HARDWOODS DISTRIBUTION INCOME FUND

The Beauty of Hardwood

First Quarter Report

To Unitholders

For the period ended

March 31, 2005

About the Fund

Hardwoods Distribution Income Fund (the "Fund") is an unincorporated open-ended limited purpose trust. The Fund was launched on March 23, 2004 with the completion of an initial public offering (IPO) of 14.4 million trust units at $10 per unit. Net proceeds of the IPO were used to acquire an 80% interest in a hardwoods lumber and sheet goods distribution business ("Hardwoods" or the "Business").

Hardwoods Distribution Income Fund units trade on the Toronto Stock Exchange under the symbol HWD.UN. The Fund's performance depends on the performance of the Business.

About the Business

Hardwoods has been providing quality lumber, hardwood plywood and specialty products to customers for over 45 years. Today, we are one of the largest distributors of hardwood lumber and sheet goods in North America, operating a network of 37 distribution centers organized into nine regional clusters.

With a proven track record of strong financial performance, Hardwoods plays a critical role linking suppliers and customers in a highly fragmented industry. The Business is diversified by geographic markets served, product mix, and customer type. Capital expenditure requirements are low and predictable, and Hardwoods has no significant supplier or customer concentration. Enjoying steady demand and stable pricing, Hardwoods is ideally suited to the income trust structure.

HARDWOODS

To Our Unitholders

I am pleased to present our results for the three months ended March 31, 2005. As the Fund commenced operations at the end of March 2004 there are no comparative figures provided in the attached unaudited interim consolidated financial statements. However, we have tried to enhance the usefulness of this report by making reference in certain circumstances to the results of the predecessor companies, adjusted on a pro forma basis to reflect the new financial structure of the Fund. In this light, we hope you find these references useful.

First quarter results met our performance expectations for the Fund. For the three months ended March 31, 2005 the Fund generated $3.8 million of distributable cash available to unitholders, and declared cash distributions to unitholders of $3.9 million ($0.27 per unit). Given the first quarter is a seasonally slower period for our business, these results put Hardwoods firmly on track to deliver solid results in 2005.

Economic conditions across North America remained favorable in the first quarter, supporting continued steady demand for our lumber and panel products. Prices for hardwood lumber were generally stable or softened slightly in the quarter compared to the same period in the prior year. The changing value of the Canadian dollar relative to the US dollar negatively impacted our reported results, with the average Canadian dollar exchange rate strengthening by 6.9% compared to the same period in the prior year. With approximately two-thirds of our sales generated in the United States, this strengthening resulted in lower revenues and profit contribution from our US operations when reported in Canadian dollars. However, the changing value of the Canadian dollar had minimal impact with respect to our ability to maintain the current level of cash distributions to unitholders since the Fund was able to convert the required amount of US dollar generated distributable cash into Canadian dollars at a favourable exchange rate of $1.30 using foreign currency contracts settled during the quarter.

Our growth in US sales (in US dollars) was 8.8%, and in Canadian sales (in Canadian dollars) was 2.2%. Overall sales measured in Canadian dollars for the quarter were $85.0 million, an increase of 1.8% as compared to the combined sales of the predecessor companies for the comparative period in 2004. Growth in sales did not translate into a higher level of profitability, however. The primary reason for this was our gross profit percentage for the quarter was 18.6%, which is a typical gross profit rate for our business, but is down from the 19.1% achieved by the predecessor companies in the same quarter in 2004 during a period of unusually strong product price escalation. Our focus on controlling costs continued in the first quarter, with selling and administrative expenses held to 12.1% of sales compared to 12.3% in the prior year for the combined predecessor companies. Net earnings for the three months ended March 31, 2005 was $2.9 million. This is down slightly from the $3.2 million generated by the combined predecessor companies on a pro forma basis for the corresponding period in 2004, but is consistent with achieving or exceeding our annual rate of distributions of $1.08 per unit.

As we move into the second quarter we are focused on capturing seasonal sales momentum that will emerge in the market and be sustained into the late fall. We expect sales growth to be moderate but steady. Our operational priorities continue to be to grow the business geographically by increasing our market presence through the opening or expansion of branches in the Midwest of the US and California, introduce new products through our import program and new line of Dragon Ply™ hardwood plywood, and maintain disciplined management of our selling and administrative costs as the business expands. We will also continue to seek accretive acquisition opportunities that create value for our unitholders.

