News release via Canada NewsWire, Vancouver 604-669-7764

Attention Business/Financial Editors:
Hardwoods Distribution Income Fund Announces 2008 Second Quarter Results and Reduction to Distributions

TRADING SYMBOL: Toronto Stock Exchange - HWD.UN

Hardwoods Distribution Income Fund will hold a conference call and webcast to discuss second quarter financial results on August 1, 2008 at 8:00 a.m. Pacific Time (11:00 a.m. Eastern). The call can be accessed by dialing: 1-800-732-1073 or 416-644-3420. A replay will be available until August 15, 2008 at: 1-877-289-8529 or 416-640-1917 (Passcode 21279327 followed by the number sign).

The live and archived webcast can be accessed at http://www.investorcalendar.com/IC/CEPage.asp?ID(equal sign)128341 or on the Fund's website at www.hardwoods-inc.com.

LANGLEY, BC, July 31 /CNW/ - Hardwoods Distribution Income Fund (the "Fund") today released results for the second quarter and first half of 2008.

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Second Quarter 2008 Overview

- Second quarter revenue declined 25.6% from Q2 2007

- Second quarter gross profit percentage was 18.0%, compared to 19.0% in the second quarter of 2007

- Second quarter selling and administrative expenses decreased by $1.9 million to $9.2 million, from $11.1 million in Q2 2007

- Second quarter EBITDA was $3.1 million, compared to $6.4 million in Q2 2007

- The Fund reported a second quarter distribution payout ratio of 133.6%, compared to 63.4% in Q2 2007

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The Fund's results are based on the performance of Hardwoods Specialty Products LP and Hardwoods Specialty Products USLP (collectively "Hardwoods") - one of North America's largest wholesale distributors of hardwood lumber and related sheet good products. Based on deteriorating market conditions, which are having a negative impact on Hardwoods' financial results, the Fund today announced that monthly cash distributions to unitholders will be reduced by 67% to $0.025 per unit effective with the July 2008 distribution. The distribution will be paid on August 29, 2008, to unitholders of record as at August 20, 2008.

"We have made the difficult decision to reduce cash distributions to a more sustainable level as we work through the current market downturn," said Maurice Paquette, Hardwoods' President and CEO. "Market conditions remained extremely challenging through the second quarter, with US housing starts falling to a 17-year low and the broader North American economy continuing to deteriorate. Demand for hardwood lumber, which traditionally increases in the second quarter, declined both year-over-year and sequentially compared to the first quarter of 2008 as a number of our furniture, cabinet, and millwork manufacturing customers reduced production. Prices for hardwood lumber also declined, adding to the negative sales impact.

"At the same time, we experienced downward pressure on our gross margins as a result of higher freight costs and increased market competition as distributors lowered prices to shore up declining sales," added Paquette. "While our margins remained within our target range of 18.5% or better for the first half of 2008, second quarter margins fell to 18.0%, from 19.0% in the same period in 2007."

"As a result of the downturn in sales and margins, and our expectation of no near-term rebound in demand, we tested the carrying value of our goodwill and intangible assets at the end of the second quarter and recorded a significant write down. While this resulted in a large second quarter net loss, the writedowns are non-cash items and do not impact the Fund's Distributable Cash," said Paquette.

"Overall, we are responding to these difficult times with a disciplined approach. In addition to the distribution reduction, we have reduced our North American employee base by 9% over the past 12 months, closed two distribution centres, eliminated excess trucking capacity and sublet under-utilized warehouse space. We expect to close another two satellite distribution centres in the third quarter with corresponding personnel reductions. In addition, we have significantly reduced our inventory levels to $30.1 million, from $39.4 million a year ago, maintaining our inventory turnover at a relatively constant 7.0 times annually."

"Looking ahead, we anticipate that this will be a lengthy downturn, but we are confident we have the size, the strength and the stability to emerge in good condition. Our intention is to continue to take appropriate steps to mitigate the negative impacts of the market downturn, while ensuring we retain the strength and the market presence to participate in and benefit from a market recovery when it occurs," said Paquette.

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Summary of Results

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

	3 months ended June 30, 2008	3 months ended June 30, 2007	6 months ended June 30, 2008	6 months ended June 30, 2007
Total sales	$ 66,488	$ 89,400	$ 137,536	$ 181,120
Sales in the US (US$)	42,584	55,596	88,776	110,895
Sales in Canada	23,464	28,329	48,103	55,255
Gross profit	11,962	16,994	25,598	33,862
Gross profit %	18.0%	19.0%	18.6%	18.7%
Selling and administrative expenses	(9,225)	(11,069)	(20,543)	(22,819)
Realized gain on foreign currency contracts	354	425	949	694
Earnings before interest, taxes, depreciation and amortization and non-controlling interest ("EBITDA")	3,091	6,350	6,004	11,737
Add (deduct):				
Amortization	(422)	(475)	(847)	(967)
Interest	(310)	(625)	(698)	(1,334)
Mark-to-market gain on unrealized foreign currency contracts	(108)	940	(1,309)	771
Intangibles impairment	(5,468)	-	(5,468)	-
Goodwill impairment	(64,606)	-	(64,606)	-
Non-controlling interest	14,182	(499)	14,590	201

Income recovery (expense)	19,925	(891)	28,147	(1,602)
Net earnings (loss) for the period	$ (33,716)	$ 4,800	$ (24,187)	$ 8,806
Basic and fully diluted earnings (loss) per Class A Unit	$ (2.340)	$ 0.333	$ (1.678)	$ 0.611
Average US$ exchange rate to C$	1.0101	1.0986	1.0074	1.135

Distributable Cash and Cash Distributions
Selected Unaudited Consolidated Financial Information
(in thousands of dollars except per unit amounts)

	3 months ended June 30, 2008	3 months ended June 30, 2007	6 months ended June 30, 2008	6 months ended June 30, 2007
Net cash provided by operating activities	$ 7,663	$ 5,380	$ 10,260	$ 6,254
Increase (decrease) in non-cash operating working capital	(5,011)	(298)	(4,264)	3,061
Cash flow from operations before changes in non-cash operating working capital	2,652	5,082	5,996	9,315
Capital expenditures	(225)	(214)	(298)	(450)
Distributable Cash	$ 2,427	$ 4,868	$ 5,698	$ 8,865
Distributions relating to the period:				
Class A Units	$ 3,242(1)	$ 3,086	$ 6,484(2)	$ 6,026
Class B Units(3)	-	-	-	-
Total Units	$ 3,242	$ 3,086	$ 6,484	$ 6,026
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 Total Units	$ 0.135	$ 0.270	$ 0.316	$ 0.492
Distributions relating to the period:				
Class A Units	$ 0.225(1)	$ 0.214	$ 0.450(2)	$ 0.418
Class B Units(3)	$ -	$ -	$ -	$ -
Total Units	$ 0.180	$ 0.171	$ 0.360	$ 0.335
Payout ratio(4)	133.6%	63.4%	113.8%	68.0%

	March 23, 2004 to June 30, 2008
Cumulative since inception:	
Distributable Cash	76,347
Distributions relating to the period	65,673
Payout ratio(4)	86.0%

(1) Includes the cash distributions of $0.075 per Class A Unit per month which relate to the operations of the Fund for April, May and June 2008.

