

Attention Business/Financial Editors:
Hardwoods Distribution Income Fund Announces 2006 Second Quarter Results
and Reduction to Distributions

Hardwoods Distribution Income Fund will hold a conference call and webcast to discuss 2006 second quarter results on August 1, 2006 at 8 a.m. Pacific Time (11:00 a.m. Eastern). The call can be accessed by dialing: 1-800-814-4857 or 416-644-3414. A replay will be available until August 15, 2006 at: 1-877-289-8525 or 416-640-1917 (Passcode: 21196745 followed by the number sign).

The live and archived webcast can be accessed at [http://www.vcall.com/IC/CEPage.asp?ID\(equal sign\)106882](http://www.vcall.com/IC/CEPage.asp?ID(equal sign)106882) or on the Fund's website at www.hardwoods-inc.com.

TRADING SYMBOL: Toronto Stock Exchange - HWD.UN

LANGLEY, BC, Aug. 1 /CNW/ - Hardwoods Distribution Income Fund (the "Fund") today announced second quarter and first half 2006 financial results and a reduction to monthly cash distributions.

For the three months ended June 30, 2006, the Fund and its subsidiaries generated distributable cash available to Class A and Class B Units of \$4.7 million, or \$0.262 per unit. Distributions relating to the period were \$3.7 million, or \$0.256 per unit to public unitholders (Class A Units). No distributions were declared to the previous owners that retain a 20% interest in the business (Class B Units), resulting in a 78.3% payout ratio for the second quarter. On a year-to-date basis, the Fund and its subsidiaries generated distributable cash available to Class A and Class B Units of \$8.1 million, or \$0.450 per unit. Distributions relating to the period were \$7.4 million to Class A Units (\$0.513 per Class A Unit) and no distributions were declared to Class B Units. This represents an overall payout ratio of 91.0% for the first half of 2006, and 91.6% since the Fund's inception.

Cash distributions are dependent upon the financial performance achieved by the Fund, and are made monthly at the discretion of the Fund's independently elected Trustees. At the most recent meeting of the Board of Trustees, the Trustees voted to reduce monthly distributions by 20% to \$0.068 per unit. This distribution cut will take effect with the July 2006 distribution, to be paid on August 31, 2006 to unitholders of record as at August 18, 2006. Had monthly distributions been at the reduced rate of \$0.068 per unit in the first half of 2006, the Fund's payout ratio would have been 72%. The Fund anticipates operating with a payout ratio in this range moving forward.

"Both the Board and the management of Hardwoods believe that higher sales are essential to the financial success of the Fund, particularly at a time when the costs of doing business have increased significantly," said Maurice Paquette, Hardwoods' President and CEO. "A review of all of our operations is ongoing to identify areas to hold or reduce costs. However, many of the areas of expense increase are considered to be ongoing and in the normal course of business, and need to be supported through increased sales and gross profits."

"It's encouraging to note that Hardwoods is very well positioned to achieve significant sales growth," added Paquette. "However, this growth will require additional working capital primarily in the form of inventory and accounts receivable. The reduction in monthly distributions will help us fund our increased working capital requirements while maintaining appropriate leverage and a prudent payout ratio."

First Half 2006 Overview

Hardwoods continued to experience significant sales growth in the second quarter and first half of 2006, particularly in its US operations. Sales for the first six months of 2006, before considering the impact of foreign exchange, were up 12.8% compared to the first six months of 2005. The

period	\$	3,939	\$	3,442	\$	5,807	\$	6,384

Basic and fully diluted earnings per Class A Unit	\$	0.273	\$	0.239	\$	0.403	\$	0.443
Average Canadian dollar/US dollar exchange rate		1.1219		1.2431		1.1382		1.2354

Distributable Cash and Cash Distributions

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

	For the three months June 30, 2006 ----	For the three months June 30, 2005 ----	For the six months June 30, 2006 ----	For the six months June 30, 2005 ----
Net cash provided by operating activities	\$ 3,263	\$ 7,736	\$ 2,054	\$ 9,534
Increase (decrease) in non-cash operating working capital	1,959	(2,037)	6,818	1,117

Cash flow from operations before changes in non-cash operating working capital	5,222	5,699	8,872	10,651
Capital expenditures	(506)	(226)	(759)	(455)

