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

HARDWOODS DISTRIBUTION INC.

Three month periods ended March 31, 2012 and 2011

HARDWOODS DISTRIBUTION INC.

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

	Note	March 31, 2012	December 31, 2011
Assets			
Current assets:			
Cash		$ 47	$ 392
Accounts receivable	6	39,212	33,263
Inventories	7	38,618	39,015
Prepaid expenses		735	902
Total current assets		78,612	73,572
Non-current assets:			
Long-term receivables	6	1,184	1,394
Property, plant and equipment		6,270	6,483
Deferred income taxes		16,913	17,556
Intangible asset		20	22
Total non-current assets		24,387	25,455
Total assets		$ 102,999	$ 99,027
Liabilities			
Current liabilities:			
Bank indebtedness	8	$ 22,368	$ 19,794
Accounts payable and accrued liabilities		6,496	5,474
Income taxes payable		273	43
Provisions		86	90
Finance lease obligation	9	767	817
Dividend payable	5	323	321
Total current liabilities		30,313	26,539
Non-current liabilities:			
Provisions		-	7
Finance lease obligation	9	502	582
Total non-current liabilities		502	589
Total liabilities		30,815	27,128
Shareholders' equity			
Share capital	10(a)	44,224	44,061
Contributed surplus		105,036	105,097
Deficit		(75,294)	(76,196)
Accumulated other comprehensive loss		(1,782)	(1,063)
Shareholders' equity		72,184	71,899
Total shareholders' equity and liabilities		$ 102,999	$ 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 month periods ended March 31, 2012 and 2011

	Note	2012	2011
Sales		$ 72,939	$ 52,030
Cost of sales		(59,829)	(42,931)
Gross profit		13,110	9,099
Operating expenses:			
Selling and distribution		(8,483)	(6,467)
Administration		(2,367)	(2,005)
Other		-	(300)
		(10,850)	(8,772)
Profit from operating activities		2,260	327
Finance expense	11	(468)	(867)
Finance income	11	128	132
Net finance costs		(340)	(735)
Profit (loss) before income taxes		1,920	(408)
Income tax expense:			
Current		(240)	(13)
Deferred		(455)	(280)
		(695)	(293)
Profit (loss) for the period		1,225	(701)
Other comprehensive loss:			
Exchange differences translating foreign operations		(719)	(839)
Total comprehensive income (loss) for the period		$ 506	$ (1,540)
Basic profit (loss) per share/unit		$ 0.08	$ (0.05)
Diluted profit (loss) per share/unit		$ 0.07	$ (0.05)

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

HARDWOODS DISTRIBUTION INC.

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

Three month periods ended March 31, 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		-	-	-	(701)	(701)
Translation of foreign operations		-	-	(839)	-	(839)
Balance at March 31, 2011		$ -	$ -	$ (2,776)	$ (82,321)	$ (85,097)
Balance at January 1, 2012		$ 44,061	$ 105,097	$ (1,063)	$ (76,196)	$ 71,899
Share based compensation expense for the period	10(b)	-	102	-	-	102
Shares issued pursuant to LTIP	10(a)	163	(163)	-	-	-
Profit for the period		-	-	-	1,225	1,225
Dividends declared		-	-	-	(323)	(323)
Translation of foreign operations		-	-	(719)	-	(719)
Balance at March 31, 2012		$ 44,224	$ 105,036	$ (1,782)	$ (75,294)	$ 72,184

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 month periods ended March 31, 2012 and 2011

