

Attention Business/Financial Editors:
Hardwoods Distribution Income Fund Announces 2007 Fourth Quarter and
Year-End Results

Hardwoods Distribution Income Fund will hold a conference call and webcast to discuss fourth quarter and year-end financial results on March 13, 2008 at 8:00 a.m. Pacific Time (11:00 a.m. Eastern). The call can be accessed by dialing: 1-800-733-7560 or 416-644-3415. A replay will be available until March 27, 2008 at: 1-877-289-8525 or 416-640-1917 (Passcode 21261628 followed by the number sign).

The live and archived webcast can be accessed at [http://www.vcall.com/IC/CEPage.asp?ID\(equal sign\)125661](http://www.vcall.com/IC/CEPage.asp?ID(equal sign)125661) or on the Fund's website at www.hardwoods-inc.com.

TRADING SYMBOL: Toronto Stock Exchange - HWD.UN

LANGLEY, BC, March 12 /CNW/ - Hardwoods Distribution Income Fund (the "Fund") today reported financial results for the fourth quarter and 12 months of 2007. The Fund's results are based on the performance of Hardwoods Specialty Products LP and Hardwoods Specialty Products USLP (collectively "Hardwoods") - one of North America's largest wholesale distributors of hardwood lumber and related sheet good products. Hardwoods serves over 2,500 industrial customers through a network of 36 distribution centres in the US and Canada.

2007 Highlights

(For the 12 months ended December 31, 2007)

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- Gross profit percentage increased to 18.9%, from 18.2% in 2006.
- Selling and administrative expenses decreased to \$43.4 million from \$45.6 million in 2006.
- Net earnings increased to \$15.6 million, from \$3.6 million in 2006.
- Distributable Cash per unit increased 3.1% to \$0.959 from \$0.930 in 2006.
- The Fund increased monthly cash distributions by 5% in April and by an additional 5% in October 2007.
- The Fund achieved an annualized payout ratio of 71.5% compared to 79.2% in 2006, despite implementing two distribution increases.
- Bank indebtedness (net of cash) was reduced by \$13.4 million, resulting in a net debt-to-EBITDA ratio of 1.19 at December 31, 2007, compared to 1.77 at December 31, 2006.

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"We continued to improve profitability, reduce debt and reward unitholders in 2007, despite extremely difficult market conditions," said Maurice Paquette, President and CEO of Hardwoods.

"US residential housing starts continued to decline, falling 38% year-over-year and contributing to the downturn in the broader US economy. While the Canadian economy performed better, a 30-year peak in the value of the Canadian dollar relative to the US currency provided additional challenges for our business."

"Conditions in the hardwood industry reflected these difficulties. Average prices for hardwood lumber, which fell 10% in 2006, declined another

8% in 2007. US cabinet industry sales were 13% lower and a number of major US cabinet and furniture manufacturers began to curtail production as 2007 progressed," said Paquette.

"Given these conditions, our 2007 results were very solid. Our underlying sales declined by just 5% year-over-year, with foreign exchange factors increasing the negative impact to 8.5%. Simultaneously, we increased our average profit margin to 18.9% from 18.2% - a significant achievement accomplished with disciplined selling and the expansion of our import program. We also took aggressive action on costs, reducing sales and administrative expenses by \$2.2 million year-over-year."

"The combination of higher margins and lower costs resulted in relatively stable EBITDA, higher Distributable Cash, increased net earnings and a significant reduction in debt. This, in turn, enabled us to increase our monthly cash distributions twice during the year, while maintaining a conservative payout ratio of just 71.5%. We are pleased with this performance and with our ability to reward investors in a challenging year."

"Going forward, we expect market conditions will remain extremely challenging in 2008," added Paquette. "As evidenced by our fourth quarter 2007 results, our sales are being hit harder still by the stronger Canadian dollar and a slowing US economy. We are taking the necessary steps to align our business with market conditions, including closing two of our US branches in the first quarter of 2008. Our strategy will not be entirely defensive, however. We will continue to emphasize margin performance with continued growth in our import program. We are also working to maintain sales and build market share with innovative new product and service solutions that help customers manage through challenging times. Overall, we believe Hardwoods is well positioned to not just weather this downturn, but to strengthen our market position as we work through it."

Summary of Results

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

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	3 months ended December 31, 2007	3 months ended December 31, 2006	Year ended December 31, 2007	Year ended December 31, 2006
Total sales	\$ 68,767	\$ 83,120	\$ 331,765	\$ 362,528
Sales in the US (US\$)	46,643	51,502	210,785	223,509
Sales in Canada	23,665	24,466	105,171	109,024
Gross profit	12,488	15,116	62,737	66,042
Gross profit %	18.2%	18.2%	18.9%	18.2%
Selling and administrative expenses	(10,024)	(11,354)	(43,360)	(45,559)
Realized gain on foreign currency contracts	648	326	1,883	1,338

Earnings before interest, taxes, depreciation and amortization and non-controlling interest ("EBITDA")	3,112	4,088	21,260	21,821
Add (deduct):				
Amortization	(437)	(527)	(1,866)	(2,100)
Interest	(487)	(664)	(2,402)	(3,127)
Mark-to-market gain on unrealized				

foreign currency contracts	(634)	(1,212)	641	(1,280)
Intangibles impairment	-	(326)	-	(326)
Goodwill impairment	-	(7,566)	-	(7,566)
Non-controlling interest	277	1,242	(109)	(1,484)
Income taxes	284	139	(1,905)	(2,301)

Net earnings for the period	\$ 2,115	\$ (4,826)	\$ 15,619	\$ 3,637

Basic and fully diluted earnings per Class A Unit	\$ 0.147	\$ (0.335)	\$ 1.084	\$ 0.252
Average Canadian dollar/US dollar exchange rate	0.9812	1.1384	1.0750	1.1342

Distributable Cash and Cash Distributions
Selected Unaudited Consolidated Financial Information (in thousands of dollars except per unit amounts)

	3 months ended December 31, 2007 ----	3 months ended December 31, 2006 ----	Year ended December 31, 2007 ----	Year ended December 31, 2006 ----
Net cash provided by operating activities	\$ 10,514	\$ 10,513	\$ 20,629	\$ 18,539
Increase (decrease) in non-cash operating working capital	(7,291)	(6,702)	(2,777)	(889)

Cash flow from operations before changes in non-cash operating working capital	3,223	3,811	17,852	17,650
Capital expenditures	(18)	(97)	(571)	(902)