Distributable cash	\$ 4,716	\$ 5,473	\$ 8,113	\$ 10,196

Distributions relating to the period:				
Class A Units	3,693 (1)	3,890	7,386 (1)	7,781
Class B Units	- (2)	1,019	- (2)	2,005

	\$ 3,693	\$ 4,909	\$ 7,386	\$ 9,786

Outstanding units and per unit amounts:

Class A Units outstanding	14,410,000	14,410,000	14,410,000	14,410,000
Class B Units outstanding	3,602,500	3,602,500	3,602,500	3,602,500

Total Units outstanding	18,012,500	18,012,500	18,012,500	18,012,500
Distributable Cash per Unit	\$ 0.262	\$ 0.304	\$ 0.450	\$ 0.566
Distributions relating to the period:				
Class A Units	\$ 0.256 (1)	\$ 0.270	\$ 0.513 (1)	\$ 0.540
Class B Units	\$ - (2)	\$ 0.283	\$ - (2)	\$ 0.557
Total Units	\$ 0.205	\$ 0.273	\$ 0.410	\$ 0.543
Payout ratio (3)	78.3%	89.7%	91.0%	96.0%

>>

(1) Includes the cash distribution which relates to June 2006 operations of the Fund. The cash distribution of \$0.08542 per Class A Unit related to June 2006 operations of the Fund was declared on July 11, 2006, to be paid on July 31, 2006 to unitholders of record as of July 20, 2006. As this distribution was not declared until after June 30, 2006, it has not been reflected in the unaudited interim financial statements of the Fund for the three and six months ended June 30, 2006.

(2) On January 10, 2006, Hardwoods Specialty Products LP and Hardwoods Specialty Products US LP, partnerships in which the Fund owns an 80% interest, announced that quarterly distributions were suspended on the subordinated units, represented by 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 the combined business of Hardwoods, which is subordinated to the Fund's ownership interest in the business. Accordingly, no distributions were declared payable relating to the fourth quarter of 2005, and the first and second quarters of 2006 to the non-controlling interests and no current liability for distributions payable to the non-controlling interests is reflected in the June 30, 2006 balance sheet.

(3) Payout ratio measures the ratio of distributions relating to the period to distributable cash in the period. Comparative distributable cash and payout ratio figures have been restated to conform with presentation adopted in the six month period ended June 30, 2006 as a result of the suspension of quarterly distributions on the Class B Units.

Results from Operations - Three Months Ended June 30, 2006

For the three months ended June 30, 2006, sales were \$95.1 million, compared to \$91.9 million during the second quarter of 2005. The increase in sales primarily reflects continued strong sales demand in all U.S. operations, and the positive sales contribution from two new branches opened in late 2005 in Minnesota and Illinois. Sales in the United States, as measured in US dollars, were 18.3% higher compared to Q2 2005, while sales in Canada, as measured in Canadian dollars, declined by 3.4%. The year-over-year strengthening of the Canadian dollar also impacted sales, reducing their value by \$7.0 million.

Gross profit was \$17.3 million during the second quarter of 2006, compared to \$17.4 million in the comparable period. The slight decrease in gross profit reflects the increase in sales being fully offset by a lower gross profit margin of 18.2%, compared to 19.0% in the second quarter of 2005. The 18.2% gross profit margin in the second quarter of 2006 is an improvement from the 17.7% gross profit margin achieved in the first quarter of 2006.

Second quarter selling and administrative expenses were \$11.2 million, an

increase of \$0.4 million from \$10.8 million during the same period in 2005. The benefit of the stronger Canadian dollar on the conversion of selling and administrative expenses at the Fund's US operations reduced costs by \$0.8 million. Selling and administrative expenses, as a percentage of sales, were 11.8% in both the 2005 and 2006 periods.

EBITDA decreased to \$6.4 million from \$6.7 million in the second quarter of 2005. The change in EBITDA primarily reflects a decrease in gross profit margin, combined with higher selling and administrative expenses, but partly offset by higher realized gains on foreign currency contracts. Second quarter net earnings were \$3.9 million, compared to \$3.4 million during the same period in 2005. The increase in net earnings reflects a \$1.2 million increase in mark-to-market gains on foreign currency contracts, partially offset by the decrease in EBITDA and a \$0.3 million increase in interest expense.

