Unaudited Condensed Consolidated Interim Financial Statements
(Expressed in Canadian dollars)

HARDWOODS DISTRIBUTION INC.

Three and six month periods ended June 30, 2012 and 2011

HARDWOODS DISTRIBUTION INC.

Unaudited Condensed Consolidated Interim Statement of Financial Position
(Expressed in thousands of Canadian dollars)

	Note	June 30, 2012	December 31, 2011
Assets			
Current assets:			
Cash		$ 61	$ 392
Accounts receivable	6	42,179	33,263
Inventories	7	45,007	39,015
Prepaid expenses		1,420	902
Total current assets		88,667	73,572
Non-current assets::			
Long-term receivables	6	1,224	1,394
Property, plant and equipment		6,533	6,483
Deferred income taxes		16,230	17,556
Intangible asset		19	22
Total non-current assets		24,006	25,455
Total assets		$ 112,673	$ 99,027
Liabilities			
Current liabilities:			
Bank indebtedness	8	$ 27,207	$ 19,794
Accounts payable and accrued liabilities		7,708	5,474
Income taxes payable		825	43
Provisions		101	90
Finance lease obligation	9	824	817
Dividend payable	5	485	321
Total current liabilities		37,150	26,539
Non-current liabilities:			
Provisions		-	7
Finance lease obligation	9	558	582
Total non-current liabilities		558	589
Total liabilities		37,708	27,128
Shareholders' equity			
Share capital	10(a)	44,224	44,061
Contributed surplus		105,148	105,097
Deficit		(73,403)	(76,196)
Accumulated other comprehensive loss		(1,004)	(1,063)
Shareholders' equity		74,965	71,899
Total shareholders' equity and liabilities		$ 112,673	$ 99,027

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

Approved on behalf of the board of directors:

(Signed) GRAHAM M. WILSON Director **(Signed) TERRY M. HOLLAND** Director

HARDWOODS DISTRIBUTION INC.

Unaudited Condensed Consolidated Statement of Comprehensive Income (Loss)
(Expressed in thousands of Canadian dollars)

Three and six month periods ended June 30, 2012 and 2011

	Note	Three months ended June 30, 2012	Three months ended June 30, 2011	Six months ended June 30, 2012	Six months ended June 30, 2011
Sales		$ 79,153	$ 56,718	$ 152,092	$ 108,748
Cost of sales	7	(65,259)	(46,633)	(125,088)	(89,564)
Gross profit		13,894	10,085	27,004	19,184
Operating expenses:					
Selling and distribution		(8,061)	(5,960)	(16,544)	(12,427)
Administration		(2,080)	(1,531)	(4,447)	(3,536)
Other		-	(271)	-	(571)
		(10,141)	(7,762)	(20,991)	(16,534)
Profit from operating activities		3,753	2,323	6,013	2,650
Finance expense	11	(208)	(210)	(440)	(1,049)
Finance income	11	343	163	235	267
Net finance income (costs)		135	(47)	(205)	(782)
Profit before income taxes		3,888	2,276	5,808	1,868
Income tax expense:					
Current		(641)	(22)	(881)	(35)
Deferred		(870)	(743)	(1,325)	(1,023)
		(1,511)	(765)	(2,206)	(1,058)
Profit for the period		2,377	1,511	3,602	810
Other comprehensive income (loss):					
Exchange differences translating foreign operations		778	(316)	59	(1,017)
Total comprehensive income (loss) for the period		$ 3,155	$ 1,195	$ 3,661	$ (207)
Basic and diluted profit per share/unit	10(c)	$ 0.15	$ 0.10	$ 0.22	$ 0.06

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

HARDWOODS DISTRIBUTION INC.

Unaudited Condensed Consolidated Statement of Changes in Shareholders' Equity
(Expressed in thousands of Canadian dollars)

Three and six month periods ended June 30, 2012 and 2011

	Note	Share capital	Contributed surplus	Accumulated other comprehensive loss - translation reserve	Deficit	Total
Balance at January 1, 2011		$ -	$ -	$ (1,937)	$ (81,620)	$ (83,557)
Profit for the period		-	-	-	810	810
Translation of foreign operations		-	-	(1,017)	-	(1,017)
Balance at June 30, 2011		$ -	$ -	$ (2,954)	$ (80,810)	$ (83,764)
Balance at January 1, 2012		$ 44,061	$ 105,097	$ (1,063)	$ (76,196)	$ 71,899
Share based compensation expense for the period	10(b)	-	214	-	-	214
Shares issued pursuant to LTIP	10(a)	163	(163)	-	-	-
Profit for the period		-	-	-	3,602	3,602
Dividends declared		-	-	-	(809)	(809)
Translation of foreign operations		-	-	59	-	59
Balance at June 30, 2012		$ 44,224	$ 105,148	$ (1,004)	$ (73,403)	$ 74,965

The accompanying notes are an integral part of the condensed consolidated interim financial statements.

