HARDWOODS DISTRIBUTION INCOME FUND

QUARTERLY REPORT

For the period from March 23, 2004 to June 30, 2004

To Our Unitholders

On behalf of Hardwoods Distribution Income Fund, I would like to extend a welcome to our new unitholders. This report represents our first quarter of results since we launched the Fund on March 23, 2004 and covers the period from March 23, 2004 to June 30, 2004. While there are no comparative figures provided in the consolidated interim financial statements included herein, we have tried to enhance the usefulness of this report by making reference in certain circumstances to the results of the predecessor companies for the three month period ended June 30, 2003, adjusted on a pro forma basis to reflect the new financial structure of the Fund. In this light, we hope you find these references useful.

Operations Review

Our business experienced a strong performance for the quarter, which follows a strong performance in the first quarter of 2004 of the predecessor companies prior to the completion of our IPO. During the period from March 23, 2004 to June 30, 2004, the Fund generated sales of $99.1 million (this compares to $85.7 million in sales generated by the combined predecessor companies for the corresponding period in 2003). The Fund's net earnings for the period amounted to $4.7 million (this compares to $3.4 million generated by the combined predecessor companies on a pro forma basis for the corresponding period in 2003). Hardwoods' earnings before taxes, interest, depreciation and amortization and also before $1.4 million of non-controlling interest ("EBITDA") was $8.1 million (this compares to $6.0 million generated by the combined predecessor companies on a pro forma basis for the corresponding period in 2003). Refer to page 3 and 4 for further discussion of the use of EBITDA, which is a non-GAAP measure.

Our increase in sales, earnings and EBITDA are largely the result of our success in continuing to grow our business with sales increasing 15.6% for the period from March 23, 2004 to June 30, 2004 compared to the three months ended June 30, 2003, a portion of which was due to the additional stub period of four business days in 2004. The growth in sales was partially mitigated by the continued strength of the Canadian dollar against the United States dollar where the average rate of exchange for the period from March 23, 2004 to June 30, 2004 was 1.3585 compared to 1.3984 for the corresponding period in 2003.

We are satisfied that the transition to becoming a public company has been smooth, and we are pleased to have the continued support of our investors, customers, suppliers and employees.

Cash Distributions

We have achieved our distribution targets for this quarter, the details of which are as follows:

Period	Date of Record	Date of Payment	Distributions per Unit	Amount
March 23 to April 30, 2004	May 20, 2004	May 31, 2004	$0.1082	$1,559,162
May 2004	June 21, 2004	June 30, 2004	$0.0854	$1,230,614
June 2004	July 20, 2004	July 30, 2004	$0.0854	$1,230,614

In addition, on July 30, 2004, the Fund made its first quarterly distribution of $1.0 million to Hardwoods' previous owners pursuant to the terms of the subordination agreement between the Fund and the previous owners who continue to own a 20% interest in the business of the Fund. The distribution to previous owners is equivalent on a per unit basis to distributions paid to unitholders for the respective period.

The Trustees review the cash distributions monthly, and while it is our policy to distribute cash to the maximum extent possible, we will increase the amount of distributions as increases in the Fund's cash available for distribution are believed to be sustainable. Given the successful year-to-date results and our continued positive outlook, the Trustees have approved a 5.4% increase in the monthly cash distributions to unitholders from $0.0854 per unit to $0.09 per unit for the months of July, August and September 2004 as follows:

Period	Date of Record	Date of Payment	Distribution per Unit	Amount
July 2004	August 20, 2004	August 31, 2004	$0.09	$1,296,900
August 2004	September 20, 2004	September 30, 2004	$0.09	$1,296,900
September 2004	October 20, 2004	October 29, 2004	$0.09	$1,296,900

Outlook

Looking ahead, we currently expect our business to continue to perform well across virtually all regions. Our sales growth has been a true reflection of the efforts by our people to focus on growing our business. While we expect the pace of growth to level off, we believe the current levels of sales are sustainable into the foreseeable future. We are also looking to expand our branch count and plan to open a new branch by early 2005.

From an operating perspective, we expect little variation in the operation of our business as a result of being a publicly traded income trust. We continue to focus on building a strong business with competent, well-trained and experienced people. We continue to emulate a culture of discipline that emphasizes cost control, and we strive for excellence in our efforts to match hundreds of suppliers with thousands of customers in terms of service and creativity.

