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

Attention Business/Financial Editors:
Hardwoods Distribution Income Fund Announces 2008 First Quarter Results

TRADING SYMBOL: Toronto Stock Exchange - HWD.UN

Hardwoods Distribution Income Fund will hold a conference call and webcast to discuss first quarter financial results on May 2, 2008 at 8:00 a.m. Pacific Time (11:00 am Eastern). The call can be accessed by dialing: 1-800-732-9303 or 416-644-3417. A replay will be available until May 9, 2008 at: 1-877-289-8525 or 416-640-1917 (Passcode 21268714 followed by the number sign).

The live and archived webcast can be accessed at http://www.investorcalendar.com/IC/CEPage.asp?ID(equal sign)128341 or on the Fund's website at www.hardwoods-inc.com.

LANGLEY, BC, May 1 /CNW/ - Hardwoods Distribution Income Fund (the "Fund") today reported financial results for the three months ended March 31, 2008. The Fund's results are based on the performance of Hardwoods Specialty Products LP and Hardwoods Specialty Products USLP (collectively "Hardwoods") - one of North America's largest wholesale distributors of hardwood lumber and related sheet good products. Hardwoods serves over 2,500 industrial customers through a network of 34 distribution centres in the US and Canada.

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First Quarter Summary

- Sales decreased 22.5%, reflecting a 14.1% decrease in underlying sales activity and an 8.4% decrease due to the negative impact of a stronger Canadian dollar

- Gross profit percentage increased to 19.2%, from 18.4% in Q1 2007

- Selling and administrative expenses decreased to $11.3 million, from $11.8 million in Q1 2007

- EBITDA decreased to $2.9 million, compared to $5.4 million in the first quarter of 2007

- Net earnings increased to $9.5 million, from $4.0 million during the same period in 2007

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"We increased our gross margins and controlled our S&A cost performance in the first quarter of 2008, despite extremely challenging market conditions," said Maurice Paquette, Hardwoods' President and CEO.

"The US market, which represents about two thirds of our sales, continued to weaken with housing starts off 37% at March 2008 compared to March 2007. This represents the tenth consecutive quarter of decline for the US residential housing starts, and we estimate that approximately 40% to 50% of our products are used in new residential construction. Although Canadian housing starts fared better during the quarter, many of our Canadian customers market their products to the US and have been negatively affected by both the US economic downturn and the weakening of the US dollar," added Paquette.

"While our first quarter sales were clearly affected by these factors, we are responding effectively. As planned, we closed two branches with limited sales growth potential in the first quarter to help control costs. We also maintained our emphasis on higher-margin products and disciplined selling and were rewarded with an increase in our gross margin to 19.2%, from 18.4% a year ago. Although not enough to offset the EBITDA impact of significantly lower sales, the margin improvement was an important achievement."

"Another highlight of the first quarter was completing an internal reorganization of our business which resulted in some tax efficiencies. We are already experiencing significant tax savings, which, in turn, helped us end the quarter with improved net earnings," said Paquette. "Moving forward we will continue to take measures that strengthen and protect our business as we work through this market downturn."

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Summary of Results

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

	3 months ended March 31, 2008	3 months ended March 31, 2007
Total sales	$ 71,048	$ 91,720
Sales in the US (US$)	46,192	55,299
Sales in Canada	24,639	26,926
Gross profit	13,636	16,868
Gross profit %	19.2%	18.4%
Selling and administrative expenses	(11,318)	(11,750)
Realized gain on foreign currency contracts	595	269
Earnings before interest, taxes, depreciation and amortization and non-controlling interest ("EBITDA")	2,913	5,387
Add (deduct):		
Amortization	(425)	(492)
Interest	(388)	(709)
Mark-to-market gain on unrealized foreign currency contracts	(1,201)	(169)
Intangibles impairment	-	-
Goodwill impairment	-	-
Non-controlling interest	408	700
Income recovery (expense)	8,222	(711)
Net earnings for the period	$ 9,529	$ 4,006
Basic and fully diluted earnings per Class A Unit	$ 0.661	$ 0.278
Average Canadian dollar/US dollar exchange rate	1.0047	1.1717

Distributable Cash and Cash Distributions

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

	3 months ended March 31, 2008	3 months ended March 31, 2007
Net cash provided by operating activities	$ 2,597	$ 874
Increase in non-cash		

operating working capital	747	3,359
Cash flow from operations before changes in non-cash operating working capital	3,344	4,233
Capital expenditures	(73)	(236)
Distributable Cash	$ 3,271	$ 3,997
Distributions relating to the period:		
Class A Units	$ 3,242(1)	$ 2,940(2)
Class B Units	-(3)	-(3)
Total Units	$ 3,242	$ 2,940

Outstanding units and per unit amounts:		
Class A Units outstanding	14,410,000	14,410,000
Class B Units outstanding	3,602,500	3,602,500
Total Units outstanding	18,012,500	18,012,500
Distributable Cash per Total Units	$ 0.182	$ 0.222
Distributions relating to the period:		
Class A Units	$ 0.225(1)	$ 0.204(2)
Class B Units	$ -(3)	$ -(3)
Total Units	$ 0.180	$ 0.163
Payout ratio(4)	99.1%	73.6%

	March 23, 2004 to March 31, 2008
Cumulative since inception:	
Distributable Cash	73,920
Distributions relating to the period	62,431
Payout ratio(4)	84.5%

(1) Includes the cash distributions of $0.075 per Class A Unit per month which relate to the operations of the Fund for January, February, and March 2008.

