

HARDWOODS DISTRIBUTION INCOME FUND

NOTICE

The accompanying unaudited interim consolidated financial statements of Hardwoods Distribution Income Fund have not been reviewed by the Fund's auditors.

HARDWOODS DISTRIBUTION INCOME FUND

Consolidated Balance Sheet
(Unaudited)
(Expressed in thousands of Canadian dollars)

June 30, 2004

Assets

Current assets:

Cash	\$	3,005
Accounts receivable		55,776
Inventory		44,209
Prepaid expenses		350
		<hr/>
		103,340

Property, plant and equipment (note 3) 5,047

Deferred financing costs (net of accumulated amortization of \$17) 188

Other intangible assets (net of accumulated amortization of \$253) 14,877

Goodwill 105,207

\$ 228,659

Liabilities and Unitholders' Equity

Current liabilities:

Bank indebtedness (note 4)	\$	43,491
Accounts payable and accrued liabilities		13,483
Distributions payable to Unitholders		1,231
Distributions payable to non-controlling interests		1,010
		<hr/>
		59,215

Foreign currency contracts (note 5) 303

Future income taxes 50

Non-controlling interest (note 6) 34,101

Unitholders' equity:

Fund Units (note 7)		133,454
Retained earnings		664
Cumulative foreign currency translation account		872
		<hr/>
		134,990

\$ 228,659

Commitments (note 9)

See accompanying notes to consolidated financial statements.

Approved on behalf of the Trustees:

(Signed) LAWRENCE I. BELL, Trustee

(Signed) TERRY M. HOLLAND, Trustee

HARDWOODS DISTRIBUTION INCOME FUND

Consolidated Statement of Operations and Retained Earnings
(Unaudited)
(Expressed in thousands of Canadian dollars)

Period from March 23, 2004 to June 30, 2004

Sales	\$	99,125
Cost of sales		80,178
		<hr/> 18,947
Expenses:		
Selling and administrative		10,583
Amortization:		
Plant and equipment		348
Deferred financing costs		17
Other intangible assets		253
Interest		280
Mark to market loss on foreign currency contracts (note 5)		303
		<hr/> 11,784
Earnings before non-controlling interest and income taxes		7,163
Non-controlling interest (note 6)		1,433
		<hr/> 5,730
Earnings before income taxes		5,730
Income taxes		1,046
		<hr/> 4,684
Net earnings for the period		4,684
Distributions to Unitholders		4,020
		<hr/> 664
Retained earnings, end of period	\$	664
Basic and diluted earnings per Unit	\$	0.33
		<hr/>
Weighted average number of Units outstanding		14,410,000

See accompanying notes to consolidated financial statements.

HARDWOODS DISTRIBUTION INCOME FUND

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

Period from March 23, 2004 to June 30, 2004

Cash flows provided by (used in) operating activities:	
Net earnings for the period	\$ 4,684
Items not involving cash:	
Amortization	618
Gain on sale of property, plant and equipment	(18)
Mark to market loss on foreign currency contracts	303
Non-controlling interest	1,433
Future income taxes	320
	<hr/>
	7,340
Changes in non-cash operating working capital (note 8)	(12,720)
Net cash used in operating activities	(5,380)
Cash flows provided by (used in) investing activities:	
Business acquisition (note 1)	(165,137)
Additions to property, plant and equipment	(278)
Proceeds on disposal of property, plant and equipment	30
Net cash used in investing activities	(165,385)
Cash flows provided by (used in) financing activities:	
Net proceeds from the issuance of Units	133,454
Increase in bank indebtedness	43,322
Increase in deferred financing fees	(204)
Distributions paid to Unitholders	(2,789)
Net cash provided by financing activities	<hr/>
	173,783
Increase in cash	3,018
Decrease in cash due to foreign currency fluctuations	(13)
Cash, beginning of period	<hr/>
	-
Cash, end of period	<hr/>
	\$ 3,005
Supplementary information (cash amounts):	
Interest paid	\$ 280
Income taxes paid	364

See accompanying notes to consolidated financial statements.

HARDWOODS DISTRIBUTION INCOME FUND

Notes to Consolidated Financial Statements

(Unaudited)

(Tabular amounts expressed in thousands of Canadian dollars)

Period from March 23, 2004 to June 30, 2004

1. Nature of operations and business acquisition:

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

On March 23, 2004, the Fund issued 14,410,000 Units at \$10 per Unit pursuant to the Offering. Net proceeds from the Offering were \$133,454,000, after deducting expenses of the Offering of \$10,646,000.