In closing, we thank you for your support and participation in the future of our business. We are excited about the future and look forward to meeting our financial objectives in the months and years ahead.

Maurice E. Paquette
President & Chief Executive Officer
July 30, 2004

Management's Discussion and Analysis of Financial Condition and Results of Operation

This management's discussion and analysis ("MD&A") should be read in conjunction with the unaudited interim consolidated financial statements and accompanying notes ("Interim Financial Statements") of Hardwoods Distribution Income Fund for the period from March 23, 2004 to June 30, 2004. Results are reported in Canadian dollars unless otherwise stated and have been prepared in accordance with Canadian generally accepted accounting principles.

This MD&A represents the Fund's first reporting period, and consequently, no comparative information is provided in the consolidated interim financial statements. However, in order to enhance the usefulness of this MD&A, certain financial and operating results of the Fund for the period from March 23, 2004 to June 30, 2004 are compared to the unaudited results of the predecessor companies for the three month period ended June 30, 2003, prepared on a pro forma basis reflecting the new financial structure of the Fund. Such information is for reference purposes only and is not intended to represent a comprehensive comparison of the consolidated financial results.

Selected Unaudited Consolidated Financial Information

(in thousands of dollars)	**For the period from March 23 to June 30, 2004**	**For the three months ended June 30, 2003 (predecessor companies – pro forma[1])**
Total sales	$ 99,125	$ 85,714
Gross profit	18,947	16,238
Gross margin %	*19.1%*	*18.9%*
Selling and administrative expenses	10,583	10,198
Net earnings for the period	4,684	3,379
Add (deduct):		
Income taxes	1,046	500
Interest	280	400
Amortization	618	792
Non-controlling interest	1,433	970
Earnings before interest, taxes, depreciation and amortization and non-controlling interest ("EBITDA")	8,061	$ 6,041
Add (deduct):		
Interest	(280)	
Current income taxes	(726)	
Mark to market loss on foreign currency contract	303	
Capital expenditures	(278)	
Non-controlling interest[2]	(1,433)	
Distributable Cash available to Unitholders	5,647	
Cash distributions to Unitholders	$ 4,020	
Total assets	$228,659	
Foreign currency contracts	$ 303	
Per Unit information:		
Basic and fully diluted earnings per Unit	$0.325	
Distributable Cash available to Unitholders per unit	0.392	
Cash distributions per Unit	0.279	

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

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

Average Canadian dollar/ U.S. dollar exchange rate	1.3585	1.3984

Non-GAAP Measures – EBITDA and Distributable Cash

References to "EBITDA" are to earnings before interest, income taxes, depreciation and amortization and the non-controlling interest in earnings. Management believes that, in addition to net income or loss, EBITDA is a useful supplemental measure of performance and cash available for distribution prior to debt service, changes in working capital, capital expenditures and income taxes. Specifically, Management believes that EBITDA is the appropriate measure from which to make adjustments to determine the Distributable Cash of the Fund.

EBITDA is not an earnings measure recognized by generally accepted accounting principles in Canada ("GAAP") and does not have a standardized meaning prescribed by GAAP. Investors are cautioned that EBITDA should not replace net income or loss (as determined in accordance with GAAP) as an indicator of our performance, or to cash flows from operating, investing and financing activities or as a measure of our liquidity and cash flows. Our method of calculating EBITDA may differ from the methods used by other issuers. Therefore, our EBITDA may not be comparable to similar measures presented by other issuers.

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

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

Overview of the Fund

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

The Business is North America's largest distributor of high-grade hardwood lumber and specialty sheet goods to the cabinet, moulding, millwork, furniture and specialty wood products industries. The Business operates from 37 distribution facilities organized into nine geographic regions throughout North America. In a highly fragmented but stable industry, the Business matches products supplied from hundreds of mills to over 2,500 manufacturing customers.

The owners of the predecessor companies have retained their 20% interest in the Business in the form of Special Voting Units of the Fund and Class B units of the Fund's operating subsidiaries, which together are exchangeable into Units provided that the Fund achieves certain objectives. Distributions by the operating subsidiaries to the previous owners are subject to subordination arrangements until at least March 31, 2006. As at June 30, 2004, 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.

