362

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As at September 30, 2008 and December 31, 2007 and for the Three and Nine Month Periods Ended September 30, 2008 and September 30, 2007

(In thousands of U.S. dollars)

Consolidating Statement of Cash Flows

For the nine month period ended September 30, 2008

	Parent	Canadian Issuer	US Issuer	Guarantor Subsidiaries	Guarantor Adjustments	Combined	Non-Guarantor Subsidiaries	Adjustments	Consolidated
Cash provided by (used in):									
Operating activities:									
Net (loss) income	\$ (1,137,370)	\$ (394,084)	\$ (744,036)	\$ (22,832)	\$ 1,160,952	\$ (1,137,370)	\$ (38,259)	\$ 38,259	\$ (1,137,370)
Items not involving cash:									
Depreciation and amortization	—	8,405	41,631	13,603	—	63,639	17,041	—	80,680
Non-cash interest expense	—	29,761	32,339	—	—	62,100	—	—	62,100
Impairment of receivable due from parent	—	18,898	—	—	—	18,898	—	—	18,898
Mark-to-market in interest rate swaps	—	(530)	(530)	—	—	(1,059)	—	—	(1,059)
Impairment of property, plant and equipment	—	—	822	—	—	822	5,098	—	5,920
Impairment of goodwill and intangible assets	—	222,627	672,579	26,262	—	921,470	67,762	10,310	999,540
Loss (gain) on sale of property, plant and equipment	—	203	(1,430)	(654)	—	(1,881)	(40)	—	(1,921)
Loss (income) from equity investments	1,137,370	77,600	(6,095)	—	(1,160,952)	47,924	—	(47,924)	—
Share based awards	—	—	585	—	—	585	—	—	585
Future income taxes	—	(8,180)	(44,393)	(2,062)	—	(54,635)	(4,459)	—	(59,094)
Pension and post retirement expense (income) and funding, net	—	—	(390)	(498)	—	(888)	(150)	—	(1,038)
Unrealized foreign exchange losses (gains)	—	921	99	102	—	1,122	4,279	—	5,401
Non-controlling interest	—	—	—	—	—	—	—	2,799	2,799
Change in non-cash operating working capital:									
Accounts receivable	—	(828)	(56,823)	16,946	—	(40,705)	(2,024)	—	(42,729)
Inventories	—	3,397	(132)	7,264	—	10,529	(52)	—	10,477
Income taxes recoverable	—	395	—	(1,070)	—	(675)	555	—	(120)
Income taxes payable	—	647	(1,474)	975	—	148	(982)	—	(834)
Prepaid expenses	—	(1,690)	(4,185)	(1,036)	—	(6,910)	1,144	—	(5,766)
Accounts payable and accrued expenses	—	7,016	(3,394)	(20,538)	—	(16,917)	993	—	(15,924)
Intercompany receivable	—	(1,939)	2,794	2,798	5,782	9,435	354	(9,789)	—
Intercompany payable	—	(6,436)	2,917	570	(5,782)	(8,731)	(1,058)	9,789	—
	—	(43,817)	(109,115)	19,830	—	(133,100)	50,202	3,444	(79,455)
Financing activities									
Change in bank and other indebtedness	—	250,000	85,958	—	—	335,958	(2,285)	—	333,673
Repayment of long-term debt	—	(9,457)	(239,712)	(4,138)	—	(253,307)	(5,918)	236,770	(22,455)
Forbearance fees	—	(1,825)	(1,825)	—	—	(3,649)	—	—	(3,649)
	—	238,719	(155,579)	(4,138)	—	79,002	(8,203)	236,770	307,569
Investing activities									
Proceeds from sale of property, plant and equipment	—	—	3,853	4,371	—	8,224	—	—	8,224
Additions to property, plant and equipment	—	(1,094)	(14,682)	(2,288)	—	(18,064)	(3,631)	—	(21,695)
Acquisitions	—	(30,507)	—	—	—	(30,507)	—	—	(30,507)
Distributions to non-controlling interests	—	—	—	—	—	—	(10,835)	—	(10,835)
Investments and advances	—	(30,395)	301,368	(12,482)	(1,285)	257,206	(25,642)	(231,564)	0
Other investing activities	—	(625)	(101)	12	—	(714)	(35)	219	(530)
	—	(67,471)	290,438	(10,387)	(1,285)	211,295	(35,293)	(231,345)	(55,343)
Net foreign currency translation adjustment	—	(1,407)	95	2,486	1,285	2,459	138	(8,869)	(6,272)
Increase (decrease) in cash and cash equivalents	—	130,874	25,840	7,791	—	164,507	1,994	—	166,499
Cash and cash equivalents, beginning of period	—	4,814	3,329	7,549	—	15,692	26,062	—	41,754
Cash and cash equivalents, end of period	\$ —	\$ 135,688	\$ 29,169	\$ 15,341	\$ —	\$ 180,198	\$ 28,055	\$ —	\$ 208,253

NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

As at September 30, 2008 and December 31, 2008 and for the Three and Nine Month Periods Ended September 30, 2008 and September 30, 2007

(In thousands of U.S. dollars)

Consolidating Statement of Cash Flows

For the nine month period ended September 30, 2007

	Parent	Canadian Issuer	US Issuer	Guarantor Subsidiaries	Guarantor Adjustments	Combined	Non-Guarantor Subsidiaries	Adjustments	Consolidated
Cash provided by (used in):									
Operating activities:									
Net (loss) income	\$ (10,400)	\$ 33,586	\$ (44,324)	\$ 23,423	\$ (12,685)	\$ (10,400)	\$ 43,023	\$ (43,023)	\$ (10,400)
Items not involving cash:									
Depreciation and amortization	—	10,667	53,386	14,423	—	78,476	15,837	470	94,783
Non-cash interest expense	—	4,046	3,903	—	—	7,949	—	—	7,949
Impairment of property, plant and equipment	—	2,539	2,906	786	—	6,231	—	—	6,231
Loss (gain) on sale of property, plant and equipment	—	126	1,387	—	—	1,513	(8)	—	1,505
Loss (income) from equity investments	10,400	(52,814)	(7,768)	—	12,685	(37,497)	—	37,497	—
Share based awards	—	57	1,559	58	—	1,674	85	—	1,759
Future income taxes	—	(6,091)	(13,430)	(51)	—	(19,572)	1,468	(270)	(18,374)
Pension and post retirement expense (income) and funding, net	—	—	1,170	(345)	—	825	457	—	1,282
Unrealized foreign exchange (gains) losses	—	(7,158)	—	271	—	(6,887)	375	—	(6,512)
Non-controlling interest	—	—	—	—	—	—	—	5,326	5,326
Change in non-cash operating working capital:									
Accounts receivable	—	(5,851)	(8,330)	(1,086)	—	(15,267)	(15,120)	—	(30,387)
Inventories	—	7,842	22,374	613	—	30,829	(4,793)	—	26,036
Income taxes payable	—	(6,337)	(92)	2,948	—	(3,481)	(203)	—	(3,684)
Prepaid expenses	—	(2,730)	3,200	(851)	—	(381)	102	—	(279)
Accounts payable and accrued expenses	—	3,944	4,894	6,738	—	15,576	11,237	—	26,813
Intercompany receivable	—	24,149	14,826	(8,593)	(30,491)	(109)	(12,153)	12,262	—
Intercompany payable	—	(11,211)	(12,352)	5,098	30,491	12,026	236	(12,262)	—
	—	(5,236)	23,309	43,432	—	61,505	40,543	—	102,048
Financing activities									
Change in bank and other indebtedness	—	—	(43,000)	—	—	(43,000)	(765)	—	(43,765)
Repayment of long-term debt	—	(4,707)	(4,486)	(6,905)	—	(16,098)	(21,402)	18,889	(18,611)
	—	(8,356)	(47,486)	(6,905)	—	(62,747)	(22,167)	18,889	(66,025)
Investing activities									
Proceeds from sale of property, plant and equipment	—	7,378	685	—	(7,300)	763	29	—	792
Additions to property, plant and equipment	—	(1,102)	(14,028)	(3,915)	7,300	(11,745)	(10,957)	—	(22,702)
Acquisitions	(6,997)	—	—	—	—	(6,997)	—	—	(6,997)
Distributions to non-controlling interests	—	—	—	—	—	—	(2,452)	(187)	(2,639)
Investments and advances	2,623	(299)	41,682	(26,518)	—	17,488	1,214	(18,702)	—
Other investing activities	4,374	(3,062)	1,546	26	—	2,884	(3,923)	—	(1,039)
	—	2,915	29,885	(30,407)	—	2,393	(16,089)	(18,889)	(32,585)
Net foreign currency translation adjustment	—	(479)	5	5,756	—	5,282	(781)	—	4,501
Decrease (increase) in cash and cash equivalents	—	(11,156)	5,713	11,876	—	6,433	1,506	—	7,939
Cash and cash equivalents, beginning of period	—	18,196	2,971	5,361	—	26,528	20,895	—	47,423
Cash and cash equivalents, end of period	\$ —	\$ 7,040	\$ 8,684	\$ 17,237	\$ —	\$ 32,961	\$ 22,401	\$ —	\$ 55,362