(2) Includes the cash distributions of $0.075 per Class A Unit per month which relate to the operations of the Fund for January to June 2008.

(3) On January 10, 2006, Hardwoods Specialty Products LP and Hardwoods Specialty Products US LP, limited partnerships in each of which the Fund owns an 80% interest, announced that quarterly distributions were suspended on the Class B LP and Class B US LP units. The Class B LP units and Class B US LP units represent a 20% interest in Hardwoods Specialty Products LP and Hardwoods Specialty Products US LP, respectively. No distributions are to be paid on the Class B LP units and Class B US LP units unless distributions in stipulated minimum amounts are paid on the units in the limited partnerships held by the Fund, and in certain other circumstances. Accordingly, no distributions have been declared since the third quarter of 2005 to the non-controlling interests. No liability for distributions payable to the non-controlling interests is reflected in the June 30, 2008 balance sheet.

(4) Payout ratio measures the ratio of distributions by the Fund relating to the period to Distributable Cash for the period.

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Results from Operations - Three Months Ended June 30, 2008

For the three months ended June 30, 2008, the Fund and its subsidiaries generated total distributable cash available to Class A and Class B Unitholders of $2.4 million, or $0.135 per unit. Second quarter distributions paid to public unitholders (Class A Units) were $3.2 million, or $0.225 per unit. No distributions were made to the Class B Units. These distributions represent an overall payout ratio of 133.6% for the second quarter of 2008, compared to 63.4% in the second quarter of 2007.

For the three months ended June 30, 2008, sales were $66.5 million, down 25.6% from $89.4 million in 2007. The change in sales reflects a 21.4% decrease in underlying sales activity and the 4.2% negative impact of a stronger Canadian dollar. Sales in the United States, as measured in US dollars, decreased 23.4% to $42.6 million, compared to $55.6 million during the second quarter of 2007. This decline reflects the extremely challenging conditions in all five of Hardwood's US geographic regions, including a weak residential construction market and a wide-spread slowing of the US economy. Sales in Canada, as measured in Canadian dollars, decreased by 17.2%, reflecting reduced demand in all regions, the cross-border impact of weakness in the US market and the negative impact of a stronger Canadian dollar.

Second quarter gross profit was $12.0 million, compared to $17.0 million in Q2 2007. The change in gross profit reflects lower sales and a decrease in gross profit percentage to 18.0%, from 19.0%. Second quarter gross profit percentage came under pressure from product price reductions in response to increased competition and higher delivery charges from trucking carriers due to much higher fuel costs. Some quarter-to-quarter variation in gross profit percentage is considered normal with 18% to 19% representing a typical range. Hardwoods' goal is to obtain a gross profit margin of 18.5% or better over a business cycle.

Selling and administrative expenses decreased by $1.9 million to $9.2 million, from $11.1 million in Q2 2007. This improvement reflects the $0.5 million benefit of a stronger Canadian dollar on the conversion of S&A expenses at Hardwoods' US operations, as well as a reduction in personnel costs.

Second quarter EBITDA was $3.1 million, compared to $6.4 million in Q2 2007. The decrease in EBITDA primarily reflects the $5.0 million decrease in gross profit, partially offset by the $1.9 million reduction in S&A expenses.

The Fund recorded a second quarter net loss of $33.7 million, compared to net earnings of $4.8 million in the comparable period in 2007. The $38.5 million decrease in earnings primarily reflects a $70.1 million non-cash writedown of goodwill and intangible assets as a result of reduced sales and EBITDA expectations. These writedowns were partly offset by a $14.7 million increase in recovery from the non-controlling interest and a $20.8 million increase in income tax recovery that arose from recording the goodwill and intangibles impairment. In addition to these items, the change in net earnings also reflects the $3.3 million decrease in EBITDA, the $1.0 million decrease in mark-to-market adjustment gains on foreign currency contracts, and the $0.3 million reduction in interest expense.

Results from Operations - Six Months Ended June 30, 2008

For the six months ended June 30, 2008, the Fund and its subsidiaries generated total distributable cash of $5.7 million, or $0.316 per unit. Distributions of $6.5 million, or $0.450 per unit, were declared to the public unitholders (Class A Units) and no distributions were paid to the Class B Units, resulting in a year-to-date payout ratio of 113.8%. By comparison, the Fund generated total distributable cash of $8.9 million or $0.492 per unit in the first half of 2007 and declared distributions of $6.0 million, or $0.418 per unit to the Class A Units, for a payout ratio of 68.0%. No distributions were paid to the Class B Units.

First-half 2008 sales declined by 24.1% to $137.5 million, from $181.1 million in 2007 as a result of this year's more challenging market conditions. The decline in total sales reflects a 17.8% decrease in underlying sales activity and a 6.3% decrease in sales due to the negative impact of a stronger Canadian dollar. Sales at Hardwoods' US operations, as measured in US dollars, decreased by 19.9%, and sales in Canada, as measured in Canadian dollars, were down by 12.9% year-over-year.

First-half gross profit was $25.6 million, down from $33.9 million in 2007. The reduction in gross profit primarily reflects lower sales. As a percentage of sales, gross profit was relatively steady at 18.6% in the first half of 2008, compared to 18.7% during the same period in 2007. Hardwoods was also successful in decreasing selling and administrative expenses to $20.5 million, from $22.8 million in the first half of 2007. The improvement in S&A expense primarily reflects a reduction in employee and bonus expenses, along with the benefit of the stronger Canadian dollar on translation of costs at Hardwoods' US operations.

First-half EBITDA was $6.0 million, compared to $11.7 million in the same period in 2008. The decrease in EBITDA reflects the lower gross profit, partially offset by improved S&A costs and a $0.2 million increase in realized gains on foreign currency contracts. The Fund recorded a net loss of $24.2 million, compared to net earnings of $8.8 million in the first six months of 2007. The $33.0 million decrease in net earnings primarily reflects the $5.7 million decrease in EBITDA, the $2.1 million decrease in mark-to-market adjustment gains on foreign currency contracts, and the combined $70.1 million in writedowns to goodwill and intangibles. Partially offsetting these negative earnings impacts were a $0.6 million decrease in interest expense, a $14.4 million increase in recovery from non-controlling interest, and a $29.7 million decrease in income tax expense.

Outlook

Hardwoods anticipates a continuation of challenging market conditions over the next 12 months, with depressed housing starts and general economic weakness reducing demand for furniture, cabinets, recreational vehicles and other products that utilize hardwood lumber and sheet goods. Prices for hardwood lumber are also expected to remain low, despite production curtailments by many lumber mills.

The Fund's import program, which is a key contributor of higher margin sales, is expected to feel continued pressure from reduced North American demand and from higher prices in the Chinese wood market. The Fund's year-to-date import volumes are down by 33%. The price inflation is related to the rising value of the Yuan and increased costs for raw material, labour and transportation in China. While these factors are expected to put pressure on gross margin percentage as the year progresses, overall, imports are expected to remain an important and high-margin segment of Hardwoods' business. The company has had good initial success with its new Echo Wood(TM) line of veneer products and expects to continue growing this product line in 2008.

Since inception, the Fund has maintained a hedging program designed to assist in forward planning for currency fluctuations that arise related to conversion of that portion of the Distributable Cash it generates in the United States in US dollars. In anticipation of significantly reduced US cash flow through the balance of 2008 and 2009, the Fund plans to discontinue this program. It is expected that existing contracts, currently valued at approximately $0.7 million, will be realized during the third quarter. The Fund will review its hedging strategy regularly and will reinstate currency hedges if and when appropriate.