(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.

(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 March 31, 2008 balance sheet.

(4) Payout ratio measures the ratio of distributions by the Fund relating to the period to Distributable Cash for the period.

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Results from Operations - Three Months Ended March 31, 2008

For the three months ended March 31, 2008, the Fund and its subsidiaries generated total Distributable Cash available to Class A and Class B Unitholders of $3.3 million, or $0.182 per unit. First quarter distributions paid to public unitholders (Class A Units) were $3.2 million, or $0.225 per unit. No distributions were made to the Class B Units. These distributions represent an overall payout ratio of 99.1% for the first quarter of 2008, compared to 73.6% in the first three months of 2007.

First quarter 2008 sales were $71.0 million, down 22.5% from $91.7 million in 2007. The change in sales reflects a 14.1% decrease in underlying sales activity and an 8.4% decrease in sales due to the negative impact of a stronger Canadian dollar. Sales in the United States, as measured in US dollars, decreased 16.5% to $46.2 million, compared to $55.3 million during the first quarter of 2007. This decline reflects the challenging conditions in all five of Hardwood's US geographic regions, and particularly in the western states. Sales in Canada, as measured in Canadian dollars, decreased by 8.5%, primarily reflecting the cross-border impact of weakness in the US market and the negative impact of a stronger Canadian dollar.

First quarter gross profit was $13.6 million, compared to $16.9 million in Q1 2007. The change in gross profit reflects lower sales, partially offset by an increase in gross profit percentage to 19.2%, from 18.4%. The higher gross profit percentage reflects disciplined product pricing and the continued contribution of import products.

Selling and administrative expenses decreased by $0.5 million to $11.3 million, from $11.8 million in Q1 2007. This improvement reflects the benefit of a stronger Canadian dollar on the conversion of S&A expenses at Hardwoods' US operations. This was partially offset by non-recurring costs related to the Fund's internal reorganization, as well as costs related to the closure of the Bozeman, Montana branch.

First quarter EBITDA was $2.9 million, compared to $5.4 million in 2007. The decrease in EBITDA primarily reflects the $3.3 million decrease in gross profit, partially offset by lower S&A expenses and a higher gain on foreign currency contracts.

Net earnings for the first three months of 2008 were $9.5 million, compared to $4.0 million in the same period in 2007. The $5.5 million increase in net earnings primarily reflects the $8.9 million increase in income tax recovery, a $0.3 million reduction in interest expense and a $0.2 million reduction in amortization expense. These gains were partially offset by the $2.5 million decrease in EBITDA, the $1.0 million increase in mark-to-market adjustment losses on foreign currency contracts and the $0.3 million decrease in recovery from non-controlling interest.

Internal Reorganization

In the first quarter, the Fund completed an internal reorganization in response to the Canadian government's move to tax existing income trusts. The reorganization involved the refinancing of inter-corporate debt in the form of notes issued and held by subsidiaries of the Fund. While the reorganization did not have any effect upon the management or business activities of the Fund's operating subsidiaries, it provided numerous benefits including a combined $7.8 million of current and future income tax recoveries in both Canada and the US, and enhancement of the Fund's debt capacity and flexibility.

Outlook

Looking forward, Hardwoods' sales are expected to come under continued pressure from the weak US housing market and broader economic downturn now affecting the US market as a whole. While economic conditions are better 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.

The company's import program, which is a key contributor of higher margin sales, is also beginning to feel pressure from increased prices in the Chinese wood market. The price inflation is related to the rising value of the Yuan and increased costs for raw material, labour and transportation in China. While this could put some pressure on gross margin percentage as the year progresses, overall, imports are expected to remain an important and high-margin segment of Hardwoods' business.

In addition to these market challenges, the Fund will begin to feel the impact of changes to its currency hedges in the second quarter. To date, the Fund's Distributable Cash has been partially cushioned from the impact of a stronger Canadian dollar by contracts that fix the exchange rate at $1.30 on a portion of the distributable cash it generates in the United States. These hedges remain in effect until May 2008 when they will be replaced with currency hedges at $1.12 Canadian. In 2008, realized gains on foreign currency contracts under the new hedges will be $1.0 million less than would otherwise be realized under the previous hedges.

With the expectation of more challenges ahead, Hardwoods' focus through the balance of 2008 will remain on tight management of the business. Consistent with the strategy outlined in the Fund's 2007 annual report, Hardwoods' will maintain a sharp focus on margin performance and work to ensure expenditures are appropriately matched to sales levels. The Fund will also closely monitor distributable cash performance to ensure a healthy balance sheet is sustained through the current economic downturn.

