HARDWOODS DISTRIBUTION INCOME FUND

2010

First Quarter Report To Unitholders

About the Fund

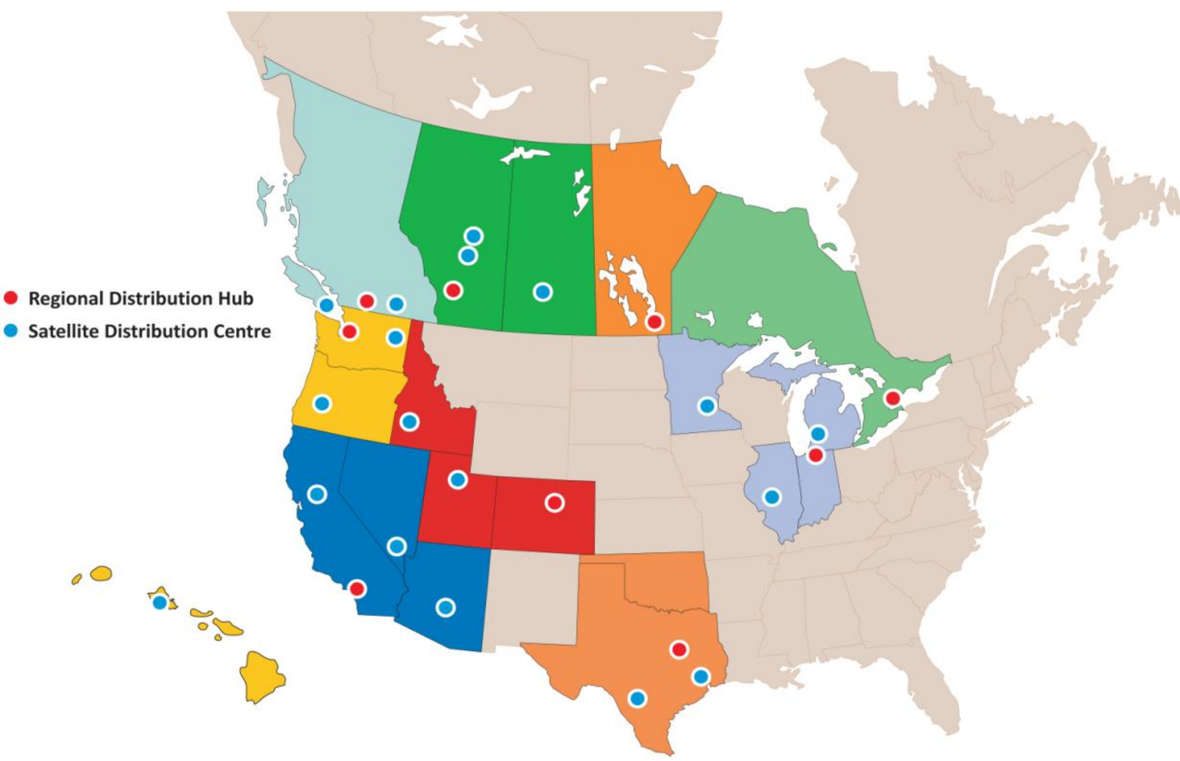
Hardwoods Distribution Income Fund (the "Fund") is an unincorporated open-ended limited purpose trust. The Fund was launched on March 23, 2004 with the completion of an initial public offering (IPO) of 14.4 million trust units ("Class A Units"). Net proceeds of the IPO were used to acquire an 80% interest in a hardwoods lumber and sheet goods distribution business ("Hardwoods" or the "Business") 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 ("Class B Units"), which together are exchangeable into Class A Units provided that the Fund achieves certain objectives. 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 in business for almost 50 years. We sell quality lumber, hardwood plywood and specialty products to cabinet makers, custom millworkers, furniture makers and other industrial customers that manufacture products made from hardwood. Demand for products made from hardwood comes from multiple sectors of the North American economy, including new home construction, renovation, non-residential construction and institutional markets. There is warmth to the look and touch of hardwoods that no other material can match, and people place a high value on products crafted from real wood. Hardwood products are a part of our daily lives in the homes we live in (cabinets, mouldings, custom finishing, and home furniture) and places we visit (furniture, cabinetry, and finishing millwork for office buildings, restaurant and bar interiors, hotel lobbies, retail point-of-purchase displays, schools, hospitals, custom motor coaches, yacht interiors and other specialty areas).

Our role in the industry is to provide the critical link between mills that manufacture large volumes of hardwood lumber and sheet goods, and industrial customers that require smaller quantities of many different hardwood products for their own manufacturing processes. We provide a means for hundreds of hardwood mills to get their product to thousands of small to mid-sized industrial manufacturers. We add value to our suppliers by buying their product in volume and paying them promptly, effectively acting as their third party sales force. We add value for our customers by providing them with the materials they need on a just-in-time basis, in smaller quantities and offering a wider range of product selection than the customer would be able to purchase directly from an individual mill. We are also important to our customers by allowing them to buy material from us on approved credit, which is an important source of financing for customers in our industry.

We are one of the largest distributors of hardwood lumber and sheet goods in North America. We are larger than most of our suppliers, customers, and direct competitors. The hardwood distribution industry is highly fragmented. While there are a number of hardwood distributors that operate from multiple locations, most are small, privately held companies serving discrete local markets.



As shown in the map above, we operate 27 distribution centres organized into nine regions, providing geographic coverage in 14 states and 5 provinces across the US and Canada. To maximize inventory management, we operate utilizing a hub-and-spoke distribution system. Our major hub distribution centres hold the bulk of our inventory, and make regular truck transfers to replenish stock in satellite distribution centres that are located in smaller markets. We operate using a low capital expenditure model. We lease all of our facilities, utilize third party freight providers for all our product shipping needs, and focus strictly on wholesale distribution.

The North American economy is currently experiencing a significant economic downturn, particularly in housing and construction, which are key markets for the hardwoods products that we distribute. This reduction in hardwood demand has reduced our sales and financial performance. However 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.

To Our Unitholders

The first quarter of 2010 brought encouraging developments with signs of a stabilization in demand, stronger hardwood prices and improving EBITDA and Distributable Cash results for the Fund.

Although our sales were down by 9.2% in the first quarter, this reflects a 10.6% decrease due to the negative impact of a stronger Canadian dollar on translation of our US sales for reporting purposes. Our underlying sales actually increased by 1.4% in the three months ended March 31, 2010, compared to the same period last year. The improvement in our sales results was more evident on a sequential quarterly basis, with first quarter sales up 16.6% compared to the fourth quarter of 2009.

Based on these results, we believe that hardwood demand is beginning to benefit from the stabilizing trend that has been underway in the residential construction market since mid 2009. Housing starts initiated in the second half of 2009 have now reached the phase where cabinets, flooring, furniture and other hardwood-related products are used, and this is helping to firm up demand for our products. Our sales results also benefited from higher hardwood lumber prices, which were up 8.7% compared to Q1 2009.