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following Management Discussion and Analysis ("MD&A") is a review of Masonite International Inc.'s financial condition and results of operations, is based upon Canadian Generally Accepted Accounting Principles ("GAAP") and covers the three and nine month periods ended September 30, 2008 and September 30, 2007. In this MD&A, "Company", "we", "us" and "our" refer to Masonite International Inc. and our subsidiaries. All amounts are in millions of United States dollars unless specified otherwise.

This discussion should be read in conjunction with the 2007 annual audited consolidated financial statements and the 2008 unaudited interim financial statements. The following discussion also contains forward-looking statements that involve numerous risks and uncertainties. Our actual results could differ materially from those discussed in the forward-looking statements as a result of these risks and uncertainties.

Recent Developments

As of September 30, 2008, we were not in compliance with the financial covenants contained in our Senior Secured Credit Agreement. As a result of such non-compliance, the lenders party to the Senior Secured Credit Agreement have the right to demand immediate repayment of the obligation of \$1,132.3 million plus accrued interest, as well as the amount outstanding under the revolving credit facility in the amount of \$336.0 million plus accrued interest. To date, no demand for repayment has been made. If such demand is made, the holders of our Senior Subordinated Notes due 2015 (the "Notes") would be permitted to demand immediate repayment of the Notes in the amount of \$769.9 million plus accrued interest. We are also in default under the Notes due to the failure to pay interest within 30 days of the scheduled interest payment date of October 15, 2008. This default provides the holders of the Notes the right to demand repayment of the full amount of the Notes plus accrued interest. We have been engaged in negotiations with the lenders party to the Senior Secured Credit Agreement and holders of the Notes regarding an amendment to these agreements including a waiver of such non-compliance. To date, no agreement has been reached and there can be no guarantee that an agreement will be reached on terms acceptable to us and our lenders. To the extent that no demands for repayment of our Senior Secured Credit Agreement and Notes are made, we have adequate cash reserves to fund ongoing operations for the foreseeable future. Cash on hand as of September 30, 2008 was \$208.3 million. Our ability to continue as a going concern is dependent upon our ability to reach agreement regarding a satisfactory amendment to our Senior Secured Credit Agreement and Notes. This MD&A was prepared based on financial statements prepared using accounting principles applicable to a going concern, which assumes that we will continue in operation for a reasonable period of time and will be able to realize our assets and discharge our liabilities in the normal course of operations. To the extent that the lenders under the senior secured credit facilities agree to an amendment of the Senior Secured Credit Agreement, such amendment may result in interest being payable on these facilities at higher interest rates.

On September 16, 2008 the Company entered into a forbearance agreement with its bank lenders that provides the Company more time and flexibility to negotiate a potential amendment to the terms of its credit facility. Under terms of the forbearance agreement, which became effective upon Masonite's payment of certain fees, neither the administrative agent (the "Agent") nor the lenders will (i) take action to accelerate the maturity of or terminate the Company's revolving credit facility or to otherwise enforce payment of the Company's obligations under the credit agreement, or (ii) exercise any other rights and remedies available to them under the credit agreement or applicable law. The forbearance agreement applies to the non-compliance of the covenants as of June 30 and, provisionally, any such non-compliance as of September 30, 2008. The Company paid a fee of \$3.6 million to lenders that consented to the forbearance. The unamortized balance of the forbearance fees of \$2.7 million is included in prepaid expenses.

On November 25, 2008 the Company entered into an amendment to its credit agreement and an extension of the forbearance agreement dated September 16, 2008, with its bank lenders. This extension provides the Company time to develop a revised business plan for 2009, which will serve as the basis of its efforts to create an appropriate capital structure to support Masonite's long-term business objectives. Pursuant to the amendment, neither the Agent nor the lenders will (i) take action to accelerate the maturity of or terminate the Company's revolving credit facility or to otherwise enforce payment of the Company's obligations under the credit agreement, or (ii) exercise any other rights and remedies available to them under the credit agreement or applicable law. The forbearance agreement applies to the non-compliance of the covenants as of June 30 and September 30, 2008. The forbearance agreement termination date is the earliest of December 19, 2008, any other Event of Default, and any Termination Event as defined in the Bondholder Forbearance Agreement dated November 17, 2008 (and described below). The forbearance agreement can also be terminated if the Company fails to deliver certain financial information by agreed upon dates.

The amendment with the lenders provides for the December 19, 2008 deadline to be further extended to January 15, 2009, provided that Masonite: (1) delivers a draft business plan by December 19, 2008, (2) reviews the plan with the bank lenders by December 22, 2008, (3) delivers a final business plan by January 15, 2009; and (4) complies with a number of other provisions related to the negotiation of a consensual restructuring plan. To date, no agreement has been reached and there can be no guarantee that an agreement will be reached on terms acceptable to the Company or its lenders.

On September 16, 2008, the Agent, on behalf of the lenders, under the Company's credit facility provided notice under the company's senior subordinated note indentures of the imposition of a payment blockage period with respect to the Company's Notes. Such notice was permitted by the terms of the indentures as a result of the Company's non-compliance with certain financial covenants under its credit facility.

As a result of such notice, the Company is not permitted for a period of up to 179 days from September 16, 2008 to make interest or principal payments under the Notes. In accordance with this restriction, the Company did not make a scheduled payment of interest on the Notes when due on October 15, 2008 although it had sufficient cash on hand to make such payment. Failure to make such interest payment within 30 days of October 15, 2008 constituted an event of default under the note indentures, permitting holders of at least 30% in principal amount of outstanding notes to declare the full amount of the notes immediately due and payable.

On November 17, 2008 the Company entered into a forbearance agreement with holders of a majority of the Notes issued by two of the Company's subsidiaries. Masonite expects that this forbearance agreement will provide the Company additional time and flexibility as it continues to pursue opportunities to develop an appropriate capital structure to support its long-term strategic plan and business objectives. Under terms of the forbearance agreement, which is effective through December 31, 2008, the noteholders executing the forbearance agreement agreed that during such period they will not exercise rights and remedies against the Company solely with respect to the Company's failure to make the interest payment due on October 15, 2008. The forbearance agreement terminates prior to December 31, 2008 upon certain events.

In the first quarter of 2007, we were notified by our largest customer, The Home Depot, that they would be moving substantially all of their business with us in certain geographic regions to a competitor later in 2007. Sales to this customer in the regions affected were approximately \$250 - \$300 million on an annualized basis. Subsequent to this notification, we completed the permanent closure of five facilities dedicated to this customer and an interior door manufacturing facility. We further completed the consolidation of our manufacturing operations in Florida, completed the closure of our Bridgwater site in the UK and three additional sites in North America. Actions are underway to close additional underperforming sites before the end of the year. In March of 2008 we completed the acquisition of the remaining 25% of our facilities in the Czech Republic and Poland pursuant to an option exercised by the minority interest shareholder for \$18.6 million which consisted of \$13.7 million paid for the shares and the balance as repayment of advances made by the minority interest shareholder. In the second quarter of 2008, we borrowed the remaining amount available on our revolving credit facility which resulted in a total amount outstanding under the revolving credit facility of \$336.0 million. In June of 2008 we purchased an additional 25% of a door facing manufacturing facility pursuant to the terms contained in the shareholder agreement for total consideration of \$19.3 million including a distribution to the previous owner of \$2.5 million.