Results from Operations - Six months ended June 30, 2006

For the six months ended June 30, 2006, sales were \$188.4 million, compared to \$176.9 million in the first half of 2005. Strong sales growth from the Fund's US operations was partly reduced by the strengthening value of the Canadian dollar. Had exchange rates remained consistent with the same period in 2005, revenue would have been \$11.1 million higher at \$199.5 million. Sales in the United States as measured in US dollars increased by 18.0% in the first half of 2006. Sales from Hardwoods' Canadian business, as measured in Canadian dollars, increased by 1.9%.

Gross profit was \$33.8 million, compared to \$33.2 million in the first half of 2005. As a percentage of sales, gross profit was 17.9% compared to 18.8% during the same period in the prior year. Accordingly, the increase in gross profits is entirely due to the increase in sales.

Selling and administrative expenses were \$23.4 million, compared to \$21.3 million in the six month period ended June 30, 2005. The benefit of the stronger Canadian dollar on the conversion of selling and administrative expenses at the Fund's US operations reduced costs by \$1.3 million. As a percentage of sales, selling and administrative expenses in the second quarter of 2006 were 12.4% of sales, compared to 12.1% in the comparative period in 2005.

EBITDA was \$11.0 million, compared to \$12.2 million in same period in 2005. The decrease in EBITDA reflects the \$2.1 million increase in selling and administrative expenses, partially offset by the \$0.6 million improvement in gross profit and a \$0.4 million increase in realized gains on foreign currency contracts. Net earnings for the six months ended June 30, 2006 were \$5.8 million, compared to \$6.4 million in the comparative period in 2005. The \$0.6 million decrease in net earnings primarily reflects the \$1.2 million decrease in EBITDA and a \$0.6 million increase in interest expense. This was partly offset by a \$1.0 million increase in mark-to-market adjustment on foreign currency contracts, a \$0.1 million reduction in amortization expense, and a \$0.1 million reduction in non controlling interest as a result of lower profits half way through the year.

Outlook

Moving into the second half of 2006, Hardwoods anticipates continued strong sales growth in the US and flat-to-moderate sales growth in Canada. The third quarter of 2006 will have approximately four fewer selling days than the comparative quarter in 2005, a difference of approximately 6%, which may have an impact on third-quarter comparative results.

Following the improvement in profit margin achieved in the second quarter of 2006, management anticipates that more progress will be made in this area during the third quarter. The ongoing review of operations to contain expenses will continue. Maintaining sales growth and returning gross profit margin back to historic levels will remain key areas of operational focus for the balance of the year as the company works to offset higher costs of doing business.

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. We believe that, in addition to net income or loss, EBITDA is a useful supplemental measure of financial performance and of cash available for distribution prior to debt service, changes in working capital, capital expenditures and income taxes.

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. The Fund's method of calculating EBITDA may differ from the methods used by other issuers. Therefore, EBITDA presented in this report 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. The Fund defines Distributable Cash as net earnings before depreciation, amortization, future income taxes, non-controlling interest, gains or losses on the sale of property, plant and equipment, 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.

The Fund's 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. The Fund believes that our Distributable Cash is a useful supplemental measure that may assist prospective investors in assessing the return on their investment in Class A Units.

About the Fund

Hardwoods Distribution Income Fund is an unincorporated, open-ended, limited purpose trust established to hold, indirectly, the securities of Hardwoods Specialty Products LP and Hardwoods Specialty Products USLP (collectively, "Hardwoods"). The Fund was launched on March 23, 2004, with the completion of an initial public offering of 14,410,000 shares at \$10.00 per unit.

About Hardwoods

Hardwoods is North America's largest distributor of high grade hardwood lumber and sheet goods to the cabinet, moulding, millwork, furniture and specialty wood products industries. The company currently operates a network of 37 distribution centres comprising 1.3 million square feet of warehouse and distribution space in the U.S. and Canada.

Forward Looking Statements

This press release may contain forward-looking statements, which reflect management's expectations regarding the future growth, results of operations, performance and business prospects, and opportunities of the Fund. Forward-looking statements contain such words as "anticipate", "believe", "continue", "could", "expects", "intend", "may", "plans" or similar expressions suggesting future conditions or events. Such forward-looking statements reflect current beliefs and are based on currently available information. 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 press release are based on what management believes to be reasonable

assumptions, management cannot assure readers that actual results will be consistent with these forward-looking statements.