While these are encouraging developments, it is important to note that the hardwood market, the US residential construction market, and the broader North American economy all remain fragile. According to the US Census Bureau, the seasonally adjusted annual rate of US residential construction starts amounted to just 626,000 starts in the first quarter. While that was higher than in the same period last year, it is still a very low level by historical standards. Meanwhile a full complement of hardwood competitors continued to pursue available opportunities, putting pressure on pricing and gross profit margins. During the first quarter, our gross margin percentage slipped to 17.8%, slightly below our target range of 18% to 19%.

In response to these pressures, we maintained our strict focus on defending and building market share. During the first quarter, we continued to offer incentive programs that reward our sales force for identifying and winning new customer accounts and for implementing new product programs that produce sustained sales. We also maintained our focus on promising niche products that we can bring to market in innovative ways, such as our line of Hardwoods Greenbelt™ products.

While working to support sales, we also continued to reduce our costs of doing business. Sales and administrative expense fell by 14.3% in the first quarter, reflecting the benefits of last year's branch rationalizations, as well as a positive foreign exchange impact on costs at our US operations and a one-time S&A expense recovery. Our reduced cost base, together with improvements in our underlying sales, helped us achieve positive bottom-line results, with first quarter EBITDA increasing by 27.6% and Distributable Cash improving by 36.5% compared to the first quarter of 2009.

Overall, we are encouraged by the gains made in the first quarter, but we remain cautious in our expectations for the balance of 2010. Increasing mortgage rates, the expiry of US homebuyers tax credits, and a large "shadow inventory" of homes in early stages of mortgage payment delinquency or bank foreclosure could all serve to slow the rate of recovery in the US residential construction market. In Canada, mid-year implementation of the Harmonized Sales Tax (HST) will make home buying more expensive in Ontario and British Columbia and could have a negative impact on Canadian construction activity.

Careful management of our business will remain a priority for us through 2010, with tight control of expenses, cash and working capital. We will also continue to ensure that our distribution network and expenditures are appropriately aligned with market conditions.

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.

Maurice E. Paquette

President and Chief Executive Officer

Management's Discussion and Analysis

May 7, 2010

This management's discussion and analysis ("MD&A") covers our unaudited interim consolidated financial statements as at and for the three month period ended March 31, 2010 ("Interim Financial Statements"). As well, it provides an update to the MD&A section contained in our 2009 Annual Report. The information below should be read in conjunction with the Interim Financial Statements, and the audited consolidated financial statements and accompanying notes of Hardwoods Distribution Income Fund (the "Fund") for the years ended December 31, 2009 and 2008. Results are reported in Canadian dollars unless otherwise stated, and have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). For additional information, readers should also refer to our Annual Information Form and other information filed on www.sedar.com.

This MD&A includes the following sections:

Certain statements in this MD&A 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 MD&A includes, but is not limited to: our belief that when a sustained economic recovery takes hold prospects for our industry are attractive; our belief that demand and prices for hardwoods products began to improve in the first three months of 2010, driven in part by continued stabilization of the residential construction market, and that our sales results benefited from the improvement in market conditions; that our outlook remains cautious; our belief that US economic conditions are fragile, unemployment is high and the inventory of unsold new and used houses in the US remains near historically high levels; our caution that many economists predict that the recent encouraging signs in the residential construction market could be tempered by higher mortgage rates, the recent expiry of the US government's home-buyers tax credit and the shadow inventory of US homes in early stages of mortgage payment delinquency and bank foreclosure; our belief that in Canada, implementation of the Harmonized Sales Tax (HST) by mid-year will also make home buying more expensive in Ontario and British Columbia and could have a negative impact on Canadian construction activity; our belief that our risk of bad debt also remains elevated with many customers feeling the effects of the prolonged downturn; our anticipation that 2010 will bring a slow and uneven market recovery, and that a more sustainable and robust market recovery will not occur prior to 2011; our intention that tightly managing cash and working capital will remain a key focus in 2010, and that we will continue to ensure that our distribution network and expenditures are appropriately aligned with market conditions; our intention to remain proactive on the marketing front with continued sales force motivation and further investment in strategic product lines; our intention to continue to prepare for a management transition in 2010, with President and CEO, Maurice Paquette planning to retire following a 36-year career with Hardwoods and its predecessor companies; and, our planned debt management strategy.

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 this MD&A.

All forward-looking information in this MD&A 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.

In this MD&A, references to “EBITDA” are to earnings before interest, income taxes, depreciation and amortization, unrealized foreign currency gains and losses, 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” are to net cash provided by operating activities, before changes in non-cash operating working capital, less capital expenditures and contributions to any reserves that the Boards of Directors of our operating entities determine to be reasonable and necessary for the operation of the businesses owned by these entities.

We believe that, in addition to net income or loss, our EBITDA and our Distributable Cash are each a useful supplemental measure of operating performance that may assist investors in assessing their investment in Class A Units. 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 our liquidity and cash flows. Our method of calculating EBITDA and Distributable Cash may differ from the methods used by other issuers. Therefore, our EBITDA and Distributable Cash may not be comparable to similar measures presented by other issuers. For a reconciliation between EBITDA and net income or loss as determined in accordance with GAAP, please refer to the discussion of Results of Operations described in section 3.0 of this report. For a reconciliation between Distributable Cash and net cash provided by operating activities as determined in accordance with GAAP, please refer to the discussion of Distributable Cash and Cash Distributions described in section 4.1 of this report.

We believe that this MD&A has been prepared in all material respects in accordance with recommendations issued by the Canadian Institute of Chartered Accountants (the “CICA”) with respect to “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 “Interpretive Guidance”). The Interpretive Guidance provides guidance on standardized preparation and disclosure of distributable cash for income trusts (“Standardized Distributable Cash”). The CICA calculation of Standardized Distributable Cash, which is also a non-GAAP measure, is defined, for the purposes of the Fund, as the periodic cash provided by operating activities as reported in the GAAP financial statements, including the effects of changes in non-cash working capital, less total capital expenditures. For a summary of our Standardized Distributable Cash, please refer to section 4.2 of this report. For a reconciliation between Standardized Distributable Cash and our Distributable Cash, please see section 4.2.

1.0 Background

1.1 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 ("Class A Units"). Net IPO proceeds 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 ("Class B Units"), which together are exchangeable into Class A Units provided that the Fund achieves certain objectives. Distributions by the Fund's operating subsidiaries to the previous owners are subject to subordination arrangements until certain financial tests established at the time of the IPO and described in the Audited Financial Statements are met. As at March 31, 2010, 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.

1.2 About our Business and Industry

Serving customers for almost 50 years, Hardwoods is one of North America's largest distributors of high-grade hardwood lumber and specialty sheet goods to the cabinet, moulding, millwork, furniture and specialty wood products industries. At March 31, 2010 we operated 27 distribution facilities organized into nine geographic regions covering 14 states and 5 provinces throughout North America. To maximize inventory management, we operate utilizing a hub and spoke distribution system, with major hub distribution centres holding the bulk of our inventory and making regular truck transfers to replenish stock in satellite distribution centres that are located in smaller markets. We operate using a low capital expenditure model. We lease all of our facilities, utilize third party freight providers for all our product shipping needs, and focus strictly on wholesale distribution.