With the expectation of more challenges ahead, Hardwoods' focus will remain on tight management of the business. Management will maintain a sharp focus on margin performance and work to ensure expenditures are matched as appropriately as possible to sales levels. Inventory levels and working capital will also continue to be managed closely and the Fund will work to minimize customer credit risk, which typically becomes elevated in a weak economy. These initiatives, together with the reduction in monthly cash distributions, are expected to help the Fund sustain a strong balance sheet and emerge in stable condition from the current business cycle.

Non-GAAP Measures - EBITDA and Distributable Cash

References to "EBITDA" are to earnings before interest, income taxes, depreciation and amortization, mark-to-market adjustments on foreign currency contracts, goodwill and other intangible assets impairments, and the non-controlling interest in earnings. In addition to net income or loss, EBITDA is a useful supplemental measure of performance and cash available for distribution prior to debt service, changes in working capital, capital expenditures and income taxes.

References to "Distributable Cash" is to net cash provided by operating activities, before changes in non-cash operating working capital, less capital expenditures and contributions to any reserves that the Boards of Directors of our operating entities determine to be reasonable and necessary for the operation of the businesses owned by these entities.

We believe that, in addition to net income or loss, EBITDA and Distributable Cash are each a useful supplemental measures of operating performance that may assist investors in assessing their investment in units of the Fund. Neither EBITDA nor Distributable Cash are earnings measure recognized by GAAP and they do not have a standardized meaning prescribed by GAAP. Investors are cautioned that EBITDA should not replace net income or loss (as determined in accordance with GAAP) as an indicator of our performance, nor should Distributable Cash replace cash flows from operating, investing and financing activities or as a measure of liquidity and cash flows. The Fund's method of calculating EBITDA and Distributable Cash may differ from the methods used by other issuers. Therefore, the Fund's EBITDA and Distributable Cash may not be comparable to similar measures presented by other issuers. For reconciliation between EBITDA and net income or loss as determined in accordance with GAAP, and for reconciliation between Distributable Cash and net cash provided by operating activities as determined in accordance with GAAP, please refer to the Management Discussion and Analysis ("MD&A") included in the Fund's 2008 Second Quarter Report to Unitholders, which will be filed at www.sedar.com.

Additional guidance regarding disclosure of distributable cash and cash distributions was issued in 2007 in an interpretative release by the Canadian Institute of Chartered Accountants (the "CICA") in respect of "Standardized Distributable Cash in Income Trusts and other Flow Through Entities" and National Policy 41-201 of the Canadian Securities Administrators "Income Trusts and other Indirect Offerings" (collectively, the "Interpretative Guidance"). For disclosure and discussion of the Fund's Standardized Distributable Cash in accordance with the Interpretive Guidance, please refer to the MD&A included in the Fund's 2008 Second Quarter Report to Unitholders, which will be filed at www.sedar.com.

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.

About Hardwoods

Hardwoods is one of North America's largest distributors 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 34 distribution centres comprising 1.3 million square feet of warehouse and distribution space in the U.S. and Canada.

Forward-Looking Information

Certain statements in this press release contain forward-looking information within the meaning of applicable securities laws in Canada ("forward-looking information"). The words "anticipates", "believes", "budgets", "could", "estimates", "expects", "forecasts", "intends", "may", "might", "plans", "projects", "schedule", "should", "will", "would" and similar expressions are often intended to identify forward-looking information, although not all forward-looking information contains these identifying words.

The forward-looking information in this press release includes, but is not limited to: we expect to close another two satellite distribution centres in the third quarter with corresponding personnel reductions; we anticipate that this will be a lengthy market downturn; Hardwoods anticipates a continuation of challenging market conditions over the next 12 months, with depressed housing starts and general economic weakness reducing demand for furniture, cabinets, recreational vehicles and other products that utilize hardwood lumber and sheet goods; prices for hardwood lumber are also expected to remain low, despite production curtailments by many lumber mills; the Fund's import program, which is a key contributor of higher margin sales, is expected to feel continued pressure from reduced North American demand and from higher prices in the Chinese wood market; imports are expected to remain an important and high-margin segment of Hardwoods' business; The Fund expects to continue growing its Echo Wood(TM) line of veneer products this product line in 2008; in anticipation of significantly reduced US cash flow through the balance of 2008 and 2009, the Fund plans to discontinue its hedging program, and it is expected that existing hedge contracts, currently valued at approximately $0.7 million, will be realized during the third quarter; management will maintain a sharp focus on margin performance and work to ensure expenditures are matched as appropriately as possible to sales levels; inventory levels and working capital will also continue to be managed closely and the Fund will work to minimize customer credit risk, which typically becomes elevated in a weak economy; these initiatives, together with the reduction in monthly cash distributions, are expected to help the Fund sustain a strong balance sheet and emerge in stable condition from the current business cycle.

The forecasts and projections that make up the forward-looking information are based on assumptions which include, but are not limited to: there are no material exchange rate fluctuations between the Canadian and US dollar that affect the amount of cash Hardwoods has available to distribute to unitholders in Canadian dollars; Hardwoods does not lose any key personnel; there are no decreases in the supply of, demand for, or market values of hardwood lumber or sheet goods that harm the business; Hardwoods does not incur material losses related to credit provided to customers; products are not subjected to negative trade outcomes; Hardwoods is able to sustain its level of sales and EBITDA margins; Hardwoods is able to grow its business and to manage growth; there is no new market competition that leads to reduced revenues and profitability; Hardwoods does not become subject to more stringent regulations; importation of products manufactured with hardwood lumber or sheet goods does not increase and replace products manufactured in North America; the downturn in the general state of the economy does not worsen and impact Hardwoods' results; the company's management information systems are not impaired; Hardwoods' insurance is sufficient to cover losses that may occur as a result of its operations; and, the financial condition and results of operations of the business is not impaired.

The forward-looking information is subject to risks, uncertainties and other factors that could cause actual results to differ materially from historical results or results anticipated by the forward-looking information. The factors which could cause results to differ from current expectations include, but are not limited to: exchange rate fluctuations between the Canadian and US dollar could affect the amount of cash available to distribute to unitholders in Canadian dollars; Hardwoods depends on key personnel, the loss of which could harm the business; decreases in the supply of, demand for, or market values of hardwood lumber or sheet goods could harm the business; Hardwoods may incur losses related to credit provided to customers; Hardwoods' products may be subject to negative trade outcomes; the company may not be able to sustain its level of sales or EBITDA margins; Hardwoods may be unable to grow the business or to manage any growth; market competition may lead to reduced revenues and profitability; Hardwoods may become subject to more stringent regulations; importation of products manufactured with hardwood lumber or sheet goods may increase, and replace products manufactured in North America; Hardwoods' results are dependent upon the general state of the economy; the company is dependent upon its management information systems; Hardwoods' insurance may be insufficient to cover losses that may occur as a result of its operations; Hardwoods' credit facilities contain restrictions on its ability to borrow funds and restrictions on distributions that can be made; there are tax risks associated with an investment in the Fund's units; the Fund's future growth may be restricted by the payout of substantially all of its operating cash flow; and, other risks described in the Fund's Annual Information Form and other continuous disclosure documents.

