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Hardwoods Distribution Income Fund Announces 2010 Second Quarter Results

TRADING SYMBOL: Toronto Stock Exchange - HWD.UN

Hardwoods Distribution Income Fund will hold a conference call to discuss second quarter and first half financial results on August 5, 2010 at 8:00 a.m. Pacific Time (11:00 am Eastern). The call can be accessed by dialing: 1-888-231-8191 or 647-427-7450. A replay will be available until August 19, 2010 at: 1-800-642-1687 or 416-849-0833 (Passcode No. 90975309).

LANGLEY, BC, Aug. 4 /CNW/ - Hardwoods Distribution Income Fund (the "Fund") today reported financial results for the second quarter and first half of 2010. 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 operates 27 distribution centres in the US and Canada.

Second Quarter Overview

(For the three months ended June 30, 2010)

- Second quarter revenue increased 5.5% to \$52.2 million year-over-year
- Gross profit percentage increased to 17.9%, from 17.5% in Q2 2009
- Selling and administrative expenses decreased by 21.3% to \$6.9 million, from \$8.8 million in Q2 2009
- Second quarter EBITDA increased to \$2.4 million, from an EBITDA loss of \$0.2 million in Q2 2009
- The Fund increased net earnings to \$0.8 million, from a net loss of \$0.5 million last year
- The Fund generated Distributable Cash of \$2.1 million, or \$0.114 cents per unit, compared to negative Distributable Cash of \$0.6 million, or negative \$0.032 per unit in Q2 2009
- Lance Blanco was appointed President and CEO of Hardwoods, succeeding Maurice Paquette who retired on July 5, 2010

"We achieved improved financial performance in the second quarter of 2010 as we capitalized on stronger market conditions for hardwood products and continued to reduce expenses," said Lance Blanco, Hardwoods' President and CEO. "Our sales, EBITDA, net earnings and Distributable Cash results all improved significantly compared to last year."

"The increase in our sales benefitted from higher prices for hardwood lumber, which accounts for close to half our sales. Average hardwood lumber prices were up 24% compared to last year as mill closures and curtailments caused supply to fall below demand levels. Product demand also improved in some markets and we continued to be successful in expanding our import program and attracting new customers. The market situation in the US remained challenging, however, with a fragile housing market and further declines in housing starts towards the end of the quarter," added Mr. Blanco.

"Given the lingering weakness in the US market, we continued to emphasize tight cost control, reducing our selling and administrative expenses by \$1.9 million during the second quarter and by \$3.1 million through the first half of 2010. This, together with our higher sales and margins, resulted in improved bottom-line results."

"While we are encouraged by these developments, we remain cautious in our market outlook and believe that a full scale economic recovery is still some way off. The US market in particular continues to face challenges from a weak housing sector, including a large inventory of foreclosed homes, and continuing weakness on the jobs front. As we move forward, tight management of our business will remain a priority for us with careful management of expenses and cash, a close eye on bad debt, and continued efforts to protect and build market share."

"Longer term, we recognize that current levels of housing and construction activity in North America are low relative to expected longer-term population and housing trends, and we believe that when a sustained economic recovery takes hold, prospects for our industry are attractive. Accordingly, we will continue to pursue strategies that strengthen our product and service offering and ensure we can participate fully in the eventual recovery," said Mr. Blanco.

Summary of Results

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

	3 months ended June 30, 2010 ----	3 months ended June 30, 2009 ----	6 months ended June 30, 2010 ----	6 months ended June 30, 2009 ----
Total sales	\$ 52,206	\$ 49,489	\$ 100,704	\$ 102,911
Sales in the US (US\$)	30,353	26,303	58,056	52,806
Sales in Canada	20,978	18,806	40,663	39,243
Gross profit	9,323	8,643	17,952	18,259
Gross profit %	17.9%	17.5%	17.8%	17.7%
Selling and administrative expenses	(6,949)	(8,835)	(14,409)	(17,535)