HARDWOODS DISTRIBUTION INC.

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

Three and six month periods ended June 30, 2012 and 2011

	Note	Three months ended June 30, 2012	Three months ended June 30, 2011	Six months ended June 30, 2012	Six months ended June 30, 2011
Cash flow from operating activities:					
Profit for the period		$ 2,377	$ 1,511	$ 3,602	$ 810
Adjustments for:					
Depreciation		312	219	614	450
Gain on sale of property, plant and equipment		(20)	(26)	(37)	(59)
Non-cash employee incentive program	10(b)	112	142	214	394
Income tax expense		1,511	765	2,206	1,058
Net finance costs	11	(135)	47	205	782
Interest received		69	130	193	258
Interest paid		(207)	(152)	(388)	(310)
Income taxes paid		(100)	(54)	(108)	(54)
Income tax refunds received		-	-	-	1,796
		3,919	2,582	6,501	5,125
Changes in non-cash working capital:					
Accounts receivable		(2,478)	(2,769)	(9,034)	(8,269)
Inventories		(5,755)	(2,510)	(5,905)	(1,702)
Prepaid expenses		(669)	47	(514)	190
Provisions		14	18	5	(52)
Accounts payable and accrued liabilities		1,123	(230)	2,217	2,674
		(7,765)	(5,444)	(13,231)	(7,159)
Net cash used in operating activities		(3,846)	(2,862)	(6,730)	(2,034)
Cash flow from financing activities:					
Increase in bank indebtedness		4,476	2,809	7,341	2,241
Principle payments on finance lease obligation		(187)	(175)	(369)	(343)
Dividends paid to shareholders		(323)	-	(645)	-
Net cash provided by financing activities		3,966	2,634	6,327	1,898
Cash flow from investing activities:					
Additions to property, plant and equipment		(214)	(88)	(348)	(130)
Proceeds on disposal of property, plant and equipment		48	49	83	98
Payments received on long-term receivables		60	108	337	154
Net cash provided by (used in) investing activities		(106)	69	72	122
Increase (decrease) in cash		14	(159)	(331)	(14)
Cash, beginning of period		47	188	392	43
Cash, end of period		$ 61	$ 29	$ 61	$ 29

The accompanying notes are an integral part of the condensed consolidated interim financial statements.

1. Nature of operations:

Hardwoods Distribution Inc. (the "Company") is incorporated under the Canada Business Corporations Act trading on the Toronto Stock Exchange under the symbol "HWD." The Company is the successor to Hardwoods Distribution Income Fund (the "Fund") following the completion of the conversion of the Fund from an income trust to a corporate structure on July 1, 2011 (the "Reorganization"). Information herein with respect to Hardwoods Distribution Inc. includes information and financial results in respect of the Fund prior to the Reorganization and references to "common shares" and "shares" should be read as references to "units" for periods prior to July 1, 2011. Subsidiaries of the Company operate a network of 30 distribution centers in Canada and the US engaged in the wholesale distribution of hardwood lumber and related sheet goods and specialty products.

2. Basis of preparation:

(a) Statement of compliance:

These condensed consolidated interim financial statements of the Company have been prepared in accordance with International Accounting Standards ("IAS 34") "Interim Financial Reporting". The disclosures contained in these condensed consolidated interim financial statements do not include all of the requirements of International Financial Reporting Standards ("IFRS") for annual financial statements, and accordingly, these condensed consolidated interim financial statements should be read in conjunction with the annual consolidated financial statements for the year ended December 31, 2011.

The condensed consolidated interim financial statements were authorized for issue by the Board of Directors on August 7, 2012.

(b) Basis of measurement:

These condensed consolidated interim financial statements have been prepared on the historical cost basis.

(c) Functional and presentation currency:

These condensed consolidated interim financial statements are presented in Canadian dollars, which is the Company's functional currency. All financial information presented in the financial statements, with the exception of per share amounts, has been rounded to the nearest thousand.

2. Basis of preparation (continued):

(d) Use of estimates and judgment:

The preparation of financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual amounts may differ from the estimates applied in the preparation of these financial statements.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. The areas of estimate in these condensed consolidated interim financial statements are consistent with those disclosed in the Company's annual financial statements for the year ended December 31, 2011.