Approximately half of our product mix is made up of high-grade hardwood lumber. The balance is made up of sheet goods, consisting primarily of hardwood plywood, and including non-structural sheet goods such as medium-density fiberboard, particleboard and melamine-coated stock. Our sheet goods are a key complementary product line as they are used by many purchasers of hardwood lumber in the manufacture of their end products.

Our role in the industry is to provide the critical link between mills that manufacture large volumes of hardwood lumber and sheet goods, and industrial customers that require smaller quantities of many different hardwood products for their own manufacturing processes. We provide a means for hundreds of hardwood mills to get their product to thousands of small to mid-sized industrial manufacturers. We add value to our suppliers by buying their product in volume and paying them promptly, effectively acting as their third party sales force. We add value for our customers by providing them with the materials they need on a just-in-time basis, in smaller quantities and offering a wider range of product selection than the customer would be able to purchase directly from an individual mill. We are also important to our customers because we allow them to buy material from us on approved credit, which is an important source of financing for customers in our industry.

Our customer base manufactures a range of end-use products, such as cabinetry, furniture and custom millwork. These products, in turn, are sold into multiple sectors of the economy, including new home construction, renovation, non-residential construction and institutional markets. As a result of this diversity, it is difficult to determine with certainty what proportion of our products ends up in each sector of the economy. We estimate at least 50% of our products are used in new residential construction, in the form of cabinets, mouldings, custom finishing, and home furniture. We believe the balance of our products end up in other sectors of the economy not associated with new residential construction, such as home renovations, finishing millwork for office buildings, restaurant and bar interiors, hotel lobbies, retail point-of-purchase displays, schools, hospitals, custom motor coaches, yacht interiors and other specialty areas.

Approximately 95% of the hardwood lumber distributed in North America is harvested from North American hardwood forests, located principally in the Eastern United States, and is milled by hundreds of small mills. Imported hardwood lumber is largely limited to specialty species that generally do not compete with domestic hardwood lumber. Sheet goods are generally produced in North America by large manufacturers using domestic hardwoods and other materials, although imported hardwood plywood volumes have been increasing. Both domestic and imported hardwood lumber and plywood are distributed principally by third parties such as us. Historically, balanced supply and demand conditions have resulted in a stable pricing environment for hardwood lumber and hardwood plywood. More recently, the global economic crisis has resulted in supply/demand imbalances. While manufacturers have sharply curtailed production, supply has generally outpaced demand, resulting in a pronounced downward trend in hardwood pricing over the past three years. More recently, hardwood pricing has strengthened and regained some lost ground, but remains at depressed levels.

The North American economy has recently experienced a significant economic downturn, particularly in housing and construction, which are key markets for the hardwoods products that we distribute. This reduction in hardwood demand has reduced our sales and financial performance. However 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.

2.0 Overview and Outlook

After a prolonged downturn, demand and prices for hardwoods products began to improve in the first three months of 2010, driven in part by continued stabilization of the residential construction market. According to the US Census Bureau, the seasonally adjusted annual rate of US housing starts was 626,000 at the end of the first quarter of 2010, up from the rate of 521,000 housing starts at the same time last year. In the first quarter average prices for hardwood lumber products were 8.7% stronger than a year ago, primarily due to mill supply shortages.

Our sales results benefited from the improvement in market conditions. Although first quarter sales declined by 9.2% year-over-year, this was due to the negative impact of a stronger Canadian dollar on the translation of US dollar sales. For the three months ended March 31, 2010, our underlying sales actually increased by 1.4% compared to the same period last year. This reflects a 4.5% increase in US sales, measured in US dollars, partially offset by a 3.7% decline in our sales in Canada. Sales were also up significantly on a sequential quarterly basis, with total first quarter sales increasing 16.6% compared to the fourth quarter of 2009.

Our first quarter gross profit margin, as a percentage of sales, declined to 17.8% from 18.0% in Q1 2009, primarily due to competitive factors. Although hardwoods demand has shrunk significantly since its peak in mid-2006, a full host of competitors remain in the market and competition for available sales is intense. We have addressed this challenge with sales strategies designed to retain and win customers and by taking steps to mitigate downward pressure on our margins with a mix of higher-value products.

We also continued to reduce our cost of doing business. During the first quarter, we reduced our sales and administrative expenses by 14.3% compared to the same period last year. This, together with the improvement in our underlying sales, contributed to positive EBITDA and Distributable Cash in the first quarter and improved results compared to a year ago.

Overall we are encouraged by the progress made in the first quarter of 2010 and by the strong financial position we enjoy as we work our way through these early phases of market recovery. As at March 31, 2010, we had $19.4 million of unused credit facility available to us and just $7.9 million of bank indebtedness, net of cash.

Our outlook remains cautious, however. US economic conditions are fragile, unemployment is high and the inventory of unsold new and used houses in the US remains near historically high levels. In addition, many economists predict that the recent encouraging signs in the residential construction market could be tempered by higher mortgage rates, the recent expiry of the US government's home-buyers tax credit and the shadow inventory of US homes in early stages of mortgage payment delinquency and bank foreclosure. In Canada, implementation of the Harmonized Sales Tax (HST) by mid-year will also make home buying more expensive in Ontario and British Columbia and could have a negative impact on Canadian construction activity. Hardwoods' risk of bad debt also remains elevated with many customers feeling the effects of the prolonged downturn. Overall, we continue to anticipate that 2010 will bring a slow and uneven market recovery, and that a more sustainable and robust market recovery will not occur prior to 2011.

In light of these expectations, tight management of cash and working capital will remain a key focus in 2010, and we will continue to ensure that our distribution network and expenditures are appropriately aligned with market conditions. We will also remain proactive on the marketing front with continued sales force motivation and further investment in strategic product lines.

As announced in our fourth quarter report, we are preparing for a management transition in 2010, with President and CEO, Maurice Paquette planning to retire following a 36-year career with

Hardwoods and its predecessor companies. The Board's search for a successor to Mr. Paquette is underway and will continue in the second quarter.

3.0 Results of Operations

Three Months Ended March 31, 2010 and March 31, 2009

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

		For the three months Ended March 31, 2010		For the three months Ended March 31, 2009
Total sales	$	48,498	$	53,422
Sales in the US (US$)		*27,703*		*26,503*
Sales in Canada		*19,685*		*20,437*
Gross profit		8,629		9,616
Gross profit %		*17.8%*		*18.0%*
Selling and administrative expenses		(7,460)		(8,700)
Earnings before interest, taxes, depreciation and amortization and non-controlling interest ("EBITDA")		1,169	$	916
Add (deduct):				
Amortization		(182)		(225)
Interest		(145)		(152)
Non-cash foreign currency gains (losses)		(57)		332
Non-controlling interest		(157)		474
Income tax recovery (expense)		(214)		522
Net earnings for the period	$	414	$	1,867
Basic and fully diluted earnings per Class A Unit	$	0.029	$	0.130
Average Canadian dollar exchange rate for one US dollar		1.0401		1.2446

Sales

For the three months ended March 31, 2010, total sales were $48.5 million, down 9.2% compared to $53.4 million during the same period in 2009. The decline in total sales reflects a 10.6% decrease due to the negative effect of a stronger Canadian dollar, partially offset by a 1.4% increase in underlying sales activity. First quarter sales activity at our US operations (as measured in US dollars) was up by 4.5%, while sales in Canada declined by 3.7%. Economic conditions influencing our sales are discussed in section 2.0 of this MD&A.