All forward-looking information in this press release is qualified in its entirety by this cautionary statement and, except as may be required by law, the Fund undertakes no obligation to revise or update any forward-looking information as a result of new information, future events or otherwise after the date hereof.

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

	June 30, 2008	December 31, 2007
	(unaudited)	
Assets		
Current assets:		
Cash and cash equivalents	$ 1,234	$ 295
Accounts receivable (note 6(c))	38,195	36,474
Income tax recoverable	1,902	1,041
Inventory (note 5)	30,080	38,400
Prepaid expenses	1,405	1,060
Foreign currency contracts (note 7)	706	1,533
	73,522	78,803
Long-term receivables (note 6(c))	3,989	2,191
Property, plant and equipment	2,276	2,413
Deferred financing costs	16	21
Foreign currency contracts (note 7)	136	528
Future income taxes	23,892	-
Intangible assets (note 8)	3,297	9,013
Goodwill (note 8)	17,477	80,758
	$ 124,605	$ 173,727
Liabilities and Unitholders' Equity		
Current liabilities:		
Bank indebtedness (note 9)	$ 23,620	$ 25,515
Accounts payable and accrued liabilities	6,461	6,950
Distribution payable to Unitholders	1,081	1,081
	31,162	33,546
Foreign currency contracts (note 7)	136	47
Deferred gain on sale - leaseback of land and building	516	538
Non-controlling interests (note 10)	16,065	30,068
Future income taxes	-	3,534

Unitholders' equity:		
Fund Units	133,454	133,454
Deficit	(36,821)	(5,895)
Accumulated other comprehensive loss	(19,907)	(21,565)
	76,726	105,994
Subsequent event (note 4)		
Contingencies (note 17)		
	$ 124,605	$ 173,727

See accompanying notes to consolidated financial statements.

HARDWOODS DISTRIBUTION INCOME FUND
Consolidated Statement of Earnings (Loss) and Retained Earnings (Deficit)
(Unaudited)
(Expressed in thousands of Canadian dollars)

	Three months ended June 30, 2008	Three months ended June 30, 2007	Six months ended June 30, 2008	Six months ended June 30, 2007
		(Restated - note 9)		(Restated - note 9)
Sales	$ 66,488	$ 89,400	$ 137,536	$ 181,120
Cost of sales	54,526	72,406	111,938	147,258
Gross profit	11,962	16,994	25,598	33,862
Expenses:				
Selling and administrative	9,225	11,069	20,543	22,819
Amortization:				
Plant and equipment	235	279	474	567
Deferred financing costs	3	3	5	6
Other intangible assets	203	213	405	436
Deferred gain on sale - leaseback of land and building	(18)	(20)	(37)	(42)
Interest	310	625	698	1,334
Foreign currency contracts	(247)	(1,365)	360	(1,465)
Intangibles impairment (note 8)	5,468	-	5,468	-
Goodwill impairment (note 8)	64,606	-	64,606	-
	79,785	10,804	92,522	23,655

Earnings (loss) before non-controlling interests and

income taxes	(67,823)	6,190	(66,924)	10,207
Non-controlling interests (note 10)	14,182	(499)	14,590	201
Earnings (loss) before income taxes	(53,641)	5,691	(52,334)	10,408
Income tax expense (recovery) (note 15):				
Current	39	388	(752)	793
Future	(19,964)	503	(27,395)	809
	(19,925)	891	(28,147)	1,602
Net earnings (loss) for the period	(33,716)	4,800	(24,187)	8,806
Retained earnings (deficit), beginning of period (note 3(b))	137	(8,093)	(6,150)	(9,159)
Distributions declared to Unitholders	(3,242)	(3,086)	(6,484)	(6,026)
Deficit, end of period	$ (36,821)	$ (6,379)	$ (36,821)	$ (6,379)
Basic and diluted earnings (loss) per Unit	$ (2.34)	$ 0.33	$ (1.68)	$ 0.61
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 Statement of Comprehensive Income (Loss)
(Unaudited)
(Expressed in thousands of Canadian dollars)

	Three months ended June 30, 2008	Three months ended June 30, 2007	Six months ended June 30, 2008	Six months ended June 30, 2007
		(Restated - note 9)		(Restated - note 9)

Net earnings (loss) for the period	$ (33,716)	$ 4,800	$ (24,187)	$ 8,806
Other comprehensive income:				
Unrealized gain (loss) on translation of self-sustaining foreign operations	(411)	(5,403)	1,658	(6,049)
Other comprehensive income (loss)	(411)	(5,403)	1,658	(6,049)
Comprehensive income (loss)	$ (34,127)	$ (603)	$ (22,529)	$ 2,757

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

	Three months ended June 30, 2008	Three months ended June 30, 2007	Six months ended June 30, 2008	Six months ended June 30, 2007
		(Restated - note 9)		(Restated - note 9)
Accumulated other comprehensive loss, beginning of period	$ (19,496)	$ (11,826)	$ (21,565)	$ (11,180)
Other comprehensive income (loss)	(411)	(5,403)	1,658	(6,049)
Accumulated other comprehensive loss, end of period	$ (19,907)	$ (17,229)	$ (19,907)	$ (17,229)

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

	Three months ended June 30, 2008	Three months ended June 30, 2007	Six months ended June 30, 2008	Six months ended June 30, 2007

		(Restated - note 9)		(Restated - note 9)
Cash flows provided by (used in) operating activities:				
Net earnings for the period	$ (33,716)	$ 4,800	$ (24,187)	$ 8,806
Items not involving cash:				
Amortization	422	475	847	967
Imputed interest income in employee loans	(17)	(16)	(31)	(16)
Gain on sale of property, plant and equipment	-	(9)	-	(19)
Mark-to-market adjustment on unrealized foreign currency contracts	108	(940)	1,309	(771)
Non-controlling interests	(14,182)	499	(14,590)	(201)
Future income taxes	(20,037)	273	(27,426)	549
Intangibles impairment	5,468	-	5,468	-
Goodwill impairment	64,606	-	64,606	-
	2,652	5,082	5,996	9,315
Change in non-cash operating working capital (note 11)	5,011	298	4,264	(3,061)
Net cash provided by operating activities	7,663	5,380	10,260	6,254
Cash flows provided by (used in) investing activities:				
Additions to property, plant and equipment	(225)	(214)	(298)	(450)
Proceeds on disposal of property, plant and equipment	-	10	-	21
Increase (decrease) in long-term receivables, net	(303)	818	(116)	1,143
Net cash provided by (used in) investing activities	(528)	614	(414)	714
Cash flows provided by (used in) financing activities:				
Decrease in bank indebtedness	(3,012)	(4,730)	(2,423)	(1,188)
Distributions paid to Unitholders	(3,242)	(3,037)	(6,484)	(5,977)
Net cash used in financing activities	(6,254)	(7,767)	(8,907)	(7,165)

Increase (decrease) in cash	881	(1,773)	939	(197)
Cash, beginning of period	353	2,170	295	594
Cash, end of period	$ 1,234	$ 397	$ 1,234	$ 397
Supplementary information (cash amounts):				
Interest paid	$ 310	$ 625	$ 698	$ 1,334
Income taxes paid	43	785	752	791
Transfer of accounts receivable to long-term customer notes receivable, net of write offs, being a non-cash transaction	35	1,135	2,270	1,135

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, 2008 and 2007

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, 2007 except as discussed in note 3. 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, 2007. Certain comparative figures have been restated to conform to the current period's financial statement presentation.