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 measure recognized by GAAP and they do not have a standardized meaning prescribed by GAAP. Investors are cautioned that EBITDA should not replace net income or loss (as determined in accordance with GAAP) as an indicator of our performance, nor should Distributable Cash replace cash flows from operating, investing and financing activities or as a measure of liquidity and cash flows. The Fund's method of calculating EBITDA and Distributable Cash may differ from the methods used by other issuers. Therefore, the Fund's EBITDA and Distributable Cash may not be comparable to similar measures presented by other issuers. For reconciliation between EBITDA and net income or loss as determined in accordance with GAAP, and for reconciliation between Distributable Cash and net cash provided by operating activities as determined in accordance with GAAP, please refer to the Management Discussion and Analysis ("MD&A") included in the Fund's 2008 First Quarter Report to Unitholders, which will be filed at www.sedar.com.

Additional guidance regarding disclosure of distributable cash and cash distributions was issued in 2007 in an interpretative release by the Canadian Institute of Chartered Accountants (the "CICA") in respect of "Standardized Distributable Cash in Income Trusts and other Flow Through Entities" and National Policy 41-201 of the Canadian Securities Administrators "Income Trusts and other Indirect Offerings" (collectively, the "Interpretative Guidance"). For disclosure and discussion of the Fund's Standardized Distributable Cash in accordance with the Interpretive Guidance, please refer to the MD&A included in the Fund's 2008 First Quarter Report to Unitholders, which will be filed at www.sedar.com.

About the Fund

Hardwoods Distribution Income Fund is an unincorporated, open-ended, limited purpose trust established to hold, indirectly, 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 34 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: we estimate that approximately 40% to 50% of our products are used in new residential construction; we will continue to take measures that strengthen and protect our business as we work through this market downturn; we believe that our recently completed internal reorganization will provide numerous benefits including a combined $7.8 million of current and future income tax recoveries in both Canada and the US, and enhancement of the Fund's debt capacity and flexibility; sales are expected to come under continued pressure from the weak US housing market and broader economic downturn now affecting the US market as a whole; although our import business from China is experiencing pressure on product prices, which could put some pressure on our gross margin percentage as the year progresses, overall we believe imports are expected to remain an important and high-margin segment of Hardwoods' business; the Fund will begin to feel the impact of changes to its currency hedges in the second quarter; we will maintain a sharp focus on margin performance and work to ensure expenditures are appropriately matched to sales levels; we will closely monitor distributable cash performance to ensure a healthy balance sheet is sustained through the current economic downturn.

The forecasts and projections that make up the forward-looking information are based on assumptions which include, but are not limited to: there are no material exchange rate fluctuations between the Canadian and US dollar that affect the amount of cash 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)

	March 31, 2008	December 31, 2007
	(unaudited)	
Assets		
Current assets:		
Cash and cash equivalents	$ 353	$ 295
Accounts receivable (note 6(c))	38,940	36,474
Income tax recoverable	1,898	1,041
Inventory (note 5)	35,671	38,400
Prepaid expenses	819	1,060
Foreign currency contracts (note 7)	858	1,533

	78,539	78,803
Long-term receivables (note 6(c))	4,054	2,191
Property, plant and equipment	2,294	2,413
Deferred financing costs	18	21
Foreign currency contracts (note 7)	131	528
Future income taxes	4,148	-
Intangible assets	9,006	9,013
Goodwill	82,401	80,758
	$ 180,591	$ 173,727
Liabilities and Unitholders' Equity		
Current liabilities:		
Bank indebtedness (note 8)	$ 26,793	$ 25,515
Accounts payable and accrued liabilities	7,211	6,950
Distribution payable to Unitholders	1,081	1,081
	35,085	33,546
Foreign currency contracts (note 7)	175	47
Deferred gain on sale - leaseback of land and building	539	538
Non-controlling interests (note 9)	30,405	30,068
Future income taxes	292	3,534
Unitholders' equity:		
Fund Units	133,454	133,454
Retained earnings (deficit)	137	(5,895)
Accumulated other comprehensive loss	(19,496)	(21,565)
	114,095	105,994
Contingencies (note 16)		
	$ 180,591	$ 173,727

See accompanying notes to consolidated financial statements.

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

	Three months	Three months

		ended March 31, 2008		ended March 31, 2007
				(Restated - note 9)
Sales	$	71,048	$	91,720
Cost of sales		57,412		74,852
Gross profit		13,636		16,868
Expenses:				
Selling and administrative		11,318		11,750
Amortization:				
Plant and equipment		239		288
Deferred financing costs		3		3
Other intangible assets		202		223
Deferred gain on sale - leaseback of land and building		(19)		(22)
Interest		388		709
Foreign currency contracts		606		(100)
		12,737		12,851
Earnings before non-controlling interests and income taxes		899		4,017
Non-controlling interests (note 9)		(408)		(700)
Earnings before income taxes		1,307		4,717
Income expense (recovery) (note 14):				
Current		(791)		405
Future		(7,431)		306
		(8,222)		711
Net earnings for the period		9,529		4,006
Deficit, beginning of period (note 3(b))		(6,150)		(9,159)
Distributions declared to Unitholders		(3,242)		(2,940)
Retained earnings (deficit), end of period	$	137	$	(8,093)
Basic and diluted earnings per Unit	$	0.66	$	0.28
Weighted average number of Units outstanding		14,410,000		14,410,000

See accompanying notes to consolidated financial statements.