Due to the continued decline of the U.S. housing market, we completed a goodwill and intangibles impairment test for our reporting units as of June 30, 2008. As a result of this test, goodwill in the North American segment was determined to be impaired by \$471.4 million. Further, the impairment test also determined that North American customer relationship intangibles were impaired by \$152.6 million as well as an impairment of \$0.6 million of the customer relationship intangible in the Europe and Other segment. Additionally, in connection with the anticipated closure of two sites in the Europe and Other segment, it was determined that goodwill and customer relationships in the amount of \$5.0 million and \$0.7 million, respectively, were impaired.

An additional impairment test as at September 30, 2008 was completed due to global economic conditions, specifically the continued decline in the U.S. and other housing markets. This test concluded that there was impairment of all remaining goodwill in both the North American and Europe and Other segments in the amount of \$246.6 million and \$58.6 million, respectively. Further, the impairment test also concluded that the remaining Europe and Other customer relationship intangible of \$17.5 million was impaired. Additional impairments of \$36.9 million for the trademark and tradename intangible, \$7.5 million for the North American patents intangible and \$2.1 million for the Europe and Other patents intangible also resulted from this test.

Results of Operations for the three month period ended September 30, 2008 compared to the three month period ended September 30, 2007

A summary of the third quarter results is as follows:

	July 1, 2008 - September 30, 2008	July 1, 2007 - September 30, 2007
Sales	\$ 453.2	\$ 529.3
Cost of sales	381.1	408.1
Gross margin	72.1	121.2
Selling, general and administration expenses	40.1	50.4
Depreciation	20.6	21.5
Amortization of intangible assets	2.7	8.9
Interest	42.9	44.3
Other expense, net	31.3	9.2
Impairment of goodwill and intangibles	369.2	—
(Loss) income before income taxes and non-controlling interest	(434.7)	(13.1)
Income taxes (recovery)	(14.5)	(2.4)
Non-controlling interest	0.9	2.0
Net (loss) income	\$ (421.2)	\$ (12.8)

Consolidated Sales

For the three month period ended September 30

	2008	2007	\$ Change	% Change
Sales	\$ 453.2	\$ 529.3	\$ (76.1)	(14.4)%

Consolidated sales for the three month period ended September 30, 2008 were \$453.2 million compared to \$529.3 million in the prior year period. Sales in the 2008 period were negatively impacted by lower North American sales due to continued soft demand from customers servicing both the wholesale and retail channels as well as weakness in the United Kingdom and other European housing market. Sales in the third quarter of 2008 benefited by \$9.2 million due to stronger foreign currency rates as compared to the prior year period.

Sales and Percentage of Sales by Principal Geographic Region

For the three month period ended September 30

	2008	2007
North America	\$ 304.7 67%	\$ 367.0 69%
Europe and Other	\$ 160.2 35%	\$ 176.9 33%
Intersegment	\$ (11.7) (2)%	\$ (14.5) (3)%

Sales to external customers from facilities in North America declined 17.9% to \$301.4 million for the three month period ended September 30, 2008 as compared to \$366.9 million in the prior year period. Sales in North America were negatively impacted by continued soft demand from customers servicing both the wholesale and retail channels. Sales in the North American segment contributed 67% of consolidated sales as compared to 69% in the prior year. The stronger Canadian dollar in 2008 increased sales in the third quarter of 2008 by approximately \$0.4 million. Excluding the impact of currency, sales declined 18.3% compared to the prior year period.

Sales to external customers from facilities outside of North America declined 6.5% to \$151.8 million in 2008 as compared to the prior year period. European sales were positively impacted by the appreciation of European currencies versus the U.S. dollar in the amount of \$8.0 million. Excluding the impact of exchange, sales in our Europe and Other segment

decreased by 11.5% from the prior year on an overall basis. Our sales in the United Kingdom declined as a result of weakening housing market conditions, while sales in South Africa, France and Czech Republic increased.

Intersegment sales, primarily the movement of door components from the Europe and Other segment into the North America segment, declined by 19.9% to \$11.7 million due to continued soft market conditions in North America during the third quarter of 2008.

***Sales and Percentage of Sales by Product Line
For the three month period ended September 30***

	2008		2007	
Interior	\$	312.7 69%	\$	379.4 72%
Exterior	\$	140.5 31%	\$	149.9 28%

The proportion of revenues from interior and exterior products was approximately 69% and 31%, respectively, for the three month period ended September 30, 2008. For the 2007 period, the proportion was 72% and 28%, respectively. Our sales of interior doors for the 2008 period declined as a percentage of sales due to continued weakening in housing market conditions in North America and other European countries..

***Cost of Sales
For the three month period ended September 30***

	2008		2007	
		Percentage of Sales		Percentage of Sales
Cost of sales	\$	381.1 84.1%	\$	408.1 77.1%

The significant components of cost of sales are materials, direct labor, factory overheads and distribution costs. Cost of sales, expressed as a percentage of sales, was 84.1% for the 2008 period versus 77.1% for the 2007 period. Despite our ongoing efforts on global supply chain initiatives, facility rationalizations, rigorous cost management and product pricing adjustments, we were not able to fully offset the impact of the lower volumes in the third quarter coupled with significant inflationary cost pressures on raw materials and transportation. We continue to execute on our announced facility closures to adjust the size of our business to the current market conditions. Rising fuel prices and raw material input costs had the most significant impact on our cost of sales in the third quarter of 2008.

***Selling, General and Administration Expenses
For the three month period ended September 30***

	2008		2007	
		Percentage of Sales		Percentage of Sales
Selling, general and administration expenses	\$	40.1 8.9%	\$	50.4 9.5%

Selling, general and administration expenses primarily includes personnel, marketing and advertising costs, sales commissions, information technology costs, receivables sales program costs, professional fees and management travel. SG&A costs declined \$10.3 million as compared to the prior year period due to reductions in staffing levels, as well as lower commissions, accounts receivable sales facility charges, professional fees including recruiting and relocation, and travel and entertainment spending.

Depreciation**For the three month period ended September 30**

	<u>2008</u>	<u>2007</u>	<u>\$ Change</u>	<u>% Change</u>
Depreciation	\$ 20.6	\$ 21.5	\$ (0.9)	(4.2)%

Depreciation expense decreased to \$20.6 million in the third quarter of 2008 as compared to \$21.5 million in the third quarter of 2007. This reduced level of depreciation is a result of lower capital expenditures over the past two years, the sixteen facility closures completed since 2005 and asset impairments recorded in the last two years. These actions have reduced the overall basis of depreciable assets. Also in the 2007 period, the Company recorded accelerated depreciation on leased facilities that were closing in the second and third quarter of 2007.

Amortization of Intangible Assets**For the three month period ended September 30**

	<u>2008</u>	<u>2007</u>	<u>\$ Change</u>	<u>% Change</u>
Amortization of intangible assets	\$ 2.7	\$ 8.9	\$ (6.1)	(68.5)%

Amortization of intangible assets for the 2008 period was \$6.2 million lower than in the 2007 period due to the impairment of customer relationship intangibles recorded in December of 2007 and the second quarter of 2008. As a result of the business lost from The Home Depot and the ongoing downturn in the North American housing market, we recorded an impairment charge of \$65.4 million related to customer relationship intangibles in 2007. Due to the anticipated closure of two additional overseas sites and the continuing downturn in the North American housing market, the Company recorded additional impairment of customer relationship intangibles of \$152.6 million in the second quarter of 2008. This along with additional intangible impairments of \$64.0 million recorded during the third quarter of 2008 will reduce amortization of intangible assets by approximately \$27.6 million per year.