3. Adoption of changes in accounting polices:

Effective January 1, 2008, the Fund adopted four new Canadian Institute of Chartered Accountants ("CICA") accounting standards: (a) Handbook Section 1535, Capital Disclosures; (b) Handbook Section 3031, Inventories; (c) Handbook Section 3862, Financial Instruments - Disclosures; and Handbook Section 3863, Financial Instruments - Presentation. The main requirements of these new standards and the resulting financial statement impact are described below.

(a) Capital Disclosures (Section 1535):

CICA Section 1535 requires disclosure of: (i) an entity's objectives, policies and process for managing capital; (ii) quantitative data about what the entity considers as capital; (iii) whether the entity has complied with any capital requirements and, if it has not complied, the consequences of such non-compliance. Refer to note 4 for additional disclosures.

(b) Inventories (Section 3031):

CICA Section 3031 provides significantly more guidance on the measurement of inventories, with an expanded definition of cost and the requirement that inventory must be measured at the lower of cost and net realizable value. In addition the section has additional disclosure requirements, including accounting policies, carrying values, and the amount of any inventory write-downs. Refer to note 5 for additional disclosures.

Consistent with the transitional rules for Section 3031, the Fund has not restated any prior period amounts as a result of adopting the accounting changes. As allowed under the transition rules, the opening deficit has been adjusted to reflect the cumulative impact of adopting the changes in accounting policy related to inventory. The adoption of this new standard resulted in a decrease in the carrying value of opening inventory of $317,000, a decrease in non-controlling interests of $62,000, and an increase in deficit of $255,000 on the balance sheet at January 1, 2008, to reflect trade discounts from suppliers for inventory purchases that previously had been recognized in earnings when received.

The effect of the adoption of Section 3031 is summarized in the following table:

	As at December 31, 2007	Adjustment on adoption of new standards	As at January 1, 2008
Inventory	$ 38,400	$ (317)	$ 38,083
Non-controlling interests	30,068	(62)	30,006
Unitholders equity:			
Deficit	$ (5,895)	$ (255)	$ (6,150)

(c) Financial Instruments - Disclosures (Section 3862) and Financial

Instruments - Presentation (Section 3863):

CICA Section 3032 and 3063 replaces CICA Handbook Section 3861, Financial Instruments - Disclosures and Presentation, revising and enhancing disclosure requirements to provide additional information on the nature and extent of risks arising from financial instruments to which the entity is exposed and how it manages those risks. Refer to note 6 for additional disclosures.

4. Capital disclosures:

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

	June 30, 2008	December 31, 2007
Cash and cash equivalents	$ (1,234)	$ (295)
Bank indebtedness	23,620	25,515
Net debt	22,386	25,220
Unitholders' equity	76,726	105,994
Total capitalization	$ 99,112	$ 131,214

The Fund monitors on a monthly basis the ratio of net debt to earnings before interest, income taxes, depreciation and amortization ("EBITDA"). Net debt to EBITDA serves as an indicator of the Fund's financial leverage. The maximum ratio of net debt to EBITDA allowed under our Canadian credit facility is 2.50 times. The maximum ratio of net debt to EBITDA allowed under our US credit facility is 3.0 times for the period April 1, 2008 to September 29, 2008, and 2.85 times thereafter. Refer to note 9 for additional disclosures.

The terms of the agreements with the Fund's lenders provide that distributions cannot be made to its unitholders in the event that its subsidiaries did not meet the foregoing leverage as well as certain additional credit ratios. After negotiating a temporary adjustment to the US bank covenant (see note 9), our operating subsidiaries were fully compliant with all required credit ratios as at June, 30, 2008, and accordingly there were no restrictions on distributions arising from compliance with financial covenants.

Distributions are one of the ways the Fund manages its capital. Distributions of the Fund's available cash are made to the maximum extent possible, subject to reasonable reserves established by the Trustees of the Fund. Distributions are made by the Fund having given consideration to a variety of factors including the outlook for the business, financial leverage, and the ratio of distributions to available cash of the Fund. There were no changes in the Fund's approach to capital management during the three and six month periods ended June 30, 2008. On July 31, 2008 the Trustees of the Fund approved a new monthly distribution rate of $0.025 per Fund Unit, effective with the July 2008 distribution.

5. Inventory:

	June 30, 2008	December 31, 2007
Lumber	$ 12,649	$ 15,077
Sheet Goods	12,864	17,884
Specialty	2,976	3,067
Goods in-transit	1,591	2,372
	$ 30,080	$ 38,400

Inventory is valued at lower of cost and net realizable value. Cost is determined using the weighted average cost method and includes invoice cost, duties, freight, and other directly attributable costs of acquiring the inventory.

Volume rebates and other supplier discounts are included in income when earned. Volume discounts and supplier trade discounts are accounted for as a reduction of the cost of the related inventory and are earned when inventory is sold.

During the three months ended June 30, 2008 inventory write-downs totaling $0.7 million (six months ended June 30, 2008- $1.3 million) were recorded to reduce certain inventory items to their net realizable value.

Cost of sales for the three months ended June 30, 2008 were $54.5 million (six months ended June 30, 2008 - $111.9 million), which included $52.5 million (six months ended June 30, 2008 - $108.5 million) of costs associated with inventory. The other $2.0 million (six months ended June 30, 2008 - $3.4 million) related principally to freight and other related selling expenses.

6. Financial instruments:

Financial instrument assets include cash and cash equivalents, which are designated as held-for-trading and measured at fair value, and current and long-term receivables which are designated as loans and receivables and measured at amortized cost. Financial instrument liabilities include bank indebtedness, accounts payable, accrued liabilities and distributions payable. All financial liabilities are designated as other liabilities and are measured at amortized cost. There are no financial instruments classified as available-for-sale or held-to-maturity. Financial instruments of the Fund also include foreign currency contracts which are derivative financial instruments (note 6(b)) and measured at fair value.

(a) Fair values of financial instruments:

The carrying values of cash and cash equivalents, accounts receivable, income tax recoverable, accounts payable and accrued liabilities and distributions payable approximate their fair values due to the relatively short period to maturity of the instruments. The fair value of long-term receivables is not expected to differ materially from the carrying value. The carrying values of the credit facilities approximate their fair values due to the existence of floating market based interest rates. The foreign currency contracts are carried at market values as disclosed in note 7.

(b) Derivative financial instruments:

The Fund uses foreign currency contracts to assist in forward planning for the business as it relates to managing its exposure to fluctuations in exchange rates between the Canadian dollar and the US 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 earnings.

The foreign currency contracts have maturities of less than two years. The counterparty to these contracts is a major US financial institution and the Fund does not anticipate non-performance by the counterparty. Refer to note 7 for additional disclosure.

(c) Financial risk management:

Trustees of the Fund and the Board of Directors of the Fund's subsidiaries have the overall responsibility for the establishment and oversight of the Fund's risk management framework. The Fund's risk management policies are established to identify and analyze the risks faced by the Fund, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and in response to the Fund's activities. Through its standards and procedures management has developed a disciplined and constructive control environment in which all employees understand their roles and obligations. Management regularly monitors compliance with the Fund's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Fund.