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

	Three months ended March 31, 2008	Three months ended March 31, 2007
		(Restated - note 9)
Net earnings for the period	$ 9,529	$ 4,006
Other comprehensive income:		
Unrealized gain (loss) on translation of self-sustaining foreign operations	2,069	(646)
Other comprehensive income (loss)	2,069	(646)
Comprehensive income	$ 11,598	$ 3,360

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

	Three months ended March 31, 2008	Three months ended March 31, 2007
Accumulated other comprehensive loss, beginning of period	$ (21,565)	$ (11,180)
Other comprehensive income (loss)	2,069	(646)
Accumulated other comprehensive loss, end of period	$ (19,496)	$ (11,826)

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

	Three months ended March 31, 2008	Three months ended March 31, 2007

		(Restated - note 9)
Cash flows provided by (used in) operating activities:		
Net earnings for the period	$ 9,529	$ 4,006
Items not involving cash:		
Amortization	425	492
Imputed interest income in employee loans	(14)	-
Gain on sale of property, plant and equipment	-	(10)
Mark-to-market adjustment on unrealized foreign currency contracts	1,201	169
Non-controlling interests	(408)	(700)
Future income taxes	(7,389)	276
	3,344	4,233
Change in non-cash operating working capital (note 10)	(747)	(3,359)
Net cash provided by operating activities	2,597	874
Cash flows provided by (used in) investing activities:		
Additions to property, plant and equipment	(73)	(236)
Proceeds on disposal of property, plant and equipment	-	11
Decrease in long-term receivables, net	187	325
Net cash provided by investing activities	114	100
Cash flows provided by (used in) financing activities:		
Increase in bank indebtedness	589	3,542
Distributions paid to Unitholders	(3,242)	(2,940)
Net cash provided by (used in) financing activities	(2,653)	602
Increase in cash	58	1,576
Cash, beginning of period	295	594
Cash, end of period	$ 353	$ 2,170
Supplementary information (cash amounts):		
Interest paid	$ 388	$ 709
Income taxes paid	11	6
Transfer of accounts receivable to long-term customer notes receivable, net of write offs, being a non-cash transaction	2,235	-

See accompanying notes to consolidated financial statements.

HARDWOODS DISTRIBUTION INCOME FUND

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1. Nature of operations:

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

2. Basis of presentation:

The Fund prepares its consolidated interim financial statements in accordance with Canadian generally accepted accounting principles on a basis consistent with those used and described in the annual consolidated financial statements for the year ended December 31, 2007 except as discussed in note 3. The disclosures contained in these consolidated interim financial statements do not include all the requirements of Canadian generally accepted accounting principles for annual financial statements, and accordingly, these consolidated interim financial statements should be read in conjunction with the annual consolidated financial statements for the period ended December 31, 2007. Certain comparative figures have been restated to conform to the current period's financial statement presentation.

3. Adoption of changes in accounting polices:

Effective January 1, 2008, the Fund adopted four new Canadian Institute of Chartered Accountants ("CICA") accounting standards: (a) Handbook Section 1535, Capital Disclosures; (b) Handbook Section 3031, Inventories; (c) Handbook Section 3862, Financial Instruments - Disclosures; and Handbook Section 3863, Financial Instruments - Presentation. The main requirements of these new standards and the resulting financial statement impact are described below.

(a) Capital Disclosures (Section 1535):

CICA Section 1535 requires disclosure of: (i) an entity's objectives, policies and process for managing capital; (ii) quantitative data about what the entity considers as capital; (iii) whether the entity has complied with any capital requirements and, if it has not complied, the consequences of such non-compliance. Refer to note 4 for additional disclosures.

(b) Inventories (Section 3031):

CICA Section 3031 provides significantly more guidance on the measurement of inventories, with an expanded definition of cost and the requirement that inventory must be measured at the lower of cost and net realizable value. In addition the section has additional disclosure requirements, including accounting policies, carrying values, and the amount of any inventory write-downs. Refer to note 5 for additional disclosures.

Consistent with the transitional rules for Section 3031, the Fund has not restated any prior period amounts as a result of adopting the accounting changes. As allowed under the transition rules, the opening deficit has been adjusted to reflect the cumulative impact of adopting the changes in accounting policy related to inventory. The adoption of this new standard resulted in a decrease in the carrying value of opening inventory of $317,000, a decrease in non-controlling interests of $62,000, and an increase in deficit of $255,000 on the balance sheet at January 1, 2008, to reflect trade discounts from suppliers for inventory purchases that previously had been recognized in earnings when received.

The effect of the adoption of Section 3031 is summarized in the following table:

	As at December 31, 2007	Adjustment on adoption of new standards	As at January 1, 2008
Inventory	$ 38,400	$ (317)	$ 38,083
Non-controlling interests	30,068	(62)	30,006
Unitholders equity:			
Deficit	$ (5,895)	$ (255)	$ (6,150)

(c) Financial Instruments - Disclosures (Section 3862) and Financial Instruments - Presentation (Section 3863):

CICA Section 3032 and 3063 replaces CICA Handbook Section 3861, Financial Instruments - Disclosures and Presentation, revising and enhancing disclosure requirements to provide additional information on the nature and extent of risks arising from financial instruments to which the entity is exposed and how it manages those risks. Refer to note 6 for additional disclosures.