Distributable Cash	\$ 3,205	\$ 3,714	\$ 17,281	\$ 16,748

Distributions relating to the period:				
Class A Units	3,243 (1)	2,940	12,355 (2)	13,265
Class B Units	(3)	-	(3)	-

	\$ 3,243	\$ 2,940	\$ 12,355	\$ 13,265

Outstanding units

and per unit
amounts:

Class A Units outstanding	14,410,000	14,410,000	14,410,000	14,410,000
Class B Units outstanding	3,602,500	3,602,500	3,602,500	3,602,500

Total Units outstanding	18,012,500	18,012,500	18,012,500	18,012,500

Distributable Cash per Total Units	\$ 0.178	\$ 0.206	\$ 0.959	\$ 0.930
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Distributions
relating to the
period:

Class A Units	\$ 0.225 (1)	\$ 0.204	\$ 0.857 (2)	\$ 0.921
Class B Units	\$ - (3)	\$ -	\$ - (3)	\$ -
Total Units	\$ 0.180	\$ 0.163	\$ 0.686	\$ 0.736

Payout ratio (4)	101.2%	79.2%	71.5%	79.2%
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March 23, 2004
to December 31,
2007

Cumulative since
inception:

Distributable Cash	70,649
Distributions relating to the period	59,189
Payout ratio (4)	83.8%

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- (1) Includes the cash distributions of \$0.075 per Class A Unit per month which relate to the operations of the Fund for October, November, and December 2007.
 - (2) Includes the cash distributions of \$0.068 per Class A Unit per month which relate to the operations of the Fund for January, February, and March 2007; \$0.0714 per Class A Unit per month which relate to the operations of the Fund for April through September 2007; and \$0.075 per Class A Unit per month which relate to the operations of the Fund for October through December 2007 inclusive.
 - (3) On January 10, 2006, Hardwoods Specialty Products LP and Hardwoods Specialty Products US LP, limited partnerships in each of which the Fund owns an 80% interest, announced that quarterly distributions were suspended on the Class B LP and Class B US LP units. The Class B LP units and Class B US LP units represent a 20% interest in Hardwoods Specialty Products LP and Hardwoods Specialty Products US LP, respectively. No distributions are to be paid on the Class B LP units and Class B US LP units unless distributions in stipulated minimum amounts are paid on the units in the limited partnerships held by the Fund, and in certain other circumstances. Accordingly, no distributions have been declared since the third quarter of 2005 to the non-controlling interests. No liability for distributions payable to the non-controlling interests is reflected in the December 31, 2007 balance sheet.
 - (4) Payout ratio measures the ratio of distributions by the Fund relating to the period to Distributable Cash for the period.

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Results from Operations - Three Months Ended December 31, 2007

For the three months ended December 31, 2007 the Fund and its subsidiaries generated Distributable Cash of \$3.2 million, or \$0.178 per unit. Distributions of \$3.2 million, or \$0.225 per unit, were declared to the public unitholders (Class A Units) and no distributions were paid to the Class B Units, resulting in a payout ratio of 101.2% for the fourth quarter. By comparison, the Fund generated total distributable cash of \$3.7 million or \$0.206 per unit in the same period of 2006. Distributions of \$2.9 million, or \$0.204 per unit were declared to the Class A Units and no distributions were paid to the Class B Units, for a payout ratio of 79.2% in the fourth quarter of 2006.

Total fourth quarter sales declined by 17.3% to \$68.8 million, from the \$83.1 million reported in 2006. The change in sales revenue reflects a 9.7% decrease in sales due to the negative effect of a stronger Canadian dollar and a 7.6% decrease in underlying sales activity. Sales in the United States, as measured in US dollars, decreased by 9.4% to \$46.6 million. Weaker residential construction markets were the primary factor in this decline. The widely reported slowdown in US housing market has been particularly severe in California, significantly reducing demand in one of Hardwood's key markets. Sales in Canada, as measured in Canadian dollars, declined by 3.3%. The change in Canadian sales reflects a reduced sales contribution from the company's Windsor, Ontario branch, which closed at the end of 2006, as well as the negative impact of a stronger Canadian dollar on product prices and customers' sales.

Fourth quarter gross profit declined to \$12.5 million, from \$15.1 million in Q4 2006 as a result of the lower sales revenue. However, gross profit as a percentage of sales remained steady at 18.2%.

Selling and administrative (S&A) expenses continued to improve in the fourth quarter, declining to \$10.0 million, from \$11.4 million in the same period of 2006. The benefit of the stronger Canadian dollar on costs at Hardwoods' US operations accounted for \$1.0 million of the \$1.4 million decrease, with the balance reflecting the absence of non-recurring expenses that affected 2006 results but were not present in 2007 results.

EBITDA for the period was \$3.1 million, compared to \$4.1 million in Q4 2006. The change in EBITDA reflects lower gross profit due to decreased sales, partially offset by reduced S&A expenses and a \$0.3 million increase in realized gains on foreign currency contracts.

Fourth quarter net earnings increased to \$2.1 million, from a loss of \$4.8 million in the same period in 2006. The \$6.9 million improvement reflects a \$7.9 million decrease in goodwill and intangible impairment, a \$0.6 million decrease in mark-to-market adjustment losses on foreign currency contracts, a \$0.1 million increase in income tax recovery, a \$0.2 million decrease in interest expense and a \$0.1 million decrease in amortization expense. This was partially offset by the \$1.0 million decrease in EBITDA and a \$1.2 million increase in non-controlling interest in the fourth quarter.

Results from Operations - 12 months ended December 31, 2007

For the 12 months ended December 31, 2007, the Fund and its subsidiaries generated total Distributable Cash of \$17.3 million, or \$0.959 per unit. Distributions of \$12.4 million, or \$0.857 per unit, were declared to the public unitholders (Class A Units) and no distributions were paid to the Class B Units, resulting in a year-to-date payout ratio of 71.5%. By comparison, the Fund generated total distributable cash of \$16.7 million or \$0.930 per unit in 2006. Distributions of \$13.3 million, or \$0.921 per unit were declared to the Class A Units and no distributions were paid to the Class B Units, for a 2006 payout ratio of 79.2%.

Total sales declined by 8.5% to \$331.8 million, from \$362.5 million in 2006 as a result of more challenging market conditions. Sales at Hardwoods' US operations, as measured in US dollars, decreased by 5.7%, with the most

significant impact felt in the company's California divisions. Sales in Canada, as measured in Canadian dollars, were down by 3.5% year-over-year, reflecting the closure of the Windsor, Ontario distribution centre and the negative impact of the stronger Canadian dollar.