	Note	2012	2011
Cash flows from operating activities:			
Profit (loss) for the period		$ 1,225	$ (701)
Adjustments for:			
Depreciation and amortization		302	231
Gain on sale of property, plant and equipment		(17)	(33)
Non-cash employee incentive program		102	252
Income tax expense		695	293
Net finance costs		340	735
Interest received		124	128
Interest paid		(181)	(158)
Income taxes paid		(8)	-
Income tax refunds received		-	1,796
		2,582	2,543
Changes in non-cash working capital:			
Accounts receivable		(6,556)	(5,500)
Inventories		(150)	808
Prepaid expenses		155	143
Provisions		(9)	(70)
Accounts payable and accrued liabilities		1,094	2,904
		(5,466)	(1,715)
Net cash provided by (used in) operating activities		(2,884)	828
Cash flow from financing activities:			
Increase (decrease) in bank indebtedness		2,865	(568)
Principle payments on finance lease obligation		(183)	(168)
Dividends paid to shareholders		(321)	-
Net cash provided by (used in) financing activities		2,361	(736)
Cash flow from investing activities:			
Additions to property, plant and equipment		(134)	(42)
Proceeds on disposal of property, plant and equipment		35	49
Payments received on long-term receivables		277	46
Net cash provided by investing activities		178	53
Increase (decrease) in cash		(345)	145
Cash, beginning of period		392	43
Cash, end of period		$ 47	$ 188

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 Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board, including IAS 34, "Interim Financial Reporting". The disclosures contained in these condensed consolidated interim financial statements do not include all of the requirements of 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 May 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/unit 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 consolidated financial statements for the period ended December 31, 2011. These accounting policies have been applied consistently by the Company and its subsidiaries to all periods presented in these financial statements.

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 for the three month period ended March 31, 2012 for Paxton are sales of $14.1 million and profit of $0.4 million.

(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:

	March 31, 2012	December 31, 2011
Cash and cash equivalents	$ (47)	$ (392)
Bank indebtedness	22,368	19,794
Shareholders' equity	72,184	71,899
Total capitalization	$ 94,505	$ 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 March 31, 2012, 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 month period ended March 31, 2012.

On March 9, 2012 Hardwoods Distribution Inc. declared a cash dividend of $0.02 per common share to shareholders of record as of April 20, 2012. The dividend was paid to shareholders on April 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, to be paid on July 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.

	March 31, 2012	December 31, 2011
Trade accounts receivable - Canada	$ 12,869	$ 10,561
Trade accounts receivable - United States	28,280	24,226
Sundry receivable	147	148
Current portion of long-term receivables	1,048	1,158
	42,344	36,093
Less:		
Allowance for credit loss	3,132	2,830
	$ 39,212	$ 33,263
Long-term receivables:		
Employee housing loans	$ 368	$ 368
Customer notes	1,450	1,753
Security deposits	414	431
	2,232	2,552
Less:		
Current portion, included in accounts receivable	1,048	1,158
	$ 1,184	$ 1,394

The aging of trade receivables was:

	March 31, 2012	December 31, 2011
Current	$ 29,922	$ 20,977
Past due 31 - 60 days	5,907	7,174
Past due 61 - 90 days	1,724	2,676
Past due 90+ days	3,596	3,960
	$ 41,149	$ 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 March 31, 2012 was $3.1 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 March 31, 2012 was $0.3 million which equates to 0.4% of sales (three month period ended March 31, 2011 – $0.5 million, being 1.0% of sales).

(Tabular amounts expressed in thousands of Canadian dollars)

7. Inventories:

	March 31, 2012	December 31, 2011
Lumber	$ 14,113	$ 13,469
Sheet goods	18,630	19,346
Specialty	3,374	3,497
Goods in-transit	2,501	2,703
	$ 38,618	$ 39,015

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

	Three months ended March 31, 2012	Three months ended March 31, 2011
Inventory write-downs	$ 88	$ 158
Cost of inventory sold	$ 57,490	$ 41,221
Other cost of sales	2,339	1,710
Total cost of sales	$ 59,829	$ 42,931

8. Bank indebtedness:

	March 31, 2012	December 31, 2011
Checks issued in excess of funds on deposit	$ 1,201	$ 922
Credit facility, Hardwoods LP	5,595	4,943
Credit facility, Hardwoods USLP (March 31, 2012 - US$15,611; December 31, 2011 - US$13,692)	15,572	13,929
	$ 22,368	$ 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. Both Hardwoods Credit Facilities are revolving credit facilities which Hardwoods 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 March 31, 2012, the Hardwoods LP credit facility has unused availability of $8.7 million (December 31, 2011 - $6.9 million).