Earnings before interest, taxes,				

depreciation and amortization and non-controlling interest ("EBITDA")	2,374	(192)	3,543	724
Add (deduct):				
Amortization	(161)	(240)	(343)	(465)
Interest	(186)	(116)	(331)	(268)
Non-cash foreign currency gains (losses)	101	(666)	44	(334)
Non-controlling interest	(426)	891	(583)	1,365
Income tax recovery (expense)	(880)	(168)	(1,094)	354

Net earnings (loss) for the period	\$ 822	\$ (491)	\$ 1,236	\$ 1,376

Basic and fully diluted earnings (loss) per Class A Unit	\$ 0.057	\$ (0.034)	\$ 0.086	\$ 0.095
Average Canadian dollar exchange rate for one US dollar	1.0283	1.1669	1.0342	1.2057

Distributable Cash and Cash Distributions

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

	3 months ended June 30, 2010 ----	3 months ended June 30, 2009 ----	6 months ended June 30, 2010 ----	6 months ended June 30, 2009 ----
Net cash provided by operating activities	\$ (3,443)	\$ 1,498	\$ (7,228)	\$ 6,912
Increase (decrease) in non-cash operating working capital	5,511	(2,022)	10,274	(6,726)

Cash flow from operations before changes in non-cash operating working capital	2,068	(524)	3,046	186
Capital expenditures	(13)	(45)	(29)	(50)

Distributable Cash	\$ 2,055	\$ (569)	\$ 3,017	\$ 136

Distributions relating

to the period:				
Class A Units	-	-	-	-
Class B Units(1)	-	-	-	-
	-----	-----	-----	-----
Total Units	\$ -	\$ -	\$ -	\$ -
	-----	-----	-----	-----

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
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Distributable Cash per Total Units	\$ 0.114	\$ (0.032)	\$ 0.167	\$ 0.008
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Distributions relating
to the period:

Class A Units	\$ -	\$ -	\$ -	\$ -
Class B Units(1)	\$ -	\$ -	\$ -	\$ -
Total Units	\$ -	\$ -	\$ -	\$ -

Payout ratio(2)	0.0%	0.0%	0.0%	0.0%
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March 23, 2004
to June 30,
2010

Cumulative since
inception:

Distributable Cash	78,495
Distributions relating to the period	66,754
Payout ratio(2)	85.0%

(1) 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 June 30, 2010 balance sheet.

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

Results from Operations - Three Months Ended June 30, 2010

For the three months ended June 30, 2010, the Fund and its subsidiaries generated Distributable Cash of \$2.1 million or \$0.114 per unit. No distributions were paid to either the public unitholders (Class A Units) or to the Class B Units. By comparison, the Fund generated negative Distributable Cash of \$0.6 million or \$0.032 per unit during the same period in 2009 with no distributions paid.

Second quarter 2010 sales increased 5.5% to \$52.2 million, from \$49.5 million during the same period in 2009. The improvement in sales reflects a 14.0% increase in underlying sales activity, partially offset by an 8.5% decrease due to the negative effect of a stronger Canadian dollar. Sales in the United States, as measured in US dollars, increased 15.4% to \$30.4 million, up from \$26.3 million during the second quarter of 2009. This increase reflects stronger average prices for hardwood lumber compared to a year ago, the positive impact of temporary government stimulus programs on US housing markets, and improved demand for hardwoods from the recreation vehicle segment. Sales in Canada, as measured in Canadian dollars, increased 11.5%, primarily driven by stronger home construction activity.

Second quarter gross profit increased 7.9% to \$9.3 million, from \$8.6 million in Q2 2009. The improvement in gross profit reflects higher sales, as well as an increase in gross profit percentage to 17.9%, from 17.5% a year ago. While gross profit margin in Q2 was stronger than a year ago, it remains below our target level of 18% to 19%. In the current market environment, competition for business is intense and has resulted in margins trending below our target range through much of this stage of the business cycle.

Selling and administrative expenses decreased by \$1.9 million, to \$6.9 million, from \$8.8 million in Q2 2009. This improvement primarily reflects a \$0.9 million reduction in bad debt expense and a \$0.7 million reduction in other expenses, including the absence of restructuring costs related to prior-year facilities closure, as well as the \$0.6 million positive impact of a stronger Canadian dollar on the conversion of S&A expenses at Hardwoods' US operations.