Results of Operations

Sales

Sales for the period from March 23, 2004 to June 30, 2004 were $99.1 million compared to $85.7 million for the combined predecessor companies during the three month period ended June 30, 2003. The growth in sales, while primarily in the United States, has been due to successes across virtually all regions. The overall 15.9% growth in sales has also been achieved despite the effect of a lower rate of exchange between the Canadian and U.S. dollar, which averaged 1.3584 for the period March 23, 2004 to June 30, 2004 as compared to 1.3984 during the corresponding period in 2003.

Expenses

Gross profit for the period from March 23, 2004 to June 30, 2004 was $18.9 million which compared to $16.2 million for the combined predecessor companies during the same period in 2003, an increase of $2.7 million due primarily to growth in sales with a small increase in overall gross margins from 18.9% in 2003 to 19.1% in 2004.

Selling and administrative expenses increased $0.4 million, or 4.0%, from $10.2 million in 2003 to $10.6 million in 2004. Selling and administrative expenses as a percent of sales declined to 10.7% in 2004 as compared to 11.9% in 2003, primarily as a result of the increase in sales.

As at June 30, 2004, there was a mark-to-market adjustment to the outstanding hedge contracts that were put in place at the time of our initial public offering of $0.3 million reflecting a strengthening of the United States dollar against the Canadian dollar during the period from March 23, 2004 to June 30, 2004. We continue to monitor our hedge policy to ensure we mitigate the impact of foreign exchange fluctuations on Canadian dollar distributions generated by our U.S. operations. Refer to Financial Instruments on page 7 for further discussion of our foreign currency contracts.

Net Earnings and EBITDA

Net earnings and EBITDA were $4.7 million and $8.1 million for the quarter, respectively. EBITDA is before deducting $1.4 million for the non-controlling interest in the net earnings, which pertains to the previous owners' 20% retained interest. These compare to $3.4 million and $6.0 million, respectively, for the combined predecessor companies on a pro forma basis for the three month period ended June 30, 2003. The increase in net earnings and EBITDA is largely due to the comparative growth in sales during the quarter in 2004 compared to 2003.

Liquidity

Distributable Cash and Distributions

Our policy is to make stable monthly distributions to our Unitholders based on our estimate of distributable cash for the year. We pay distributions at the end of the month that follows the month when the cash was earned. We have made three consecutive monthly distributions for the period from March 23, 2004 to June 30, 2004 totaling $4.0 million. These distributions were consistent with monthly distributions of $0.0854 anticipated in the IPO. In addition, the Fund approved a quarterly distribution to Hardwoods' previous owners in an amount equal to $1.0 million, which is equivalent to the respective per unit quarterly distributions to public unitholders pursuant to the terms of a subordination agreement as outlined in the Fund's prospectus dated March 12, 2004.

The Board of Trustees reviews the monthly distributions regularly, and it is our policy to increase the amount of distributions only when there is a sustained increase in the Fund's operations. Given the successful year-to-date results and our continued positive outlook, the Trustees have approved a 5.4% increase in the monthly cash distributions to unitholders from $0.0854 per unit to $0.09 per unit for July, August and September 2004 as follows:

Period	Date of Record	Date of Payment	Distribution per Unit	Amount
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Capital Expenditures

During the period from March 23, 2004 to June 30, 2004, the Fund incurred capital expenditures of $278,000 which related to maintenance capital expenditures anticipated at the time of the IPO and comprised $137,000 relating to two new lift trucks, $97,000 relating to leasehold improvements and related furniture and fixtures, and $44,000 relating to a number of miscellaneous items. Our capital expenditures for the balance of 2004 will include an additional $150,000 relating to an office expansion planned at our head office in Langley, British Columbia.

Revolving Credit Facilities

At the time of the IPO, we established independent credit facilities comprising a three-year operating line in each of Canada and the U.S. In Canada, our operating line comprises a maximum facility of $20.0 million, the balance outstanding of which was $16.5 as at June 30, 2004. In the U.S., our operating line comprises a maximum facility of $36.5 million (US $27.0 million), of which the balance outstanding was $27.0 million (US $20.0 million) as at June 30, 2004.