Additional information relating to the Fund, including all public filings and the Fund's Second Quarter Report to Unitholders, are available on SEDAR (www.sedar.com) and through the Fund's website (www.hardwoods-inc.com).

<<

HARDWOODS DISTRIBUTION INCOME FUND
Consolidated Balance Sheets
(Expressed in thousands of Canadian dollars)

	June 30, 2006	December 31, 2005
	(unaudited)	
Assets		
Current assets:		
Cash and cash equivalents	\$ 130	\$ 2,203
Accounts receivable	50,840	46,166
Income tax receivable	364	86
Inventory	45,556	47,666
Prepaid expenses	1,631	1,222
Foreign currency contracts (note 3)	1,489	1,134
	100,010	98,477
Long-term receivables	2,525	2,634
Property, plant and equipment	3,582	3,519
Deferred financing costs	45	77
Foreign currency contracts (note 3)	1,463	1,519
Other intangible assets	11,349	12,103
Goodwill	94,155	96,340
	\$ 213,129	\$ 214,669
Liabilities and Unitholders' Equity		
Current liabilities:		
Bank indebtedness (note 4)	\$ 49,627	\$ 46,925
Accounts payable and accrued liabilities	8,159	9,231
	57,786	56,156
Deferred gain on sale - leaseback of land and building	730	804
Non-controlling interests (note 5)	32,849	32,047
Future income taxes	1,947	1,364
Unitholders' equity:		
Fund Units	133,454	133,454
Retained earnings	307	1,886
Cumulative foreign currency translation account	(13,944)	(11,042)

	119,817	124,298
	\$ 213,129	\$ 214,669

Contingencies (note 11)
Subsequent event (note 12)

See accompanying notes to consolidated financial statements.

HARDWOODS DISTRIBUTION INCOME FUND
Consolidated Statements of Operations and Retained Earnings
(Unaudited)
(Expressed in thousands of Canadian dollars)

	Three month period ended June 30, 2006	Three month period ended June 30, 2005	Six month period ended June 30, 2006	Six month period ended June 30, 2005
Sales	\$ 95,054	\$ 91,852	\$ 188,434	\$ 176,879
Cost of sales	77,795	74,439	154,666	143,647
Gross profit	17,259	17,413	33,768	33,232
Expenses:				
Selling and administrative	11,196	10,835	23,415	21,320
Amortization:				
Plant and equipment	307	312	608	643
Deferred financing costs	16	16	31	32
Other intangible assets	224	239	451	475
Deferred gain on sale - leaseback of land and building	(21)	-	(42)	-
Interest	827	478	1,531	905
Realized gain on foreign currency contracts	(364)	(113)	(653)	(287)
Mark-to-market adjustment on foreign currency contracts (note 3)	(754)	410	(300)	683
	11,431	12,177	25,041	23,771
Earnings before non-controlling interests and income taxes	5,828	5,236	8,727	9,461

Non-controlling interests (note 5)	1,165	1,047	1,745	1,892

Earnings before income taxes	4,663	4,189	6,982	7,569
Income taxes:				
Current	308	475	526	597
Future	416	272	649	588
	724	747	1,175	1,185

Net earnings for the period	3,939	3,442	5,807	6,384
Retained earnings, beginning of period	61	1,852	1,886	2,801
Distributions declared to Unitholders	(3,693)	(3,890)	(7,386)	(7,781)

Retained earnings, end of period	\$ 307	\$ 1,404	\$ 307	\$ 1,404

Basic and diluted earnings per Unit	\$ 0.27	\$ 0.24	\$ 0.40	\$ 0.44

Weighted average number of Units outstanding	14,410,000	14,410,000	14,410,000	14,410,000

See accompanying notes to consolidated financial statements.