First quarter sales of $48.5 million were $6.9 million, or 16.6% higher, than the $41.6 million in sales reported in the fourth quarter of 2009. Following an extended period of contraction in demand in hardwood markets, this is the first quarter-over-quarter improvement in sales the Fund has realized in two years.

Gross Profit

Gross profit for the three months ended March 31, 2010 was $8.6 million, a decrease of $1.0 million from the $9.6 million reported in the same period in 2009. The decrease in gross profit primarily reflects lower sales, as well as a decrease in gross profit as a percentage of sales to 17.8% in the first quarter of 2010, compared to 18.0% in the same period in 2009. Our target range for gross profit percentage is 18% to 19%, although some quarter-to-quarter variation is considered normal. With reduced overall market demand, competition for remaining business remains significant, putting pressure on our margins.

Selling and Administrative Expenses

S&A expenses decreased 14.3% to $7.5 million in the first quarter of 2010, from $8.7 million during the same period in 2009. The $1.2 million decrease reflects a $0.8 million positive foreign exchange impact of a stronger Canadian dollar on the conversion of S&A expenses at our US operations, and a $0.3 million one-time credit against S&A expenses related to proceeds from a lawsuit settlement received in the first quarter. As a percentage of sales, first quarter 2010 S&A expenses were 15.4% of sales, compared to 16.3% in 2009.

EBITDA

For the three months ended March 31, 2010, we recorded EBITDA of $1.2 million, compared to $0.9 million during the same period in 2009. The $0.3 million increase in EBITDA reflects the $1.2 million reduction in S&A expenses, partially offset by the $1.0 million decrease in gross profit.

Non-Cash Foreign Currency Gains and Losses

For the three months ended March 31, 2010, non-cash foreign currency losses totaled $0.1 million. This loss was related to the foreign currency translation of US dollar-denominated balances held by Canadian subsidiaries of the Fund. In the comparative three-month period ended March 31, 2009, a non-cash gain of $0.3 million was recorded as a result of the translation of US dollar-denominated income tax receivables and translation of US dollar-denominated intercompany debt advanced by the Fund to a wholly-owned US subsidiary.

Non-controlling Interest

The non-controlling interest’s (“NCI”) share of pre-tax earnings was $0.2 million in the first quarter of 2010. In contrast, the value of the NCI was reduced by $0.5 million in the comparable period in 2009, primarily to reflect the value of subordinated distributions that could no longer be recovered by the Class B Units under the terms of the Fund’s subordination feature.

Income Tax

An income tax expense of $0.2 million was recorded in the first quarter of 2010, primarily reflecting the use of future tax assets to affect taxable income generated during the period. By comparison, an income tax recovery of $0.5 million was recorded in the first quarter of 2009, primarily related to future tax assets recognized during the quarter.

Net Earnings

Net earnings for the three months ended March 31, 2010 were $0.4 million, compared to $1.9 million in 2009. The $1.5 million reduction to net earnings primarily reflects the $0.3 million increase in EBITDA, offset by the $0.4 million decrease in non-cash foreign currency gains, the $0.7 million decrease in recovery from the NCI and the $0.7 million decrease in income tax recovery.

4.0 Liquidity and Capital Resources

4.1 Distributable Cash and Cash Distributions

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

		3 months ended March 31, 2010		3 months ended March 31, 2009
Net cash provided by operating activities	$	(3,785)	$	5,414
Increase (decrease) in non-cash operating working capital		4,763		(4,704)
Cash flow from operations before changes in non-cash operating working capital		978		710
Capital expenditures		(16)		(5)
Distributable Cash	$	962	$	705
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
Class B Units outstanding		3,602,500		3,602,500
Total Units outstanding		18,012,500		18,012,500
Distributable Cash per Total Units	$	0.053	$	0.039
Distributions relating to the period:				
Class A Units	$	-	$	-
Class B Units (1)	$	-	$	-
Total Units	$	-	$	-
Payout ratio (2)		0.0%		0.0%

	March 23, 2004 to March 31, 2010
Cumulative since inception:	
Distributable Cash	76,440
Distributions relating to the period	66,754
Payout ratio (2)	87.3%

[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 March 31, 2010 balance sheet.

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

We pay distributions on Class A Units at the end of the month following the month in which the cash is earned. Distributions may also be made quarterly on Class B Units in an amount equivalent on an after-tax per-unit basis to distributions made on Class A Units, pursuant to the terms of a subordination agreement as outlined in the Fund's Annual Information Form. Except as outlined in the terms of the subordination agreement with the Class B Units, there are no limitations on distributions from the subsidiaries of the Fund arising from the existence of a minority interest in a subsidiary of the Fund. Further description of the subordination arrangement is included in the notes to the accompanying Interim Financial Statements.

The Fund's subordination feature is designed to stay in place until the EBITDA and certain distributable cash tests established at the time of the IPO are met. The terms of these tests are described in the notes to the accompanying Interim Financial Statements.

In the three months ended March 31, 2010, the Fund and its subsidiaries generated total Distributable Cash available to Class A and Class B Unitholders of $1.0 million, or $0.053 per unit. No distributions were made relating to the period. On November 3, 2008, the Trustees of the Fund suspended monthly cash distributions until such time as market conditions and the Fund's financial performance have stabilized.

4.2 Standardized Distributable Cash and Cash Distributions

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

	3 months ended March 31, 2010	3 months ended March 31, 2009
Net cash provided by operating activities	$ (3,785)	$ 5,414
Capital expenditures	(16)	(5)
Standardized Distributable Cash	$ (3,801)	$ 5,409
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
Class B Units outstanding	3,602,500	3,602,500
Total Units outstanding	18,012,500	18,012,500
Standardized Distributable Cash per Total Units	$ (0.211)	$ 0.300
Distributions per Total Units	$ -	$ -
Standardized payout ratio (2)	0.0%	0.0%

	March 23, 2004 to March 31, 2010
Cumulative since inception:	
Standardized Distributable Cash	89,511 (3)
Distributions relating to the period	66,754
Standardized Payout ratio (2)	74.6%

[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 March 31, 2010 balance sheet.
[2] Payout ratio measures the ratio of distributions by the Fund relating to the period to Standardized Distributable Cash for the period.
[3] Calculation of cumulative Standardized Distributable Cash since inception excludes a $10.3 million increase in non-cash operating working capital, which relates to a final working capital adjustment payment made to the former owners to complete the initial purchase of the Business.

In addition to our Distributable Cash, the Interpretive Guidance also recommends disclosure of Standardized Distributable Cash. This is provided in the table above. We believe that the calculation of Standardized Distributable Cash distorts the Fund's quarter-to-quarter distributable cash and payout ratios, as our non-cash operating working capital fluctuates significantly as a result of the seasonality of our business and significant changes in market demand for our products. The board of directors of our operating entities looks beyond quarter-to-quarter fluctuations in working capital when making decisions regarding monthly distributions. As a result, we believe that our historical measure of Distributable Cash, which excludes the impact of changes in non-cash working capital, is a better measure for determining our operating performance.