Other Expense**For the three month period ended September 30**

	<u>2008</u>	<u>2007</u>
Restructuring and severance expense	\$ 4.8	\$ 7.8
Financial professional fees	4.2	—
Impairment of property, plant and equipment	—	3.6
(Gain) loss on disposal of property, plant and equipment	(0.6)	0.6
Interest rate swap	(1.1)	—
Provision for receivable from parent company	18.9	—
Other	5.0	(2.8)
Other expense	<u>\$ 31.3</u>	<u>\$ 9.2</u>

Other expense of \$31.3 million in the third quarter of 2008 includes restructuring charges of \$4.8 million related to reduction in staffing levels as well as professional fees of \$4.2 million related to ongoing negotiations regarding an amendment to the Credit Agreement. We completed the sale of a former manufacturing site in the 2008 third quarter for proceeds of approximately \$4.4 million which generated a gain on disposal of \$0.6 million included in (Gain) loss on disposal above. A provision of \$18.9 million represents the full amount of a receivable due from the Company's parent was charged to expense due to the uncertainty of the ultimate collection of this receivable. A gain of \$1.1 million related to the change in the fair value of interest rate swap since it became an ineffective hedge at June 30, 2008 was also recorded during the quarter. Costs related to foreign exchange translation gains and losses on monetary items denominated in currencies other than the United States dollar are included in Other above.

Other expense was \$9.2 million in the 2007 period including restructuring and severance costs of \$7.8 million related to the closure of manufacturing facilities in North America and related restructuring actions. The majority of this charge relates to liabilities established for future lease obligations on the sites that have been closed, net of anticipated sublease revenue. We also

recorded a \$3.6 million charge related to an impairment charge on property, plant and equipment relating to land and building that was sold in the fourth quarter of 2007 and redundant machinery resulting from the closure of facilities.

Impairment of Goodwill and Intangible Assets
For the three month period ended September 30

	<u>2008</u>	<u>2007</u>
Impairment of goodwill and intangible assets	\$ 369.2	\$ —

Due to global economic conditions, specifically the continued decline in the U.S. and other housing markets, we completed an additional impairment test as at September 30, 2008. This test concluded that there was impairment of all remaining goodwill in both the North American and Europe and Other segments in the amount of \$246.6 million and \$58.6 million, respectively. Further, the impairment test also concluded that the remaining Europe and Other customer relationship intangible of \$17.5 million was impaired. Additional impairments of \$36.9 million for the trademark and tradename intangible, \$7.5 million for the North American patents intangible and \$2.1 million for the Europe and Other patents intangible also resulted from this test.

Interest Expense
For the three month period ended September 30

	<u>2008</u>	<u>2007</u>	<u>\$ Change</u>	<u>% Change</u>
Interest	\$ 42.9	\$ 44.3	\$ (1.4)	(3.2)%

Interest expense of \$42.9 million for the 2008 period was \$1.4 million or 3.2% lower than the 2007 period. During the third quarter of 2008, the Company entered into a forbearance agreement with our bank lenders regarding a potential amendment to the terms of our credit facility. Amortization of fees paid in connection with the forbearance agreement in the amount of \$0.7 million was recorded in the third quarter of 2008. This compares to the 2007 period where we recorded \$2.6 million in amortization of deferred financing fees. Higher interest costs of \$0.5 million were attributable to higher debt levels partially offset by lower average rates in the 2008 period.

Income Tax Rates
For the three month period ended September 30

	<u>2008</u>	<u>2007</u>
Combined effective rate	3.3%	18%

Our effective income tax rate is primarily the weighted average of federal, state and provincial rates in various countries in which we have operations, including the United States, Canada, France, the United Kingdom and Ireland.

Our income tax rate is also affected by goodwill and intangible impairments, estimates of realizability of tax assets, changes in tax laws and the timing of the expected reversal of temporary differences. We have established a valuation allowance on a portion of tax losses and other carryforward attributes in Canada, the United States and other jurisdictions until the realization of these tax assets becomes more likely than not during the carryforward period.

Net Loss
For the three month period ended September 30

	<u>2008</u>	<u>2007</u>	<u>\$ Change</u>	<u>% Change</u>
Net (loss) income	\$ (421.2)	\$ (12.8)	\$ (408.4)	Not meaningful

Our net loss of \$421.2 million in the third quarter of 2008 increased by \$408.4 million from the prior year period. This result reflects the factors discussed above, particularly goodwill and intangible impairments.

Segment Information

For the three month period ended September 30

	2008	Percentage of Sales	2007	Percentage of Sales
Operating EBITDA				
- North America	\$ 19.2	6.3%	\$ 46.8	12.8%
Operating EBITDA				
- Europe and Other	\$ 12.9	8.1%	\$ 24.0	13.6%

The performance measurement of each of our geographic segments is based on Operating EBITDA which is defined as net income (loss) plus non-controlling interest, interest, taxes, depreciation, amortization and other expense. Segment Operating EBITDA in North America was lower in 2008 as a result of the significantly lower volume and inflationary cost pressures not fully offset by headcount reduction actions and facility rationalization activities. Segment Operating EBITDA in our Europe and Other segment was negatively impacted by foreign currency as sales prices in some of our foreign markets are denominated in U.S. dollars while input costs are in other foreign currencies. Our businesses in Western Europe are also experiencing a significant slowdown in demand in their markets which affected our Operating EBITDA in the period.

Set forth below is a reconciliation of Operating EBITDA, by segment, from net income (loss):

	North America 2008	North America 2007	Europe and Other 2008	Europe and Other 2007
Net (loss) income	\$ (404.6)	\$ (30.4)	\$ (16.6)	\$ 17.6
Non-controlling interest	0.9	1.6	—	0.5
Income taxes (recovery)	(11.5)	(4.2)	(3.0)	1.8
Other expense, net	22.3	8.6	9.0	0.7
Interest	45.2	49.3	(2.3)	(5.0)
Amortization of intangible assets	2.3	8.6	0.5	0.3
Depreciation	12.7	13.3	8.0	8.1
Impairment of goodwill and intangibles	351.9	—	17.3	—
Operating EBITDA	\$ 19.2	\$ 46.8	\$ 12.9	\$ 24.0
Percentage of Sales	6.3%	12.8%	8.1%	13.6%

Results of Operations for the nine month period ended September 30, 2008 compared to the nine month period ended September 30, 2007

A summary of the results for the nine months is as follows:

	January 1, 2008 - September 30, 2008	January 1, 2007 - September 30, 2007
Sales	\$ 1,425.4	\$ 1,687.7
Cost of sales	1,172.1	1,297.6
Gross margin	253.3	390.1
Selling, general and administration expenses	128.4	157.1
Depreciation	63.8	68.1
Amortization of intangible assets	16.9	26.7
Interest	185.2	134.1
Other expense, net	49.1	21.6
Impairment of goodwill and intangibles	999.5	—
(Loss) income before income taxes and non-controlling interest	(1,189.6)	(17.5)
Income taxes (recovery)	(55.0)	(12.4)
Non-controlling interest	2.8	5.3
Net (loss) income	\$ (1,137.4)	\$ (10.4)

Consolidated Sales

For the nine month period ended September 30

	2008	2007	\$ Change	% Change
Sales	\$ 1,425.4	\$ 1,687.7	\$ (262.3)	(15.5)%

Consolidated sales for the nine month period ended September 30, 2008 were \$1,425.4 million compared to \$1,687.7 million in the prior year period. Sales in the 2008 period were negatively impacted by lower North American sales due to continued soft demand from customers servicing both the wholesale and retail channels. Sales in the nine months of 2008 benefited by \$50.1 million due to stronger foreign currency rates as compared to the prior year period. Approximately \$120.0 million of the decline in sales is attributable to sales in geographic regions that The Home Depot moved to a competitor in the second half of 2007.

Sales and Percentage of Sales by Principal Geographic Region

For the nine month period ended September 30

	2008	2007
North America	\$ 931.8 65%	\$ 1,203.5 71%
Europe and Other	\$ 525.7 37%	\$ 526.3 31%
Intersegment	\$ (32.1) (2)%	\$ (42.2) (2)%

Sales to external customers from facilities in North America declined 23.3% to \$922.3 million for the nine month period ended September 30, 2008 as compared to the prior year period. Sales in North America were negatively impacted by continued soft demand from customers servicing both the wholesale and retail channels, the business lost from The Home Depot. Sales in the North American segment contributed 65% of consolidated sales as compared to 71% in the prior year. The stronger Canadian dollar in 2008 increased sales in the 2008 period by approximately \$12.2 million. Excluding the impact of currency and the lost business, sales declined 16.1% compared to the prior year period.