Gross profit for the year ended December 31, 2007 was \$62.7 million, compared to \$66.0 million in 2006. Although sales were down 8.5% in 2007, gross profit fell by just 5.0%, reflecting a year-over-year increase in gross margin percentage to 18.9%, from 18.2% in 2006. Hardwoods was also successful in decreasing selling and administrative expenses to \$43.4 million, from \$45.6 million in 2006. Recognizing the more challenging sales environment, the company controlled costs by reducing its employee base by 6%, eliminating excess trucking contracts, curtailing employee relocation expenses and subletting underutilized warehouse space. The reduction in sales and administrative expenses also reflects the positive impact of a stronger Canadian dollar on costs at Hardwoods' US operations.

The combination of lower S&A expenses and a higher gross profit percentage contributed to relatively stable EBITDA results, despite the lower sales revenue. EBITDA for 2007 was \$21.3 million, down slightly from \$21.8 million in 2006. Net earnings rose sharply to \$15.6 million from \$3.6 million in 2006. This increase reflects the \$7.9 million reduction in impairment in goodwill and other intangible assets, a \$1.9 million increase in mark-to-market adjustment gains on foreign currency contracts, a \$1.4 million decrease in non-controlling interest, a \$0.4 million decrease in income taxes, a \$0.7 million decrease in interest expense and a \$0.2 million reduction in amortization expense. These gains were partially offset by the \$0.5 million decrease in EBITDA.

Outlook

Moving into 2008, Hardwoods' sales are expected to come under continued pressure from the weak US housing market and the broader economic downturn which is now affecting the US market as a whole. While general economic conditions are currently stronger in Canada, the domestic market is being negatively affected by foreign exchange impacts and by the fact that many of Hardwoods' Canadian customers serve markets in the US.

With approximately 70% of its operations in the United States, Hardwoods' overall sales results are also influenced by changes in the value of the Canadian dollar relative to the US dollar. To date, Distributable Cash results have been partially cushioned as the Fund has currency hedges in place that fix the exchange rate at \$1.30 on a portion of the Distributable Cash it generates in the United States. These hedges will remain in effect until April 2008, after which for the balance of 2008 they will be replaced with currency hedges at \$1.12 Canadian. In 2008, realized gains on foreign currency contracts under the new hedges at \$1.12 Canadian will be \$0.9 million less than would otherwise have been realized under the previous hedges at \$1.30 Canadian.

In light of these factors, Hardwoods will manage its business closely in 2008 and will continue to take aggressive action on costs. Two distribution centres with limited sales growth potential are scheduled to close in the first quarter of 2008: Bozeman, Montana and Oklahoma City, Oklahoma. Going forward, the distribution network will be closely monitored to ensure expenditures are matched to sales potential in each market.

Maintaining strong gross margin performance is another key priority. The continued expansion of Hardwoods high-margin import business, including the planned introduction of new "green products," is expected to have a positive impact in this regard. Hardwoods is also working to expand market share by targeting new customers with innovative product and service solutions that help them respond to the challenging conditions.

Hardwoods will continue to monitor and plan for the impact of the federal government's decision to tax income trusts. The government's legislation was substantively enacted on June 12, 2007, and these changes will begin to take effect in 2011. Overall, it is anticipated that the proposed trust tax will have substantially less impact on the Fund than on other trusts that operate principally or exclusively in Canada. The 70% of Hardwoods' business that is

conducted in the U.S. is already subject to US taxation. The Fund believes that it will be able to re-organize its tax structure prior to 2011 such that it will not expose its US-sourced income to additional taxes associated with the proposed new Canadian trust tax.

Overall, with a strong balance sheet, a conservative payout ratio and a clear and appropriate strategy for maintaining solid results, the Fund believes Hardwoods is well positioned to withstand the current economic downturn and to continue to strengthen the underlying business.

Non-GAAP Measures - EBITDA and Distributable Cash

References to "EBITDA" are to earnings before interest, income taxes, depreciation and amortization, mark-to-market adjustments on foreign currency contracts, goodwill and other intangible assets impairments, and the non-controlling interest in earnings. In addition to net income or loss, EBITDA is a useful supplemental measure of performance and cash available for distribution prior to debt service, changes in working capital, capital expenditures and income taxes.

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

We believe that, in addition to net income or loss, EBITDA and Distributable Cash are each a useful supplemental measures of operating performance that may assist investors in assessing their investment in units of the Fund. Neither EBITDA nor Distributable Cash are earnings measures recognized by GAAP and they do not have a standardized meaning prescribed by GAAP. Investors are cautioned that EBITDA should not replace net income or loss (as determined in accordance with GAAP) as an indicator of our performance, nor should Distributable Cash replace cash flows from operating, investing and financing activities or as a measure of liquidity and cash flows. The Fund's method of calculating EBITDA and Distributable Cash may differ from the methods used by other issuers. Therefore, the Fund's EBITDA and Distributable Cash may not be comparable to similar measures presented by other issuers. For reconciliation between EBITDA and net income or loss as determined in accordance with GAAP, and for reconciliation between Distributable Cash and net cash provided by operating activities as determined in accordance with GAAP, please refer to the Management Discussion and Analysis ("MD&A") included in the Fund's 2007 Annual Report, which will be filed at www.sedar.com.

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

About the Fund

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

About Hardwoods

Hardwoods is one of North America's largest distributors of high-grade hardwood lumber and sheet goods to the cabinet, moulding, millwork, furniture

and specialty wood products industries. The company currently operates a network of 36 distribution centres comprising 1.3 million square feet of warehouse and distribution space in the U.S. and Canada.

Forward Looking Information

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

The forward-looking information in this press release includes, but is not limited to: our expectation that, moving into 2008, our sales will continue to come under pressure from the weak US housing market and the broader economic downturn; our plan to continue to manage our business closely in 2008 and take aggressive action on costs; our plan to continue to monitor our distribution network to ensure expenditures are matched to sales potential in each market; our intention to continue expansion of our high-margin import business, with the planned introduction of a new line of "green" products in 2008, that is expected to have a positive impact in this regard; our intention to maintain sales and build market share with innovative new product and service solutions that help customers manage through challenging times; our expectation that the proposed trust tax will have substantially less impact on the Fund than on other trusts that operate principally or exclusively in Canada; our belief that we will be able to re-organize our tax structure prior to 2011 so as not to expose our US-sourced income to additional taxes associated with the proposed new Canadian trust tax; and, our belief that we are well positioned to withstand the current economic downturn and to continue to strengthen our underlying business.