HARDWOODS DISTRIBUTION INCOME FUND
Consolidated Statements of Cash Flows
(Unaudited)
(Expressed in thousands of Canadian dollars)

	Three month period ended June 30, 2006	Three month period ended June 30, 2005	Six month period ended June 30, 2006	Six month period ended June 30, 2005

Cash flows provided by (used in) operating activities:				
Net earnings for the period	\$ 3,939	\$ 3,442	\$ 5,807	\$ 6,384
Items not involving cash:				
Amortization	526	567	1,048	1,150

Gain on sale of property, plant and equipment	(6)	(41)	(11)	(45)
Mark-to-market adjustment on foreign currency contracts	(754)	410	(300)	683
Non-controlling interests	1,165	1,047	1,745	1,892
Future income taxes	352	274	583	587
	5,222	5,699	8,872	10,651
Change in non-cash operating working capital (note 6)	(1,959)	2,037	(6,818)	(1,117)
Net cash provided by operating activities	3,263	7,736	2,054	9,534
Cash flows provided by (used in) investing activities:				
Additions to property, plant and equipment	(506)	(226)	(759)	(455)
Proceeds on disposal of property, plant and equipment	7	2,186	13	2,190
Increase in long-term receivables, net	(252)	(415)	(11)	(209)
Net cash provided by (used in) investing activities	(751)	1,545	(757)	1,526
Cash flows provided by (used in) financing activities:				
Increase (decrease) in bank indebtedness	1,056	(4,372)	4,016	(1,274)
Distributions paid to Unitholders	(3,693)	(3,890)	(7,386)	(7,781)
Distributions paid to non-controlling interests	-	(1,019)	-	(2,005)
Net cash used in financing activities	(2,637)	(9,281)	(3,370)	(11,060)
Decrease in cash	(125)	-	(2,073)	-
Cash, beginning of period	255	-	2,203	-
Cash, end of period	\$ 130	\$ -	\$ 130	\$ -

Supplementary
information

(cash amounts):

Interest paid	\$	827	\$	478	\$	1,531	\$	905
Income taxes paid		765		190		809		234

See accompanying notes to consolidated financial statements.

HARDWOODS DISTRIBUTION INCOME FUND

Notes to Consolidated Financial Statements

(Unaudited)

(Tabular amounts expressed in thousands of Canadian dollars)

For the periods ended June 30, 2006 and 2005

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, 2005. 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, 2005. Certain comparative figures have been restated to conform to the current period's financial statement presentation.

3. Foreign currency contracts:

In order to manage the Fund's exposure to exchange rate fluctuations on United States dollar denominated distributable cash, a subsidiary of the Fund has entered into foreign currency contracts to exchange US\$675,000 each month for approximately \$878,000 until April 2008, reflecting an exchange rate of \$1.30. The subsidiary of the Fund has also entered into additional monthly foreign currency contracts which require the subsidiary to exchange, beginning in May 2008, US\$675,000 into approximately \$760,000 each month until April 2009, reflecting an exchange rate of \$1.1255. The fair value of the Fund's 34

remaining monthly foreign currency contracts at June 30, 2006 represent a cumulative current asset of \$1,489,000 and a cumulative long term asset of \$1,463,000.

4. Bank indebtedness:

	June 30, 2006	December 31, 2005
Checks issued in excess of funds on deposit	\$ 1,488	\$ 753
Credit facility, Hardwoods LP	15,458	13,201
Credit facility, Hardwoods USLP (June 30, 2006-US\$29,279; December 31, 2005-US\$28,350)	32,681	32,971
	\$ 49,627	\$ 46,925

5. Non-controlling interests:

Balance, January 1, 2006	\$ 32,047
Interest in earnings for the period	1,745
Foreign currency translation adjustment of non-controlling interest in Hardwoods USLP	(943)
Balance, end of period	\$ 32,849

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 June 30, 2006.

Distributions are to be made monthly on the Class A LP Units and Class A USLP Units equal to at least \$0.08542 per Unit to the extent cash is available to make cash distributions and as determined by the board of directors of the general partners. Distributions on the Class B LP Units and Class B USLP Units will be subordinated and will be made quarterly in a combined amount for one Class B LP Unit and one Class B USLP Unit equal, on a pro rated basis, to the combined amount distributed on one Class A LP Unit and one Class A USLP Unit during such fiscal quarter, only after the distributions have been made on the Class A LP Units and Class A USLP Units and to the extent cash is available to make such distributions, as determined by the board of directors of the general partners.