Sales to external customers from facilities outside of North America increased 3.9% to \$502.8 million in 2008 as compared to the prior year period. European sales were positively impacted by the appreciation of European currencies versus

the U.S. dollar in the amount of \$36.4 million. Excluding the impact of exchange, sales in our Europe and Other segment decreased by 3.7% from the prior year on an overall basis. Our sales in Western Europe, notably the United Kingdom, declined as a result of weakening housing market conditions, while sales from our facilities in South Africa, France and Czech Republic increased due to strong economic fundamentals.

Intersegment sales, primarily the movement of door components from the Europe and Other segment into the North America segment, declined by 23.9% to \$32.1 million due to continued soft market conditions in North America during the first nine months of 2008.

***Sales and Percentage of Sales by Product Line
For the nine month period ended September 30***

	<u>2008</u>	<u>2007</u>
Interior	\$ 1,011.0 71%	\$ 1,184.5 70%
Exterior	\$ 414.4 29%	\$ 503.2 30%

The proportion of revenues from interior and exterior products for the nine month period ended September 30, 2008 was approximately 71% and 29%, respectively, relatively unchanged from 70% and 30%, respectively.

***Cost of Sales
For the nine month period ended September 30***

	<u>2008</u>	<u>Percentage of Sales</u>	<u>2007</u>	<u>Percentage of Sales</u>
Cost of sales	\$ 1,172.1	82.2%	\$ 1,297.6	76.9%

The significant components of cost of sales are materials, direct labor, factory overheads and distribution costs. Cost of sales, expressed as a percentage of sales, was 82.2% for the 2008 period versus 76.9% for the 2007 period. Despite our ongoing efforts on global supply chain initiatives, facility rationalizations, rigorous cost management and product pricing adjustments we were not able to fully offset the impact of the lower volumes in the 2008 period coupled with inflationary cost pressures on raw materials. We made additional headcount reductions during the first nine months of 2008, and continue to execute on our announced facility closures to align the size of our business for current market conditions. Non-cash inventory write downs of \$5.7 million and the recognition of \$1.7 million of input taxes no longer considered recoverable also affected cost of sales in the 2008 period.

***Selling, General and Administration Expenses
For the nine month period ended September 30***

	<u>2008</u>	<u>Percentage of Sales</u>	<u>2007</u>	<u>Percentage of Sales</u>
Selling, general and administration expenses	\$ 128.4	9.0%	\$ 157.1	9.3%

Selling, general and administration expenses primarily includes personnel marketing and advertising costs, sales commissions, information technology costs, receivables sales program costs, professional fees and management travel. Selling, general and administration costs declined \$28.7 million as compared to the prior year period due to reductions in staffing levels, lower commissions, accounts receivable sales facility charges, professional fees including recruiting and relocation, and travel and entertainment spending.

Depreciation**For the nine month period ended September 30**

	2008	2007	\$ Change	% Change
Depreciation	\$ 63.8	\$ 68.1	\$ (4.3)	(6.3)%

Depreciation expense decreased to \$63.8 million in the nine months of 2008 as compared to \$68.1 million in the same period of 2007. This reduced level of depreciation is a result of lower capital expenditures over the past two years, the sixteen facility closures completed since 2005 and asset impairments recorded in the last two years. These actions have reduced the overall basis of depreciable assets.

Amortization of Intangible Assets**For the nine month period ended September 30**

	2008	2007	\$ Change	% Change
Amortization of intangible assets	\$ 16.9	\$ 26.7	\$ (9.8)	(36.7)%

Amortization of intangible assets for the 2008 period was \$9.8 million lower than in the 2007 period due primarily to the impairment of customer relationship intangibles recorded in December of 2007 and June 2008. As a result of the business lost from The Home Depot and the ongoing downturn in the North American housing market, we recorded impairment charges of \$65.4 million related to customer relationship intangibles in 2007, \$153.3 million in the second quarter of 2008 and \$64.0 million related to customer relationship and other intangibles in the third quarter of 2008.

Other Expense**For the nine month period ended September 30**

	2008	2007
Restructuring and severance expense	\$ 17.2	\$ 19.4
Financial professional fees	4.7	—
Impairment of property, plant and equipment	5.9	6.2
(Gain) loss on disposal of property, plant and equipment	(1.9)	1.5
Interest rate swap	(1.1)	—
Provision for receivable from parent company	18.9	—
Other	5.4	(5.6)
Other expense	<u>\$ 49.1</u>	<u>\$ 21.6</u>

Other expense of \$49.1 million in the nine months of 2008 includes restructuring charges of \$17.2 million related to the reductions in salaried workforce as well as costs incurred in connection with the closure and consolidation of manufacturing sites as well as professional fees of \$4.7 million related to ongoing negotiations regarding an amendment to the Credit Agreement. Also included in other expense in the 2008 period were asset impairments of \$5.9 million to reduce the carrying value of certain assets to their net realizable value and net gains on disposal of fixed assets of \$1.9 million. A provision of \$18.9 million representing the full amount of a receivable due from the Company's parent was charged to expense due to the uncertainty of the ultimate collection of this receivable. A gain of \$1.1 million related to the change in the value of interest rate swap since it became an ineffective hedge at June 30, 2008 was also recorded during the quarter. Costs related to foreign exchange translation gains and losses on working capital and long-term liabilities denominated in currencies other than the United States dollar are included in Other above.

Other expense was \$21.6 million in the 2007 period including restructuring and severance costs of \$19.4 million related to the closure of seven manufacturing facilities in North America, \$6.2 million for asset impairments and \$1.5 million from the loss on disposal of idle property, plant and equipment.

Impairment of Goodwill and Intangible Assets
For the nine month period ended September 30

	<u>2008</u>	<u>2007</u>
Impairment of goodwill and intangible assets	\$ 999.5	\$ —

Due to the continued decline of the U.S. housing market, we completed a goodwill and intangibles impairment test for our reporting units as of June 30, 2008. As a result of this test, goodwill in the North American segment was determined to be impaired by \$471.4 million. Further, the impairment test also determined that North American customer relationship intangibles were impaired by \$152.6 million as well as an impairment of \$0.7 million of the customer relationship intangible in the Europe and Other segment. Additionally, in connection with the anticipated closure of two sites in the Europe and Other segment, it was determined that goodwill and customer relationships in the amount of \$5.0 million and \$0.7 million, respectively, were impaired.

We completed an additional impairment test as at September 30, 2008 due to global economic conditions, specifically the continued decline in the U.S. and other housing markets. This test concluded that there was impairment of all remaining goodwill in both the North American and Europe and Other segments in the amount of \$246.6 million and \$58.6 million, respectively. Further, the impairment test also concluded that the remaining Europe and Other customer relationship intangible of \$17.5 million was impaired. Additional impairments of \$36.9 million for the trademark and tradename intangible, \$7.5 million for the North American patents intangible and \$2.1 million for the Europe and Other patents intangible also resulted from this test.

Interest Expense
For the nine month period ended September 30

	<u>2008</u>	<u>2007</u>	<u>\$ Change</u>	<u>% Change</u>
Interest	\$ 185.2	\$ 134.1	\$ 51.1	38.1%

Interest expense of \$185.2 million for the 2008 period was \$51.1 million or 38.1% higher than the 2007 period. Included in the 2008 period is \$56.0 million in deferred financing fees recognized in interest expense. As a result of the event of default under the senior secured credit facility, the balance due on that facility as well as the Notes were reclassified to current and, accordingly, all previously unamortized deferred financing costs were recognized in interest expense. As well, since we may not be permitted to be continue to borrow under the senior secured credit facility on a LIBOR interest rate basis, it was determined that the interest rate swap ceased to be an effective hedge for accounting purposes. Lower interest costs of \$1.7 million were attributable to lower LIBOR interest rates in the 2008 period. Amortization of deferred financing fees in the 2008 period prior to the recognition of the \$56 million was unchanged at \$5.0 million.