Maurice E. Paquette

President and Chief Executive Officer

Management's Discussion and Analysis

April 26, 2005

This management's discussion and analysis ("MD&A") covers our unaudited interim consolidated financial statements for the three months ended March 31, 2005 ("Interim Financial Statements"). As well, it provides and update to the MD&A section contained in our 2004 annual report. The information below should be read in conjunction with the unaudited interim consolidated financial statements for the three months ended March 31, 2005 and the audited consolidated financial statements for the period from March 23, 2004 to December 31, 2004. Results are reported in Canadian dollars unless otherwise stated, and have been prepared in accordance with Canadian generally accepted accounting principles.

About the Fund

The Fund is an unincorporated open-ended limited purpose trust formed under the laws of the Province of British Columbia by a declaration of trust dated January 30, 2004. The Fund was launched on March 23, 2004 with the completion of an initial public offering ("IPO") of 14,410,000 trust Voting Units ("Units"). Net IPO proceeds of $133.5 million, together with drawings on credit facilities totaling $31.6 million, were used to acquire an 80% interest in the hardwood lumber and sheet goods distribution business ("Hardwoods" or the "Business") from the previous owners.

The owners of the predecessor companies have retained a 20% interest in the Business in the form of Special Voting Units of the Fund and Class B Limited Partnership units of the Fund's operating subsidiaries, which together are exchangeable into Units provided that the Fund achieves certain objectives. Distributions by the operating subsidiaries to the previous owners are subject to subordination arrangements until at least March 31, 2006. As at March 31, 2005, the following units of the Fund were issued and outstanding:

Units	14,410,000
Special Voting Units	3,602,500

Hardwoods Distribution Income Fund units trade on the Toronto Stock Exchange under the symbol HWD.UN. The Fund's performance depends on the performance of the Business.

Results of Operations

The Fund commenced operations on March 23, 2004. As such, no prior year comparative information is provided in the Interim Financial Statements. In order to enhance the usefulness of this MD&A, certain financial and operating results are compared to the unaudited pro forma results of the predecessor companies, reflecting the new financial structure of the Fund. This information is for reference purposes only, and is not intended to represent a comprehensive comparison of the consolidated financial results or what the results would have been if the Fund had been created and operational at January 1, 2004. The comparative information is also for a shorter calendar reporting period, but represents substantially the same sales period in terms of days of business operation and consequently this difference does not materially impact the discussions below.

Non-GAAP Measures – EBITDA and Distributable Cash

References to "EBITDA" are to earnings before interest, income taxes, depreciation and amortization, mark-to-market gains or losses on foreign currency contracts and the non-controlling interest in earnings. Management believes that, 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. Specifically, Management believes that EBITDA is the appropriate measure from which to make adjustments to determine the Distributable Cash available to unitholders of the Fund.

EBITDA is not an earnings measure recognized by generally accepted accounting principles in Canada ("GAAP") and does 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, or to cash flows from operating, investing and financing activities or as a measure of our liquidity and cash flows. Our method of calculating EBITDA may differ from the methods used by other issuers. Therefore, our EBITDA may not be comparable to similar measures presented by other issuers.

Distributable Cash available to unitholders of the Fund is a non-GAAP measure generally used by Canadian open-ended income funds as an indicator of financial performance. We define Distributable Cash available to unitholders as net earnings before depreciation, amortization, future income taxes, non-controlling interest and mark-to-market gains or losses on foreign exchange contracts, and after capital expenditures, distributable cash available to non-controlling interest and contributions to any reserves that the Board of Trustees deem to be reasonable and necessary for the operation of the Fund.

Our Distributable Cash available to unitholders may differ from similar computations as reported by other similar entities and, accordingly, may not be comparable to distributable cash as reported by such entities. We believe that our Distributable Cash available to unitholders is a useful supplemental measure that may assist prospective investors in assessing the return on their investment in Units.