In January 2006, distributions on the Class B LP Units and the Class B USLP Units were suspended in accordance with the terms of the subordination arrangements. The suspended distributions relating to the three months ended December 31, 2005 of \$1.0 million and the six months ended June 30, 2006 of \$2.0 million may be declared and paid to the Class B LP Units and the Class B USLP Units in the twelve months following the suspension under certain circumstances. Monthly distributions by the Fund cannot exceed \$0.08542 per Unit during any month in which suspended distributions exist on Class B LP Units and Class B USLP Units in a preceding twelve 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.

6. Changes in non-cash operating working capital:

	Three month period ended June 30, 2006	Three month period ended June 30, 2005	Six month period ended June 30, 2006	Six month period ended June 30, 2005
Accounts receivable	\$ (466)	\$ 434	\$ (6,019)	\$ (2,725)
Income taxes receivable/payable	(454)	408	(278)	363
Inventory	(891)	(717)	761	(448)
Prepaid expenses	(555)	(610)	(441)	(375)
Accounts payable and accrued liabilities	407	2,522	(841)	2,068
	\$ (1,959)	\$ 2,037	\$ (6,818)	\$ (1,117)

7. Segment disclosure:

Information about geographic areas is as follows:

	Three month period ended June 30, 2006	Three month period ended June 30, 2005	Six month period ended June 30, 2006	Six month period ended June 30, 2005
Revenue from external customers:				
Canada	\$ 29,199	\$ 30,223	\$ 58,345	\$ 57,247
United States	65,855	61,629	130,089	119,632
	\$ 95,054	\$ 91,852	\$ 188,434	\$ 176,879
Property, plant and equipment:				
Canada			\$ 1,386	\$ 1,559
United States			2,196	1,960
			\$ 3,582	\$ 3,519
Goodwill				
Canada			\$ 42,043	\$ 42,043
United States			52,112	54,297
			\$ 94,155	\$ 96,340

8. 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 June 30, 2006, Hardwoods USLP contributed and expensed \$76,604 (US\$68,280) (2005 - \$78,051 (US\$62,787)) in relation to the USLP Plan. During the six month period ended June 30, 2006, Hardwoods USLP contributed and expensed \$220,126 (US\$193,398) (2005 - \$237,914 (US\$192,580)) 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 June 30, 2006, Hardwoods LP contributed and expensed \$55,998 (2005 - \$52,657) in relation to the LP Plan. During the six month period ended June 30, 2006, Hardwoods LP contributed and expensed \$162,749 (2005 - \$160,447) in relation to the LP Plan.

9. Related party transactions:

For the three months ended June 30, 2006, sales of \$246,046 (2005 - \$495,876) were made to affiliates of SIL, and the Fund made purchases of \$37,702 (2005 - \$40,522) from affiliates of SIL. For the six months ended June 30, 2006, sales of \$646,194 (2005 - \$1,359,996) were made to affiliates of SIL, and the Fund made purchases of \$67,267 (2005 - \$132,846) from affiliates of SIL. All these sales and purchases took place at prevailing market prices.

During the three months ended June 30, 2006, the Fund paid \$27,000 (2005 - \$25,704) to affiliates of SIL under the terms of an agreement to provide services for management information systems. During the six months ended June 30, 2006, the Fund paid \$54,000 (2005 - \$58,976) to affiliates of SIL under the terms of an agreement to provide services for management information systems. This cost is included in the selling and administrative expense in the statement of operations.

10. 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.

11. 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.

12. Subsequent event:

On July 11, 2006 the Fund declared a cash distribution of \$0.08542 per Unit to holders of its Units related to the month of June 2006. The Fund's policy is to pay cash distributions at the end of the month that follows the month when the cash was earned. The cash distribution was paid on July 31, 2006 to holders of record at the close of business on July 20, 2006. Although this cash distribution relates to cash generated in June 2006, because this cash distribution was declared and became payable after the end of the June 30 quarter end, it is not reflected as a liability or distributions to Unitholders in the June 30, 2006 consolidated financial statements.

>>

%SEDAR: 00020372E

/For further information: Rob Brown, Chief Financial Officer, Phone:
(604) 881-1990, Fax: (604) 881-1995, Email: robbrown(at)hardwoods-inc.com/
(HWD.UN.)

CO: Hardwoods Distribution Income Fund

CNW 01:15e 01-AUG-06