The Fund reported positive second quarter EBITDA of \$2.4 million, up from an EBITDA loss of \$0.2 million Q2 2009. The EBITDA gain primarily reflects lower S&A expenses and the increase in gross profit.

The Fund also generated net earnings of \$0.8 million, compared to a net loss of \$0.5 million in the comparable quarter in 2009. The \$1.3 million increase to net earnings primarily reflects the higher EBITDA and a \$0.8 million increase in non-cash foreign currency gains, partially offset by a \$1.3 million decrease in recovery from the non-controlling interest and \$0.7 million increase in income tax expense.

Results from Operations - Six months ended June 30, 2010

For the six months ended June 30, 2010, the Fund and its subsidiaries generated total Distributable Cash of \$3.0 million, or \$0.167 per unit. No distributions were paid to either the public unitholders (Class A Units) or to the Class B Units. By comparison, the Fund generated total distributable cash of \$0.1 million or \$0.008 per unit in the first half of 2009 and declared no distributions.

First half 2010 sales decreased by 2.1% to \$100.7 million, from \$102.9 million in 2009, entirely due to the negative impact of a stronger Canadian dollar. Underlying sales increased by 7.5% during the period. First half sales activity at Hardwoods' US operations, as measured in US dollars, increased by 9.9% year-over-year, while sales in Canada, as measured in Canadian dollars, were up by 3.6% year-over-year.

First-half gross profit was \$18.0 million, down from \$18.3 million during the first six months of 2009. The reduction in gross profit reflects lower sales. As a percentage of sales, gross profit was 17.8% in the first half of 2009, compared to 17.7% during the same period last year.

Hardwoods was successful in decreasing selling and administrative expenses by \$3.1 million to \$14.4 million in the first half of 2010, from \$17.5 million last year. The improvement in S&A expense reflects the positive impact of the stronger Canadian dollar on the conversion of S&A expenses at our US operations, lower bad debt expense, lower premises expense and a lower other expense including a one-time expense recovery related to proceeds from a lawsuit settlement.

First-half EBITDA increased to \$3.5 million, from \$0.7 million in the same period in 2009. The \$2.8 million increase in EBITDA reflects the lower S&A costs, partially offset by lower gross profit.

The Fund reported net earnings of \$1.2 million in the first half of 2010, compared to \$1.4 million in the first half of 2009. The \$0.2 million decrease in net earnings primarily reflects a decrease in recovery from non controlling interest and a decrease in income tax recovery, partially offset by the increase in EBITDA and an increase in non-cash foreign currency gains.

Outlook

While the progress made in the second quarter and first half of 2010 is encouraging, the Fund's outlook remains cautious, particularly in light of the continued fragility of the US residential construction market. Since expiry of the US government homebuyer's tax credit at the end of April, housing starts in the US have started to decline again. Housing prices also remain low and the large inventory of foreclosed or about-to-be foreclosed homes is putting added pressure on house values. In addition, as reported in the Economist, an estimated 25% of homeowners in the US have mortgages that are estimated to exceed the value of their home, and the US job market remains weak, suggesting that conditions in the US housing market could worsen.

The Canadian market is faring better, with housing starts increasing compared to last year. However, the introduction of the Harmonized Sales Tax (HST) in Ontario and British Columbia is now making home buying more expensive in those provinces and could have a negative impact on Canadian construction activity. Overall, management anticipates a continuation of very challenging market conditions through the balance of 2010.

With this expectation, Hardwoods' focus in the coming months will remain on tight control of costs, inventories and working capital. Minimizing customer credit risk will also remain a priority as the Fund works to contain bad debt expense resulting from customer business failures.

Hardwoods will also remain proactive on the marketing front with continued efforts to expand market share and further investment in strategic products such as the company's import and Greenbelt lines of products. While this strategy could add to the cost base as employees are compensated for results, overall selling and administrative expense will be kept closely in line with market opportunities. Hardwoods' goal through the balance of 2010 will be to protect its business, balance sheet and strong market position. Decisions about reinstating cash distributions will be evaluated, but given continued market weakness, the Fund does not anticipate a change in direction until Trustees see signs of a more sustainable market recovery, a more predictable level of cash generation performance, and have addressed any cash needs for the Fund to invest in additional working capital necessary to support sales growth.