Selected Unaudited Consolidated Financial Information

(in thousands of dollars)	For the three months Ended March 31, 2005	For the period from January 1, 2004 to March 22, 2004 (predecessor companies - pro forma[1])
Total sales	$ 85,027	$ 83,563
Gross profit	15,819	15,970
Gross margin %	*18.6%*	*19.1%*
Selling and administrative expenses	10,311	10,314
Net earnings for the period	2,942	3,240
Add :		
Income taxes	438	500
Interest	427	400
Amortization	583	581
Mark-to-market loss on foreign currency contracts	273	-
Non-controlling interest	845	935
Earnings before interest, taxes, depreciation and amortization and non-controlling interest ("EBITDA")	$ 5,508	$ 5,656
Deduct:		
Interest	(427)	
Capital expenditures	(229)	
Distributable Cash available to non-controlling interest [2]	(970)	
Current income taxes	(122)	
Distributable Cash available to Unitholders	$ 3,760	
Cash distributions to Unitholders	$ 3,891	
Total assets	$ 212,331	
Foreign currency contracts - fair value	$ 2,238	
Per Unit information:		
Basic and fully diluted earnings per Unit	$ 0.204	
Distributable Cash available to Unitholders per unit	$ 0.261	
Cash distributions per Unit	$ 0.270	
Average Canadian dollar/US dollar exchange rate	1.2266	1.3178

[1] The results of operations of the predecessor companies have been adjusted on a pro forma basis to reflect the Fund's capital structure and the acquisition of the Hardwoods Group of Companies by the Fund. Significant pro forma adjustments relate to changes in amortization, interest, non-controlling interest, income tax expenses and non recurring bonus expenses incurred by the predecessor companies.

[2] The non-controlling interest will be distributed to the previous owners who continue to own a 20% interest in the business of the Fund only to the extent the terms of the subordination agreement between the Fund and the previous owners are satisfied.

Sales

Sales for the three month period ended March 31, 2005 were $85.0 million, up 1.8% from $83.6 million for the combined predecessor companies during the comparative period ended March 22, 2004. Our growth in US sales (in US dollars) was 8.8%, and in Canadian sales (in Canadian dollars) was 2.2%. Growth in our sales was significantly reduced by a 6.9% strengthening of the value of the Canadian dollar relative to the US dollar during the first quarter of 2005, compared to the same period in the prior year. Approximately two-thirds of our sales are generated in the United States in US dollars. Accordingly, a higher Canadian dollar has a negative top line impact when we translate US sales to Canadian dollars for reporting purposes. The bottom line impact is significantly less, due to our use of foreign exchange contracts, which are described under Financial Instruments on page 12 of this report. Had exchange rates remained consistent with 2004 levels, revenue for the first quarter of 2005 would have increased an additional $4.3 million to $89.3 million.

Overall product prices were generally stable or softened slightly in the quarter compared to the prior year. Consequently sales growth came primarily from increased sales volume. No new operating locations were added during this period.

Gross Profit

Gross profit for the first quarter of 2005 was $15.8 million. This was 0.9% less than the gross profit of $16.0 million achieved by the combined predecessor companies during the comparative period ended March 22, 2004. Given that sales increased by 1.8%, the $0.2 million decrease in gross profits is due entirely to a reduction in gross margin percentage to 18.6% in 2005, compared to 19.1% in the 2004 period. The 19.1% gross margin percentage in the 2004 period was earned during a period of product price escalation that was unusually strong by historic standards. The gross margin of 18.6% achieved in the first quarter of 2005 is consistent with a more typical gross margin rate achieved in our business over the past two years.

Selling and Administrative Expenses

For the three month period ended March 31, 2005 selling and administrative expenses remained constant at $10.3 million compared to the combined predecessor companies during the comparative period ended March 22, 2004. The business did incur higher selling and administrative expenses, principally new costs incurred as a public company and increases in people costs, but these were offset by the strengthening value of the Canadian dollar. As a percentage of sales, selling and administrative expenses decreased to 12.1% of sales from 12.3% in the comparative period in the prior year.

Other Income

The mark-to-market valuation of our outstanding foreign currency contracts resulted in a loss of $0.3 million for the three month period ended March 31, 2005. We continue to monitor our foreign currency contract policy to mitigate the impact of foreign exchange fluctuations on Canadian dollar distributions generated by our U.S. operations. Further discussion of our foreign currency contracts can be found under Financial Instruments on page 12 of this report.

EBITDA

EBITDA for the quarter was $5.5 million, a decrease of $0.2 million, or 2.6%, from the $5.7 million recorded by the combined predecessor companies in the comparative period in the prior year. The decrease in EBITDA is primarily due to the lower gross margin percentage in 2005 compared to the comparative quarter in the prior year. The positive impact on EBITDA of sales growth achieved was largely reduced in the quarter by an appreciation in the value of the Canadian dollar.