Also on March 23, 2004, the Fund used the net proceeds from the Offering, together with funds from two new credit facilities (note 5), to acquire an 80% interest in Hardwoods LP and Hardwoods USLP for total consideration of \$165.1 million. The acquisition of the Funds interest in Hardwoods LP and Hardwoods USLP was completed through a series of transactions and has been accounted for using the purchase method.

The fair value of the net assets acquired are as follows:

Net working capital	\$	73,658
Property, plant and equipment		5,094
Goodwill		104,580
Other intangible assets		15,000
Future income taxes		267
Non-controlling interests		(33,462)
Consideration, being cash from the Offering and new credit facilities		\$ 165,137

The results of operations of Hardwoods LP and Hardwoods USLP have been included in the Fund's consolidated financial statements from March 23, 2004, being the date of acquisition.

2. Significant accounting policies:

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles for interim financial statements and may not include all disclosures required by generally accepted accounting principles for annual financial statements.

(a) Basis of presentation:

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

HARDWOODS DISTRIBUTION INCOME FUND

Notes to Consolidated Financial Statements

(Unaudited)

(Tabular amounts expressed in thousands of Canadian dollars)

Period from March 23, 2004 to June 30, 2004

2. Significant accounting policies (continued):

(b) Cash and cash equivalents:

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

(c) Inventory:

Inventory is valued at the lower of cost and net realizable value.

(d) Property, plant and equipment:

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

Assets	Estimated useful life
Buildings	20 years
Machinery and equipment	5 to 10 years
Automobiles	3 years
Mobile equipment	7 to 10 years
Leasehold improvements	Over the term of the lease

(e) Deferred financing costs:

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

(f) Goodwill:

Goodwill is recorded at cost and is not amortized. Management reviews the carrying value of goodwill for impairment annually, or more frequently if events or changes in circumstances indicate that the asset may be impaired. Any excess of carrying value over fair value will be charged to income in the period in which the impairment is determined.

(g) Other intangible assets:

Other intangible assets represent customer relationships acquired in a business combination and are recorded at cost less accumulated amortization. Amortization is provided for on a straight-line basis over 15 years. Management reviews the carrying value of other intangible assets for impairment whenever events or changes in circumstances indicate that their carrying value may not be recoverable. An impairment loss is recorded when it is determined that the carrying amount of these assets is not recoverable and exceeds their fair value.

HARDWOODS DISTRIBUTION INCOME FUND

Notes to Consolidated Financial Statements

(Unaudited)

(Tabular amounts expressed in thousands of Canadian dollars)

Period from March 23, 2004 to June 30, 2004

2. Significant accounting policies (continued):

(h) Income taxes:

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

Income tax obligations relating to distributions of the Fund are the obligations of the Unitholders and, accordingly, no provision for income taxes has been made in respect of the Fund itself.

(i) Revenue recognition:

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

(j) Translation of foreign currencies:

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

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

(k) Foreign currency contracts:

The Fund uses currency derivatives to manage its exposure to fluctuations in exchange rates. The foreign currency contracts are recognized in the balance sheet and measured at fair value, with changes in fair value recognized currently in income.

(l) Earnings per Unit:

Basic earnings per Unit is calculated by dividing net earnings by the weighted average number of Units outstanding during the reporting period which commenced March 23, 2004. Diluted earnings per Unit is calculated by application of the if-converted method for convertible securities. As the

HARDWOODS DISTRIBUTION INCOME FUND

Notes to Consolidated Financial Statements

(Unaudited)

(Tabular amounts expressed in thousands of Canadian dollars)

Period from March 23, 2004 to June 30, 2004

conversion of convertible securities would not have a dilutive effect on earnings per Unit, diluted and basic earnings per Unit are the same amount.

HARDWOODS DISTRIBUTION INCOME FUND

Notes to Consolidated Financial Statements

(Unaudited)

(Tabular amounts expressed in thousands of Canadian dollars)

Period from March 23, 2004 to June 30, 2004

2. Significant accounting policies (continued):

(m) Use of estimates:

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

3. Property, plant and equipment:

	Cost	Accumulated amortization	Net book value
Buildings	\$ 551	\$ 13	\$ 538
Machinery and equipment	1,082	117	965
Automobiles	15	5	10
Mobile equipment	2,309	164	2,145
Leasehold improvements	574	49	525
	4,531	348	4,183
Land	864	-	864
	\$ 5,395	\$ 348	\$ 5,047

4. Bank indebtedness:

Hardwoods LP	\$ 16,481
Hardwoods USLP (US\$20,000)	27,010
	\$ 43,491

Bank indebtedness consists of advances under operating lines of credit available to Hardwoods LP and Hardwoods USLP.