Corporate Developments

On July 5, 2010, Lance Blanco was appointed President and CEO of Hardwoods Distribution Income Fund, succeeding Maurice Paquette who retired after 36 years of service to Hardwoods and its predecessor companies. Mr. Blanco brings 26 years experience in the forest products industry, having held senior positions in sales, distribution, marketing, manufacturing and supply chain optimization with Weyerhaeuser and MacMillan Bloedel. While with Weyerhaeuser, Mr. Blanco served as Vice President of Enterprise Supply Chain Management, of Business Development and of the Cedar Group.

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 Hardwoods' operating entities determine to be reasonable and necessary for the operation of the businesses owned by these entities.

Hardwoods believes that, in addition to net income or loss, EBITDA and Distributable Cash are each a useful supplemental measure 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 2010 Second 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 2010 Second 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, an 80% ownership interest in 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 27 distribution centres 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 belief that a full scale economic recovery is still some way off; our belief that when a sustained economic recovery takes hold, prospects for our industry are attractive; our intent to continue to pursue strategies that strengthen our product and service offering and ensure we can participate fully in the eventual recovery; that the Fund's outlook remains cautious, particularly in light of the continued fragility of the US residential construction market; our caution that conditions in the US housing market could worsen; our belief that the introduction of the Harmonized Sales Tax (HST) in Ontario and British Columbia is now making home buying more expensive in those provinces and could have a negative impact on Canadian construction activity; our anticipation of a continuation of very challenging market conditions through the balance of 2010; our intent to focus on tight control of costs, inventories and working capital, and minimizing customer credit risk to contain bad debt expense resulting from customer business failures; our intent to remain proactive on the marketing front with continued efforts to expand market share and further investment in strategic products such as the company's import and Greenbelt lines of products; our intent to keep selling and administrative expense closely in line with market opportunities; our goal through the balance of 2010 to protect our business, balance sheet and strong market position; our expectation that with respect to reinstating cash distributions, given continued market weakness, the Fund does not anticipate a change in direction until Trustees see signs of a more sustainable market recovery, a more predictable level of cash generation performance, and have addressed any cash needs for the Fund to invest in additional working capital necessary to support sales growth.

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

The forward-looking information is subject to risks, uncertainties and other factors that could cause actual results to differ materially from historical results or results anticipated by the forward-looking information. The factors which could cause results to differ from current expectations include, but are not limited to: exchange rate fluctuations between the Canadian and US dollar could affect our performance; our results are dependent upon the general state of the economy; we depend on key personnel, the loss of which could harm our business; decreases in the supply of, demand for, or market values of hardwood lumber or sheet goods could harm our business; we may incur losses related to credit provided to our customers; our products may be

subject to negative trade outcomes; we may not be able to sustain our level of sales or EBITDA margins; we may be unable to grow our business long term to manage any growth; competition in our markets may lead to reduced revenues and profitability; we may become subject to more stringent regulations; importation of products manufactured with hardwood lumber or sheet goods may increase, and replace products manufactured in North America; we are dependent upon our management information systems; our insurance may be insufficient to cover losses that may occur as a result of our operations; we are dependent upon the financial condition and results of operations of our business; our credit facilities affect our liquidity, contain restrictions on our ability to borrow funds, and impose restrictions on distributions that can be made by our operating limited partnerships; our future growth may be restricted by the payout of substantially all of our operating cash flow; and, other risks described in our Annual Information Form and our first quarter report to unitholders.

All forward-looking information in this news 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.