Net Earnings

Net earnings for the three months ended March 31, 2005 were $2.9 million, compared to $3.2 million by the combined predecessor companies in the comparative period in 2004. The $0.3 million decrease in net earnings primarily reflects the decrease in EBITDA, as well as the mark-to-market loss in valuation of outstanding foreign currency contracts.

Quarterly Financial Information

The table below provides selected quarterly financial information for the four most recent fiscal quarters to March 31, 2005. This information is unaudited, but reflects all adjustments of a normal, recurring nature which are, in our opinion, necessary to present a fair statement of the results of operations for the periods presented. Quarter-to-quarter comparisons of our financial results are not necessarily meaningful and should not be relied upon as indication of future performance. Historically, the first quarter and fourth quarter have been seasonally slower periods for the Business. In addition, net earnings reported in each quarter will be impacted by mark-to-market gains or losses on foreign currency contracts, which are described under Financial Instruments on page 12 of this report.

(in thousands of dollars)	For the three months ended March 31, 2005	For the three months ended December 31, 2004	For the three months ended September 30, 2004	For the period from March 23, 2004 to June 30, 2004
Total sales	$85,027	$93,730	$ 97,040	$ 99,125
Net earnings	$ 2,942	$ 5,568	$ 4,351	$ 4,684
Basic and fully diluted earnings per Unit	$ 0.204	$ 0.386	$ 0.302	$ 0.325
Distributable cash available per Unit	$ 0.261	$ 0.312	$ 0.279	$ 0.383
Cash distributions per Unit	$ 0.270	$ 0.270	$ 0.270	$ 0.279

Liquidity

Distributable Cash and Distributions

Our policy is to make stable monthly distributions to our unitholders based on our estimate of distributable cash for the year. We pay distributions at the end of the month that follows the month when the cash was earned. The Fund also makes quarterly distributions to Hardwoods' previous owners which are, on an after-tax per unit basis, equivalent to the respective quarterly distributions to public unitholders. Quarterly distributions to Hardwoods' previous owners are made pursuant to the terms of a subordination agreement as outlined in the Fund's Annual Information Form dated March 24, 2005.

For the period from the Fund's IPO on March 23, 2004 to March 31, 2005 the ratio of total cash distributions paid to unitholders as compared to cash available for distribution to unitholders was 88.2%. The income characterization of the distributions paid to unitholders in 2004 was approximately 56% fully taxable distribution, 22% dividends, and 22% return of capital. The approximate expectations for 2005 are 57% fully taxable, 24% dividends, and 19% return of capital.

Capital Expenditures

For the three months ended March 31, 2005 maintenance capital expenditures were $0.2 million. As we lease all but one of our buildings, and we contract out all freight delivery services, our business has minimal capital requirements. Our capital expenditures are principally comprised of replacement of forklifts, furniture and fixtures, leasehold improvements, and computer equipment. We estimate our maintenance capital expenditures will be approximately $1 million annually. Additional capital expenditures may be incurred for new branch openings or to support acquisition opportunities that arise.

Revolving Credit Facilities

We have independent credit facilities in each of Canada and the US. In Canada, the term of our three year operating line extends to March 23, 2007 and comprises a maximum facility of $22.0 million. The balance outstanding on the Canadian operating line as at March 31, 2005 was $14.1 million. In the US, the term of our three year operating line extends to March 31, 2007 and comprises a maximum facility of $36.5 million (US $30.0 million). As at March 31, 2005 the balance outstanding on the US operating line was $26.8 million (US $22.1 million). We believe that our operating lines in both Canada and the U.S. are sufficient to meet our working capital requirements.

Contractual Obligations

The table below sets forth other remaining contractual obligations of the Fund as at March 31, 2005 due in the years indicated, which relate to various premises operating leases:

Total	2005	2006	2007	2008	2009	2010 and thereafter
$24,853,363	$4,533,813	$5,213,817	$4,852,657	$4,449,490	$3,259,546	$2,544,040

Off-Balance Sheet Arrangements

The Fund has no off balance sheet arrangements. The foreign currency contracts discussed under Financial Instruments on page 12 of this report are marked-to-market at the end of each quarter, with the fair value recorded on the balance sheet.