Hardwoods LP has a revolving credit facility of up to an aggregate amount of \$20.0 million and Hardwoods USLP has a revolving credit facility of up to an aggregate amount of \$36.5 million (US\$27.0 million) (less the net exposure under the foreign currency contracts facility as described in note 5, as determined by the lender from time to time).

HARDWOODS DISTRIBUTION INCOME FUND

Notes to Consolidated Financial Statements

(Unaudited)

(Tabular amounts expressed in thousands of Canadian dollars)

Period from March 23, 2004 to June 30, 2004

4. Bank indebtedness (continued):

The Hardwoods LP credit facility is secured by a first security interest in all of the present and after acquired property of Hardwoods LP and its operating subsidiaries, and by the Hardwoods LP Units held indirectly by the Fund and by an affiliate of SIL, respectively. The Hardwoods USLP credit facility, and the foreign currency hedging arrangements, are secured by a first security interest in all of the present and after acquired property of Hardwoods USLP and by the Hardwoods USLP Units held indirectly by the Fund and by an affiliate of SIL, respectively.

Each facility is a demand loan with a revolving three-year term expiring on March 23, 2007. The credit facilities are repayable without any prepayment penalties and bear interest at a floating rate based on the Canadian dollar or US dollar prime rate (as the case may be), LIBOR or bankers acceptance rates plus, in each case, an applicable margin. Letters of credit are also available under the credit facilities. The rates vary with the ratio of total debt for borrowed money, capital leases and letters of credit (the "funded debt") (as adjusted for certain items) to EBITDA. Commitment fees and standby charges are payable.

The average annual interest rates payable for the period were 4.8% and 3.2% for the Hardwoods LP and Hardwoods USLP credit facilities, respectively.

5. Foreign currency contracts:

In order to manage the Funds exposure to exchange rate fluctuations on United States dollar denominated distributable cash, a subsidiary of the Fund has entered into foreign currency contracts to exchange US\$675,000 each month for approximately CDN\$903,000, for thirty-six consecutive months from April 2004 to April 2007. The remaining 33 monthly foreign currency contracts are recognized in the balance sheet and measured at fair value, which at June 30, 2004 was \$303,000, with changes in fair value recognized currently in income.

6. Non-controlling interest:

Retained interest in Hardwoods LP and Hardwoods USLP	\$	33,462
Interest in post-acquisition earnings		1,433
Distributions payable to non-controlling interests		(1,010)
Foreign currency impact on exchange of non-controlling equityholders interest in Hardwoods USLP		216
	\$	34,101

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

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Notes to Consolidated Financial Statements

(Unaudited)

(Tabular amounts expressed in thousands of Canadian dollars)

Period from March 23, 2004 to June 30, 2004

6. Non-controlling interest (continued):

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

- ? the consolidated Adjusted EBITDA, as defined in the Subordination Agreement dated March 23, 2004, of the Fund for the 12 month period ending on the last day of the month immediately preceding such date is at least \$21.3 million; and
- ? cash distributions of at least \$29.54 million (\$2.05 per Unit) have been paid on the Units and a combined amount of cash advances or distributions of at least \$7.385 million has been paid on the Class B LP Units and Class B USLP Units (\$2.05 per combined Class B LP and Class B USLP Units) (as adjusted for issuances, redemptions and repurchases of Units, LP Units and USLP Units subsequently and by converting the cash distributions or advances by Hardwoods USLP on the USLP Units at the rate of exchange used by the Fund to convert funds received by it in US dollars into Canadian dollars) for the 24 month period ending on the last day of the month immediately preceding such date.

Distributions are to be made monthly on the Class A LP Units and Class A USLP Units equal to \$0.0854 per Unit to the extent cash is available to make cash distributions. Generally, distributions on the Class B LP Units and Class B USLP Units will be subordinated and will be made quarterly in a combined amount for one Class B LP Unit and one Class B USLP Unit equal, on a pro rated basis, to the combined amount distributed on one Class A LP Unit and one Class A USLP Unit during such fiscal quarter, only after the distributions have been made on the Class A LP Units and Class A USLP Units and to the extent cash is available to make such distributions.