The Fund has exposure to credit, liquidity and market risks from its use of financial instruments.

(i) Credit risk:

Credit risk is the risk of financial loss to the Fund if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Fund's receivables from customers. Employee housing loans, customer notes and security deposits also present credit risk to the Fund. The credit risk associated with foreign currency contracts is addressed in note 6(b).

The following is a breakdown of the Fund's current and long-term receivables and represents the Fund's exposure to credit risk related to its financial assets:

Accounts receivable	June 30, 2008	December 31, 2007
Trade accounts receivable - Canada	$ 12,322	$ 11,086
Trade accounts receivable - United States	26,484	25,131
Sundry receivable	428	645
Current portion of long-term receivables	1,309	658
	40,543	37,520
Less: allowance for doubtful accounts	2,348	1,046

	$ 38,195	$ 36,474

Long-term receivables	June 30, 2008	December 31, 2007
Employee housing loans	$ 1,451	$ 1,130
Customer notes	3,261	1,166
Security deposits	587	553
	5,299	2,849
Less: current portion, included in accounts receivable	1,309	658
	$ 3,990	$ 2,191

Trade accounts receivable:

The Fund's exposure to credit risk is influenced mainly by individual characteristics of each customer. The Fund is exposed to credit risk in the event it is unable to collect in full amounts receivable from its customers. The Fund employs established credit approval practices and engages credit attorneys when appropriate to mitigate the credit risk. It is the Fund's policy to secure credit advanced to customers whenever possible by registering security interests in the assets of the customer and by obtaining personal guarantees. Credit limits are established for each customer and are regularly reviewed. In some instances the Fund may choose to transact with a customer on a cash-on-delivery basis. Our largest individual customer balance amounted to 5.5% of trade accounts receivable and customer notes receivable at June 30, 2008.

The aging of trade receivables was:

	June 30, 2008	December 31, 2007
Current	$ 22,958	$ 20,245
Past due 31-60 days	7,545	8,345
Past due 61-90 days	3,064	3,453
Past due 90+ days	5,239	4,174
	$ 38,806	$ 36,217

The Fund determines its allowance for doubtful accounts based on its best estimate of the net recoverable amount by customer account. Accounts that are considered uncollectable are written off. The total allowance at June 30, 2008 was $2.3 million (December 31, 2007 - $1.0 million). The amount of the allowance is considered sufficient based on the past experience of the business, the security the Fund has in place for past due accounts and management's regular review and assessment of customer accounts and credit risk.

Bad debt expense for the three months ended June 30, 2008 was $0.5 million which equates to 0.8% of sales. For the six months ended June 30, 2008 bad debt expense was $1.0 million which equates to 0.7% of sales. Historically bad debt as a percentage of sales has averaged approximately 0.5%.

Employee housing loans:

Employee loans are non-interest bearing and are granted to employees who are relocated. Employee loans are secured by a deed of trust or mortgage depending upon the jurisdiction. Employees are required to make an annual payment from their profit share. These loans are measured at their fair market value upon granting the loan and subsequently measured at amortized cost.

Customer notes:

Customer notes are issued to certain customers to provide fixed repayment schedules for amounts owing that have been agreed will be repaid over longer periods of time. The terms of each note are negotiated with the customer. For notes issued the Fund requires a fixed payment amount, personal guarantees, general security agreements, and in some cases security over specific property or assets. Customer notes bear market interest rates ranging from 8%-18%.

Security deposits:

Security deposits are recoverable on leased premises at the end of the lease terms with which it relates to. The Fund does not believe there is any material credit risk associated with its security deposits.

(ii) Liquidity risk:

Liquidity risk is the risk that the Fund will not be able to meet its financial obligations as they fall due. The Fund's approach to managing liquidity is to ensure that it will have sufficient cash available to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Fund's reputation. In Canada, a subsidiary of the Fund has a revolving credit facility of up to an aggregate amount of $22.0 million. In the US, a subsidiary of the Fund has a revolving credit facility of up to an aggregate amount of $35.9 million (US$35.0 million) less the net exposure under the foreign currency contracts facility as described in note 7. These credit facilities can be drawn down to meet short-term financing requirements, including fluctuations in non-cash working capital. The amount made available under the revolving credit facilities from time to time is limited to the extent of the value of certain accounts receivable and inventories held by subsidiaries of the Fund. At June 30, 2008 the Canadian and US credit facilities have $10.5 million and $7.4 million (US$7.3 million), respectively of available borrowing capacity. Refer to note 9 for additional disclosure.

(iii) Market risk:

Market risk is the risk that changes in market prices, such as interest rates, foreign exchange rates, and commodity prices will affect the Fund's net earnings or value of its holdings of financial instruments.

Interest rate risk:

The Fund is exposed to interest rate risk on its credit facilities which bear interest at floating market rates.

Based upon June 30, 2008 bank indebtedness balance of $23.6 million, a 1% increase or decrease in the interest rates charged will result in decrease or increase to annual net earnings by $0.2 million.

Currency risk:

As the Fund conducts business in both Canada and the United States it is exposed to currency risk. Most of the hardwood lumber sold by the Fund in Canada is purchased in US dollars from suppliers in the United States. Although the Fund reports its financial results in Canadian dollars, approximately two-thirds of its sales are generated in the United States. Changes in the currency exchange rates of the Canadian dollar against the US dollar will affect the results presented in the Fund's financial statements and cause its earnings to fluctuate. In addition, while changes in the costs of hardwood lumber purchased by the Fund in the United States as a result of the appreciation of the Canadian dollar against the US dollar are usually absorbed by the Canadian market, when the hardwood lumber is resold in Canada it is generally sold at a lower Canadian dollar equivalent selling price, and accordingly revenues in Canada are effectively reduced. Increases in the value of the Canadian dollar against the US dollar will affect the amount of cash available to the Fund for distribution to its Unitholders.

The Fund maintains foreign currency contracts to mitigate the potential impact of foreign exchange on Canadian dollar distributions to be made by it. These contracts do not eliminate the Fund's exposure to fluctuations in the exchange rate between the Canadian dollar and the US dollar.

The foreign currency contracts allow the Fund to determine in advance, for the period and amount covered by the contracts, the rates of exchange that will be realize when translating into Canadian dollars that portion distributable cash contributed by our United States operation.

At June 30, 2008 the Fund's Canadian subsidiaries exposure to foreign denominated working capital financial instruments was in relation to bank indebtedness (US$ nil), accounts receivable from US customers (US$0.2 million), income taxes recoverable (US$1.9 million), and accounts payable to US suppliers ($0.3 million). A subsidiary of the Fund is also exposed to foreign currency risk in relation to the outstanding foreign currency contracts described in note 7.

Based on the Fund's exposure to foreign denominated financial instruments, the Fund estimates a $0.05 strengthening in the Canadian dollar as compared to the US dollar would have increased net earnings for the quarter ended June 30, 2008 by approximately $0.4 million. A $0.05 weakening of the Canadian dollar as compared to the US dollar would have had the equal but opposite effect.

This foreign currency sensitivity is focused solely on the currency risk associated with Fund's Canadian subsidiaries exposure to foreign denominated financial instruments as at June 30, 2008 and does not take into account the effect of a change in currency rates will have on the translation of the balance sheet and operations of the Fund's US subsidiaries nor is it intended to estimate the potential impact changes in currency rates would have on the Fund's sales and purchases.