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

	June 30, 2010	December 31, 2009
	(unaudited)	
Assets		
Current assets:		
Cash and cash equivalents	\$ 116	\$ 463
Accounts receivable (note 6)	31,839	25,585
Income tax recoverable	1,933	2,286
Inventory (note 5)	29,501	23,901
Prepaid expenses	894	878
	64,283	53,113
Long-term receivables (note 6)	1,783	1,883
Property, plant and equipment	1,031	1,291
Deferred financing costs	307	396
Future income taxes	16,735	17,587
	\$ 84,139	\$ 74,270

Liabilities and Unitholders' Equity

Current liabilities:

Bank indebtedness (note 7)	\$	11,638	\$	4,960
Accounts payable and accrued liabilities		5,930		4,988

		17,568		9,948
Deferred gain on sale-leaseback of land and building		382		416
Non-controlling interests (note 8)		9,487		8,748
Unitholders' equity:				
Fund units		133,454		133,454
Deficit		(58,962)		(60,198)
Accumulated other comprehensive loss		(17,790)		(18,098)

		56,702		55,158
Contingencies (note 14)				

	\$	84,139	\$	74,270

See accompanying notes to consolidated financial statements.

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

	Three months ended June 30, 2010	Three months ended June 30, 2009	Six months ended June 30, 2010	Six months ended June 30, 2009
Sales	\$ 52,206	\$ 49,489	\$ 100,704	\$ 102,911
Cost of sales	42,883	40,846	82,752	84,652

Gross profit	9,323	8,643	17,952	18,259
Expenses:				
Selling and administrative	6,949	8,835	14,409	17,535
Amortization:				
Plant and equipment	136	207	292	430
Deferred financing costs	44	55	89	79
Deferred gain on sale				

- leaseback of land and building	(19)	(22)	(38)	(44)
Interest	186	116	331	268
Unrealized foreign currency losses (gains)	(101)	666	(44)	334
	7,195	9,857	15,039	18,602
Earnings (loss) before non-controlling interests and income taxes	2,128	(1,214)	2,913	(343)
Non-controlling interests (note 8)	(426)	891	(583)	1,365
Earnings (loss) before income taxes	1,702	(323)	2,330	1,022
Income tax expense (recovery):				
Current	108	102	134	107
Future	772	66	960	(461)
	880	168	1,094	(354)
Net earnings (loss) for the period	822	(491)	1,236	1,376
Deficit, beginning of period	(59,784)	(48,091)	(60,198)	(49,958)
Distributions declared to Unitholders	-	-	-	-
Deficit, end of period	\$ (58,962)	\$ (48,582)	\$ (58,962)	\$ (48,582)
Basic and diluted earnings (loss) per Unit	\$ 0.06	\$ (0.03)	\$ 0.09	\$ 0.10
Weighted average number of Units outstanding	14,410,000	14,410,000	14,410,000	14,410,000

See accompanying notes to consolidated financial statements.

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

	Three months ended June 30, 2010	Three months ended June 30, 2009	Six months ended June 30, 2010	Six months ended June 30, 2009
Net earnings (loss) for the period	\$ 822	\$ (491)	\$ 1,236	\$ 1,376
Other comprehensive income:				
Unrealized gain (loss) on translation of self-sustaining foreign operations	1,132	(2,275)	308	(1,225)
Other comprehensive income (loss)	1,132	(2,275)	308	(1,225)
Comprehensive income (loss)	\$ 1,954	\$ (2,766)	\$ 1,544	\$ 151

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

	Three months ended June 30, 2010	Three months ended June 30, 2009	Six months ended June 30, 2010	Six months ended June 30, 2009
Accumulated other comprehensive loss, beginning of period	\$ (18,922)	\$ (13,674)	\$ (18,098)	\$ (14,724)
Other comprehensive income (loss)	1,132	(2,275)	308	(1,225)
Accumulated other comprehensive loss, end of period	\$ (17,790)	\$ (15,949)	\$ (17,790)	\$ (15,949)