4. Capital Disclosures:

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

	March 31, 2008	December 31, 2007
Cash and cash equivalents	$ (353)	$ (295)
Bank indebtedness	26,793	25,515
Net debt	26,440	25,220
Unitholders' equity	114,095	105,994
Total capitalization	$ 140,535	$ 131,214

The Fund monitors on a monthly basis the ratio of net debt to earnings before interest, income taxes, depreciation and amortization ("EBITDA"). Net debt to EBITDA serves as an indicator of the Fund's financial leverage. The maximum ratio of net debt to EBITDA allowed under our Canadian credit facility is 2.50 times, and the maximum ratio of net debt to EBITDA allowed under our US credit facility is 2.85 times.

The terms of the agreements with the Fund's lenders provide that distributions cannot be made to its unitholders in the event that its subsidiaries did not meet the foregoing leverage as well as certain additional credit ratios. Our operating subsidiaries were fully compliant with all required credit ratios as at March 31, 2008, and accordingly there were no restrictions on distributions arising from compliance with financial covenants.

Distributions are one of the ways the Fund manages its capital. Distributions of the Fund's available cash are made to the maximum extent possible, subject to reasonable reserves established by the Trustees of the Fund. Distributions are made by the Fund having given consideration to a variety of factors including the outlook for the business, financial leverage, and the ratio of distributions to available cash of the Fund. There were no changes in the Fund's approach to capital management during three month period ended March 31, 2008.

5. Inventory:

	March 31, 2008	December 31, 2007
Lumber	$ 14,987	$ 15,077
Sheet Goods	15,507	17,884
Specialty	2,884	3,067
Goods in-transit	2,293	2,372
	$ 35,671	$ 38,400

Inventory is valued at lower of cost and net realizable value. Cost is determined using the weighted average cost method and includes invoice cost, duties, freight, and other directly attributable costs of acquiring the inventory.

Volume rebates and other supplier discounts are included in income when earned. Volume discounts and supplier trade discounts are accounted for as a reduction of the cost of the related inventory and are earned when inventory is sold.

During the three months ended March 31, 2008 inventory write-downs totaling $0.6 million were recorded to reduce certain inventory items to their net realizable value.

Cost of sales for the three months ended March 31, 2008 were $57.4 million, which included $56.0 million of costs associated with inventory. The other $1.4 million related principally to freight and other related selling expenses.

6. Financial instruments:

Financial instrument assets include cash and cash equivalents, which are designated as held-for-trading and measured at fair value, and current and long-term receivables which are designated as loans and receivables and measured at amortized cost. Financial instrument liabilities include bank indebtedness, accounts payable, accrued liabilities and distributions payable. All financial liabilities are designated as other liabilities and are measured at amortized cost. There are no financial instruments classified as available-for-sale or held-to-maturity. Financial instruments of the Fund also include foreign currency contracts which are derivative financial instruments (note 6(b)) and measured at fair value.

(a) Fair values of financial instruments:

The carrying values of cash and cash equivalents, accounts receivable, income tax recoverable, accounts payable and accrued liabilities and distributions payable approximate their fair values due to the relatively short period to maturity of the instruments. The fair value of long-term receivables is not expected to differ materially from the carrying value. The carrying values of the credit facilities approximate their fair values due to the existence of floating market based interest rates. The foreign currency contracts are carried at market values as disclosed in note 7.

(b) Derivative financial instruments:

The Fund uses foreign currency contracts to assist in forward planning for the business as it relates to managing its exposure to fluctuations in exchange rates between the Canadian dollar and the US dollar. The foreign currency contracts are recognized in the balance sheet and measured at their fair value, with changes in fair value recognized currently in the statement of earnings. Based on the Fund's current monthly distribution rate of $0.075 per unit to public unitholders, the principal value of the monthly foreign currency contracts currently entered into are sufficient to fully cover the estimated amount of US dollar denominated distributable cash that must be converted to Canadian dollars to pay distributions to Class A Unitholders.

The foreign currency contracts have maturities of less than two years. The counterparty to these contracts is a major US financial institution and as such the Fund does not anticipate non-performance by the counterparty. Refer to note 7 for additional disclosure.

(c) Financial risk management:

Trustees of the Fund and the Board of Directors of the Fund's subsidiaries have the overall responsibility for the establishment and oversight of the Fund's risk management framework. The Fund's risk management policies are established to identify and analyze the risks faced by the Fund, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and in response to the Fund's activities. Through its standards and procedures management has developed a disciplined and constructive control environment in which all employees understand their roles and obligations. Management regularly monitors compliance with the Fund's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Fund.

The Fund has exposure to credit, liquidity and market risks from its use of financial instruments.