The table below reconciles Standardized Distributable Cash to our Distributable Cash.

Selected Unaudited Consolidated Financial Information
(in thousands of dollars)

		3 months ended March 31, 2010		3 months ended March 31, 2009
Standardized Distributable Cash	$	(3,801)	$	5,409
Increase (decrease) in non-cash operating working capital		4,763		(4,704)
Distributable Cash	$	962	$	705

4.3 Working Capital

Our business requires an ongoing investment in working capital, comprised of accounts receivable, income taxes recoverable, inventory, and prepaid expenses, partly offset by short-term credit provided by suppliers in the form of accounts payable and accrued liabilities. Our investment in working capital fluctuates from quarter-to-quarter based on factors such as seasonal sales demand, strategic purchasing decisions taken by management, and the timing of collections from customers and payments made to our suppliers. Historically the first and fourth quarters are seasonally slower periods for construction activity and therefore demand for hardwood products decreases. As a result, sales and working capital requirements may be lower in these quarters. A summary of changes in our non-cash operating working capital during the three months ended March 31, 2010 and 2009 is provided below.

(in thousands of Canadian dollars)

Source (use) of funds		3 months ended March 31, 2010		3 months ended March 31, 2009
Accounts receivable	$	(5,296)	$	(3,910)
Income taxes recoverable	$	-		1,731
Inventory	$	(487)		3,362
Prepaid expenses	$	175		199
Accounts payable and accrued liabilities	$	845		3,322
Decrease (increase) in non-cash operating working capital	$	(4,763)	$	4,704

Continued compliance with financial covenants under our credit facilities is important to ensure that we maintain adequate availability of financing to meet our working capital requirements. The terms of our revolving credit facilities are addressed in section 4.6 of this report.

4.4 Capital Expenditures and Productive Capacity

Our capital expenditures are typically low as we lease all of our buildings and contract out all freight delivery services. Capital expenditures are principally for the replacement of forklifts, furniture and fixtures, leasehold improvements and computer equipment. Annual maintenance capital requirements are expected to average approximately $1.0 million per year, but may be higher or lower than this in a particular year, based on the needs of the business. More recently, and consistent with our current focus on cost reduction and cash conservation, we have decreased our discretionary cash outlays for capital items. In 2009 our total capital expenditures amounted to just $0.1 million, and in the first quarter of 2010 were just $16,000. The closing of nine branch locations in the past two years has freed up additional forklift capacity and reduced our need to purchase replacement forklift equipment. Despite our reduced spending on capital expenditures, we believe we have made sufficient expenditures to sustain productive capacity of the business as it relates to our needs for property, plant and equipment.

In addition to maintaining the productive capacity of our property, plant and equipment, we also manage the productive capacity of the business in terms of: (1) available distribution infrastructure; and (2) maintenance of a skilled work force.

Available distribution infrastructure refers to the physical capacity of the distribution network maintained by our business, and may be measured in terms of the number and total square footage of distribution centres in operation. Since the Fund's IPO in March 2004, we have made a number of adjustments to our distribution network, including opening, closing, and relocating some of our distribution facilities. In response to the lengthy market downturn, we have downsized our distribution infrastructure, closing a total of nine branches in 2008 and 2009. We believe these reductions are appropriate to better match our productive capacity to current market demand.

Selected Unaudited Consolidated Financial Information

	March 31, 2010	December 31, 2009	December 31, 2008	December 31, 2007	December 31, 2006	December 31, 2005
Number of distribution centres in operation	27	27	29	36	36	39
Total square footage of distribution centres	1.0 million s.f.	1.0 million s.f.	1.1 million s.f.	1.3 million s.f.	1.3 million s.f.	1.3 million s.f.

Maintenance of a skilled workforce is also important to managing the productive capacity of our business. Our staffing levels reflect decisions regarding our distribution network and our expectations for sales demand based upon prevalent economic conditions. Trends in our workforce capacity, as measured in terms of number of employees and average annual sales dollars per employee, are summarized below. Although the productive capacity of our human capital is difficult to measure directly, we believe the productive capacity of our business in terms of our human capital relative to available market demand, as measured by sales, has been largely sustained.

Selected Unaudited Consolidated Financial Information

	March 31, 2010	December 31, 2009	December 31, 2008	December 31, 2007	December 31, 2006	December 31, 2005
Number of employees	159	159	190	236	252	259
Annual sales per employee ($ millions)	1.2 [1]	1.2	1.3	1.4	1.4	1.4

[1] Three months sales to March 31, 2010 annualized, divided by number of employees

4.5 Utilization of Distributable Cash

Selected Unaudited Consolidated Financial Information (in thousands of dollars)

	3 months ended March 31, 2010	3 months ended March 31, 2009
Distributable Cash	$ 962	$ 705
Cash Distributions paid in the period	-	-
Distributable Cash retained (shortfall)	$ 962	$ 705
Decrease (increase) in non-cash operating working capital	(4,763)	4,704
Decrease (increase) in long-term receivables	164	186
Decrease (increase) in deferred financing fees	-	-
Proceeds from disposal of property, plant and equipment	15	10
Decrease (increase) in bank indebtedness, net of cash	$ (3,622)	$ 5,605

Our utilization of Distributable Cash and its relation to working capital use and bank line financing are summarized in the preceding table.

For the three months ended March 31, 2010, the Fund generated Distributable Cash of $1.0 million and paid no cash distributions. We increased our investment in non-cash operating working capital by $4.8 million, primarily in the form of increased accounts receivable balances associated with the increase in sales in the first quarter. We also reduced our investment in long-term receivables by $0.2 million. Combined, these actions increased our bank indebtedness (net of cash) by $3.6 million in the first quarter of 2010.

4.6 Revolving Credit Facilities and Debt Management Strategy

Selected Unaudited Consolidated Financial Information (in thousands of dollars)

	As at March 31, 2010		As at December 31, 2009	
Cash and cash equivalents	$	(195)	$	(463)
Bank indebtedness		8,130		4,960
Net Debt	$	7,935	$	4,497
Unitholders' Equity	$	54,748	$	55,158
Total Capitalization	$	62,683	$	59,655
Net debt to total capitalization		12.7%		7.5%

As discussed previously in section 4.5 of this report, we increased our net debt by $3.6 million during the three months ended March 31, 2010. The impact of a stronger Canadian dollar (as at March 31, 2010 compared to December 31, 2009) on the conversion of our US dollar bank line reduced our debt by $0.2 million. Combined, the Fund's net debt balance increased by $3.4 million to $7.9 million at March 31, 2010, from $4.5 million at December 31, 2009. Overall net debt compared to total capitalization stood at 12.7% as of March 31, 2010, compared to 7.5% at December 31, 2009.