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

The forward-looking information is subject to risks, uncertainties and other factors that could cause actual results to differ materially from historical results or results anticipated by the forward-looking information. The factors which could cause results to differ from current expectations include, but are not limited to: exchange rate fluctuations between the Canadian and US dollar could affect the amount of cash we have available to distribute to our unitholders in Canadian dollars; we depend on key personnel, the loss of which could harm our business; decreases in the supply of, demand for, or market values of hardwood lumber or sheet goods could harm our business; we may incur losses related to credit provided to our customers; our products may be subject to negative trade outcomes; we may not be able to sustain our level of sales or EBITDA margins; we may be unable to grow our business or to manage any growth; competition in our markets may lead to

reduced revenues and profitability; we may become subject to more stringent regulations; importation of products manufactured with hardwood lumber or sheet goods may increase, and replace products manufactured in North America; our results are dependent upon the general state of the economy; we are dependent upon our management information systems; our insurance may be insufficient to cover losses that may occur as a result of our operations; our credit facilities contain restrictions on our ability to borrow funds and restrictions on distributions that can be made; there are tax risks associated with an investment in our units; our future growth may be restricted by the payout of substantially all of our operating cash flow; and, other risks described in our Annual Information Form and our other continuous disclosure documents.

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

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

December 31, 2007 and 2006

	2007	2006
Assets		
Current assets:		
Cash and cash equivalents	\$ 295	\$ 594
Accounts receivable	36,474	43,767
Income taxes recoverable	1,041	596
Inventory	38,400	44,584
Prepaid expenses	1,060	1,098
Foreign currency contracts (note 5)	1,533	1,129
	78,803	91,768
Long-term receivables (note 4)	2,191	3,236
Property, plant and equipment (note 6)	2,413	3,219
Deferred financing costs	21	32
Foreign currency contracts (note 5)	528	385
Intangible assets	9,013	10,878
Goodwill	80,758	88,886
	\$ 173,727	\$ 198,404

Liabilities and Unitholders' Equity

Current liabilities:

Bank indebtedness (note 7)	\$ 25,515	\$ 39,152
Accounts payable and accrued liabilities	6,950	7,590
Distributions payable to Unitholders	1,081	980

	33,546	47,722
Foreign currency contracts (note 5)	47	141
Deferred gain on sale-leaseback of land and building	538	719
Non-controlling interests (note 8)	30,068	33,859
Future income taxes (note 10)	3,534	2,653
Unitholders' equity:		
Fund Units (note 9)	133,454	133,454
Deficit	(5,895)	(8,973)
Accumulated other comprehensive loss	(21,565)	(11,171)
	105,994	113,310
Commitments (note 12)		
Contingencies (note 17)		
	\$ 173,727	\$ 198,404

See accompanying notes to consolidated financial statements.

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

Years ended December 31, 2007 and 2006

	2007	2006
Sales	\$ 331,765	\$ 362,528
Cost of sales	269,028	296,486
Gross profit	62,737	66,042
Expenses (income):		
Selling and administrative	43,360	45,559
Amortization:		
Plant and equipment	1,091	1,208
Deferred financing costs	11	77
Other intangible assets	843	899
Deferred gain on sale-leaseback of land and building	(79)	(84)
Interest	2,402	3,127
Foreign currency contracts	(2,524)	(58)
Intangibles impairment (note 2(g))	-	326
Goodwill impairment (note 2(h))	-	7,566
	45,104	58,620
Earnings before non-controlling interests and income taxes	17,633	7,422

Non-controlling interests (note 8)	109	1,484

Earnings before income taxes	17,524	5,938
Income taxes (note 10)	1,905	2,301

Net earnings for the year	15,619	3,637
Retained earnings (deficit), beginning of year (note 3)	(9,159)	1,886
Distributions declared to Unitholders	(12,355)	(14,496)

Deficit, end of year	\$ (5,895)	\$ (8,973)

Basic and diluted earnings per Unit	\$ 1.08	\$ 0.25

Weighted average number of Units outstanding	14,410,000	14,410,000

See accompanying notes to consolidated financial statements.

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

Years ended December 31, 2007 and 2006

	2007	2006

Cash flows provided by (used in) operating activities:		
Net earnings for the year	\$ 15,619	\$ 3,637
Items not involving cash:		
Amortization	1,866	2,100
Imputed interest income on employee loans	(60)	-
Gain on sale of property, plant and equipment	(21)	(32)
Mark-to-market adjustment on unrealized foreign currency contracts	(641)	1,280
Intangibles impairment (note 2(g))	-	326
Goodwill impairment (note 2(h))	-	7,566
Non-controlling interests	109	1,484
Future income taxes	980	1,289

	17,852	17,650
Change in non-cash operating working capital (note 11)	2,777	889

Net cash provided by operating activities	20,629	18,539

Cash flows used in financing activities:

Decrease in bank indebtedness	(9,769)	(7,733)
Increase in deferred financing fees	-	(33)
Distributions paid to Unitholders	(12,254)	(13,516)

Net cash used in financing activities	(22,023)	(21,282)
Cash flows provided by investing activities:		
Additions to property, plant and equipment	(571)	(902)
Proceeds on disposal of property, plant and equipment	26	34
Decrease in long-term receivables, net	1,640	2,002

Net cash provided by investing activities	1,095	1,134

Decrease in cash	(299)	(1,609)
Cash, beginning of year	594	2,203

Cash, end of year	\$ 295	\$ 594

Supplemental information:

Interest paid	\$ 2,402	\$ 3,127
Income taxes paid	936	1,572
Transfer of accounts receivable to long-term customer notes receivable, net of write offs, being a non-cash transaction	667	2,167

See accompanying notes to consolidated financial statements.

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

Years ended December 31, 2007 and 2006

	2007	2006

Net earnings for the year	\$ 15,619	\$ 3,637
Other comprehensive income (loss):		
Unrealized gains (losses) on translation of self-sustaining foreign operations	(10,385)	(129)

Comprehensive income	\$ 5,234	\$ 3,508

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

Years ended December 31, 2007 and 2006

	2007	2006
Accumulated other comprehensive loss, beginning of year (note 3)	\$ (11,180)	\$ (11,042)
Other comprehensive loss	(10,385)	(129)
Accumulated other comprehensive loss, end of year	\$ (21,565)	\$ (11,171)

See accompanying notes to consolidated financial statements.

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HARDWOODS DISTRIBUTION INCOME FUND

Notes to Consolidated Financial Statements

(Tabular amounts expressed in thousands of Canadian dollars)

Years ended December 31, 2007 and 2006

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 an 80% interest in a hardwood lumber and sheet goods distribution business in North America (the "Business") from affiliates of Sauder Industries Limited ("SIL"). The Fund holds, indirectly, 80% of the outstanding limited partnership units of Hardwoods Specialty Products LP ("Hardwoods LP") and Hardwoods Specialty Products US LP ("Hardwoods USLP"), limited partnerships established under the laws of the Province of Manitoba and the state of Delaware, respectively.