Commodity price risk:

The Fund does not enter in to any commodity contracts. Inventory purchases are transacted at current market rates based on expected usage and sale requirements and increases or decreases in prices are reflected the Fund's selling prices to customers.

7. Foreign currency contracts:

At June 30, 2008 a subsidiary of the Fund held foreign currency contracts covering the period 24 months into the future with terms as follows:

Month	Sell US dollars	Contract exchange rate ($Cdn/$US)	Receive Canadian dollars
2008			
July	US$675,000	1.1255	Cdn$759,712
August	US$675,000	1.1255	Cdn$759,712
September	US$675,000	1.1255	Cdn$759,712
October	US$675,000	1.1255	Cdn$759,712
November	US$675,000	1.1255	Cdn$759,712
December	US$675,000	1.1255	Cdn$759,712
2009			
January	US$675,000	1.1255	Cdn$759,712
February	US$675,000	1.1255	Cdn$759,712
March	US$675,000	1.1255	Cdn$759,712
April	US$675,000	1.1255	Cdn$759,712
May	US$675,000	1.0882	Cdn$734,535
June	US$675,000	1.0595	Cdn$715,162
July	US$675,000	1.0625	Cdn$717,187
August	US$675,000	1.0560	Cdn$712,800
September	US$675,000	1.0010	Cdn$675,675
October	US$675,000	0.9315	Cdn$628,762
November	US$675,000	0.9901	Cdn$668,317
December	US$675,000	1.0119	Cdn$683,032
2010			
January	US$675,000	1.0450	Cdn$705,375
February	US$675,000	1.0272	Cdn$693,360
March	US$675,000	1.0190	Cdn$687,825
April	US$675,000	1.0110	Cdn$682,425
May	US$675,000	0.9875	Cdn$666,563
June	US$675,000	1.0119	Cdn$683,033

The fair value of the 24 monthly currency contracts covering the period July 2008 to June 2010 have been reflected in the financial statements and represent a current asset of $706,000, a long-term asset of $136,000 and a long-term liability of $136,000 at June 30, 2008. The fair values were determined based on valuations obtained from the counter-party.

8. Intangible assets and goodwill

Long lived assets, including intangible assets, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of intangible assets is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount for the intangibles exceeds its estimated future cash flows, an impairment charge is recognized by the amount that the carrying amount for the asset exceeds its fair value. Other intangible assets represent customer relationships acquired by the Fund at the time of the business combination described in note 1.

The carrying value of goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the asset may be impaired. Any excess of carrying value over fair value is charged to income in the period in which the impairment is determined. The fair value of the goodwill was determined with reference to the present value of future cash flows.

In the first six months of 2008, the Business experienced a significant change in circumstances in the form of reduced sales demand for its products, and a resulting decline in its net earnings. This change of circumstance caused management to reduce its expectations for future cash flows from the Fund's US and Canadian subsidiary operations. Consequently, during the quarter ended June 30, 2008, management reviewed for impairment the carrying value of intangible assets and the carrying value of goodwill. Results of testing indicated impairment in the carrying value of intangible assets in the Fund's US reporting unit of $5.5 million (US$5.4 million). Testing also indicated impairment in the carrying value of goodwill in the Fund's US reporting unit of $47.6 million (US$46.7 million), and in the Fund's Canadian reporting unit of $17.0 million.

9. Bank indebtedness:

	June 30, 2008	December 31, 2007
Checks issued in excess of funds on deposit	$ 810	$ 1,034
Credit facility, Hardwoods LP	5,184	5,538
Credit facility, Hardwoods USLP (June 30, 2008 - US$17,286; December 31, 2007 - US$19,109)	17,626	18,943
	$ 23,620	$ 25,515

During the quarter ended June 30, 2008, the Fund negotiated an amendment to the financial covenants governing the bank indebtedness of a US operating facility of the Fund. The amendment, which was effective April 1, 2008, temporarily reduced the minimum fixed charge coverage ratio and increased the maximum funded debt coverage ratio permitted under the terms of the US subsidiary's loan agreement. The amendment is effective until September 29, 2008, at which time the financial covenants revert back to their original amounts. Absent of this amendment, the Fund's US subsidiary would have been in violation of its fixed charge coverage ratio at June 30, 2008.

The Fund is currently negotiating with its US bank to make changes to its US revolving credit facility, as without modifications it is likely that the Fund's US subsidiary will not be in compliance with its covenants at its next financial reporting date of September 30, 2008. Under the terms of the US subsidiary's loan agreement, non-compliance with a covenant may result in the bank demanding immediate repayment of all indebtedness under the revolving credit facility.

10. Non-controlling interests:

Balance, January 1, 2008 (note 3(b))	$	30,006
Interest in earnings:		
Interest in earnings before taxes		(13,385)
Adjustment to non-controlling interest from subordination of Class B Unit Holders		(1,205)
		(14,590)
Foreign currency translation adjustment of non-controlling interest in Hardwoods USLP		649
Balance, end of period	$	16,065

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, 2008.

Prior to the Subordination End Date, advances and distributions on the LP Units and the USLP Units will be made in the following order of priority:

- At the end of each month, cash advances or distributions will be made to the holders of Class A LP Units and Class A USLP Units in a combined amount that is sufficient to provide available cash to the Fund to enable the Fund to make cash distributions upon the Units for such month at least equal to $0.08542 per Unit or, if there is insufficient available cash to make distributions or advances in such amount, such lesser amount as is available as determined by the board of directors of the general partners;

- At the end of each fiscal quarter of Hardwoods LP and Hardwoods USLP, including the fiscal quarter ending on the fiscal year end, available cash of Hardwoods LP and Hardwoods USLP will be advanced or distributed in the following order of priority:

  - First, in payment of the monthly cash advance or distribution to the holders of Class A LP Units and Class A USLP Units as described above, for the month then ended;

  - Second, to the holders of Class A LP Units and Class A USLP Units, to the extent that the combined monthly cash advances or distributions in respect of the 12 month period then ended (and not, for greater certainty, in any previous 12 month period) on Class A LP Units and Class A USLP Units were not made or were made in amounts less than a combined amount at least equal to $1.025 per Unit, the amount of any such deficiency. As of June 30, 2008, the amount of such deficiency was $2.0 million;

  - Third, to the holders of Class B LP Units and Class B USLP Units in a combined amount for one Class B LP Unit and one Class B USLP Unit equal, on a pro-rated basis, to the combined amount advanced or distributed on one Class A LP Unit and one Class A USLP Unit during such fiscal quarter or, if there is insufficient available cash to make advances or distributions in such amount, such lesser amount as is available;

  - Fourth, to the holders of Class B LP Units and Class B USLP Units, to the extent only that combined advances or distributions in respect of any fiscal quarter(s) during the 12 month period then ended (and not, for greater certainty, in any previous 12 month period) on one Class B LP Unit and one Class B USLP Unit were not made, or were made in amounts less, on a pro-rated basis, that the combined amount advanced or distributed on one Class A LP Unit and one Class A USLP Unit during such 12 month period, the amount of such deficiency. As of June 30, 2008, the amount of such deficiency was $3.2 million.