(i) Credit risk:

Credit risk is the risk of financial loss to the Fund if a customer or counterparty to a financial instrument fails to meet is contractual obligations, and arises principally from the Fund's receivables from customers. Employee housing loans, customer notes and security deposits also present credit risk to the Fund. The credit risk associated with foreign currency contracts is addressed in note 6(b).

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

Accounts receivable	March 31, 2008	December 31, 2007
Trade accounts receivable - Canada	$ 12,929	$ 11,086
Trade accounts receivable - United States	26,483	25,131
Sundry receivable	285	645
Current portion of long-term receivables	981	658
	40,678	37,520
Less: allowance for doubtful accounts	1,738	1,046
	$ 38,940	$ 36,474

Long-term receivables	March 31, 2008	December 31, 2007
Employee housing loans	$ 1,092	$ 1,130
Customer notes	3,348	1,166
Security deposits	595	553
	5,035	2,849
Less: current portion, included in accounts receivable	981	658
	$ 4,054	$ 2,191

Trade accounts receivable:

The Fund's exposure to credit risk is influenced mainly by individual characteristics of each customer. The Fund is exposed to credit risk in the event it is unable to collect in full amounts receivable from its customers. The Fund employs established credit approval practices and engages credit attorneys when appropriate to mitigate the credit risk. It is the Fund's policy to secure credit advanced to customers whenever possible by registering security interests in the assets of the customer and by obtaining personal guarantees. Credit limits are established for each customer and are regularly reviewed. In some instances the Fund may choose to transact with a customer on a cash-on-delivery basis. Our largest individual customer balance amounted to 5.6% of accounts receivable and customer notes receivable at March 31, 2008.

The aging of trade receivables was:

	March 31, 2008	December 31, 2007
Current	$ 24,957	$ 20,245
Past due 31-60 days	7,265	8,345
Past due 61-90 days	2,891	3,453
Past due 90+ days	4,299	4,174
	$ 39,412	$ 36,217

The Fund determines its allowance for doubtful accounts based on its best estimate of the net recoverable amount by customer account. Accounts that are considered uncollectable are written off. The total allowance at March 31, 2008 was $1.7 million (December 31, 2007- $1.0 million). The amount of the allowance is considered sufficient based on the past experience of the business, the security the Fund has in place for past due accounts and management's regular review and assessment of customer accounts and credit risk.

Bad debt expense for the three months ended March 31, 2008 was $0.5 million which equates to 0.7% of sales. Historically bad debt as a percentage of sales has averaged approximately 0.5%.

Employee housing loans:

Employee loans are non-interest bearing and are granted to employees who are relocated. Employee loans are secured by a deed of trust or mortgage depending upon the jurisdiction. Employees are required to make an annual payment from their profit share. These loans are measured at their fair market value upon granting the loan and subsequently measured at amortized cost.

Customer notes:

Customer notes are issued to certain customers to provide fixed repayment schedules for amounts owing that have been agreed will be repaid over longer periods of time. The terms of each note are negotiated with the customer. For notes issued the Fund requires a fixed payment amount, personal guarantees, general security agreements, and in some cases security over specific property or assets. Customer notes bear market interest rates ranging from 8%-18%.

Security deposits:

Security deposits are recoverable on leased premises at the end of the lease terms with which it relates to. The Fund does not believe there is any material credit risk associated with its security deposits.

(ii) Liquidity risk:

Liquidity risk is the risk that the Fund will not be able to meet its financial obligations as they fall due. The Fund's approach to managing liquidity is to ensure that it will have sufficient cash available to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Fund's reputation. In Canada, a subsidiary of the Fund has a revolving credit facility of up to an aggregate amount of $22.0 million. In the US, a subsidiary of the Fund has a revolving credit facility of up to an aggregate amount of $35.9 million (US$35.0 million) less the net exposure under the foreign currency contracts facility as described in note 7. These credit facilities can be drawn down to meet short-term financing requirements, including fluctuations in non-cash working capital. At March 31, 2008 the Canadian and US credit facilities have $16.1 million and $16.0 million (US$15.7 million), respectively of available borrowing capacity.

(iii) Market risk:

Market risk is the risk that changes in market prices, such as interest rates, foreign exchange rates, and commodity prices will affect the Fund's net earnings or value of its holdings of financial instruments.

Interest rate risk:

The Fund is exposed to interest rate risk on its credit facilities which bear interest at floating market rates.

Based upon March 31, 2008 bank indebtedness balance of $26.7 million, a 1% increase or decrease in the interest rates charged will result in decrease or increase to annual net earnings by $0.2 million.

Currency risk:

As the Fund conducts business in both Canada and the United States it is exposed to currency risk. Most of the hardwood lumber sold by the Fund in Canada is purchased in US dollars from suppliers in the United States. Although the Fund reports its financial results in Canadian dollars, approximately two-thirds of its sales are generated in the United States. Changes in the currency exchange rates of the Canadian dollar against the US dollar will affect the results presented in the Fund's financial statements and cause its earnings to fluctuate. In addition, while changes in the costs of hardwood lumber purchased by the Fund in the United States as a result of the appreciation of the Canadian dollar against the US dollar are usually absorbed by the Canadian market, when the hardwood lumber is resold in Canada it is generally sold at a lower Canadian dollar equivalent selling price, and accordingly revenues in Canada are effectively reduced. Increases in the value of the Canadian dollar against the US dollar will affect the amount of cash available to the Fund for distribution to its Unitholders.