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

	Three months ended June 30, 2010	Three months ended June 30, 2009	Six months ended June 30, 2010	Six months ended June 30, 2009
Cash flows provided by (used in) operating activities:				
Net earnings (loss) for the period	\$ 822	\$ (491)	\$ 1,236	\$ 1,376
Items not involving cash:				
Amortization	180	262	381	509
Imputed interest income in employee loans	(5)	(98)	(12)	(138)
Deferred gain on sale - leaseback of land and building	(19)	(22)	(38)	(44)
Gain on sale of property, plant and equipment	(7)	(16)	(20)	(25)
Unrealized foreign exchange losses (gains)	(101)	666	(44)	334
Non-controlling interests	426	(891)	583	(1,365)
Future income taxes	772	66	960	(461)
	2,068	(524)	3,046	186
Change in non-cash operating working capital (note 9)	(5,511)	2,022	(10,274)	6,726
Net cash provided by (used in) operating activities	(3,443)	1,498	(7,228)	6,912
Cash flows provided by (used in) investing activities:				
Additions to property, plant and equipment	(13)	(45)	(29)	(50)
Proceeds on disposal of property, plant and equipment	8	20	23	30
Decrease in long-term				

receivables, net	270	437	433	623
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Net cash provided by investing activities	265	412	427	603
Cash flows provided by (used in) financing activities:				
Increase (decrease) in bank indebtedness	3,099	(2,227)	6,454	(7,330)
Increase in deferred bank fees	-	(80)	-	(80)
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Net cash provided by (used in) financing activities	3,099	(2,307)	6,454	(7,410)
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Increase (decrease) in cash	(79)	(397)	(347)	106
Cash, beginning of period	195	587	463	84
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Cash, end of period	\$ 116	\$ 190	\$ 116	\$ 190
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Supplementary information (cash amounts):				
Interest paid	\$ 186	\$ 116	\$ 331	\$ 268
Income taxes paid	7	-	67	-
Income taxes received	295	175	295	1,975
Transfer of accounts receivable to long-term customer notes receivable, net of write offs, being a non-cash transaction	-	958	-	958
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See accompanying notes to consolidated financial statements.

HARDWOODS DISTRIBUTION INCOME FUND
Notes to Consolidated Financial Statements
(Unaudited)
(Tabular amounts expressed in thousands of Canadian dollars)

For the periods ended June 30, 2010 and 2009

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, 2009. 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, 2009. Certain comparative figures have been restated to conform to the current period's financial statement presentation.

3. Adoption of new accounting standards:

The CICA will transition Canadian generally accepted accounting principles ("GAAP") for publicly accountable entities to International Financial Reporting Standards ("IFRS"). The Fund's consolidated financial statements are to be prepared in accordance with IFRS for the fiscal year commencing January 1, 2011. While IFRS uses a conceptual framework similar to Canadian GAAP, there are significant differences on recognition, measurement, and disclosures. While the effects of IFRS have not yet been fully determined, the Fund has identified a number of key areas which are likely to be impacted, including:

- the deferred gain on sale-leaseback of land and building on the balance sheet will be transferred proportionately to the non-controlling interest and to Unitholders' deficit at January 1, 2011. The anticipated effect is a decrease to liabilities, decrease to deficit, and increase to non-controlling interest;
- at the IFRS balance sheet transition date, the Fund expects to elect under IFRS 1 to reduce to nil cumulative translation differences that exist related to translation of self sustaining foreign subsidiaries. The anticipated effect is to decrease to nil the balance of accumulated other comprehensive loss, and make a corresponding increase to deficit;

- subsidiaries of the Fund lease vehicles for employee use. Under IFRS is it anticipated such leases will be determined to be capital leases, rather than operating leases as is currently the case. The anticipated effect is to increase property, plant and equipment, and to record a lease obligation liability. Amortization on the property, plant and equipment and finance costs associated with the lease obligation will be recorded in earnings as compared to an operating lease expense.
- under IFRS, it is anticipated that the Fund units will be determined to meet the definition of a liability. The anticipated effect is to reduce unitholders' equity, and increase Fund unit liability.

In addition, financial statement presentation changes and additional disclosure requirements are anticipated under IFRS. The adoption of IFRS is not expected to have a material impact on the Fund's reported cash flows.