2. Significant accounting policies:

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

(a) Basis of presentation:

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

(b) Cash and cash equivalents:

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

(c) Accounts receivable:

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

(d) Inventory:

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

(e) Property, plant and equipment:

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

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

(f) Deferred financing costs:

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

(g) Intangible assets:

Intangible assets represent customer relationships acquired at the time the Business was purchased from SIL (note 1) and are recorded at cost less accumulated amortization and any write-downs. Amortization is provided for on a straight-line basis over 15 years. Management reviews the carrying value of intangible assets for impairment annually, or more frequently if events or changes in circumstances indicate that the asset may be impaired. Any excess of carrying value over fair value is charged to earnings in the period in which the impairment is determined. During the fourth quarter ended December 31, 2007, management performed its annual impairment test and determined that no impairment had occurred (2006 - \$326,000).

(h) Goodwill:

Goodwill is recorded at cost less any write-downs and is not amortized. Management reviews the carrying value of goodwill for impairment annually, or more frequently if events or changes in circumstances indicate that the asset may be impaired. Any excess of carrying value over fair value is charged to earnings in the period in which the impairment is determined. During the fourth quarter ended December 31, 2007, management performed its annual impairment test and determined that no impairment had occurred (2006 - \$7,566,000). The write-down of goodwill in 2006 was related solely to the Fund's Canadian business, Hardwoods LP. The goodwill impairment in Hardwoods LP was largely due to the anticipated reduction of cash flows resulting from the Canadian federal government's intention to tax Canadian income trusts

commencing in 2011, as well as lower than previously anticipated revenue and cash flows to be generated.

(i) Impairment of long-lived assets:

Long-lived assets, including property, plant and equipment and other intangible assets, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount for the asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount that the carrying amount of the asset exceeds its fair value.

(j) Sales-leaseback of land and building:

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

(k) Income taxes:

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

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

On June 12, 2007, the Canadian federal government's legislation to tax publicly traded income trusts passed third reading in the House of Commons and thus the associated income tax became substantively enacted for accounting purposes. The legislation imposes a tax on distributions from Canadian public income trusts. The new tax is not expected to apply to the Fund until January 1, 2011 as a transition period applies to publicly traded trusts that existed prior to November 1, 2006. Historically the Fund had been exempt from recognizing future income tax assets and liabilities associated with temporary differences arising in the Fund and its subsidiary Hardwoods LP. As a result of the substantive enactment of the new tax legislation, the Fund has recognized future income tax assets and liabilities that are expected to reverse subsequent to January 1, 2011. The impact on the Fund's consolidated financial statements was recorded in the year ended December 31, 2007 and the effect was an increase in

the future income tax liability by \$95,000 and an increase in future income tax expense of \$95,000.

(l) Revenue recognition:

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

(m) Translation of foreign currencies:

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

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

(n) Foreign currency contracts:

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

(o) 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. Diluted earnings per Unit is calculated by application of the if-converted method for convertible securities (being exchangeable Units held by the non-controlling interest). As the conversion of convertible securities would not have a dilutive effect on earnings per Unit, diluted and basic earnings per Unit are the same amount.

(p) Use of estimates:

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

(q) Future changes in accounting standards:

On December 1, 2006, the Canadian Institute of Chartered Accountants ("CICA") issued four new accounting standards: Handbook Section 1535, Capital Disclosures ("Section 1535"), Handbook Section 3031, Inventories ("Section 3031"), Handbook Section 3862, Financial Instruments - Disclosures ("Section 3862") and Handbook Section 3863, Financial Instruments - Presentation ("Section 3863"). These new standards become effective for the Fund on January 1, 2008.

Section 1535 specifies the disclosure of: (i) an entity's objectives, policies and processes for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; and, (iv) if it has not complied, the consequences of such non-compliance.

Section 3031 provides significantly more guidance on the measurement of inventories, with an expanded definition of cost and the requirement that inventory must be measured at the lower of cost and net realizable value. In addition the section has additional disclosure requirements, including accounting policies, carrying values, and the amount of any inventory write-downs.

Sections 3862 and 3863 replace Handbook Section 3861, Financial Instruments - Disclosure and Presentation, revising and enhancing its disclosure requirements, and carrying forward its presentation requirements. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks.

While the Fund is currently evaluating the implications of the adoption of these new standards, their adoption is not expected to materially impact the amounts presented in the financial statements.

3. Adoption of new accounting standards:

Effective January 1, 2007, the Fund adopted five new CICA accounting standards: (a) Handbook Section 1530, Comprehensive Income; (b) Handbook Section 3855, Financial Instruments - Recognition and Measurement; (c) Handbook Section 3861 Financial Instruments - Disclosure and Presentation; (d) Handbook Section 3865, Hedges; and (e) Handbook Section 1506, Accounting Changes. The main requirements of these new standards and the resulting financial statement impact are described below.

Consistent with the requirements of the new accounting standards, the Fund has not restated any prior period amounts as a result of adopting the accounting changes, other than to classify unrealized foreign currency translation gain or losses on net investments in self-sustaining foreign operations in accumulated other comprehensive loss within Unitholders' Equity. As required under the transition rules the opening deficit has been adjusted to reflect the cumulative impact of adopting the changes in accounting policies described below.

The effect of the adoption of these standards is summarized in the following table:

	As at December 31, 2006	Reclassi- fication to accumulated other compre- hensive loss	Adjustment on adoption of new standards	As at January 1, 2007
Long-term receivables	\$ 3,236	\$ -	\$ (365)	\$ 2,871
Non-controlling interests	33,859	-	(71)	33,788
Future income taxes	2,653	-	(99)	2,554
Unitholders equity:				
Cumulative translation adjustment	(11,171)	11,171	-	-
Accumulated other comprehensive loss	-	(11,171)	(9)	(11,180)
Deficit	\$ (8,973)	\$ -	\$ (186)	\$ (9,159)

(a) Comprehensive Income (Section 1530):

CICA Section 1530 introduces the term Comprehensive Income, which consists of net earnings and other comprehensive income ("OCI"). OCI represents changes in Unitholders' equity during the period arising from transactions and other events with non-owner sources and in the case of the Fund includes unrealized foreign currency translation gains or losses arising from self-sustaining foreign operations. As a result of adopting this standard, a new Statement of Comprehensive Income now forms part of the Fund's consolidated financial statements which includes the current period net earnings and OCI. Cumulative changes in OCI are included in Accumulated Other Comprehensive Income, which is presented as a new category of Unitholders' Equity in the balance sheet. The Fund's accumulated other comprehensive income balance at December 31, 2007 and December 31, 2006 is comprised entirely of cumulative foreign currency translation adjustments arising on translation of the Fund's United States operations to Canadian dollars.