Income Tax Rates
For the nine month period ended September 30

	<u>2008</u>	<u>2007</u>
Combined effective rate	Not meaningful	Not meaningful

Our effective income tax rate is primarily the weighted average of federal, state and provincial rates in various countries in which we have operations, including the United States, Canada, France, the United Kingdom and Ireland.

Our income tax rate is also affected by goodwill and intangibles impairment, estimates of realizability of tax assets, changes in tax laws and the timing of the expected reversal of temporary differences. We have established a valuation allowance on a portion of tax losses and other carryforward attributes in Canada, the United States and other jurisdictions until the realization of these tax assets becomes more likely than not during the carryforward period.

Net Loss**For the nine month period ended September 30**

	<u>2008</u>		<u>2007</u>		<u>\$ Change</u>		<u>% Change</u>
Net (loss) income	\$ (1,137.4)	\$	(10.4)	\$	(1,127.0)	\$	Not meaningful

Our net loss of \$1,137.4 million in the first nine months of 2008 increased by \$1,127.0 million from the prior year period. This result reflects the factors discussed above particularly goodwill and intangibles impairment.

Segment Information**For the nine month period ended September 30**

	<u>2008</u>	<u>Percentage of Sales</u>		<u>2007</u>	<u>Percentage of Sales</u>
Operating EBITDA					
- North America	\$ 74.7	8.0%	\$	159.9	13.3%
Operating EBITDA					
- Europe and Other	\$ 50.2	9.5%	\$	73.1	13.9%

The performance measurement of each of our geographic segments is based on Operating EBITDA which is defined as net income (loss) plus non-controlling interest, interest, taxes, depreciation, amortization and other expense. Segment Operating EBITDA in North America was lower in 2008 as a result of the significantly lower volume and inflationary cost pressures not fully offset by headcount reduction actions and facility rationalization activities. Segment Operating EBITDA in our Europe and Other segment was negatively impacted by foreign currency as sales prices in some of our foreign markets are denominated in U.S. dollars while input costs are in other foreign currencies. Our businesses in Western Europe are also experiencing a slowdown in demand in their markets which affected our Operating EBITDA in the period.

Set forth below is a reconciliation of Operating EBITDA, by segment, from net income (loss):

	<u>North America</u>	<u>North America</u>	<u>Europe and</u>	<u>Europe and</u>
	<u>2008</u>	<u>2007</u>	<u>Other</u>	<u>Other</u>
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Net (loss) income	\$ (1,134.6)	\$ (62.8)	\$ (2.8)	\$ 52.4
Minority interest	2.5	4.2	0.3	1.2
Income taxes	(54.6)	(20.1)	(0.4)	7.6
Other expense, net	33.1	20.4	16.0	1.1
Interest	197.3	148.7	(12.1)	(14.5)
Amortization of intangible assets	15.6	25.9	1.3	0.8
Depreciation	39.0	43.6	24.8	24.5
Impairment of goodwill and intangibles	976.5	—	23.0	—
Operating EBITDA	\$ 74.7	\$ 159.9	\$ 50.2	\$ 73.1
Percentage of Sales	8.0%	13.3%	9.5%	13.9%

Liquidity and Capital Resources

Net Debt

As at

(Principal amount)	September 30, 2008	December 31, 2007
Revolving credit facility outstanding	\$ 336.0	\$ —
Other bank loans outstanding	15.3	17.6
Senior secured credit facility term loan outstanding	1,132.3	1,145.6
Senior subordinated notes outstanding	769.9	769.9
Other subsidiary long-term debt outstanding	11.0	19.0
Less: Cash on hand	208.3	41.8
Net debt outstanding	\$ 2,056.2	\$ 1,910.3
Notes payable and financial instruments	7.0	4.7
Net cash (debt) of unrestricted subsidiaries	2.1	—
Net debt outstanding as defined in the senior secured credit facilities	\$ 2,065.3	\$ 1,915.0

As at September 30, 2008, net debt as defined in the credit agreement was \$150.3 million higher than at December 31, 2007 due primarily to incremental drawdowns under our revolving credit facility, which amounts were used to pay \$66.4 million to the counterparty to the Facilities Agreement and \$41.3 million in respect of acquisitions described previously. As well, due to declining interest rates, the fair value of our interest rate swaps liability increased by \$2.3 million to \$5.5 million and is included in the Notes payable and financial instruments line above.

Debt Facilities

As at

	September 30, 2008	December 31, 2007
Revolving credit facility capacity	\$ 350.0	\$ 350.0
Revolving credit facility outstanding	336.0	—
Subsidiaries' bank loan capacity	32.7	32.7
Subsidiaries' bank loan and overdrafts outstanding	15.3	17.6
Other subsidiary long-term debt outstanding	11.0	19.0
Senior secured credit facility term loan outstanding	1,132.3	1,145.6
Senior subordinated notes outstanding	769.9	769.9

The aggregate amount of long-term debt repayments required during the next five years ending September 30, 2012 is approximately \$1,913.1 million, compared to \$77.7 million at December 31, 2007. Due to the Event of Default under the Senior Secured Credit Agreement described previously, the balance of the senior secured credit facility of \$1,132.3 million and the Notes of \$769.9 million were classified as current. Our ability to continue as a going concern is dependent upon our ability to reach agreement regarding a satisfactory amendment to our Senior Secured Credit Facility and Notes.

To mitigate interest risk, in April 2005, we entered into a five year interest rate swap agreement converting a notional \$1.15 billion of floating-rate debt into fixed rate debt that currently bears interest at 4.22% plus an applicable credit spread of 2.00%. On April 26, 2006, 2007 and 2008, \$100 million, \$150 million and \$300 million respectively, of the interest rate swaps amortized, leaving \$600 million at a fixed rate as of September 30, 2008. On April 26, 2009 and 2010, respectively, \$300,000 of notional principal amortizes. After giving effect to the interest rate swaps at September 30, 2008 approximately 35% of outstanding interest-bearing debt carries a fixed interest rate and the remainder carries a floating rate. The three month LIBOR rate at September 30, 2008 was 4.05%. As at June 30, 2008 the interest rate swap ceased to become an effective hedge as we may not be able to borrow on a LIBOR basis in the future.

Our ability to negotiate an appropriate amendment to our credit facility and Notes, or to make scheduled payments of principal, or to pay interest or additional amounts if any, or to refinance indebtedness, or to fund planned capital expenditures or payments required pursuant to our shareholder agreements relating to our less than wholly owned subsidiaries, will depend on future performance, which, to a certain extent, is subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control.

In March and April 2008, we borrowed the remaining \$336 million available from our \$350 million senior secured revolving credit facility. Although we have no immediate needs for the additional liquidity, in light of current financial market conditions, we drew on the facility to provide ourselves with greater financial flexibility.

As of September 30, 2008, we were not in compliance with the financial covenants contained in our Senior Secured Credit Agreement. As a result of such non-compliance the lenders party to the Senior Secured Credit Agreement have the right to demand immediate repayment of the obligation of \$1,132.3 million as well as the amount outstanding under the revolving credit facility in the amount of \$336.0 million. To date, no demand for repayment has been made. We have been engaged in negotiations with the lenders party to the Senior Secured Credit Agreement regarding an amendment to the agreement including a waiver of such non-compliance. To date, no agreement has been reached and there can be no guarantee that an agreement will be reached on terms acceptable to us and our lenders. To the extent that the lenders under the senior secured credit facilities agree to an amendment of these covenants, such amendment may result in interest being payable on these facilities at higher interest rates.

During an Event of Default, the Agent or a majority of the lenders may elect to prohibit the Company from continuing the interest basis of loans that are LIBOR loans at the end of the relevant interest period and convert the loans to ABR/Prime rate loans. In addition to the above consequences, during an Event of Default various limitations on actions apply in respect of sale of assets, investments, dividends, debt payments and amendments. As part of the forbearance agreement described above, the Company agreed to convert the basis of the Senior Secured Credit Facility from LIBOR to the Prime Rate of interest as of the date of the forbearance agreement. Additionally, all interest payments on the term loan are now due at the end of each calendar quarter. On November 25, 2008 the Company entered into an amendment to its credit agreement and an extension of the forbearance agreement dated September 16, 2008, with its bank lenders as described above.