3. Significant accounting policies:

The significant accounting policies that have been used in the preparation of these condensed consolidated interim financial statements are summarized in the Company's annual financial statements for the year ended December 31, 2011.

4. Business acquisition:

On September 19, 2011 a subsidiary of the Company purchased certain assets of Frank Paxton Lumber Company ("Paxton") with the intention to continue operations of the business. Paxton is a US based remanufacturer and distributor of hardwood lumber, millwork and sheet goods, with branch operations in San Antonio, Denver, Cincinnati, Kansas City and Chicago. The Company purchased the trade accounts receivable, inventory, and property, plant and equipment of Paxton for cash consideration of $13.7 million (US$13.9 million) and hired Paxton's employees to continue operating the business. As part of the agreement, certain accounts receivable totaling $0.2 million not subsequently collected were returned to the seller and collected during the period ended March 31, 2012.

Included in these condensed consolidated interim financial statements are sales of $14.4 million and profit of $0.7 million related to Paxton for the three month period ended June 30, 2012 and sales of $28.5 million and profit of $1.1 million for the six month period ended June 30, 2012.

(Tabular amounts expressed in thousands of Canadian dollars)

5. Capital management:

The Company'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 Company considers its capital to be bank indebtedness (net of cash) and shareholders' equity. The Company's capitalization is as follows:

	June 30, 2012	December 31, 2011
Cash and cash equivalents	$ (61)	$ (392)
Bank indebtedness	27,207	19,794
Shareholder's equity	74,965	71,899
Total capitalization	$ 102,111	$ 91,301

The terms of the Company's US and Canadian credit facilities are described in note 8. The terms of the agreements with the Company's lenders provide that distributions cannot be made by its subsidiaries in the event that its subsidiaries do not meet certain credit ratios. The Company's operating subsidiaries were compliant with all required credit ratios under the US and Canadian credit facilities as at June 30, 2012 and December 31, 2011, and accordingly there were no restrictions on distributions arising from compliance with financial covenants.

Dividends are one way the Company manages its capital. Dividends are declared having given consideration to a variety of factors including the outlook for the business and financial leverage. There were no changes to the Company's approach to capital management during the three and six month periods ended June 30, 2012.

On May 7, 2012, the Company declared a cash dividend of $0.03 per common share to shareholders of record as of July 20, 2012. The dividend was paid to shareholders on July 31, 2012. On August 7, 2012, the Company declared a cash dividend of $0.03 per common share to shareholders of record as of October 19, 2012, to be paid on October 31, 2012.

(Tabular amounts expressed in thousands of Canadian dollars)

6. Accounts receivable:

The following is a breakdown of the Company's current and long-term receivables and represents the Company's principal exposure to credit risk.

	June 30, 2012	December 31, 2011
Trade accounts receivable - Canada	$ 13,802	$ 10,561
Trade accounts receivable - United States	30,508	24,226
Sundry receivable	162	148
Current portion of long-term receivables	997	1,158
	45,469	36,093
Less:		
Allowance for credit loss	3,290	2,830
	$ 42,179	$ 33,263
Long-term receivables:		
Employee housing loans	$ 396	$ 368
Customer notes	1,414	1,753
Security deposits	411	431
	2,221	2,552
Less:		
Current portion, included in accounts receivable	997	1,158
	$ 1,224	$ 1,394

The aging of trade receivables is:

	June 30, 2012	December 31, 2011
Current	$ 32,219	$ 20,977
Past due 31 - 60 days	6,928	7,174
Past due 61 - 90 days	1,713	2,676
Past due 90+ days	3,450	3,960
	$ 44,310	$ 34,787

The Company 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, 2012 was $3.3 million (December 31, 2011 - $2.8 million). The amount of the allowance is considered sufficient based on the past experience of the business, the security the Company has in place for past due accounts, and management's regular review and assessment of customer accounts and credit risk.

Bad debt expense, net of recoveries, for the three month period ended June 30, 2012 was nil (three month period ended June 30, 2011 – $0.3 million, being 0.5% of sales). For the six month period ended June 30, 2012, net bad debt expense was $0.3 million being 0.2% of sales (six month period ended June 30, 2011 - $0.8 million, being 0.7% of sales).