(b) Financial Instruments - Recognition and Measurement (Section 3855):

CICA Section 3855 sets out criteria for the recognition and measurement of financial instruments for fiscal years beginning on or after October 1, 2006. This standard requires all financial instruments within its scope, including derivatives, to be included on the balance sheet and measured either at fair value or, in certain circumstances when fair value may not be considered most relevant, at cost or amortized cost. Changes in fair value are to be recognized in either the Statements of Earnings or the Statement of Comprehensive Income.

All financial assets and liabilities are recognized when the entity becomes a party to the contract creating the item. As such, any of the Fund's outstanding financial assets and liabilities at the effective date of adoption are recognized and measured in accordance with the new requirements as if these requirements had always been in effect. Any changes to the carrying values of assets and liabilities prior to January 1,

2007 are recognized by adjusting opening deficit or opening accumulated other comprehensive income.

All financial instruments are classified into one of the following five categories: held-for-trading, held to maturity, loans and receivables, available for sale financial assets, or other financial liabilities. Initial and subsequent measurement and recognition of changes in the value of financial instruments depends on their initial classification:

- (i) Held to maturity investments, loans and receivables, and other financial liabilities are initially measured at fair value and subsequently measured at amortized cost. Amortization of premiums or discounts and losses due to impairment are included in current period net earnings using the effective interest method.
- (ii) Available for sale financial assets are measured at fair value, with unrealized gains and losses recorded in other comprehensive income until the asset is realized, at which time they will be recorded in net earnings.
- (iii) Held for trading financial instruments are measured at fair value. All gains and losses resulting from changes in their fair value are included in net earnings in the period in which they arise.
- (iv) All derivative financial instruments are classified as held for trading financial instruments and are measured at fair value, even when they are part of a hedging relationship. All gains and losses resulting from changes in their fair value are included in net earnings in the period in which they arise.

Upon adoption of these new standards, the Fund has classified its financial instruments as follows:

- (v) Accounts receivable and long term receivables are classified as loans and receivables, which are initially measured at fair value and subsequently measured at amortized cost. Housing loans provided to employees by the Fund to assist in their relocation to new operating locations were identified to be loans with a non-market rate of interest, requiring an adjustment based on the fair market value of the loans at their inception, adjusted for the accretion of the fair market value discount in the period from inception to the adoption of the new accounting standard. This change in accounting standard resulted in a decrease in the carrying value of employee housing loans receivable of \$365,000, a decrease in non-controlling interests of \$71,000 and future income taxes of \$99,000, and an increase in deficit of \$186,000 on the balance sheet at January 1, 2007.
- (vi) The Fund's foreign currency contracts are a derivative financial instrument and as such are classified as held for trading, with all gains and losses included in net earnings in the period in which they arise. This is consistent with the Fund's historic accounting treatment of the foreign currency contracts and thus there was no change in accounting on adoption.

(c) Financial Instruments - Disclosure and Presentation (Section 3861):

CICA Section 3861 sets out standards which address the presentation of financial instruments and non-financial derivatives, and identifies the related information that should be disclosed. These standards also revise the requirements for entities to provide accounting policy disclosures, including disclosure of the criteria for designating as held-for-trading those financial assets or liabilities that are not required to be classified as held-for-trading; whether categories of normal purchases and sales of financial assets are accounted for at trade date or settlement date; the accounting policy for transaction costs on financial assets and financial liabilities classified as other than held-for-trading; and provide several new requirements for disclosure about fair value.

(d) Hedging (Section 3865):

CICA Section 3865 specifies the circumstances under which hedge accounting is permissible and how hedge accounting may be performed. The Fund currently does not hold any financial instruments designated for hedge accounting.

(e) Accounting Changes (Section 1506):

CICA Section 1506 revised the standards on changes in accounting policy, estimates or errors to require a change in accounting policy to be applied retrospectively (unless doing so is impracticable), changes in estimates to be recorded prospectively, and prior period errors to be corrected retrospectively. Voluntary changes in accounting policy are allowed only when they result in financial statements that provide reliable and more relevant information. In addition, these revised standards call for enhanced disclosures about the effects of changes in accounting policies, estimates and errors on the financial statements. The impact of this new standard cannot be determined until such time as the Fund makes a change in accounting policy, other than the changes resulting from the implementation of the new CICA Handbook standards discussed in this note.

(f) Cash Flow Statements (Section 1540):

Amendments to CICA 1540, Cash Flow Statements, require entities to disclose total cash distributions on financial instruments classified as equity in accordance with a contractual agreement and the extent to which total cash distributions are non-discretionary. This disclosure requirement is effective for interim and annual financial statements for fiscal periods ending on or after March 31, 2007. The Fund has no contractual requirement to pay cash distributions to Unitholders' of the Fund. During the year ended December 31, 2007 \$12.3 million (2006 - \$13.5 million) in discretionary cash distributions were paid to Unitholders.

4. Long-term receivables:

	2007	2006
Employee housing loans	\$ 1,130	\$ 1,766
Customer notes	1,166	2,277
Security deposits	553	606
	2,849	4,649

Less: current portion, included in accounts receivable	658	1,413
	\$ 2,191	\$ 3,236

Long-term receivables consist of non-interest bearing housing loans receivable from employees related to their relocation, interest bearing notes receivable from certain customers, and security deposits recoverable on leased premises. The housing loans are secured by a deed of trust or mortgage depending upon the jurisdiction. The customer notes receivable have various security arrangements and bear interest rates ranging from 8%-18%.