We have independent credit facilities in both Canada and the U.S. These facilities may be drawn down to meet short-term financing requirements such as fluctuations in non-cash working capital, and in the case of the Canadian credit facility to also make capital contributions to the Fund's US operating subsidiary. The amount made available under our Canadian and US revolving credit facilities is, from time-to-time, limited to the extent of the value of certain accounts receivable and inventories held by subsidiaries of the Fund. Credit facilities also require ongoing compliance with certain credit ratios. A summary of our credit facilities at March 31, 2010 is provided in the following table.

Selected Unaudited Consolidated Financial Information (in thousands of dollars)

	Canadian Credit Facility	US Credit Facility
Maximum borrowings under credit facility	$15 million	$25.4 million (US$25 million)
Credit facility expiry date	August 7, 2012	September 30, 2011
Available to borrow	$12.2 million	$ 15.4 million (US$15.2 million)
Credit facility borrowings	$ 1.6 million	$ 6.6 million (US$6.5 million)
Unused credit facility available	$ 10.6 million	$ 8.8 million (US$8.7 million)
Financial covenants:		
a. (EBITDA - Cash Taxes - Capital Expenditures) / Interest [(1)]		
Covenant minimum	1.1	
Covenant actual	33.9	
b. Minimum Trailing EBITDA covenant		Covenant does not apply when the unused credit facility available exceeds US$4.0 million, which it did as at March 31, 2010

[1] EBITDA and Interest calculated on a trailing twelve month basis in accordance with the terms of the Canadian credit facility.

The principal terms of the credit facilities of Hardwoods LP and Hardwoods US LP are available at www.sedar.com.

The terms of the agreements with our lenders provide that distributions cannot be made to our unitholders in the event that our subsidiaries are not compliant with their financial covenants. As shown in the preceding table, our operating subsidiaries were compliant with all required credit ratios as at March 31, 2010, and accordingly there were no restrictions on distributions arising from non-compliance with financial covenants.

Our debt management strategy is to roll and renew, as opposed to repay and retire, our revolving credit facilities in Canada and the US when they expire in August 2012 and September 2011, respectively. We do not intend to restrict future distributions in order to fully extinguish our bank debt obligations upon their maturity. The amount of bank debt that will actually be drawn upon our available revolving credit facilities will depend upon the seasonal needs of the business and cash generating capacity of the Fund. When making distribution decisions, we will consider the amount of financial leverage, and therefore bank debt, we believe is appropriate for the Fund given existing and expected market conditions and available business opportunities. Currently our focus is on cash conservation and maximizing liquidity until such time as market conditions and the Fund’s financial performance and cash generating performance have improved. We do not target a specific financial leverage amount.

4.7 Contractual Obligations

The table below sets forth our contractual obligations as at March 31, 2010. These obligations relate to operating leases on various premises and automobiles, and become due in the fiscal years indicated:

(in thousands of Canadian dollars)

Total	2010	2011	2012	2013	2014	2015 & thereafter
$ 15,685	$ 4,137	$ 3,990	$ 2,985	$ 2,219	$ 1,704	$ 650

4.8 Off-Balance Sheet Arrangements

The Fund has no off-balance sheet arrangements.

5.0 Related Party Transactions

Related parties refers to affiliates of the previous owners of the Business who have retained a 20% interest in Hardwoods through ownership of Class B Hardwoods LP units and Class B Hardwoods USLP units, respectively. For the three months ended March 31, 2010, sales of $0.1 million were made to related parties, and the subsidiaries of the Fund purchased $28,000 from related parties. These sales and purchases took place at prevailing market prices.

6.0 Critical Accounting Estimates and Adoption of Changes in Accounting Policies

6.1 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 estimate of the potential of recovering our accounts receivable, and incorporates current and expected collection trends.

Valuation of Inventories: We anticipate that 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.

Future Income Taxes: We are required to make estimates and assumptions regarding future business results, as well as the amount and timing of certain future discretionary tax deductions available to the Fund. These estimates and assumptions can have a material impact upon the amount of future income tax assets and liabilities that we recognize.

6.2 Adoption of New Accounting Standards

On January 1, 2011, International Financial Reporting Standards ("IFRS") will replace current Canadian standards and interpretations as Canadian generally accepted accounting principles ("Canadian GAAP") for public companies. Changing from current Canadian GAAP to IFRS will be a significant undertaking that may materially affect the Fund's reported financial position and results of operations. It may also affect certain business functions. We have adopted an IFRS changeover plan. It is expected that our changeover plan will be modified and updated as we proceed through the changeover process. Key elements of our current changeover plan include:

Year	Key Activities
2008	Completed IFRS education and training with our accounting staff. Identified an IFRS project manager. Determined the intended use of outside consultants, if any. Analyzed differences between our current accounting policies and IFRS.
2009	Made preliminary selections of IFRS accounting policies. Identified one-time elective exemptions available on initial IFRS adoption. Identified the information required to deliver the preliminary selections of IFRS accounting policies. Identified system changes (accounting, policies, procedures, information technology) required to get that information. Developed a master conversion plan for changes identified. Automated and tested data collection. Identified and addressed the impact of changes IFRS makes to our business drivers, including debt covenants, incentive plans, and management reporting, budgeting, and other items.
2010	Calculate impacts of IFRS adoption on our financial statements at transition date and collect information on adjustments related to 2010 comparatives. Commence IFRS accounting to provide comparative figures for 2011 IFRS startup date. Prepare IFRS communication plan for stakeholders. Link IFRS to CEO/CFO certification processes and update certification documentation relating to internal controls over financial reporting and disclosure controls.
2011	Commence IFRS reporting.

While the effects of IFRS have not yet been fully determined, we have identified a number of key areas which are likely to be impacted and will take effect upon the IFRS transition date of January 1, 2011. The deferred gain on sale-leaseback of a previously sold land and building will be eliminated against opening retained deficit. We expect to utilize the optional election under IFRS 1 *First Time Adoption of International Financial Reporting Standards* to deem unrealized losses on translation of self-sustaining foreign operations to be zero, and reclassify any amounts previously recognized against opening retained deficit.

We are still completing our final assessment in other financial reporting areas, but have identified some further impacts that may arise. Automobile leases that are currently classified as operating leases under Canadian GAAP may be classified as capital leases under IFRS, resulting in the recording of a capital lease asset and corresponding lease payable obligation on our balance sheet. The reporting of non-controlling interests and Fund units require further analysis under IAS-32 *Financial Instruments: Presentation*, to conclude whether they should be presented as equity or long-term liabilities on our balance sheet under IFRS.

Finally we anticipate that some financial statement presentation changes will be required to conform to IFRS requirements, such as a reclassification of certain expenses to present the statement of earnings in a functional format, and more detailed notes to the financial statements to meet the more comprehensive disclosure requirements of IFRS.

7.0 Risks and Uncertainties

We are exposed to a number of risks and uncertainties in the normal course of business that could have a negative effect on our financial condition or results of operations. We identified significant risks that we were aware of in our Annual Information Form dated March 29, 2010, which is available to readers at www.sedar.com. Particular risks we see facing the Business in 2010 include:

1. US economic performance: Approximately two thirds of our business originates in the US. It is unclear to what degree and how quickly the US economy will recover in 2010. Until such time as sustained and positive economic indicators return to housing and construction markets, demand for hardwood products remains highly uncertain, and our ability to predict our sales and profitability is an elevated business risk.