Our credit facilities have increased from balances at the time of the IPO of $12.0 million and $19.8 million (US $15.0 million) in Canada and the U.S. respectively, due primarily to an increase in net non-cash working capital as a result of the growth in our business and the related post-Closing working capital adjustment paid to the previous owners pursuant to the IPO.

We believe that the operating loans in both Canada and the U.S. are sufficient to meet our working capital requirements.

Contractual Obligations

The table below sets forth other contractual obligations of the Fund as at June 30, 2004 due in the years indicated, which relate to various premises operating leases:

Total	2004	2005	2006	2007	2008	2009 and thereafter
$26,248	2,888	5,006	4,431	4,288	3,964	5,671

Off-Balance Sheet Arrangements

The Fund has no off balance sheet arrangements with the exception of the foreign currency contracts discussed below in Financial Instruments.

Critical Accounting Estimates

We believe the accounting policies that are critical to our business relate to our use of estimates regarding the collectibility of accounts receivable and valuation of inventories and to the translation of our financial statements into Canadian dollars for reporting purposes, given that approximately two-thirds of our business occurs in the United States with the balance in Canada. In addition, another area requiring significant judgment includes the allocation of the purchase price in respect our business acquired at the time of our IPO, specifically the allocation between goodwill and other intangible assets, and the amortization period of the intangible assets, which we have determined to be 15 years using the straight-line method.

The preparation of financial statements in accordance with GAAP requires our management to make assumptions and estimates that can have a material impact on our results of operations as reported on a periodic basis. Due to the nature of our business and the credit terms we provide to our customers both in Canada and the United States, estimates and judgments are inherent in the ongoing assessment of the recoverability of accounts receivable. In addition, assessments and judgments are inherent in the determination of the net realizable value of inventories. Inventory is valued at the lower of cost and net realizable value. While our management applies judgment based on assumptions believed to be reasonable in the circumstances, actual results can vary from these assumptions. It is possible that materially different results would be reported using different assumptions.

Our financial statements are prepared in Canadian dollars. Our United States operations are considered to be a self-sustaining foreign operation as the currency of primary economic environment for its business is the US dollar and, accordingly, the assets and liabilities are translated into Canadian dollars at the period end exchange rates. Revenue and expenses of our United States operations are translated at rates of exchange prevailing during the period. Resulting foreign currency adjustments are included in shareholders equity's cumulative translation account.

As this is our first quarterly report, all significant accounting policies have been included in note 2 to the financial statements.

Related Party Transactions

During the quarter sales of $449,000 were made to affiliates of the previous owners and the Fund incurred purchases of $253,000 from affiliates of the previous owners. These sales and purchases took place at prevailing market prices.

Financial Instruments

The Fund uses currency derivatives to manage its exposure to fluctuations in exchange rates between the Canadian dollar and the United States dollar. The foreign currency contracts are recognized in the balance sheet and measured at their fair value, with changes in fair value recognized currently in the statement of operations. At June 30, 2004, the Fund had thirty-three monthly foreign currency contracts to exchange US$675,000 into approximately $903,000, reflecting an exchange rate of Cdn$1.3385 to US$1.00, each month until April 2007. At June 30, 2004, the fair value of the remaining thirty-three monthly contracts results in a liability of $303,000, which has been recorded in the accounts of the Fund.

Risks and Uncertainties

The risks and uncertainties described below are not the only risks and uncertainties we face. The risks mentioned are the principal risks relating to the operations of the Business. There are other risks that relate to the structure of the Fund. Additional risks and certainties not currently known to us or that we currently deem immaterial also may impair our business operations. If any of the following risks actually occur, our business, results of operations and financial condition, and the amount of cash available for distribution to our unitholders could suffer.

Exchange rate fluctuations may occur between the Canadian dollar and the United States dollar.

We conduct business in both Canada and the United States. Most of the hardwood lumber we distribute in Canada is purchased from suppliers in the United States. Although we report our financial results in Canadian dollars, approximately two-thirds of our sales are generated in the United States. While the changes in the costs of hardwood lumber purchased by us in the United States as a result of the appreciation of the Canadian dollar against the US dollar are usually absorbed by the market, changes in the currency exchange rates of the Canadian dollar against the US dollar will affect the results presented in our financial statements and cause our earnings to fluctuate. Increases in the value of the Canadian dollar against the US dollar will affect the amount of cash available to us for distribution to our Unitholders.

