

MATERIAL CHANGE REPORT

FORM 51-102F3

1. **Name and Address of Company:**

Hardwoods Distribution Income Fund (the “**Fund**”)
#306 - 9440 202nd Street
Langley, British Columbia V1M 4A6.

2. **Date of Material Change:**

April 5, 2011

3. **News Release:**

On April 5, 2011, the Fund issued a news release reporting the material change through the CNW Group. A copy of this news release is attached hereto as Schedule A.

4. **Summary of Material Change:**

On April 5, 2011, the Fund announced that it will be asking its unitholders to approve the conversion of the Fund’s trust structure to a corporation at its annual general and special meeting of unitholders to be held on May 19, 2011 (the “**Meeting**”).

The conversion is to take place as a “plan of arrangement” and is expected to be effective July 1, 2011. Under the arrangement, unitholders of the Fund are to receive common shares of a newly formed corporation, Hardwoods Distribution Inc., on a one-for-one basis. Unitholders resident in Canada will generally receive their shares of Hardwoods Distribution Inc. on a tax deferred basis.

The Sauder Group, holder of all of the Fund’s special voting units and Class B limited partner units of Hardwoods Specialty Products LP and Hardwoods Specialty Products US LP representing a 20% interest in the Fund’s operating subsidiaries (the “**Retained Interest**”), has agreed to amend the exchange ratio attaching to their Retained Interest from one unit of the Fund to 0.3793 Units of the Fund (the “**Amended Exchange Ratio**”). The Sauder Group has also agreed to exchange its Retained Interest for common shares at the Amended Exchange Ratio in connection with the conversion. The amendment to the exchange ratio and exchange of Retained Interest for common shares of Hardwoods Distribution Inc. are conditional upon all necessary approvals for the conversion having been obtained on or before June 30, 2011 and the arrangement becoming effective. The Fund and the Sauder Group are negotiating the terms of the definitive agreements for the transaction.

When the conversion is effective, the Sauder Group will hold 8.6%, and the existing unitholders will hold 91.4%, of the issued and outstanding common shares of Hardwoods Distribution Inc. The business of Hardwoods Distribution Inc. will continue to be

conducted by Hardwoods Specialty Products LP and Hardwoods Specialty Products US LP (collectively, “**Hardwoods**”), which will then be wholly-owned.

The conversion will require the approval of at least 2/3rds of the votes cast by the holders of units of the Fund and special voting units of the Fund, owned by the Sauder Group, in person or by proxy at the Meeting. It is expected that the current directors of Hardwoods Specialty Products GP Inc., being the trustees of the Fund and Messrs. Lawrence Sauder and William Sauder, will become the directors of Hardwoods Distribution Inc., and the current officers and management of Hardwoods will become officers and management of Hardwoods Distribution Inc.

5. **Full Description of Material Change:**

On April 5, 2011, the Fund announced that it will be asking its unitholders to approve the conversion of the Fund’s trust structure to a corporation at its annual general and special meeting of unitholders to be held on May 19, 2011.

The conversion is to take place as a “plan of arrangement” and is expected to be effective July 1, 2011. Under the arrangement, unitholders of the Fund are to receive common shares of a newly formed corporation, Hardwoods Distribution Inc., on a one-for-one basis. Unitholders resident in Canada will generally receive their shares of Hardwoods Distribution Inc. on a tax deferred basis. Non-resident unitholders should consult their own tax advisors.

The Fund holds, indirectly, securities which represent a 80% ownership interest in Hardwoods, the Fund’s operating subsidiaries. The Sauder Group has retained a 20% interest in Hardwoods in the form of the Retained Interest, which are exchangeable into units of the Fund in certain circumstances on a one-for-one basis.

The Retained Interest’s entitlement to cash flows of Hardwoods is presently subject to certain subordination arrangements and as a result the value per unit of the Retained Interest is not considered to be equal on a one-for-one basis with that of a unit of the Fund. Accordingly, the Sauder Group has agreed to amend the exchange ratio attaching to their Retained Interest from one unit of the Fund to 0.3793 units of the Fund. The Sauder Group has also agreed to exchange its Retained Interest for common shares at the Amended Exchange Ratio in connection with the conversion. The amendment to the exchange ratio and exchange of Retained Interest for common shares of Hardwoods Distribution Inc. are conditional upon all necessary approvals for the conversion having been obtained on or before June 30, 2011 and the arrangement becoming effective. The Fund and the Sauder Group are negotiating the terms of the definitive agreements for the transaction.