5. Foreign currency contracts:

At December 31, 2007 a subsidiary of the Fund held foreign currency contracts covering the period 24 months into the future with terms as follows:

Month	Sell US dollars	Contract exchange rate (\$C/\$US)	Receive Canadian dollars
2008			
January	US\$675,000	1.3001	Cdn\$877,568
February	US\$675,000	1.3001	Cdn\$877,568
March	US\$675,000	1.3001	Cdn\$877,568
April	US\$675,000	1.3001	Cdn\$877,568
May	US\$675,000	1.1255	Cdn\$759,712
June	US\$675,000	1.1255	Cdn\$759,712
July	US\$675,000	1.1255	Cdn\$759,712
August	US\$675,000	1.1255	Cdn\$759,712
September	US\$675,000	1.1255	Cdn\$759,712
October	US\$675,000	1.1255	Cdn\$759,712
November	US\$675,000	1.1255	Cdn\$759,712
December	US\$675,000	1.1255	Cdn\$759,712
2009			
January	US\$675,000	1.1255	Cdn\$759,712
February	US\$675,000	1.1255	Cdn\$759,712
March	US\$675,000	1.1255	Cdn\$759,712
April	US\$675,000	1.1255	Cdn\$759,712
May	US\$675,000	1.0882	Cdn\$734,535
June	US\$675,000	1.0595	Cdn\$715,162
July	US\$675,000	1.0625	Cdn\$717,187
August	US\$675,000	1.0560	Cdn\$712,800
September	US\$675,000	1.0010	Cdn\$675,675
October	US\$675,000	0.9315	Cdn\$628,762
November	US\$675,000	0.9901	Cdn\$668,317
December	US\$675,000	1.0119	Cdn\$683,032

The fair value of the 24 monthly currency contracts covering the period January 2008 to December 2009 have been reflected in the financial statements and represent a current asset of \$1,533,476, a long-term asset of \$528,165 and a long-term liability of \$46,842 at December 31, 2007. The fair values were determined based on valuations obtained from the counter-party.

6. Property, plant and equipment:

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

December 31, 2006	Cost	Accumulated amortization	Net book value
Machinery and equipment	\$ 2,312	\$ 1,228	\$ 1,084
Mobile equipment	3,322	1,549	1,773
Leasehold improvements	765	403	362
	\$ 6,399	\$ 3,180	\$ 3,219

7. Bank indebtedness:

	2007	2006
Checks issued in excess of funds on deposit	\$ 1,034	\$ 797
Credit facility, Hardwoods LP	5,538	10,788
Credit facility, Hardwoods USLP (2007 - US\$19,109; 2006 - US\$23,655)	18,943	27,567
	\$ 25,515	\$ 39,152

Bank indebtedness consists of checks issued in excess of funds on deposit and advances under operating lines of credit available to Hardwoods LP and Hardwoods USLP. Hardwoods LP has a revolving credit facility of up to an aggregate amount of \$22,000,000 and Hardwoods USLP has a revolving credit facility of up to an aggregate amount of \$34,695,500 (US\$35,000,000) less the net exposure under the foreign currency contracts facility as described in note 5.

The Hardwoods LP credit facility was renegotiated in November 2006 and now expires November 30, 2009, and is secured by a first security interest in all of the present and after acquired property of Hardwoods LP and its operating subsidiaries, and by the Hardwoods LP Units held indirectly by the Fund. The Hardwoods USLP credit facility and the foreign currency contract arrangements were renegotiated in December 2006 and now expire March 31, 2010. They 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.

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 (as adjusted for certain items) to earnings before interest, taxes, depreciation and amortization, as defined in the credit agreements. Commitment fees and standby charges are payable.

The average annual interest rates payable for the year ended December 31, 2007 were 6.7% and 7.2% (2006 - 6.6% and 7.2%) for the Hardwoods LP and Hardwoods USLP credit facilities, respectively.

8. Non-controlling interests:

	2007	2006
Balance, beginning of the year (note 3)	\$ 33,788	\$ 32,047
Interest in earnings		
Interest in earnings before taxes	3,527	1,484
Adjustment to non-controlling interest from subordination of Class B Unit Holders	(3,418)	-
	109	1,484
Foreign currency translation adjustment of non-controlling interest in Hardwoods USLP and other	(3,829)	328
Balance, end of the year	\$ 30,068	\$ 33,859

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

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

- the consolidated Adjusted EBITDA, as defined in the Subordination Agreement dated March 23, 2004, of the Fund for the 12 month period ending on the last day of the month immediately preceding such date is at least \$21,300,000; and
- cash distributions of at least \$29,540,000 (\$2.05 per Unit) have been paid on the Units and a combined amount of cash advances or distributions of at least \$7,385,000 has been paid on the Class B LP Units and Class B USLP Units, being \$2.05 per combined Class B LP and Class B USLP Units (as adjusted for issuances, redemptions and repurchases of Units, LP Units and USLP Units subsequently and by converting the cash distributions or advances by Hardwoods USLP on the USLP Units at the rate of exchange used by the Fund to convert funds received by it in US dollars into Canadian dollars) for the 24 month period ending on the last day of the month immediately preceding such date.

The Subordinated End Date had not occurred at December 31, 2007.

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

- At the end of each month, cash advances or distributions will be made to the holders of Class A LP Units and Class A USLP Units in a combined amount that is sufficient to provide available cash to the Fund to enable the Fund to make cash distributions upon the Units for such month at least equal to \$0.08542 per Unit or, if there is insufficient available cash to make distributions or advances in such amount, such lesser amount as is available as determined by the board of directors of the general partners;
- At the end of each fiscal quarter of Hardwoods LP and Hardwoods USLP, including the fiscal quarter ending on the fiscal year end, available cash of Hardwoods LP and Hardwoods USLP will be advanced or distributed in the following order of priority:
 - First, in payment of the monthly cash advance or distribution to the holders of Class A LP Units and Class A USLP Units as described above, for the month then ended;
 - Second, to the holders of Class A LP Units and Class A USLP Units, to the extent that the combined monthly cash advances or distributions in respect of the 12 month period then ended (and not, for greater certainty, in any previous 12 month period) on Class A LP Units and Class A USLP Units were not made or were made in amounts less than a combined amount at least equal to \$1.025 per Unit, the amount of any such deficiency. As of December 31, 2007, the amount of such deficiency was \$2.4 million;
 - Third, to the holders of Class B LP Units and Class B USLP Units in a combined amount for one Class B LP Unit and one Class B USLP Unit equal, on a pro-rated basis, to the combined amount advanced or distributed on one Class A LP Unit and one Class A USLP Unit during such fiscal quarter or, if there is insufficient available cash to make advances or distributions in such amount, such lesser amount as is available;
 - Fourth, to the holders of Class B LP Units and Class B USLP Units, to the extent only that combined advances or distributions in respect of any fiscal quarter(s) during the 12 month period then ended (and not, for greater certainty, in any previous 12 month period) on one Class B LP Unit and one Class B USLP Unit were not made, or were made in amounts less, on a pro-rated basis, that the combined amount advanced or distributed on one Class A LP Unit and one Class A USLP Unit during such 12 month period, the amount of such deficiency. As of December 31, 2007, the amount of such deficiency was \$3.1 million. The cumulative deficiency prior to December 31, 2006, which is no longer recoverable by the Class B LP Unitholders and Class B USLP Unitholders, has been recorded as an adjustment to the non-controlling interest's share of earnings in the amount of \$3.4 million;
 - Fifth, to the extent of any excess, to the holders of the Class A LP Units and Class B LP Units and Class A USLP Units and Class B USLP Units, respectively, so that the combined advances or distributions on one Class A LP Unit and one Class A USLP Unit are the same as the combined advances or distribution on one Class B LP Unit and one Class B USLP Unit in respect of the 12 month period then ended (and not, for greater certainty, any

previous 12 month period).