We have entered into a three-year hedging arrangement to mitigate the potential impact of foreign exchange on Canadian dollar distributions to be made by us through March 2007, and expect to continue an active hedging program in the future. This hedging arrangement is based on substantially all of the amount in U.S. dollars that would have been available for distribution from our U.S operations had we been in existence for the whole of 2003. Accordingly, we will be exposed to exchange rate fluctuations to the extent that the actual amounts of such distributions in the future vary from the amount covered by the hedging arrangement. This could affect the amounts of cash we have available to our Unitholders in Canadian dollars. For example, there is a risk that, if the actual amount of U.S. dollars distributed to us that are derived from our U.S. operations are less than the amount covered by the hedging arrangement and the rate of exchange of the Canadian dollar against the U.S. dollar increases over the rate of exchange for which we have contracted in the hedging arrangement, we may incur a cost to extinguish our liability to acquire Canadian dollars that we have contracted to acquire under the hedging arrangement.

We depend on key personnel, the loss of any of which could harm our business.

Our future performance and development will depend to a significant extent on the efforts and abilities of our executive officers. The loss of the services of one or more of these individuals or other senior managers could harm our business. We maintain key man insurance on the lives of our President and each of our Vice Presidents. Our success will depend largely on our continuing ability to attract, develop and retain skilled employees in all areas of our business.

Decreases in the supply of, demand for, or market values of hardwood lumber or sheet goods could harm our business.

Erosion in the supply of, demand for, or market values of hardwood could reduce our revenues and impact our financial condition and results of operations. Most of the factors that affect the supply of, and demand for, hardwood lumber and sheet goods are beyond our control. However, there has been low fluctuation in the supply of and demand for hardwood lumber and sheet goods historically, and market values for hardwood lumber and sheet goods have exhibited low volatility or variation. In addition, while competing products for hardwood lumber and sheet goods have not reduced demand for hardwood lumber or sheet goods or resulted in the substitution of competing products for hardwood lumber and sheet goods, there can be no assurance that these competing products will not reduce demand for our products in the future.

We may incur losses related to credit provided to our customers.

We generally offer credit to our customers for hardwood lumber and sheet goods purchased by them from us in amounts that they might not be able to obtain from traditional lenders. We obtain security interests in the assets of a number of our customers, and personal guarantees from the owners of these customers. However from time to time a customer is unable to pay for goods purchased from us. Although the bad debt experience of the combined predecessor companies has averaged approximately 0.6% of sales over the past ten years, if our historic bad debt experience increases, we could incur a loss of income and the cash available for distribution to our Unitholders could be reduced.

We may not be able to sustain our levels of sales or EBITDA.

As a distributor, our income depends upon our ability to generate sales to customers and to sustain our levels of EBITDA. Our EBITDA levels are dependent upon our ability to continue to focus on sales of higher grades of hardwood and to continue to provide products and service to our customers that make us the supplier of choice to our customers. If our costs of goods or operating costs increase, or other distributors of hardwood compete more favourably with us, we may not be able to sustain our levels of sales or EBITDA. In this case, amounts of cash available for distribution to our Unitholders could be reduced.

We may be unable to sustain and manage our growth.

A principal component of our strategy is to continue our growth, both by increasing earnings from operations in existing markets and by expanding into new geographic markets. We may not be successful in growing our business or in managing this growth. Our growth depends on our ability to accomplish a number of things, including:

- Identifying and developing new geographic markets;
- Identifying and establishing, on favorable terms, suitable new branches and possibly identifying and acquiring distributors of hardwood that are suitable acquisition candidates;
- Successfully integrating new distribution and any acquired businesses with our existing operations;
- Establishing and maintaining favorable relationships with customers in new markets and market segments, and maintaining these relationships in existing markets; and
- Successfully managing expansion and obtaining required financing.