The Company's Notes of \$769.9 million bear interest at 11% and are due October 6, 2015. The indentures relating to the Notes limit the Company's ability to incur additional indebtedness or issue certain preferred shares; pay dividends on or make other distributions or repurchase its capital stock or make other restricted payments; make certain investments; sell certain assets; create liens on certain assets to secure debt; consolidate, merge, sell or otherwise dispose of all or substantially all of their assets; enter into certain transactions with affiliates; and designate subsidiaries as unrestricted subsidiaries. Subject to certain exceptions, the indentures relating to the Notes permit the Company and its restricted subsidiaries to incur additional indebtedness, including secured indebtedness. Due to the payment blockage notice described above, the Company did not make the scheduled interest payment on the Notes that was due October 15, 2008. As a result we are in default under the Notes and they have been reclassified as current liabilities. The Company entered into a forbearance agreement with holders of a majority of the Notes on November 17, 2008 as described above.

To the extent that no demands for repayment of our Senior Secured Credit Agreement and Senior Subordinated Notes due 2015 are made, we expect our current cash balance plus cash flows from operations to be sufficient to fund near-term working capital and other investment needs through 2008. There can be no assurance, however, that we will generate cash flow from operations in an amount sufficient to enable us to meet our liquidity needs.

Senior Secured Credit Facility

On April 6, 2005, we entered into senior secured credit facilities which included an eight year \$1.175 billion term loan due April 6, 2013 with an original interest rate of LIBOR plus 2.00% that amortizes at 1% per year.

We also entered into a \$350 million revolving credit facility which is available for general corporate purposes. The revolving credit facility interest rate is subject to a pricing grid ranging from LIBOR plus 1.75% to LIBOR plus 2.50%. As of September 30, 2008, the revolving credit facility carried an interest rate of LIBOR plus 2.50%. In addition to the senior secured credit facilities noted above, we have funded operations through cash generated from operations.

Our senior secured credit facilities require us to meet a minimum interest coverage ratio of 1.65 times Adjusted EBITDA and a maximum leverage ratio of 6.8 times Adjusted EBITDA as of September 30, 2008, as defined in the credit agreements (see discussion on non-GAAP measures below). As noted above, as of September 30, 2008 we were not in compliance with these ratios.

Our leverage ratio as defined in the senior secured credit facility as of September 30, 2008 was 10.32x as compared to 6.00x at December 31, 2007.

Our interest coverage ratio as defined in the senior secured credit facility as of September 30, 2008 was 1.21x as compared to 1.91x at December 31, 2007.

Senior Subordinated Notes due 2015

The Notes bear interest at 11%. Due to the failure to pay interest under the Notes within 30 days of the scheduled interest payment date of October 15, 2008, as noted above we are in default under the Notes. The indentures relating to these notes limit our ability to:

- incur additional indebtedness or issue certain preferred shares;
- pay dividends on or make other distributions or repurchase our capital stock or make other restricted payments;
- make certain investments;
- sell certain assets;
- create liens on certain assets to secure debt; consolidate, merge, sell or otherwise dispose of all or substantially all of their assets;
- enter into certain transactions with affiliates; and
- designate subsidiaries as unrestricted subsidiaries.

Subject to certain exceptions, the indentures relating to our senior subordinated notes due 2015 permit us and our restricted subsidiaries to incur additional indebtedness, including secured indebtedness.

Non-GAAP measures

Under the indentures governing the Notes, our ability to engage in certain activities such as incurring certain additional indebtedness, making certain investments and paying certain dividends is tied to ratios based on Adjusted EBITDA.

Adjusted EBITDA is defined as net income (loss) plus interest, income taxes, depreciation and amortization, other expense (income), net, (gain) loss on refinancing, net and non-controlling interest further adjusted to give effect to adjustments required in calculating covenant ratios and compliance under the indentures governing the notes and our senior secured credit facilities. Adjusted EBITDA is not a presentation made in accordance with GAAP, is not a measure of financial condition or profitability, and should not be considered as an alternative to (1) net income (loss) determined in accordance with GAAP or (2) operating cash flows determined in accordance with GAAP. Additionally, Adjusted EBITDA is not intended to be a measure of free cash flow for management's discretionary use, as it does not include certain cash requirements such as interest payments, tax payments and debt service requirements. We believe that the inclusion of Adjusted EBITDA herein is appropriate to provide additional information about the calculation of certain financial covenants in the indentures governing the notes and our senior secured credit facilities. Adjusted EBITDA is a material component of these covenants. For instance, both the indentures governing the notes and the senior secured credit facilities contain financial ratios that are calculated by reference to Adjusted EBITDA. Non-compliance with the financial ratio maintenance covenants contained in our senior secured credit facilities could result in the requirement to immediately repay all amounts outstanding under such facilities, while non-compliance with the debt incurrence ratio contained in the indentures governing the notes would prohibit us from being able to incur additional indebtedness other than pursuant to specified exceptions. Because not all companies use identical calculations, this presentation of Adjusted EBITDA may not be comparable to other similarly titled measures of other companies. We believe that the disclosure of the calculation of Adjusted EBITDA provides information that is useful to an investor's understanding of our liquidity and financial flexibility.

The following is a reconciliation of net loss, which is a GAAP measure of our operating results, to Adjusted EBITDA as defined in our indentures and credit agreement (which we refer to as our "debt agreements"), and the calculation of the fixed charge coverage ratio, net debt and net debt to Adjusted EBITDA ratio under our debt agreements. The terms and related calculations are defined in our debt agreements, copies of which are publicly available.

	Last Twelve Months ended December 31, 2007	Nine Months ended September 30, 2007	Nine Months ended September 30, 2008	Last Twelve Months Ended September 30, 2008
Net (loss) income	\$ (302.9)	\$ (10.4)	\$ (1,137.4)	\$ (1429.9)
Interest	178.2	134.1	185.2	229.3
Income taxes (recovery)	(72.2)	(12.4)	(55.0)	(114.8)
Depreciation and amortization	127.4	94.8	80.7	113.3
Other expense, net	29.9	21.6	49.1	57.4
Impairment of goodwill and intangibles	303.8	—	999.5	1,303.3
Non-controlling interest	8.1	5.3	2.8	5.6
Inventory losses(a)	7.0	2.0	5.7	10.7
Receivables transaction charges(b)	5.3	4.4	0.8	1.7
Facility closures and realignments(c)	2.4	—	0.5	2.9
Stock-based awards (d)	1.8	1.8	0.6	0.6
Franchise and capital taxes(e)	4.2	3.5	1.0	1.7
Foreign exchange gains	(2.6)	(2.5)	2.1	2.0
Employee future benefits (f)	1.1	0.8	(1.0)	(0.7)
Severance (g)	3.0	1.6	0.1	1.5
Relocation/ recruiting (h)	5.6	4.3	2.0	3.3
Lean Sigma, Supply Chain and HR consulting (i)	7.2	5.6	0.7	2.3
(Earnings) loss of unrestricted subsidiaries	3.7	—	2.6	6.3
Other (j)	8.3	7.3	2.6	3.6
Adjusted EBITDA	<u>\$ 319.4</u>	<u>\$ 261.8</u>	<u>\$ 142.6</u>	<u>\$ 200.2</u>

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- (a) In 2007 we recorded \$7.0 million of write downs associated with facilities that were being closed and product lines that were being rationalized.
- (b) Represents transaction charges related to the sale of receivables.
- (c) We incurred cost associated with the consolidation of manufacturing sites in Florida.
- (d) Represents non-cash equity compensation expense.
- (e) Represents capital and franchise taxes and other taxes not in the nature of income taxes.
- (f) Represents the non-cash element of pension and post-employment benefit expense.
- (g) Represents severance for management changes not specifically related to restructuring activities.
- (h) Represents relocation and recruiting costs for changes made in management positions.
- (i) Represents consulting fees paid to external advisors in connection with the one-time establishment of Lean Sigma, Supply Chain and HR functions in the Company.
- (j) KKR monitoring / consulting fees, legal settlements and other.
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Net Debt		\$	2,065.3
Last Twelve Months Adjusted EBITDA		\$	200.2
Ratio of Net Debt to Adjusted EBITDA			10.32x
Last Twelve Months Adjusted EBITDA		\$	200.2
Total Cash Interest Expense		\$	165.4
Ratio of Adjusted EBITDA to Interest Expense			1.21x