2. Bad debt expenses: The fallout of over two years of contraction in market demand and pricing for hardwoods products has been that a number of our customers have closed operations, been forced out of business, or no longer qualify for credit and have been cut off from further sales. Our bad debt expense in 2009 was significantly higher than what

we have experienced in the past under normal market conditions. To the extent that the economic downturn continues for an extended period or worsens, we could experience further credit losses if additional customers are forced out of business. We believe our bad debt risk will remain elevated through 2010.

3. Leadership change: After 36 years in the industry, our CEO has announced his intention to retire in 2010. Under the direction of our board of directors, a process is underway to select his successor. Making a leadership change at the CEO level is done infrequently by Hardwoods, and represents an uncertainty facing the business in the upcoming year.

8.0 Internal Control Over Financial Reporting

During the three months ended March 31, 2010, no changes were made in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

9.0 Quarterly Financial Information

(in thousands of dollars)	Q1 2010	Q4 2009	Q3 2009	Q2 2009	Q1 2009	Q4 2008	Q3 2008	Q2 2008
Total sales	$ 48,498	$ 41,577	$ 46,435	$ 49,489	$ 53,422	$ 56,650	$ 62,115	$ 66,488
Net earnings	$ 414	$ (544)	$ (11,072)	$ (491)	$ 1,867	$ (12,941)	$ 885	$ (33,716)
Basic and fully diluted earnings (loss) per Class A Unit	$ 0.029	$ (0.038)	$ (0.768)	$ (0.034)	$ 0.130	$ (0.898)	$ 0.061	$ (2.340)
EBITDA	$ 1,169	$ (2,421)	$ 543	$ (192)	$ 916	$ (1,430)	$ 1,344	$ 3,091
Distributable Cash	$ 962	$ (505)	$ 230	$ (569)	$ 705	$ (1,730)	$ 1,000	$ 2,427
Total distributions to Class A and Class B Units	$ -	$ -	$ -	$ -	$ -	$ -	$ 1,081	$ 3,242
Payout ratio	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	108.2%	133.6%

The table above provides selected quarterly financial information for our eight most recently completed fiscal quarters. 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 an indication of future performance. Historically, the first and fourth quarters have been seasonally slower periods for our business. In addition, net earnings reported in each quarter may be impacted by changes to the foreign exchange rate of the Canadian and US dollar, write-downs in the carrying value of goodwill and other intangible assets (which occurred in the three months ended June 30, 2008, and three months ended December 31, 2008), and write-downs in the carrying value of future income tax assets (which occurred in the three months ended September 30, 2009).

HARDWOODS DISTRIBUTION INCOME FUND

Consolidated Balance Sheets
(Expressed in thousands of Canadian dollars)

	March 31, 2010	December 31, 2009
	(unaudited)	
Assets		
Current assets:		
Cash and cash equivalents	$ 195	$ 463
Accounts receivable (note 6)	30,148	25,585
Income tax recoverable	2,209	2,286
Inventory (note 5)	23,877	23,901
Prepaid expenses	689	878
	57,118	53,113
Long-term receivables (note 6)	1,794	1,883
Property, plant and equipment	1,122	1,291
Deferred financing costs	348	396
Future income taxes	17,087	17,587
	$ 77,469	$ 74,270
Liabilities and Unitholders' Equity		
Current liabilities:		
Bank indebtedness (note 7)	$ 8,130	$ 4,960
Accounts payable and accrued liabilities	5,706	4,988
	13,836	9,948
Deferred gain on sale-leaseback of land and building	383	416
Non-controlling interests (note 8)	8,502	8,748
Unitholders' equity:		
Fund units	133,454	133,454
Deficit	(59,784)	(60,198)
Accumulated other comprehensive loss	(18,922)	(18,098)
	54,748	55,158
Contingencies (note 14)		
	$ 77,469	$ 74,270

See accompanying notes to consolidated financial statements.

Approved on behalf of the Trustees:

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

HARDWOODS DISTRIBUTION INCOME FUND

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

	Three months ended March 31, 2010	Three months ended March 31, 2009
Sales	$ 48,498	$ 53,422
Cost of sales	39,869	43,806
Gross profit	8,629	9,616
Expenses:		
Selling and administrative	7,460	8,700
Amortization:		
Plant and equipment	156	224
Deferred financing costs	45	24
Deferred gain on sale - leaseback of land and building	(19)	(23)
Interest	145	152
Foreign exchange losses (gains)	57	(332)
	7,844	8,745
Earnings before non-controlling interests and income taxes	785	871
Non-controlling interests (note 8)	157	(474)
Earnings before income taxes	628	1,345
Income expense (recovery):		
Current	26	5
Future	188	(527)
	214	(522)
Net earnings for the period	414	1,867
Deficit, beginning of period	(60,198)	(49,958)
Distributions declared to Unitholders	-	-
Deficit, end of period	$ (59,784)	$ (48,091)
Basic and diluted earnings per Unit	$ 0.03	$ 0.13
Weighted average number of Units outstanding	14,410,000	14,410,000

See accompanying notes to consolidated financial statements.

HARDWOODS DISTRIBUTION INCOME FUND

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

	Three months ended March 31, 2010	Three months ended March 31, 2009
Net earnings for the period	$ 414	$ 1,867
Other comprehensive income (loss):		
Unrealized gain (loss) on translation of self-sustaining foreign operations	(824)	1,050
Other comprehensive income (loss)	(824)	1,050
Comprehensive income (loss)	$ (410)	$ 2,917

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

	Three months ended March 31, 2010	Three months ended March 31, 2009
Accumulated other comprehensive loss, beginning of period	$ (18,098)	$ (14,724)
Other comprehensive income (loss)	(824)	1,050
Accumulated other comprehensive loss, end of period	$ (18,922)	$ (13,674)

HARDWOODS DISTRIBUTION INCOME FUND

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

	Three months ended March 31, 2010	Three months ended March 31, 2009
Cash flows provided by (used in) operating activities:		
Net earnings for the period	$ 414	$ 1,867
Items not involving cash:		
Amortization	201	248
Imputed interest income in employee loans	(7)	(39)
Deferred gain on sale-leaseback of land and building	(19)	(23)
Gain on sale of property, plant and equipment	(13)	(10)
Unrealized foreign exchange losses (gains)	57	(332)
Non-controlling interests	157	(474)
Future income taxes	188	(527)
	978	710
Change in non-cash operating working capital (note 9)	(4,763)	4,704
Net cash provided by (used in) operating activities	(3,785)	5,414
Cash flows provided by (used in) investing activities:		
Additions to property, plant and equipment	(16)	(5)
Proceeds on disposal of property, plant and equipment	15	10
Decrease in long-term receivables, net	163	186
Net cash provided by investing activities	162	191
Cash flows provided by (used in) financing activities:		
Increase (decrease) in bank indebtedness	3,355	(5,103)
Distributions paid to Unitholders	-	-
Net cash provided by (used in) financing activities	3,355	(5,103)
Increase (decrease) in cash	(268)	502
Cash, beginning of period	463	85
Cash, end of period	$ 195	$ 587
Supplementary information (cash amounts):		
Interest paid	$ 145	$ 152
Income taxes paid	60	-
Income taxes received	-	1,800

See accompanying notes to consolidated financial statements.