Any growth we achieve may require additional employees and increase the scope of both our operating and financial systems and the geographic area of our operations. This will increase our operating complexity and the level of responsibility of existing and new management personnel. We may be unable to attract and retain qualified management and employees, and our existing operating and financial systems and controls may not be adequate to support any growth. Our ability to improve our systems and controls may be limited by increased costs, technological challenges, or lack of qualified employees. Our past results and growth may not be indicative of our prospects or our ability to penetrate new markets, many of which may have different competitive conditions and demographic characteristics than our current markets.

Competition in our markets may lead to reduced revenues and profitability.

The hardwood distribution industry is highly fragmented. We compete directly with a significant number of hardwood distributors for suppliers and customers. Our direct competitors are primarily local and regional businesses. Most of our competitors lack our size, geographic diversification and financial strength. New competitors may enter the hardwoods distribution market in the future. Additionally, existing or future competitors may succeed in entering and establishing successful operations in new geographic markets prior to our entry into those markets. If existing or future competitors seek to gain or retain market share by reducing margins on goods sold, we may also be required to reduce our margins, which may reduce our revenue and harm our operating results and financial condition.

We may become subject to more stringent regulations.

Our business is now subject to very few laws and regulations. There are laws that regulate our credit practices, transporting products, importing and exporting products and employment. Such laws, regulations and related rules and policies are administered by various federal, state, provincial, regional and local agencies and other governmental authorities. New laws governing our business could be enacted and changes to any existing laws could have a significant impact on our business. Failure by us to comply with applicable laws and regulations may subject us to civil or regulatory proceedings, which may have a material adverse effect on our financial condition and results of operations.

Importation of products manufactured with hardwood lumber or sheet goods may increase, and replace products manufactured in North America.

Products manufactured with hardwood lumber or sheet goods are often imported into North America from countries with low labour costs. These products commonly include cabinets and furniture that are mass-produced. Any increase in the importation of products constructed using hardwood lumber and sheet goods could increase competition for manufacturers of similar products in North America. This has occurred in certain segments of the furniture manufacturing industry. Although we do not typically focus our sales efforts upon manufacturers who compete with these imported products, a reduction in the production of cabinets or furniture in North America could reduce our sales and opportunities for growth and adversely affect our business, financial condition and results of operations.

We are dependent upon the financial condition and results of operations of our business.

The Fund is an unincorporated open-ended, limited purpose trust, which is entirely dependent on our operations through the Trust's limited partnership interest in Hardwoods LP and indirect limited partnership interest in Hardwoods USLP. Cash distributions to Unitholders are dependent on, among other things, the ability of the Trust to pay interest on the Trust Notes and to make cash distributions in respect of the Trust Units, which in turn, is dependent on the financial condition and results of operations of our business. Our ability to make cash distributions or other payments or advances is subject to applicable laws and regulations and contractual restrictions contained in the instruments governing any indebtedness of those entities.

Our cash distributions are not guaranteed and will fluctuate with our business performance.

Although the Fund intends to distribute the interest received in respect of the Trust Notes and the cash distributions received in respect of the Trust Units, less expenses and amounts, if any, paid by the Fund in connection with the redemption of Units, there can be no assurance regarding the amounts of income to be generated by our business or ultimately distributed to the Fund. Our ability to make cash distributions, and the actual amount distributed, will be entirely dependent on the operations and assets of our business, and will be subject to various factors including our financial performance, our obligations under applicable credit facilities, fluctuations in our working capital, the sustainability of our margins and our capital expenditure requirements.

Outlook

We believe our operations for the balance of 2004 will continue to be strong. We continue to experience sales increases across virtually all operating regions, resulting from a number of initiatives that we outlined at the time of our IPO:

- We are seeing positive results through our efforts to increase sales of our offshore products to our customers. We anticipate continuing our efforts to increase our supply of imported products from outside North America.
- We continue to focus on managing our selling and administrative costs and improving inventory turns and collection of accounts receivable.
- We continue to investigate expansion in markets in which we currently operate as well as new markets. We believe that such expansion can be financed internally within the boundaries of our current credit facilities. In addition, we believe that given the fragmented nature of the industry, there will be acquisition opportunities that may broaden and strengthen our market position, both in new markets and in those in which we operate today. Furthermore, our ability to raise funds through the issue of Units should provide us with financial flexibility in developing and managing our growth objectives.

Forward-looking Statements

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

Additional Information

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