Critical Accounting Estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires that we make estimates and assumptions that can have a material impact on our results of operations as reported on a periodic basis. We base our estimates and assumptions on past experience and other factors that are deemed reasonable under the circumstances. Actual results could differ from these estimates. The critical estimates used in preparing our financial statements are:

Accounts Receivable Provision: Due to the nature of our business and the credit terms we provide to our customers, we anticipate that a certain portion of required customer payments will not be made, and we maintain an allowance for these doubtful accounts. The allowance is based on our estimation of the potential of recovering our accounts receivable and incorporates current and expected collection trends.

Valuation of Inventories: The net realizable value of our inventory could be affected by market shifts or damage to our products. Our inventory is valued at the lower of cost and net realizable value.

Allocation of Purchase Price: The allocation of the purchase price for the business acquired at the time of our IPO required judgement, specifically the allocation between goodwill and other intangible assets, and the amortization period of the intangible assets, which we have determined to be 15 years using the straight-line method.

Related Party Transactions

For the three months ended March 31, 2005 sales of $2.1 million were made to affiliates of the previous owners, and the subsidiaries of the Fund purchased $0.1 million from affiliates of the previous owners. These sales and purchases took place at prevailing market prices. As at March 31, 2005, the Fund recorded a distribution payable to Hardwoods' previous owners of $1.0 million pursuant to the terms of a subordination agreement as outlined in the Fund's Annual Information Form dated March 24, 2005. This distribution payable was paid on April 26, 2005. Also during the first quarter of 2005, subsidiaries of the Fund paid $0.1 million to affiliates of the previous owners under the terms of an agreement to provide transitional services for management information systems.

Financial Instruments

The Fund uses currency derivatives to manage its exposure to fluctuations in exchange rates between the Canadian dollar and the United States 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 operations. At March 31, 2005, the Fund had 37 monthly foreign currency contracts to exchange US$675,000 into approximately $878,000, reflecting an exchange rate of Cdn$1.30 to US$1.00, each month until April 2008. The fair value of the remaining 37 monthly contracts has been reflected in the financial statements.

Based on the Fund's current monthly distribution of $0.09 per unit, the principal value of the monthly foreign currency contracts is sufficient to fully cover the amount of US dollar earnings necessary to be converted to Canadian dollars in order to pay distributions to public unitholders.

Outlook

Results for the three months ended March 31, 2005 were in line with our expectations. The business continued to expand in the first quarter, but at a more moderate rate of sales growth than was experienced in the initial nine months following our IPO on March 23, 2004. Economic conditions across North America continue to remain healthy and to drive demand for our hardwood lumber and panel products. Although the first quarter represented a seasonally slower period for our business, as we move into the second quarter we are focused on capturing sales momentum that will emerge in the market and be sustained into the late fall. We expect sales growth to be moderate but steady. Our operational priorities remain the same: grow the business geographically by increasing our market presence through opening or expansion of branches in the Midwest of the US and California; introduce new products through our import program and new line of Dragon Ply™ hardwood plywood; and maintain disciplined management of our selling and administrative costs as the business expands. In addition, as part of our growth strategy we continue to evaluate accretive acquisition opportunities that would strengthen our market position in this fragmented industry.

In summary, we expect the Fund's performance to continue to be positive and to meet or exceed our current annual rate of cash distributions of $1.08 per unit.

Forward-looking Statements

This MD&A may contain forward-looking statements, which reflect our expectations regarding the future growth, results of operations, performance and business prospects, and opportunities of the Fund. Forward-looking statements contain such words as "anticipate", "believe", "continue", "could", "expects", "intend", "may", "plans" or similar expressions suggesting future conditions or events. Such forward-looking statements reflect our current beliefs and are based on information currently available to us. Forward-looking statements involve significant risks and uncertainties. A number of factors could cause actual results to differ materially from results discussed in the forward-looking statements, including the effects of, as well as changes in: national and local business conditions; political or economic instability in local markets; competition; consumer preferences, spending patterns and demographic trends; legislation and governmental regulation. Although the forward-looking statements contained in this MD&A are based on what we believe to be reasonable assumptions, we cannot assure readers that actual results will be consistent with these forward-looking statements.

Additional Information

Additional information relating to the Fund, including all public filings, are available on SEDAR (www.sedar.com) and our website (www.hardwoods-inc.com).