When the conversion is effective, the Sauder Group will hold 8.6%, and the existing unitholders of the Fund will hold 91.4%, of the issued and outstanding common shares of Hardwoods Distribution Inc. The business of Hardwoods Distribution Inc. will continue to be conducted by Hardwoods, which will then be wholly-owned.

The trustees of the Fund (the “**Trustees**”) expect that Hardwoods Distribution Inc. will become a dividend paying corporation when its business and financial requirements permit the payment of dividends. The actual amounts and timing of any future dividends

by Hardwoods Distribution Inc. will vary depending on, among other things, Hardwoods Distribution Inc.'s earnings, financing requirements, the satisfaction of tests imposed by its governing statute for the declaration of dividends and other relevant factors.

It is expected that the current directors of Hardwoods Specialty Products GP Inc., being the Trustees and Messrs. Lawrence Sauder and William Sauder, will become the directors of Hardwoods Distribution Inc., and the current officers and management of Hardwoods will become officers and management of Hardwoods Distribution Inc.

The conversion to a corporation is a result of the changes to the taxation of income funds which became effective January 1, 2011, and which makes the income fund form of business enterprise less advantageous.

The conversion will require the approval of at least 2/3rds of the votes cast by the holders of units of the Fund and special voting units of the Fund, owned by the Sauder Group, in person or by proxy at the Meeting. Court and regulatory approval will also be required. Further details on the proposed conversion will be set out in an information circular of the Fund, expected to be sent to unitholders of the Fund in mid April, 2011. On April 5, 2011, the Trustees fixed the close of business on April 8, 2011 as the record date for the determination of holders of units and special voting units of the Fund entitled to notice of, and to vote at, the Meeting.

6. **Reliance on subsection 7.1(2) of National Instrument 51-102:**

Not applicable.

7. **Omitted Information:**

No significant facts otherwise required to be disclosed in this report have been omitted.

8. **Executive Officer:**

The following executive officer of the Fund is knowledgeable about the material change and may be contacted respecting the change:

Rob Brown
Chief Financial Officer
Phone: (604) 881-1990
Email: robbrown@hardwoods-inc.com

9. **Date of Report:**

April 11, 2011

SCHEDULE A

**NEWS RELEASE
DATED APRIL 5, 2011**

Hardwoods Distribution Income Fund Announces Intention To Convert To A Corporation And Agreement With Retained Interest Holders

TRADING SYMBOL: Toronto Stock Exchange - HWD.UN

This news release contains "forward looking information and statements" within the meaning of applicable securities laws. A summary of the forward looking information and statements are set out later in this news release.

LANGLEY, BC, April 5 /CNW/ - Hardwoods Distribution Income Fund (the "Fund") announced today that it will be asking its unitholders to approve the conversion of the Fund to a corporation at its annual general and special meeting of unitholders to be held on May 19, 2011 (the "Meeting").

The conversion is to take place as a "plan of arrangement" and is expected to be effective July 1, 2011. Under the arrangement, unitholders of the Fund are to receive common shares of a newly formed corporation, "Hardwoods Distribution Inc.", on a one-for-one basis. Unitholders resident in Canada will generally receive their shares of Hardwoods Distribution Inc. on a tax deferred basis. Non-resident unitholders should consult their own tax advisors.

The Fund holds, indirectly, securities which represent a 80% ownership interest in Hardwoods Specialty Products LP and Hardwoods Specialty Products US LP (collectively, "Hardwoods"), the Fund's operating subsidiaries. The Sauder Group has retained a 20% interest in Hardwoods in the form of holding special voting units of the Fund and Class B limited partner units of Hardwoods (the "Retained Interest"), which are exchangeable into units of the Fund in certain circumstances.