After the Subordination End Date, the holders of the Class B LP Units and Class B USLP Units will be entitled to effectively exchange all or a portion of their Class B LP Units and Class B USLP Units for up to 3,602,500 Units of the Fund, representing 20% of the issued and outstanding Units of the Fund on a fully diluted basis. In the event the Fund enters into an agreement in respect of an acquisition transaction or a take-over bid, the holders of the Class B LP Units and Class B USLP Units will be entitled to exchange such units for Units of the Fund.

7. Fund Units:

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

HARDWOODS DISTRIBUTION INCOME FUND

Notes to Consolidated Financial Statements

(Unaudited)

(Tabular amounts expressed in thousands of Canadian dollars)

Period from March 23, 2004 to June 30, 2004

7. Fund Units (continued):

On March 23, 2004, the Fund issued 14,410,000 Units at a price of \$10 per Unit pursuant to the Offering. Net proceeds from the Offering were \$133,454,000 after deducting expenses of the Offering of \$10,646,000. The holders of the Class B Units of Hardwoods LP and Hardwoods USLP were issued 3,602,500 Special Voting Units of the Fund, the value of which is included in non-controlling interest (note 7). Such Special Voting Units are to be cancelled on the exchange of Class B Units of Hardwoods LP and Hardwoods USLP for Units of the Fund.

8. Changes in non-cash operating working capital:

Accounts receivable	\$	(3,802)
Inventory		(5,344)
Prepaid expenses		(94)
Income taxes recoverable (payable)		-
Accounts payable and accrued liabilities		(3,480)
		<hr/>
	\$	(12,720)

9. Commitments:

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

2004	\$	2,888
2005		5,006
2006		4,431
2007		4,288
2008		3,964
		<hr/>
		20,577
Thereafter		5,671
		<hr/>
	\$	26,248

(b) At June 30, 2004, the Fund's subsidiaries were committed in the amount of \$284,000 under letters of credit.

10. Segment disclosure:

Information about geographic areas is as follows:

Revenue from external customers:		
Canada	\$	30,640
United States (US\$50,412)		68,485

HARDWOODS DISTRIBUTION INCOME FUND

Notes to Consolidated Financial Statements

(Unaudited)

(Tabular amounts expressed in thousands of Canadian dollars)

Period from March 23, 2004 to June 30, 2004

\$ 99,125

HARDWOODS DISTRIBUTION INCOME FUND

Notes to Consolidated Financial Statements

(Unaudited)

(Tabular amounts expressed in thousands of Canadian dollars)

Period from March 23, 2004 to June 30, 2004

10. Segment disclosure (continued):

Property, plant and equipment:		
Canada	\$	1,604
United States		3,443
	\$	5,047

11. Financial instruments:

(a) Fair values of financial instruments:

The carrying value of cash and cash equivalents, trade accounts receivable, other receivables, accounts payable and accrued liabilities and distributions payable approximate their fair value due to the relatively short period to maturity of the instruments. The carrying value of the credit facilities approximate their fair values due to the existence of floating market based interest rates. The foreign currency contracts are carried at market values.

(b) Credit risk:

The Fund is exposed to credit risk in the event they are unable to collect in full amounts receivable from its customers. The Fund employs established credit approval practices and employs a full-time credit attorney to mitigate the credit risk. It is the Fund's policy to secure credit terms with customers whenever possible by registering security interests in the assets of the customer and by obtaining personal guarantees. No single customer represents a concentration of credit risk to the Fund.

(c) Counterparty risk:

Changes in the exchange rates and interest rates will result in market gains and losses on the foreign currency contracts entered into by the Fund. Furthermore, the Fund may be exposed to losses should the counterparty to its foreign currency contracts fail to fulfill its obligations. The Fund has sought to minimize potential counter party losses by transacting with high credit quality institutions.

12. Pensions:

Hardwoods USLP maintains a defined contribution 401 (k) retirement savings plan (the "Plan") along with an affiliate of the previous owners in the form of a Multi Employer Plan. The assets of the Plan are held and related investment transactions are executed by the Plan's Trustee, ING National Trust. During the period from March 23, 2004 to June 30, 2004, Hardwoods USLP contributed and expensed \$180,000 (US\$132,000) in relation to the Plan.

13. Related party transactions:

During the period from March 23, 2004 to June 30, 2004, sales of \$449,000 were made to affiliates of the previous owners who have a 20% retained interest in the business, and the Fund incurred purchases of \$253,000 from affiliates of the previous owners. These sales and purchases took place at prevailing market prices.