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 March 31, 2012, the Hardwoods USLP credit facility has unused availability of $14.3 million (US$14.4 million) (December 31, 2011 - $14.4 million (US$14.1 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 in the condensed consolidated interim statement of financial position.

Finance lease liabilities are payable as follows:

Minimum lease payments due	Within one year	One to five years	Total
March 31, 2012:			
Future minimum lease payments	$ 712	$ 482	$ 1,194
Interest	55	20	75
Present value of minimum payments	$ 767	$ 502	$ 1,269

(Tabular amounts expressed in thousands of Canadian dollars)

9. Leases (continued):

(b) Operating leases as lessee:

The Company's subsidiaries are obligated under various operating leases, mainly building leases that 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:				
March 31, 2012	$ 5,142	$ 11,778	$ 95	$ 17,015
Minimum sublease revenue receivable:				
March 31, 2012	108	129	-	237

The Company's operating lease agreements do not contain any contingent rent clauses. Some operating building lease agreements contain renewal options but none contains any restrictions regarding distributions, further leasing or additional debt. Renewal options are reviewed regularly by management.

10. Share Capital:

(a) Share capital

At March 31, 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 March 31, 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 settled by exchange for free-trading Shares	(39,275)	-
Balance at March 31, 2012	65,581	219,442

As of March 31, 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 compensation expense amount of $102,377 was recorded for the three month period ended March 31, 2012 (2011 – $252,446).

(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 month period ended March 31, 2012 of $1.8 million (2011 – loss of $0.7 million). The weighted average number of common shares outstanding is as follows:

	2012	2011
Issued ordinary shares/units at January 1	16,095,343	14,523,858
Effect of shares/units issued during the period		
Pursuant to long-term incentive plan	887	891
Weighted average common shares/units basic	16,096,230	14,524,749
Effect of dilutive securities:		
Long term incentive plan	307,224	-
Weighted average common shares/units diluted March 31	16,403,454	14,524,749

11. Finance income and expense:

	Note	Three months ended March 31, 2012	Three months ended March 31, 2011
Finance expense:			
Interest on bank indebtedness	8	$ 164	$ 136
Amortization of deferred finance cost	8	-	44
Accretion of finance lease obligation	9	19	24
Change in fair value of non-controlling interest		-	574
Write-off of uncollectible interest on trade receivables		63	-
Foreign exchange losses		222	89
Total finance expense		468	867
Finance income:			
Imputed interest on employee loans receivable	6	4	4
Interest on trade receivables and customer notes	6	124	128
Total finance income		128	132
Net finance costs		$ 340	$ 735

The change in fair value of the non-controlling interest relates to the change in value of the previous owners 20% exchangeable interests in Hardwoods LP and Hardwoods USLP. The non-controlling interest exchanged their 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.

(Tabular amounts expressed in thousands of Canadian dollars)

12. Segment reporting:

Information about geographic areas is as follows:

	Three months ended March 31, 2012	Three months ended March 31, 2011
Revenue from external customers:		
Canada	$ 21,788	$ 20,642
United States	51,151	31,388
	$ 72,939	$ 52,030

	March 31, 2012	December 31, 2011
Non-current assets:		
Canada	$ 8,810	$ 8,855
United States	15,577	16,600
	$ 24,387	$ 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 March 31, 2012, sales of $60,443 (three month period ended March 31, 2011 - $54,964) were made to affiliates of SIL, and the Company's subsidiaries made purchases of $20,236 (three month period ended March 31, 2011 - $26,390) 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.