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: deferred gain on sale-leaseback of land and building; accumulated other comprehensive loss; property plant and equipment, leased vehicles, and potentially the classification of non-controlling interests and Fund units. 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.

(Tabular amounts expressed in thousands of Canadian dollars)

4. Capital Disclosures:

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

	March 31, 2010	December 31, 2009
Cash and cash equivalents	$ (195)	$ (463)
Bank indebtedness (note 7)	8,130	4,960
Net debt	7,935	4,497
Unitholders' equity	54,748	55,158
Total capitalization	$ 62,683	$ 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 March 31, 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 March 31, 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.

(Tabular amounts expressed in thousands of Canadian dollars)

5. Inventory:

	March 31, 2010	December 31, 2009
Lumber	$ 9,346	$ 8,224
Sheet Goods	11,354	12,171
Specialty	1,733	2,099
Goods in-transit	1,444	1,407
	$ 23,877	$ 23,901

During the three months ended March 31, 2010 inventory write-downs totaling $0.3 million (2009 - $0.5 million) were recorded to reduce certain inventory items to their net realizable value.

Cost of sales for the three months ended March 31, 2010 were $39.9 million, which included $38.3 million of costs associated with inventory (2009 - $43.8 million and $42.6 million respectively). The other $1.6 million (2009 - $1.2 million) related principally to freight and 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	March 31, 2010	December 31, 2009
Trade accounts receivable - Canada	$ 11,649	$ 9,756
Trade accounts receivable - United States	19,643	16,117
Sundry receivable	209	203
Current portion of long-term receivables	744	919
	32,245	26,995
Less: allowance for doubtful accounts	2,097	1,410
	$ 30,148	$ 25,585

(Tabular amounts expressed in thousands of Canadian dollars)

6. Receivables (continued):

Long-term receivables	March 31, 2010	December 31, 2009
Employee housing loans	$ 398	$ 450
Customer notes	1,653	1,834
Security deposits	487	518
	2,538	2,802
Less: current portion, included in accounts receivable	744	919
	$ 1,794	$ 1,883

The aging of trade receivables was:

	March 31, 2010	December 31, 2009
Current	$ 20,225	$ 14,557
Past due 31-60 days	4,968	5,283
Past due 61-90 days	2,119	2,181
Past due 90+ days	3,980	3,852
	$ 31,292	$ 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 March 31, 2010 was $2.1 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:

	March, 31 2010	December 31, 2009
Checks issued in excess of funds on deposit	$ 930	$ 1,077
Credit facility, Hardwoods LP	1,067	1,945
Credit facility, Hardwoods USLP (March 31, 2010 - US$6,038; December 31, 2009 - US$1,844)	6,133	1,938
	$ 8,130	$ 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").

7. Bank indebtedness (continued):

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 terminated in the second 12 months of the credit facility term, and $75,000 thereafter if terminated 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 March 31, 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 March 31, 2010 the Hardwoods USLP credit facility had unused availability of $8.8 million (US$8.7 million).

(Tabular amounts expressed in thousands of Canadian dollars)

8. Non-controlling interests:

Balance, January 1, 2010	$	8,748
Interest in earnings:		
Interest in earnings before taxes		157
		8,905
Foreign currency translation adjustment of non-controlling interest in Hardwoods USLP		(403)
Balance, end of period	$	8,502

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

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

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

The Subordinated End Date had not occurred at March 31, 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;

8. Non-controlling interests (continued):

- At the end of each fiscal quarter of Hardwoods LP and Hardwoods USLP, including the fiscal quarter ending on the fiscal year end, available cash of Hardwoods LP and Hardwoods USLP will be advanced or distributed in the following order of priority:
  - First, in payment of the monthly cash advance or distribution to the holders of Class A LP Units and Class A USLP Units as described above, for the month then ended;
  - Second, to the holders of Class A LP Units and Class A USLP Units, to the extent that the combined monthly cash advances or distributions in respect of the 12 month period then ended (and not, for greater certainty, in any previous 12 month period) on Class A LP Units and Class A USLP Units were not made or were made in amounts less than a combined amount at least equal to $1.025 per Unit, the amount of any such deficiency. As of March 31, 2010, the amount of such deficiency was $14.8 million (2009 - $10.5 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.

(Tabular amounts expressed in thousands of Canadian dollars)

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

	Three months ended March 31, 2010	Three months ended March 31, 2009
Accounts receivable	$ (5,296)	$ (3,910)
Income taxes recoverable/payable	-	1,731
Inventory	(487)	3,362
Prepaid expenses	175	199
Accounts payable and accrued liabilities	845	3,322
	$ (4,763)	$ 4,704

CICA 1540, *Cash Flow Statements*, require entities to disclose total cash distributions on financial instruments classified as equity in accordance with a contractual agreement and the extent to which total cash distributions are non-discretionary. The Fund has no contractual requirement to pay cash distributions to Unitholders' of the Fund. During the three month periods ended March 31, 2010 and March 31, 2009 no discretionary cash distributions were paid to Unitholders.

10. Segment disclosure:

Information about geographic areas is as follows:

	Three months ended March 31, 2010	Three months ended March 31, 2009
Revenue from external customers:		
Canada	$ 19,685	$ 20,437
United States	28,813	32,985
	$ 48,498	$ 53,422

	March 31, 2010	December 31, 2009
Property, plant and equipment:		
Canada	$ 396	$ 450
United States	726	841
	$ 1,122	$ 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 March 31, 2010, Hardwoods USLP contributed and expensed $59,618 (US$57,320) (three months ended March 31, 2009 - $68,837 (US$55,309)) in relation to the USLP Plan.

Hardwoods LP does not maintain a pension plan. Hardwoods LP does, however, administer a group registered retirement savings plan ("LP Plan") that has a matching component whereby Hardwoods LP makes contributions to the LP Plan which match contributions made by employees up to a certain level. The assets of the LP Plan are held and related investment transactions are executed by LP Plan's Trustee, Sun Life Financial Trust Inc., and, accordingly, are not reflected in these consolidated financial statements. During the three months ended March 31, 2010, Hardwoods LP contributed and expensed $64,168 (three months ended March 31, 2009 - $49,852) in relation to the LP Plan.

12. Related party transactions:

For the three months ended March 31, 2010, sales of $127,702 (three months ended March 31, 2009 - $125,734) were made to affiliates of SIL, and the Fund made purchases of $27,542 (three months ended March 31, 2009 - $7,111) 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.

Unitholder Information

Trustees

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Trustee

Terry M. Holland
President, Krystal Financial Corp.

Graham M. Wilson
President, Grawil Consultants Inc.

Directors

R. Keith Purchase
Director

Terry M. Holland
President, Krystal Financial Corp.

Graham M. Wilson
President, Grawil Consultants Inc.

E. Lawrence Sauder
Chair, Sauder Industries

William Sauder
Vice President, Sauder Industries

Officers

Maurice E. Paquette
President & Chief Executive Officer

Robert J. Brown
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