The Fund maintains foreign currency contracts to mitigate the potential impact of foreign exchange on Canadian dollar distributions to be made by it. These contracts do not eliminate the Fund's exposure to fluctuations in the exchange rate between the Canadian dollar and the US dollar.

The foreign currency contracts allow the Fund to determine in advance, for the period and amount covered by the contracts, the rates of exchange that will be realize when translating into Canadian dollars that portion distributable cash contributed by our United States operation.

At March 31, 2008 the Fund's Canadian subsidiaries exposure to foreign denominated working capital financial instruments was in relation to bank indebtedness (US$0.6 million), accounts receivable from US customers (US$0.3M), income taxes recoverable (US$1.8 million), and accounts payable to US suppliers ($0.2 million). A subsidiary of the Fund is also exposed to foreign currency risk in relation to the outstanding foreign currency contracts described in note 7.

Based on the Fund's exposure to foreign denominated financial instruments, the Fund estimates a $0.05 strengthening in the Canadian dollar as compared to the US dollar would have increased net earnings for the quarter ended March 31, 2008 by approximately $0.4 million. A $0.05 weakening of the Canadian dollar as compared to the US dollar would have had the equal but opposite effect.

This foreign currency sensitivity is focused solely on the currency risk associated with Fund's Canadian subsidiaries exposure to foreign denominated financial instruments as at March 31, 2008 and does not take into account the effect of a change in currency rates will have on the translation of the balance sheet and operations of the Fund's US subsidiaries nor is it intended to estimate the potential impact changes in currency rates would have on the Fund's sales and purchases.

Commodity price risk:

The Fund does not enter in to any commodity contracts. Inventory purchases are transacted at current market rates based on expected usage and sale requirements and increases or decreases in prices are reflected the Fund's selling prices to customers.

7. Foreign currency contracts:

At March 31, 2008 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 ($Cdn / $US)	Receive Canadian dollars
2008			
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
2010			
January	US$675,000	1.0450	Cdn$705,375
February	US$675,000	1.0272	Cdn$693,360
March	US$675,000	1.0190	Cdn$687,825

The fair value of the 24 monthly currency contracts covering the period April 2008 to March 2010 have been reflected in the financial statements and represent a current asset of $858,000, a long-term asset of $131,000 and a long-term liability of $175,000 at March 31, 2008. The fair values were determined based on valuations obtained from the counter-party.

8. Bank indebtedness:

	March 31, 2008	December 31, 2007
Checks issued in excess of funds on deposit	$ 986	$ 1,034
Credit facility, Hardwoods LP	5,911	5,538
Credit facility, Hardwoods USLP (March 31, 2008 - US$19,382; December 31, 2007 - US$19,109)	19,896	18,943
	$ 26,793	$ 25,515

9. Non-controlling interests:

Balance, January 1, 2008 (note 3(b))	$	30,006
Interest in earnings:		
Interest in earnings before taxes		180
Adjustment to non-controlling interest from subordination of Class B Unit Holders		(588)
		(408)
Foreign currency translation adjustment of non-controlling interest in Hardwoods USLP		807
Balance, end of period	$	30,405

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 March 31, 2008.

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

- At the end of each month, cash advances or distributions will be made to the holders of Class A LP Units and Class A USLP Units in a combined amount that is sufficient to provide available cash to the Fund to enable the Fund to make cash distributions upon the Units for such month at least equal to $0.08542 per Unit or, if there is insufficient available cash to make distributions or advances in such amount, such lesser amount as is available as determined by the board of directors of the general partners;

- At the end of each fiscal quarter of Hardwoods LP and Hardwoods USLP, including the fiscal quarter ending on the fiscal year end, available cash of Hardwoods LP and Hardwoods USLP will be advanced or distributed in the following order of priority:

  - First, in payment of the monthly cash advance or distribution to the holders of Class A LP Units and Class A USLP Units as described above, for the month then ended;

  - Second, to the holders of Class A LP Units and Class A USLP Units, to the extent that the combined monthly cash advances or distributions in respect of the 12 month period then ended (and not, for greater certainty, in any previous 12 month period) on Class A LP Units and Class A USLP Units were not made or were made in amounts less than a combined amount at least equal to $1.025 per Unit, the amount of any such deficiency. As of March 31, 2008, the amount of such deficiency was $2.1 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 March 31, 2008, the amount of such deficiency was $3.2 million.

  - Fifth, to the extent of any excess, to the holders of the Class A LP Units and Class B LP Units and Class A USLP Units and Class B USLP Units, respectively, so that the combined advances or distributions on one Class A LP Unit and one Class A USLP Unit are the same as the combined advances or distribution on one Class B LP Unit and one Class B USLP Unit in respect of the 12 month period then ended (and not, for greater certainty, any previous 12 month period).