HARDWOODS DISTRIBUTION INCOME FUND

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

	March 31, 2005	December 31, 2004
Assets		
Current assets:		
Accounts receivable	$ 48,512	$ 45,283
Income tax receivable	324	401
Inventory	42,551	42,499
Prepaid expenses	394	627
	91,781	88,810
Long-term receivables	1,600	1,787
Property, plant and equipment	4,623	4,687
Deferred financing costs	128	142
Other intangible assets	13,157	13,293
Foreign currency contracts (note 3)	2,238	2,511
Goodwill	98,804	98,283
	$ 212,331	$ 209,513
Liabilities and Unitholders' Equity		
Current liabilities:		
Bank indebtedness (note 4)	$ 42,429	$ 39,058
Accounts payable and accrued liabilities	7,112	7,897
Distributions payable to Unitholders	1,297	1,297
Distributions payable to non-controlling interests	969	981
	51,807	49,233
Future income taxes	858	545
Non-controlling interests (note 5)	32,094	32,123
Unitholders' equity:		
Fund Units (Issued and outstanding 14,410,000 Units)	133,454	133,454
Retained earnings	1,852	2,801
Cumulative foreign currency translation account	(7,734)	(8,643)
	127,572	127,612
	$ 212,331	$ 209,513

See accompanying notes to consolidated financial statements.

Approved on behalf of the Trustees:

(Signed) LAWRENCE I. BELL Trustee (Signed) TERRY M. HOLLAND Trustee

HARDWOODS DISTRIBUTION INCOME FUND

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

Three month period ended March 31, 2005

Sales	$ 85,027
Cost of sales	69,208
Gross profit	15,819
Expenses:	
Selling and administrative	10,311
Amortization:	
Plant and equipment	331
Deferred financing costs	16
Other intangible assets	236
Interest	427
Mark-to-market loss on foreign currency contracts (note 3)	273
	11,594
Earnings before non-controlling interests and income taxes	4,225
Non-controlling interests (note 5)	845
Earnings before income taxes	3,380
Income taxes	438
Net earnings for the period	2,942
Retained earnings, beginning of period	2,801
Distributions to Unitholders	(3,891)
Retained earnings, end of period	$ 1,852
Basic and diluted earnings per Unit	$ 0.20
Weighted average number of Units outstanding	14,410,000

See accompanying notes to consolidated financial statements.

HARDWOODS DISTRIBUTION INCOME FUND

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

Three month period ended March 31, 2005

Cash flows provided by (used in) operating activities:	
Net earnings for the period	$ 2,942
Items not involving cash:	
Amortization	583
Gain on sale of property, plant and equipment	(4)
Mark-to-market loss on foreign currency contracts	273
Non-controlling interests	845
Future income taxes	313
	4,952
Change in non-cash operating working capital (note 6)	(3,154)
Net cash provided by operating activities	1,798
Cash flows provided by (used in) investing activities:	
Additions to property, plant and equipment	(229)
Proceeds on disposal of property, plant and equipment	4
Decrease in long-term receivables	206
Net cash used in investing activities	(19)
Cash flows provided by (used in) financing activities:	
Increase in bank indebtedness	3,098
Distributions paid to Unitholders	(3,891)
Distributions paid to non-controlling interests	(986)
Net cash used in financing activities	(1,779)
Increase in cash	-
Cash, beginning of period	-
Cash, end of period	$ -
Supplementary information (cash amounts):	
Interest paid	$ 427
Income taxes paid	44

See accompanying notes to consolidated financial statements.

(Tabular amounts expressed in thousands of Canadian dollars)

1. Nature of operations and business acquisition:

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

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

Also on March 23, 2004, the Fund used the net proceeds from the Offering, together with funds from two new credit facilities (note 4), to acquire an 80% interest in Hardwoods LP and Hardwoods USLP for total consideration of approximately $165,137,000. The acquisition of the Fund's interest in Hardwoods LP and Hardwoods USLP was completed through a series of transactions and has been accounted for using the purchase method.

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

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

The results of operations of Hardwoods LP and Hardwoods USLP have been included in the Fund's consolidated financial statements from March 23, 2004, being the date of acquisition. No comparative financial information has been provided for the period from January 30, 2004 to March 31, 2004, as the Fund was inactive prior to March 23, 2004, and the Fund's first quarterly report was as at June 30, 2004 and for the period March 23, 2004, to June 30, 2004.