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:

	June 30, 2010	December 31, 2009
Cash and cash equivalents	\$ (116)	\$ (463)
Bank indebtedness	11,638	4,960
Net debt	11,522	4,497
Unitholders' equity	56,702	55,158
Total capitalization	\$ 68,224	\$ 59,655

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

The terms of the agreements with the Fund's lenders provide that distributions cannot be made to its unitholders in the event that its subsidiaries do not meet the above covenant requirements as well as

certain additional credit ratios. The Fund's operating subsidiaries were compliant with all required credit ratios as at June 30, 2010, 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 the period ended June 30, 2010. On November 3, 2008 the Trustees of the Fund suspended further monthly distributions until such time as market conditions and the Fund's generation of cash has improved.

5. Inventory:

	June 30, 2010	December 31, 2009
Lumber	\$ 11,208	\$ 8,224
Sheet Goods	14,501	12,171
Specialty	1,870	2,099
Goods in-transit	1,922	1,407
	\$ 29,501	\$ 23,901

During the three months ended June 30, 2010 inventory write-downs totaling \$0.2 million (six months ended June 30, 2010 - \$0.5 million) were recorded to reduce certain inventory items to their net realizable value. (Three months ended June 30, 2009 - \$0.4 million, six months ended June 30, 2009 - \$0.9 million)

Cost of sales for the three months ended June 30, 2010 were \$42.9 million (six months ended June 30, 2010 - \$82.8 million), which included \$41.3 million (six months ended June 30, 2010 - \$79.6 million) of costs associated with inventory. The other \$1.6 million (six months ended June 30, 2010 - \$3.2 million) related principally to freight and other related selling expenses. (Six months ended June 30, 2009 - \$81.4 inventory and \$3.3 million other related expenses)

6. Receivables:

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	June 30, 2010	December 31, 2009

Trade accounts receivable - Canada	\$ 11,577	\$ 9,756
Trade accounts receivable - United States	22,068	16,117
Sundry receivable	187	203
Current portion of long-term receivables	598	919
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	34,430	26,995
Less: allowance for doubtful accounts	2,591	1,410
	-----	-----
	\$ 31,839	\$ 25,585

Long-term receivables	June 30, 2010	December 31, 2009

Employee housing loans	\$ 413	\$ 450
Customer notes	1,484	1,834
Security deposits	484	518
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	2,381	2,802
Less: current portion, included in accounts receivable	598	919
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	\$ 1,783	\$ 1,883

The aging of trade receivables was:

	June 30, 2010	December 31, 2009

Current	\$ 21,398	\$ 14,557
Past due 31-60 days	5,358	5,283
Past due 61-90 days	2,010	2,181
Past due 90+ days	4,879	3,852
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	\$ 33,645	\$ 25,873

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 June 30, 2010 was \$2.6 million (December 31, 2009 - \$1.4 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.

7. Bank indebtedness:

	June 30, 2010	December 31, 2009
Checks issued in excess of funds on deposit \$	945	\$ 1,077
Credit facility, Hardwoods LP	1,473	1,945
Credit facility, Hardwoods USLP (June 30, 2010 - US\$8,660; December 31, 2009 - US\$1,844)	9,220	1,938
	\$ 11,638	\$ 4,960

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

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

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

for borrowings of this nature were and are payable.

The amount made available under the Credit Facility to Hardwoods LP from time to time is limited to the extent of 85% of the book value of accounts receivable and the lesser of 60% of the book value or 85% of appraised value of inventories with the amount based on inventories not to exceed 60% of the total amount to be available. Certain identified accounts receivable and inventories are excluded from the calculation of the amount available under the Credit Facility. Hardwoods LP is required to maintain a fixed charge coverage ratio (calculated as the ratio of EBITDA less cash taxes less capital expenditures, divided by interest) of not less than 1.1 to 1. At June 30, 2010 the Hardwoods LP credit facility had \$10.6 million of additional borrowing capacity.

The amount to be made available under the Credit Facility to Hardwoods USLP from time to time is limited to the extent of 85% of the book value of certain accounts receivable and 50% of the book value of inventories (with certain accounts receivable and inventory being excluded). Hardwoods USLP is required to maintain a minimum trailing EBITDA covenant until December 31, 2010, and a fixed charge coverage ratio (calculated as EBITDA less cash taxes less capital expenditures, divided by interest plus distributions) of 1.0 to 1 thereafter. These covenants of the Hardwoods USLP Credit Facility do not need to be met however when the unused availability under the credit facility is in excess of US\$4.0 million. At June 30, 2010 the Hardwoods USLP credit facility had unused availability of \$8.9 million (US\$8.4 million).