  - Fifth, to the extent of any excess, to the holders of the Class A LP Units and Class B LP Units and Class A USLP Units and Class B USLP Units, respectively, so that the combined advances or distributions on one Class A LP Unit and one Class A USLP Unit are the same as the combined advances or distribution on one Class B LP Unit and one Class B USLP Unit in respect of the 12 month period then ended (and not, for greater certainty, any previous 12 month period).

After the Subordination End Date, the holders of the Class B LP Units and Class B USLP Units will generally be entitled to effectively exchange all or a portion of their Class B LP Units and Class B USLP Units together for up to 3,602,500 Units of the Fund, representing 20% of the issued and outstanding Units of the Fund on a fully diluted basis. In the event the Fund enters into an agreement in respect of an acquisition or a take-over bid of the Fund, the holders of the Class B LP Units and Class B USLP Units will be entitled to exchange such units for Units of the Fund.

The cumulative deficiency prior to June 30, 2007, which is no longer recoverable by the Class B LP Unitholders and the Class B USLP Unitholders, has been recorded as an adjustment to the non-controlling interest's share of earnings in the amount of $0.6 million for the three-month period, and $1.2 million for the six month period, ended June 30, 2008. This adjustment was first recorded during the fourth quarter of 2007, resulting in a reduction of the non-controlling interest's share of earnings of $3.4 million for the year ended December 31, 2007. Of the amount recorded in 2007, $1.5 million should have been recorded in the first quarter of 2007 and $0.7 million should have been recorded in the second quarter of 2007 and as such the comparative amounts presented in the statements of earnings and retained earnings (deficit) and comprehensive income have been restated accordingly, resulting in an increase in net earnings and comprehensive income from the amounts previously reported.

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

	Three months ended June 30, 2008	Three months ended June 30, 2007	Six months ended June 30, 2008	Six months ended June 30, 2007
Accounts receivable	$ 927	$ (2,162)	$ (2,577)	$ (6,652)
Income taxes recoverable/payable	(1)	(491)	(858)	2
Inventory	5,395	1,211	8,638	2,666
Prepaid expenses	(585)	(279)	(327)	(198)
Accounts payable and accrued liabilities	(725)	2,019	(612)	1,121
	$ 5,011	$ 298	$ 4,264	$ (3,061)

CICA 1540, Cash Flow Statements, require entities to disclose total cash distributions on financial instruments classified as equity in accordance with a contractual agreement and the extent to which total cash distributions are non-discretionary. The Fund has no contractual requirement to pay cash distributions to Unitholders' of the Fund. During the three month period ended June 30, 2008 $3.2 million (2007 - $3.0 million) in discretionary cash distributions were paid to Unitholders. During the six month period ended June 30, 2008 $6.5 million (2007 - $6.0 million) in discretionary cash distributions were paid to Unitholders.

12. Segment disclosure:

Information about geographic areas is as follows:

	Three months ended June 30, 2008	Three months ended June 30, 2007	Six months ended June 30, 2008	Six months ended June 30, 2007
Revenue from external customers:				
Canada	$ 23,464	$ 28,329	$ 48,103	$ 55,255
United States	43,024	61,071	89,433	125,865
	$ 66,488	$ 89,400	$ 137,536	$ 181,120

	June 30, 2008	December 31, 2007
Property, plant and equipment:		
Canada	$ 883	$ 1,003
United States	1,393	1,410
	$ 2,276	$ 2,413
Goodwill		
Canada	$ 17,477	$ 34,477
United States	-	46,281
	$ 17,477	$ 80,758

13. 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, 2008, Hardwoods USLP contributed and expensed $72,545 (US$72,012) (three months ended June 30, 2007 - $84,376 (US$76,803)) in relation to the USLP Plan. During the six months ended June 30, 2008, Hardwoods USLP contributed and expensed $216,923 (US$215,330) (six months ended June 30, 2007 - $240,663 (US$212,037)) 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, 2008, Hardwoods LP contributed and expensed $60,775 (three months ended June 30, 2007 - $52,629) in relation to the LP Plan. During the six months ended June 30, 2008, Hardwoods LP contributed and expensed $176,969 (six months ended June 30, 2007 - $143,504) in relation to the LP Plan.

14. Related party transactions:

For the three months ended June 30, 2008, sales of $108,048 (three months ended June 30, 2007 - $153,459) were made to affiliates of SIL, and the Fund made purchases of $24,143 (three months ended June 30, 2007 - $39,669) from affiliates of SIL. For the six months ended June 30, 2008, sales of $235,123 (six months ended June 30, 2007 - $374,128) were made to affiliates of SIL, and the Fund made purchases of $40,628 (six months ended June 30, 2007 - $160,261) from affiliates of SIL. All these sales and purchases took place at prevailing market prices.

During the three months ended June 30, 2008, the Fund paid $27,000 (three months ended June 30, 2007 - $27,000) to affiliates of SIL under the terms of an agreement to provide services for management information systems. During the six months ended June 30, 2009, the Fund paid $54,000 (six months ended June 30, 2007 - $54,000) to affiliates of SIL under the terms of an agreement to provide transitional services for management information systems. This cost is included in the selling and administrative expense in the statement of earnings.

15. Income taxes:

Effective, March 31, 2008 the Fund completed an internal reorganization that involved the refinancing of inter-corporate debt in the form of notes issued and held by subsidiaries of the Fund. The reorganization does not have any effect upon the management or business activities of the Fund's operating subsidiaries. As a result of the internal re-organization, income tax losses arose of approximately, US$10.3 million which are available to reduce US taxable income. Based on statutory income tax rates in effect for the Fund's US subsidiary, this amounts to an estimated $3.6 million tax benefit available to subsidiaries of the Fund. This $3.6 million benefit was recorded at March 31, 2008 and is comprised of an estimated $0.8 million current income tax recovery and $2.8 million future income tax recovery.

In addition, during the quarter ending March 31, 2008, tax pools consisting principally of Canadian tax loss carry forward, of approximately $16.0 million have been recorded by a subsidiary of the Fund as a result of the Fund's re-organization plan. The tax loss carry forwards will result in a reduction of tax otherwise payable under the Canadian federal government's tax on publicly traded income trusts. Based on tax rates expected to apply at the date such tax pools will be utilized, and additional $4.2 million of future income tax benefit was recorded by the Fund at March 31, 2008.

During the quarter ended June 30, 2008, the Company recorded a future tax asset of approximately $20.1 million as a result of the write-down of the goodwill and intangible assets. Goodwill and intangible assets remain deductible for Canadian and U.S. tax purposes.

16. 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.

17. 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.

18. Future Accounting Changes

(a) International Financial Reporting Standards

The CICA will transition Canadian generally accepted accounting principles ("GAAP") for publicly accountable entities to International Financial Reporting Standards ("IFRS"). The Fund's consolidated financial statements are to be prepared in accordance with IFRS for the fiscal year commencing January 1, 2011. The impact of the transition to IFRS on the Fund's consolidated financial statements has not been determined.

(b) Goodwill and Intangible Assets

Effective January 1, 2009, the Fund will adopt new CICA Handbook Section 3064, Goodwill and Intangible Assets. This section replaces CICA Handbook Section 3062, Goodwill and Intangible Assets, and establishes revised standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The Fund is still evaluating the impact of this standard on its consolidated financial statements.

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CO: Hardwoods Distribution Income Fund

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