Cash flows from Operating Activities
For the three month period ended September 30

	2008		2007
Cash (used in) generated from operating activities	\$	(7.6)	\$ 49.3

Cash flow from operations before changes in working capital was a use of \$19.0 million compared to a source of \$22.4 million in the prior year. The lower sales and earnings levels translated into reduced cash flow in the period. Working capital was a source of \$11.3 million in the current year compared to a source of \$26.9 million in the prior year. Accounts receivable was a source of \$31.3 million in the current year compared to \$1.6 million in the prior year as volumes in many of our markets continue to decline. Inventory was a source of \$5.6 million in the 2008 period compared to a use of \$0.4 million in the prior year due to non-cash inventory write downs and ongoing efforts to reduce inventory in relation to the declining sales volumes. Payables were a use of cash of \$21.5 million in 2008 as compared to a source of \$27.2 million in the prior year due to vendor terms contraction as a result of vendor credit concerns about our company. As well, the lower volumes have affected the overall pace of purchases and we continue to pay down our restructuring reserves that were accumulated in prior years as a result of facility closures and headcount reductions.

Cash flows from Financing Activities
For the three month period ended September 30

	2008		2007
Cash generated from financing activities	\$	(14.6)	\$ (60.4)

Cash used in financing activities in the third quarter of 2008 was a use of \$14.6 million, comprised of \$2.4 million repayment of short term borrowings, repayment of \$8.6 million of long term debt and the payment of \$3.6 million in forbearance fees. In the prior year period, we repaid \$50.6 million short term borrowings and repaid \$9.9 million of long term debt.

Cash flows from Investing Activities
For the three month period ended September 30

	2008		2007
Cash used in investing activities	\$	(6.7)	\$ (9.6)

Cash used in investing activities was \$6.7 million compared to \$9.6 million in the prior year. In the current year, fixed asset additions of \$8.2 million were \$1.7 million higher than the prior year. Proceeds from the sale of property, plant and equipment generated \$4.3 million in the 2008 period, largely from the sale of the United Kingdom facility previously held for sale. We also made a contractually required distribution to the non-controlling interest holder in the amount of \$2.4 million. The prior year period also included a \$3.3 million payment made to acquire the remaining 20% of a facility in Eastern Europe.

To the extent that no demands for repayment of our Senior Secured Credit Agreement or Notes are made, we expect our current cash balance plus cash flows from operations will be sufficient to fund near-term working capital and other investment needs through 2008.

Cash flows from Operating Activities
For the nine month period ended September 30

	<u>2008</u>	<u>2007</u>
Cash (used in) generated from operating activities	\$ (79.5)	\$ 102.0

Cash flow from operations before changes in working capital was a use of \$24.6 million compared to a source of \$83.5 million in the prior year. The lower sales and earnings levels translated into reduced cash flow in the period. Working capital was a use of \$54.9 million in the current year compared to a source of \$18.5 million in the prior year. Accounts receivable consumed \$42.7 million in the current year compared to \$30.4 million in the prior year due largely to the payment of \$52.2 million to the counterparty of the accounts receivable sales facility following the facility's cancellation. Inventory was a source of \$10.5 million although not as significant as the \$26.0 million in the prior year as our inventory reduction efforts continue. Payables were a use of cash of \$15.9 million in 2008 as compared to a source of \$26.8 million in the prior year due largely to vendor terms contraction on concerns about our liquidity. The lower volumes have affected the overall pace of purchases and we continue to pay down our restructuring reserves that were accumulated in prior years as a result of facility closures and headcount reductions.

Cash flows from Financing Activities
For the nine month period ended September 30

	<u>2008</u>	<u>2007</u>
Cash generated from (used in) financing activities	\$ 307.6	\$ (62.4)

Cash flow from financing activities was a source of \$307.6 million as borrowings on our revolving credit facility increased in order to provide greater financial flexibility in light of current financial market conditions. In the prior year, we repaid \$62.4 million of debt through cash flow from operations.

Cash flows from Investing Activities
For the nine month period ended September 30

	<u>2008</u>	<u>2007</u>
Cash used in investing activities	\$ (55.4)	\$ (32.6)

Cash used in investing activities was \$55.4 million compared to \$32.6 million in the prior year. In the current year, fixed asset additions of \$21.7 million were \$1.0 million lower than the prior year, relatively unchanged. Proceeds from the sale of property, plant and equipment generated \$8.2 million in the 2008 period, largely from the sale of the Tampa and United Kingdom facilities. In 2008, we paid \$13.7 million for the acquisition of the remaining 25% of the equity of our facilities in Czech Republic and Poland as well as \$16.8 million for the acquisition of half of the minority interest position in Sacopan. As part of these transactions, we also made contractually required distributions to the non-controlling interest holders in the amount of \$9.6 million. We also made other distributions to other minority interest shareholders in the amount of approximately \$1.2 million.

To the extent that no demands for repayment of our Senior Secured Credit Agreement or Notes are made, we expect our current cash balance plus cash flows from operations will be sufficient to fund near-term working capital and other investment needs through 2008.

Off-Balance Sheet Arrangements

Our off-balance sheet arrangements included a "Facilities Agreement" to sell up to \$135 million of non-interest bearing trade accounts receivable, and an "Acquired Facilities Agreement" whereby we can sell receivables of a specific customer. The Facilities Agreement was terminated in June of 2008.

We do not have any material off-balance sheet arrangements other than those described above, which are more fully discussed in note 4 of the unaudited interim consolidated financial statements.

Related Party Transactions

We have an agreement to pay Kohlberg Kravis Roberts & Co. L.P. ("KKR") annual management fees of \$2 million for services provided, payable quarterly in advance, with the amount increasing by up to 5% per year. For the three month period ended September 30, 2008 we expensed \$0.6 million (September 30, 2007 - \$0.5 million) for services rendered by KKR. The outstanding liability to KKR as at September 30, 2008 was \$0.6 million (September 30, 2007 - \$nil million).

In addition, we paid fees of \$0.3 million for the three month period ended September 30, 2008 (September 30, 2007 - \$0.5 million) to KKR Capstone for services provided on a per-diem basis for management consulting services. Although neither KKR nor any entity affiliated with KKR owns any of the equity of Capstone, prior to January 1, 2007, KKR had provided financing to Capstone.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

For information regarding the Company's market risk, please refer to Note 20 to the Company's Unaudited Interim Financial Statements contained in Exhibit 99.1 of this Form 6-K.

Other Information

Item 1. Legal Proceedings

The Company is involved in various suits and claims in the normal course of business all of which constitute ordinary, routine litigation incidental to the business.

Item 1A. Risk Factors

There were no material changes from risk factors previously disclosed in the Company's Form 20-F filed on April 24, 2008.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. Defaults Upon Senior Securities

As described in greater detail in Exhibits 99.1 and 99.2, the Company is currently not in compliance with the financial covenants contained in the Senior Secured Credit Facilities ("Credit Agreement") with a principal amount of \$1,133.3 million and a revolving credit facility with a principal amount outstanding of \$336.0 million, both as of September 30, 2008. This non-compliance constitutes an Event of Default as defined in the Credit Agreement. The covenant violations provide the lenders the right to demand repayment of the full amount of the term loan and revolving credit facility plus accrued interest. As of the date of issuance of these financial statements the lenders have not demanded repayment. Should the lenders under the Credit Agreement demand full repayment, the holders of the Company's Senior Subordinated Notes due 2015 (the "Notes") would be permitted to demand repayment of full amount of the Notes, \$769.9 million as of September 30, 2008, plus accrued interest. The Company is also in default under the Notes due to the failure to pay interest within 30 days of the scheduled interest payment date of October 15, 2008. This default provides the holders of the Notes the right to demand repayment of the full amount of the Notes plus accrued interest. As of the date of issuance of these financial statements holders of the Notes have not demanded repayment.

Item 4. Submission of Matters to a Vote of Security Holders

None.

Item 5. Other Information

None.

Item 6. Exhibits

None.