(Tabular amounts expressed in thousands of Canadian dollars)

7. Inventories:

	June 30, 2012	December 31, 2011
Lumber	$ 15,458	$ 13,469
Sheet goods	21,014	19,346
Specialty	4,238	3,497
Goods in-transit	4,297	2,703
	$ 45,007	$ 39,015

Inventory related expenses are included in the condensed consolidated statement of comprehensive income as follows:

	Three months ended June 30, 2012	Three months ended June 30, 2011	Six months ended June 30, 2012	Six months ended June 30, 2011
Inventory write-downs	$ 177	$ 168	$ 324	$ 363
Cost of inventory sold	$ 62,727	$ 44,740	$ 120,217	$ 85,961
Other cost of sales	2,532	1,893	4,871	3,603
Total cost of sales	$ 65,259	$ 46,633	$ 125,088	$ 89,564

8. Bank indebtedness:

	June 30, 2012	December 31, 2011
Checks issued in excess of funds on deposit	$ 3,462	$ 922
Credit facility, Hardwoods LP	6,879	4,943
Credit facility, Hardwoods USLP (June 30, 2012 - US$16,566 ; December 31, 2011 - US$13,692)	16,866	13,929
	$ 27,207	$ 19,794

Bank indebtedness consists of checks issued in excess of funds on deposit and advances under operating lines of credit (the “Credit Facilities”) available to subsidiaries of the Company, Hardwoods Specialty Products LP (“Hardwoods LP”) and Hardwoods Specialty Product USLP (“Hardwoods USLP”).

The Hardwoods LP Credit Facility, which has a maturity date of August 7, 2016, provides financing up to $15.0 million. The Hardwoods USLP credit facility provides financing up to US$30 million and has a maturity date of May 26, 2015. Each facility is payable in full at maturity. The Credit Facilities are revolving credit facilities which the Company may terminate at any time without prepayment penalty. 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. Commitment fees and standby charges usual for borrowings of this nature are payable.

(Tabular amounts expressed in thousands of Canadian dollars)

8. Bank indebtedness (continued):

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 less distributions, divided by interest plus principal payments on capital lease obligations) of not less than 1.1 to 1. However, this covenant does not apply so long as the unused availability under the credit line is in excess of $2.0 million. At June 30, 2012, the Hardwoods LP credit facility has unused availability of $8.1 million, before checks issued in excess of funds on deposit of $0.8 million (December 31, 2011 - $6.9 million, checks issued in excess of funds on deposit - nil).

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 55% of the book value of inventories (with certain accounts receivable and inventory being excluded). Hardwoods USLP is required to maintain a fixed charge coverage ratio (calculated as EBITDA less cash taxes less capital expenditures, divided by interest plus distributions) of 1.0 to 1. This covenant of the Hardwoods USLP Credit Facility does not need to be met, however, when the unused availability under the credit facility is in excess of US$2.5 million. At June 30, 2012, the Hardwoods USLP credit facility has unused availability of $13.6 million (US$13.4 million), before checks issued in excess of funds on deposit of $2.6 million (US$2.5 million) (December 31, 2011 - $14.4 million (US$14.1 million), before checks issued in excess of funds on deposit of $0.9 million (US$0.9 million).

9. Leases:

(a) Finance leases as lessee:

Subsidiaries of the Company lease vehicles with terms ranging from 18 to 50 months. The Company and its subsidiaries have determined that these vehicle leases are considered finance leases and are recorded on the statement of financial position.

Finance lease liabilities are payable as follows:

Minimum lease payments due	Within one year	One to five years	Total
June 30, 2012:			
Future minimum lease payments	$ 877	$ 583	$ 1,460
Interest	53	25	78
Present value of minimum payments	$ 824	$ 558	$ 1,382

The present value of the lease payments is calculated using the interest rate implicit in the lease as required by IAS 17, “Leases”.

(Tabular amounts expressed in thousands of Canadian dollars)

9. Leases (continued):

(b) Operating leases as lessee:

At June 30, 2012, the Company's subsidiaries are obligated under various operating leases, mainly building leases, which require future minimum rental payments as follows:

Minimum lease payments due	Within one year	One to five years	After five years	Total
Minimum lease payments due	$ 5,226	$ 11,634	$ 144	$ 17,004
Minimum sublease revenue receivable	106	97	-	203

10. Share Capital:

(a) Share capital:

At June 30, 2012, the authorized share capital of the Company comprised an unlimited number of common shares without par value ("Shares"). A continuity of the Shares is as follows:

	Shares	Total
Balance at December 31, 2011	16,095,343	$ 44,061
Issued pursuant to long term incentive plan	80,744	163
Balance at June 30, 2012	16,176,087	$ 44,224

(b) Long Term Incentive Plan ("LTIP"):

A continuity of the LTIP Shares outstanding is as follows:

	Performance Shares	Restricted Shares
Balance at December 31, 2011	104,856	219,442
LTIP shares issued during the period	17,049	60,537
LTIP shares settled by exchange for free-trading Shares	(39,275)	-
Balance at June 30, 2012	82,630	279,979

No LTIP shares became fully vested in the three month period ended June 30, 2012. During the six month period ended June 30, 2012, 39,275 performance shares became fully vested and were settled by the issuance of 80,744 Shares with a fair value of $0.2 million. The number of Shares issued reflects the applicable performance payout multiplier and cumulative adjustments for dividends paid.