2. Basis of presentation:

The Fund prepares its interim consolidated 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 period ended December 31, 2004. The disclosures contained in these interim consolidated financial statements do not include all the requirements of Canadian generally accepted accounting principles for annual financial statements, and accordingly these interim consolidated financial statements should be read in conjunction with the annual consolidated financial statements as at and for the period ended December 31, 2004.

(Tabular amounts expressed in thousands of Canadian dollars)

3. Foreign currency contracts:

In order to manage the Fund's exposure to exchange rate fluctuations on United States dollar denominated distributable cash, a subsidiary of the Fund has entered into foreign currency contracts to exchange US$675,000 each month for approximately $878,000 until April 2008, reflecting an exchange rate of $1.30. The remaining 37 monthly foreign currency contracts at March 31, 2005 are recognized in the balance sheet and measured at fair value, which at March 31, 2005 represented an asset of $2,237,851.

4. Bank indebtedness:

	March 31, 2005	December 31, 2004
Checks issued in excess of funds on deposit	$ 1,525	$ 1,186
Credit facility, Hardwoods LP	14,090	14,000
Credit facility, Hardwoods USLP (March 31, 2005-US$22,055; December 31, 2004-US$19,860)	26,814	23,872
	$ 42,429	$ 39,058

5. Non-controlling interests:

Balance, beginning of period	$ 32,123
Interest in earnings for the period	845
Distributions paid to non-controlling interests	(986)
Change in distributions payable to non-controlling interests	12
Foreign currency translation adjustment of non-controlling interest in Hardwoods USLP and other	100
Balance, end of period	$ 32,094

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.

(Tabular amounts expressed in thousands of Canadian dollars)

5. Non-controlling interests (continued):

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

- the consolidated Adjusted EBITDA, as defined in the Subordination Agreement dated March 23, 2004, of the Fund for the 12 month period ending on the last day of the month immediately preceding such date is at least $21,300,000; 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, 2005.

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

After the Subordination End Date, the holders of the Class B LP Units and Class B USLP Units will 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.

6. Changes in non-cash operating working capital:

Accounts receivable	$ (2,889)
Income taxes receivable	76
Inventory	269
Prepaid expenses	235
Accounts payable and accrued liabilities	(845)
	$ (3,154)

(Tabular amounts expressed in thousands of Canadian dollars)

7. Segment disclosure:

Information about geographic areas is as follows:

Revenue from external customers:		
Canada	$	27,024
United States		58,003
	$	85,027
Property, plant and equipment:		
Canada	$	1,565
United States		3,059
	$	4,623
Goodwill		
Canada	$	42,042
United States		56,762
	$	98,804

8. Pensions:

Hardwoods USLP maintains a defined contribution 401 (k) retirement savings plan (the “USLP Plan”) along with an affiliate of the previous owners in the form of a Multi Employer 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 month period ended March 31, 2005, Hardwoods USLP contributed and expensed $159,204 (US$129,793) 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 month period ended March 31, 2005, Hardwoods LP contributed and expensed $107,790 in relation to the LP Plan.

9. Related party transactions:

For the three month period ended March 31, 2005, sales of $2,122,701 were made to affiliates of SIL, and the Fund made purchases of $93,172 from affiliates of SIL. All these sales and purchases took place at prevailing market prices.

During the three month period ended March 31, 2005, the Fund paid $33,272 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 operations.

Unitholder Information

Officers

Maurice E. Paquette
President and Chief Executive Officer

Robert J. Brown
Vice President & Chief Financial Officer

Daniel A. Besen
Vice President, California Region

Bryan R. Hoyt
Vice President, Pacific Mountain Region

Garry W. Warner
Vice President, Western Canada Region

Head Office

27321 – 58th Crescent
Langley, BC Canada V4W 3W7
Telephone: 604-856-1111
Facsimile: 60-856-0685

Auditors

KPMG LLP
Vancouver, British Columbia

Listings

The Toronto Stock Exchange
Trading under **HWD.UN**

Transfer Agent

Computershare Trust
Company of Canada

Investor Relations

Rob Brown
Chief Financial Officer
Telephone: 604-607-3862
Email: robbrown@hardwoods-inc.com

HARDWOODS