8. Non-controlling interests:

Balance, January 1, 2010	\$	8,748
Interest in earnings:		
Interest in earnings before taxes		583
		9,331
Foreign currency translation adjustment of non-controlling interest in Hardwoods USLP		156
Balance, end of period	\$	9,487

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 June 30, 2010.

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 June 30, 2010, the amount of such deficiency was \$14.8 million (2009 - \$12.6 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; and
- Fifth, to the extent of any excess, to the holders of the Class A LP Units and Class B LP Units and Class A USLP Units and Class B USLP Units, respectively, so that the combined advances or distributions on one Class A LP Unit and one Class A USLP Unit are the same as the combined advances or distribution on one Class B LP Unit and one Class B USLP Unit in respect of the 12 month period then ended (and not, for greater certainty, any previous 12 month period).

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

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

	Three months ended June 30, 2010	Three months ended June 30, 2009	Six months ended June 30, 2010	Six months ended June 30, 2009
Accounts receivable	\$ (931)	\$ (833)	\$ (6,227)	\$ (4,743)
Income taxes recoverable/payable	370	184	370	1,915
Inventory	(4,799)	1,788	(5,286)	5,150
Prepaid expenses	(186)	(438)	(11)	(239)
Accounts payable and accrued liabilities	35	1,321	880	4,643
	\$ (5,511)	\$ 2,022	\$ (10,274)	\$ 6,726

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 and six month periods ended June 30, 2010 and June 30, 2009 no discretionary cash distributions were paid to Unitholders.

10. Segment disclosure:

Information about geographic areas is as follows:

	Three months ended June 30, 2010	Three months ended June 30, 2009	Six months ended June 30, 2010	Six months ended June 30, 2009
Revenue from external customers:				
Canada	\$ 20,978	\$ 18,806	\$ 40,663	\$ 39,243
United States	31,228	26,303	60,041	63,668
	\$ 52,206	\$ 49,489	\$ 100,704	\$ 102,911

	June 30, 2010	December 31, 2009
Property, plant and equipment:		
Canada	\$ 347	\$ 450
United States	684	841
	\$ 1,031	\$ 1,291

11. 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 June 30, 2010, Hardwoods USLP contributed and expensed \$52,442 (US\$50,999) (three months ended June 30, 2009 - \$60,131 (US\$51,531)) in relation to the USLP Plan. During the six months ended June 30, 2010, Hardwoods USLP contributed and expensed \$112,023 (US\$108,319) (six months ended June 30, 2009 - \$128,816 (US\$106,839)) 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 June 30, 2010, Hardwoods LP contributed and expensed \$52,924 (three months ended June 30, 2009 - \$41,728) in relation to the LP Plan. During the six months ended June 30, 2010, Hardwoods LP contributed and expensed \$117,092 (six months ended June 30, 2009 - \$91,581) in relation to the LP Plan.

12. Related party transactions:

For the three months ended June 30, 2010, sales of \$138,696 (three months ended June 30, 2009 - \$108,553) were made to affiliates of SIL, and the Fund made purchases of \$16,854 (three months ended June 30, 2009 - \$24,169) from affiliates of SIL. For the six months ended June 30, 2010, sales of \$266,558 (six months ended June 30, 2009 - \$270,762) were made to affiliates of SIL, and the Fund made purchases of \$44,329 (six months ended June 30, 2009 - \$32,087) from affiliates of SIL. All these sales and purchases took place at prevailing market prices.

13. 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.

14. 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.

15. Unitholders' Rights Plan:

The Fund had a Unitholders' Rights Plan (the "Rights Plan") as described in note 12(b) in the annual consolidated financial statements, until the Annual General Meeting of Unitholders on May 20, 2010. At the Annual General Meeting, the Unitholders voted against renewing the Rights Plan and, as such, at June 20, 2010 the Rights Plan is no longer in place.

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