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

The cumulative deficiency prior to March 31, 2007, which is no longer recoverable by the Class B LP Unitholders and the Class B USLP Unitholders, has been recorded as an adjustment to the non-controlling interest's share of earnings in the amount of $0.6 million for the three-month period ended March 31, 2008. This adjustment was first recorded during the fourth quarter of 2007, resulting in a reduction of the non-controlling interest's share of earnings of $3.4 million for the year ended December 31, 2007. Of the amount recorded in 2007, $1.5 million should have been recorded in the first quarter of 2007 and as such the comparative amounts presented in the statements of earnings and deficit and comprehensive income have been restated accordingly, resulting in an increase in net earnings and comprehensive income for the amounts previously reported.

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

	Three months ended March 31, 2008	Three months ended March 31, 2007
Accounts receivable	$ (3,504)	$ (4,490)
Income taxes recoverable/payable	(857)	493
Inventory	3,243	1,455
Prepaid expenses	258	81
Accounts payable and accrued liabilities	113	(898)
	$ (747)	$ (3,359)

CICA 1540, Cash Flow Statements, require entities to disclose total cash distributions on financial instruments classified as equity in accordance with a contractual agreement and the extent to which total cash distributions are non-discretionary. The Fund has no contractual requirement to pay cash distributions to Unitholders' of the Fund. During the three month period ended March 31, 2008 $3.2 million (2007 - $2.9 million) in discretionary cash distributions were paid to Unitholders.

11. Segment disclosure:

Information about geographic areas is as follows:

	Three months ended March 31, 2008	Three months ended March 31, 2007
Revenue from external customers:		
Canada	$ 24,639	$ 26,926
United States	46,409	64,794
	$ 71,048	$ 91,720

	March 31, 2008	December 31, 2007
Property, plant and equipment:		
Canada	$ 956	$ 1,003
United States	1,338	1,410
	$ 2,294	$ 2,413
Goodwill		
Canada	$ 34,477	$ 34,477
United States	47,924	46,281
	$ 82,401	$ 80,758

12. Pensions:

Hardwoods USLP maintains a defined contribution 401 (k) retirement savings plan (the "USLP Plan"). The assets of the USLP Plan are held and related investment transactions are executed by the Plan's Trustee, ING National Trust, and, accordingly, are not reflected in these consolidated financial statements. During the three months ended March 31, 2008, Hardwoods USLP contributed and expensed $143,992 (US$143,318) (three months ended March 31, 2007 - $158,454 (US$135,234)) in relation to the USLP Plan.

Hardwoods LP does not maintain a pension plan. Hardwoods LP does, however, administer a group registered retirement savings plan ("LP Plan") that has a matching component whereby Hardwoods LP makes contributions to the LP Plan which match contributions made by employees up to a certain level. The assets of the LP Plan are held and related investment transactions are executed by LP Plan's Trustee, Sun Life Financial Trust Inc., and, accordingly, are not reflected in these consolidated financial statements. During the three months ended March 31, 2008, Hardwoods LP contributed and expensed $116,194 (three months ended March 31, 2007 - $90,875) in relation to the LP Plan.

13. Related party transactions:

For the three months ended March 31, 2008, sales of $126,569 (three months ended March 31, 2007 - $222,105) were made to affiliates of SIL, and the Fund made purchases of $16,485 (three months ended March 31, 2007 - $122,979) from affiliates of SIL. All these sales and purchases took place at prevailing market prices.

During the three months ended March 31, 2008, the Fund paid $27,000 (three months ended March 31, 2007 - $27,000) to affiliates of SIL under the terms of an agreement to provide transitional services for management information systems. This cost is included in the selling and administrative expense in the statement of earnings.

14. Income taxes:

Effective, March 31, 2008 the Fund completed an internal reorganization that involved the refinancing of inter-corporate debt in the form of notes issued and held by subsidiaries of the Fund. The reorganization does not have any effect upon the management or business activities of the Fund's operating subsidiaries. As a result of the internal re-organization, income tax losses arose of approximately, US$10.3 million which are available to reduce US taxable income. Based on statutory income tax rates in effect for the Fund's US subsidiary, this amounts to an estimated $3.6 million tax benefit available to subsidiaries of the Fund. This $3.6 million benefit was recorded at March 31, 2008 and is comprised of an estimated $0.8 million current income tax recovery and $2.8 million future income tax recovery.

In addition, during the quarter ending March 31, 2008, tax pools consisting principally of Canadian tax loss carry forward, of approximately $16.0 million have been recorded by a subsidiary of the Fund as a result of the Fund's re-organization plan. The tax loss carry forwards will result in a reduction of tax otherwise payable under the Canadian federal government's tax on publicly traded income trusts. Based on tax rates expected to apply at the date such tax pools will be utilized, and additional $4.2 million of future income tax benefit has been recorded by the Fund at March 31, 2008.

15. Seasonality:

The Fund is subject to seasonal influences. Historically the first and fourth quarters are seasonally slower periods for construction activity and therefore demand for hardwood products.

16. 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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/For further information: Rob Brown, Chief Financial Officer, Phone: (604) 881-1990, Fax: (604) 881-1995, Email: robbrown(at)hardwoods-inc.com/
(HWD.UN.)

CO: Hardwoods Distribution Income Fund

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