Under the existing terms of the exchange agreement, the proposed conversion of the Fund to a corporation is a transaction that would entitle the Sauder Group to exchange its 20% Retained Interest for units of the Fund on a one-for-one basis. However, the Retained Interest's entitlement to cash flows of Hardwoods is presently subject to certain subordination arrangements which are to remain in place until certain financial tests have been achieved. As a result the value per unit of the Retained Interest is not considered to be equal on a one-for-one basis with that of a unit of the Fund. Accordingly, the Sauder Group has agreed to amend the exchange ratio attaching to their Retained Interest from one unit of the Fund to 0.3793 units of the Fund (the "Amended Exchange Ratio"). The Sauder Group has also agreed to exchange its Retained Interest for common shares at the Amended Exchange Ratio in connection with the conversion. The amendment to the exchange ratio and exchange of Retained Interest for common shares of Hardwoods Distribution Inc. are conditional upon all necessary approvals for the conversion having been obtained on or before June 30, 2011 and the arrangement becoming effective. The Fund and the Sauder Group are negotiating the terms of the definitive agreements for the transaction.

When the conversion is effective, the Sauder Group will hold 8.6%, and the existing unitholders will hold 91.4%, of the issued and outstanding common shares of Hardwoods Distribution Inc. The business of Hardwoods Distribution Inc. will continue to be conducted by Hardwoods, which will then be wholly-owned.

The Trustees expect that Hardwoods Distribution Inc. will become a dividend paying corporation when its business and financial requirements permit the payment of dividends. The actual amounts and timing of any future dividends by Hardwoods Distribution Inc. will vary depending on, among other things, Hardwoods Distribution Inc.'s earnings, financing requirements, the satisfaction of tests imposed by its governing statute for the declaration of dividends and other relevant factors.

It is expected that the current directors of Hardwoods Specialty Products GP Inc., being the Trustees of the Fund and Messrs. Lawrence Sauder and William Sauder, will become the directors of Hardwoods Distribution Inc., and the current officers and management of Hardwoods will become officers and management of Hardwoods Distribution Inc.

The conversion to a corporation is a result of the changes to the taxation of income funds which became effective January 1, 2011, and which makes the income fund form of business enterprise less advantageous.

Terry Holland, Chair of the Board of Trustees of the Fund said: "We feel that this is an appropriate time to simplify our structure by converting to a corporation and exchanging the Retained Interests of the Sauder Group to the same class of securities held by the public."

The conversion will require the approval of at least 2/3rds of the votes cast by the holders of units of the Fund and special voting units of the Fund, owned by the Sauder Group, in person or by proxy at the Meeting. Court and regulatory approval will also be required. Further details on the proposed conversion will be set out in an information circular of the Fund, expected to be sent to unitholders of the Fund in mid April, 2011. The Trustees today fixed the close of business on April 8, 2011 as the record date for the determination of holders of units and special voting units of the Fund entitled to notice of, and to vote at, the Meeting.

The trustees of the Fund have retained Capital West Partners as financial advisor in connection with the determination as to the fairness to holders of units of the Fund, from a financial point of view, of the Amended Exchange Ratio. Farris, Vaughan, Wills & Murphy LLP is acting as legal counsel.

About the Fund

Hardwoods Distribution Income Fund is an unincorporated, open-ended, limited purpose trust established to hold, indirectly, securities which represent an 80% ownership interest in Hardwoods.

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 26 distribution centers in the U.S. and Canada.

Forward-Looking Statements

CAUTIONARY STATEMENT REGARDING FORWARD LOOKING INFORMATION

This news release includes forward-looking statements. These involve known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements or industry results to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. These forward-looking statements are identified by the use of terms and phrases such as "anticipate", "believe", "estimate", "expect", "may", "plan", "will", and similar terms and phrases, including references to assumptions. Such statements may involve, but are not limited to, comments with respect to the completion of the conversion of the Fund from an income trust structure to a publicly traded corporation.

These forward looking statements reflect current expectations of the Fund's management regarding future events and operating performance as of the date of this news release. Forward-looking statements involve significant risks and uncertainties, should not be read as guarantees of future performance or results, and will not necessarily be accurate indications of whether or not such results will be achieved. A number of factors could cause actual results to differ materially from the results discussed in the forward-looking statements, including, but not limited to: national and local business conditions; political or economic instability in local markets; competition; consumer preferences; spending patterns and demographic trends; legislation or governmental regulation.

Although the forward-looking statements contained in this news release are based upon what management believes to be reasonable assumptions, the Fund cannot assure investors that actual results will be consistent with these forward-looking statements. The forward-looking statements reflect management's current beliefs and are based on information currently available to the Fund.

All forward-looking information in this news 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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For further information:

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