Non-cash LTIP compensation expense of $111,718 was recorded for the three month period ended June 30, 2012 (three month period ended June 30, 2011 – $141,986) and $214,095 for the six month period ended June 30, 2012 (six month period ended June 30, 2011 - $394,432).

(Tabular amounts expressed in thousands of Canadian dollars)

10. Share Capital (continued):

(c) Weighted average shares:

The calculation of basic and fully diluted profit per share is based on the profit for the three and six month periods ended June 30, 2012 of $2.4 million (2011 – $1.5 million) and $3.6 million (2011 - $0.8 million), respectively. The weighted average number of common shares outstanding is as follows:

	Three months ended June 30, 2012	Three months ended June 30, 2011	Six months ended June 30, 2012	Six months ended June 30, 2011
Issued ordinary shares at beginning of period	16,176,087	14,604,085	16,095,343	14,523,858
Effect of shares issued during the period pursuant to long-term incentive plan	-	-	40,816	40,333
Weighted average common shares – basic	16,176,087	14,604,085	16,136,159	14,564,191
Effect of dilutive securities:				
Long-term incentive plan	204,211	215,148	249,144	164,080
Weighted average common shares – diluted, at June 30	16,380,298	14,819,233	16,385,303	14,728,271

11. Finance income and expense:

	Note	Three months ended June 30, 2012	Three months ended June 30, 2011	Six months ended June 30, 2012	Six months ended June 30, 2011
Finance expense:					
Interest on bank indebtedness	8	$ 186	$ 110	$ 350	$ 246
Amortization of deferred finance cost		-	54	-	98
Accretion of finance lease obligation	9	22	24	41	48
Change in fair value of non-controlling interest		-	-	-	547
Write off of uncollectible interest on trade receivables		-	-	49	-
Foreign exchange losses		-	22	-	110
Total finance expense		208	210	440	1,049
Finance income:					
Imputed interest on employee loans receivable	6	3	4	7	8
Interest on trade receivables and customer notes	6	69	131	193	259
Reversal of write off of uncollectible interest on trade receivables		14	-	-	-
Change in fair value of non-controlling interest		-	28	-	-
Foreign exchange gain		257	-	35	-
Total finance income		343	163	235	267
Net finance income (costs)		$ 135	$ (47)	$ (205)	$ (782)

(Tabular amounts expressed in thousands of Canadian dollars)

11. Finance income and expense (continued):

The change in fair value of the non-controlling interest during the three and six month periods ended June 30, 2011 relates to the change in value of the previous owner's 20% exchangeable interests in Hardwoods LP and Hardwoods USLP. The non-controlling interest exchanged its Class B limited partner units of Hardwoods LP and Hardwoods USLP for common shares of the Company on July 1, 2011, eliminating the non-controlling interest liability.

12. Segment reporting:

Information about geographic areas is as follows:

	Three months ended June 30, 2012	Three months ended June 30, 2011	Six months ended June 30, 2012	Six months ended June 30, 2011
Revenue from external customers:				
Canada	$ 22,909	$ 22,371	$ 44,697	$ 43,013
United States	56,244	34,347	107,395	65,735
	$ 79,153	$ 56,718	$ 152,092	$ 108,748

	June 30, 2012	December 31, 2011
Non-current assets:		
Canada	$ 8,467	$ 8,855
United States	15,539	16,600
	$ 24,006	$ 25,455

13. Related party transactions:

Two of the Company's directors are senior officers of Sauder Industries Limited ("SIL"). For the three month period ended June 30, 2012, sales of $61,362 (three month period ended June 30, 2011 - $71,517) were made to affiliates of SIL, and the Company's subsidiaries made purchases of $6,524 (three month period ended June 30, 2011 - $40,925) from affiliates of SIL. For the six months ended June 30, 2012, sales of $121,805 (six month period ended June 30, 2011 - $126,651) were made to affiliates of SIL, and the Company's subsidiaries made purchases of $26,760 (six month period ended June 30, 2011 - $67,315) from affiliates of SIL. All these sales and purchases took place at prevailing market prices.

14. Seasonality:

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

15. Contingencies:

The Company 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 or through insurance, would be material in relation to the Company’s condensed consolidated interim financial statements.