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

9. Fund Units:

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

On March 23, 2004, the Fund issued 14,410,000 Units at a price of \$10 per Unit pursuant to the Offering. Net proceeds from the Offering were \$133,454,000 after deducting expenses of the Offering of \$10,646,000. The holders of the Class B Units of Hardwoods LP and Hardwoods USLP were issued 3,602,500 Special Voting Units of the Fund, the value of which is included in non-controlling interests (note 8). Such Special Voting Units are to be cancelled on the exchange of Class B Units of Hardwoods LP and Hardwoods USLP for Units of the Fund.

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

10. Income taxes:

	2007	2006
Current	\$ 441	\$ 1,054
Future	1,464	1,247
	\$ 1,905	\$ 2,301

Under current income tax regulations subsidiaries of the Fund are only subject to U.S. tax, thus income tax expense differs from that calculated by applying U.S. federal and state statutory income tax rates in effect in that jurisdiction in which the U.S. subsidiary is subject to tax of 39.4% (2006 - 39.4%) to earnings before income taxes for the following reasons:

	2007	2006
Earnings before income tax	\$ 17,524	\$ 5,938
Computed tax expenses at statutory rate	\$ 6,904	\$ 2,340
Income of Fund distributed directly to Unitholders	(4,317)	(763)
Income and deductions not subject to tax	(812)	(386)
Taxes paid as a result of Subordination Agreement	712	843
Adjustment to non-controlling interest not subject to tax	(930)	-
Branch profits tax	54	165
Deductible state taxes	21	(8)
Other	273	110
	\$ 1,905	\$ 2,301

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

The tax effect of temporary differences that give rise to significant portions of the future income tax assets and liabilities at December 31, 2007 is as follows:

	2007	2006
Future income tax assets:		
Accounts receivable	\$ 154	\$ 272
Inventory	383	453
Employee housing loans	73	-
Property, plant and equipment	249	-

Accrued liabilities	-	21
Deferred gain on sale-leaseback of land and building	170	227
	1,029	973

Future income tax liabilities:		
Prepaid expenses	(84)	(91)
Property, plant and equipment	(111)	(69)
Goodwill	(4,368)	(3,466)
	(4,563)	(3,626)

Net future income tax liability	\$ (3,534)	\$ (2,653)

11. Changes in non-cash operating working capital:

	2007	2006

Accounts receivable	\$ 1,470	\$ (122)
Income taxes recoverable	(445)	(510)
Inventory	1,627	3,070
Prepaid expenses	(70)	123
Accounts payable and accrued liabilities	195	(1,672)
	\$ 2,777	\$ 889

12. Commitments:

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

2008	\$ 6,451
2009	5,207
2010	3,330
2011	1,240
2012	715
	16,943
Thereafter	684
	\$ 17,627

- (b) At December 31, 2007, the Fund's subsidiaries were committed in the amount of \$22,304 (US\$22,500) (2006 - \$26,222 (US\$22,500)) under letters of credit.

13. Segment disclosure:

Information about geographic areas is as follows:

	2007	2006
Revenue from external customers:		
Canada	\$ 105,171	\$ 109,024
United States	226,594	253,504
	\$ 331,765	\$ 362,528
Property, plant and equipment:		
Canada	\$ 1,003	\$ 1,156
United States	1,410	2,063
	\$ 2,413	\$ 3,219
Goodwill		
Canada	\$ 34,477	\$ 34,477
United States	46,281	54,409
	\$ 80,758	\$ 88,886

14. Financial instruments:

(a) Fair values of financial instruments:

The carrying values of cash and cash equivalents, trade accounts receivable, accounts payable and accrued liabilities and distributions payable approximate their fair values due to the relatively short period to maturity of the instruments. The fair value of long-term receivables is not expected to differ materially from the carrying value. The carrying values of the credit facilities approximate their fair values due to the existence of floating market based interest rates. The foreign currency contracts are carried at market values.

(b) Credit risk:

The Fund is exposed to credit risk in the event it is unable to collect in full amounts receivable from its customers. The Fund employs established credit approval practices and engages credit attorneys when appropriate to mitigate the credit risk. It is the Fund's policy to secure credit terms with customers whenever possible by registering security interests in the assets of the customer and by obtaining personal guarantees. Our largest individual customer balance amounted to 5.3% of accounts receivable and customer notes receivable at December 31, 2007.

(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.

15. Pensions:

Hardwoods USLP maintains a defined contribution 401 (k) retirement savings plan (the "USLP Plan"). The assets of the USLP Plan are held, and related investment transactions are executed, by the Plan's Trustee, ING National Trust, and, accordingly, are not reflected in these consolidated financial statements. During the year ended December 31, 2007, Hardwoods USLP contributed and expensed \$403,817 (US\$375,643) (2006 - \$394,505 (US\$347,826)) in relation to the USLP Plan.

Hardwoods LP does not maintain a pension plan. Hardwoods LP does, however, administer a group registered retirement savings plan ("LP Plan") that has a matching component whereby Hardwoods LP makes contributions to the LP Plan which match contributions made by employees up to a certain level. The assets of the LP Plan are held, and related investment transactions are executed, by LP Plan's Trustee, Sun Life Financial Trust Inc., and, accordingly, are not reflected in these consolidated financial statements. During the year ended December 31, 2007, Hardwoods LP contributed and expensed \$246,475 (2006 - \$266,153) in relation to the LP Plan.

16. Related party transactions:

For the year ended December 31, 2007, sales of \$736,573 (2006 - \$1,141,799) were made to affiliates of SIL, and the Fund made purchases of \$184,732 (2006 - \$77,932) from affiliates of SIL. All these sales and purchases took place at prevailing market prices.

During the year ended December 31, 2007, the Fund expensed \$108,000 (2006 - \$108,000) for management information systems services provided by affiliates of SIL. This cost is included in selling and administrative expense in the consolidated statement of earnings and retained earnings (deficit).

17. Contingencies:

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

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