MATERIAL CHANGE REPORT

FORM 51-102F3

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

Hardwoods Distribution Inc. (the "**Corporation**")
Hardwoods Distribution Income Fund (the "**Fund**")

#306 - 9440 202nd Street
Langley, British Columbia
V1M 4A6

2. **Date of Material Change:**

July 1, 2011

3. **News Release:**

A news release in respect of the material change was issued on July 1, 2011 through the newswire services of Marketwire. A copy of this news release is attached hereto as Schedule A.

4. **Summary of Material Change:**

On July 1, 2011, the Fund completed its previously announced conversion (the "**Conversion**") to a corporation pursuant to a plan of arrangement under section 192 of the *Canada Business Corporations Act* effective July 1, 2011.

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

On July 1, 2011, the Fund completed the Conversion. Pursuant to the Conversion, all of the units of the Fund held by unitholders were exchanged for common shares of the Corporation on a one-for-one basis and all of the Class B limited partner units in the Fund's operating subsidiaries, Hardwoods Specialty Products LP and Hardwoods Specialty Products US LP, held by Sauder Hardwoods Inc. and Hardwoods Inc. (the "**Sauder Parties**"), were exchanged for common shares of the Corporation on the basis of 0.3793 common shares of the Corporation per Class B limited partner unit. As a result, the Sauder Parties hold approximately 8.6% of the common shares of the Corporation and the former unitholders hold approximately 91.4% of the common shares of the Corporation.

The board of directors of the Corporation is comprised of the three former trustees of the Fund, being Messrs. Terry Holland, Keith Purchase and Graham Wilson, as well as Messrs. Lawrence Sauder and William Sauder, with Mr. Lawrence Sauder acting as chairman. The senior officers and management of Hardwoods Specialty Products LP and Hardwoods Specialty Products US LP have been appointed as officers and management of the Corporation.

The common shares of the Corporation are expected to be listed on the Toronto Stock Exchange under the symbol "HWD" on or about July 8, 2011.

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 Corporation 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:**

July 4, 2011

SCHEDULE "A"

NEWS RELEASE: Via
The Canadian Custom Disclosure Network
FOR IMMEDIATE RELEASE
July 1, 2011

Attention: Business/Financial Editors

HARDWOODS DISTRIBUTION INCOME FUND

TRADING SYMBOL: **Toronto Stock Exchange – HWD.UN**

Hardwoods Distribution Income Fund Completes Conversion to a Corporation

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.

Not for distribution to U.S. news wire services or dissemination in the U.S.

Langley, B.C., July 1, 2011 / CNW/ – Hardwoods Distribution is pleased to announce that it has completed its planned conversion from an income trust structure to a publicly traded corporation. Shares of the new corporation, Hardwoods Distribution Inc., will trade on the Toronto Stock Exchange under the symbol "HWD".

Pursuant to the conversion, all outstanding units of Hardwoods Distribution Income Fund (the "Fund") held by unitholders were exchanged for common shares of Hardwoods Distribution Inc. on a one-for-one basis and all of the Class B limited partner units (the "Exchangeable Units") in the Fund's operating subsidiaries, Hardwoods Specialty Products LP and Hardwoods Specialty Products US LP (the "Hardwoods Partnerships"), held by Sauder Hardwoods Inc. and Hardwoods Inc. (the "Sauder Parties") were exchanged for common shares of Hardwoods Distribution Inc. on the basis of 0.3793 common shares per Class B limited partner unit.

As a result, former unitholders of the Fund now hold approximately 91.4% of the issued and outstanding common shares of Hardwoods Distribution Inc. and the Sauder Parties, the previous owners of the Exchangeable Units, now hold approximately 8.6% of the issued and outstanding common shares of Hardwoods Distribution Inc. The business of Hardwoods Distribution will continue to be conducted by the Hardwoods Partnerships, all of the interests in which are now owned, directly or indirectly, by Hardwoods Distribution Inc.

The board of directors of Hardwoods Distribution Inc. is comprised of the three former trustees of the Fund, being Messrs. Terry Holland, Keith Purchase and Graham Wilson, as well as Messrs. Lawrence Sauder and William Sauder, with Mr. Lawrence Sauder acting as chairman. The senior officers and management of the Hardwoods Partnerships have been appointed as officers and management of Hardwoods Distribution Inc.

The common shares of Hardwoods Distribution Inc. are expected to commence trading on the Toronto Stock Exchange on or about July 8, 2011. As the units of the Fund trade in the book-entry system administered by Clearing and Depository Services Inc. and no certificates were issued to beneficial holders, beneficial holders of units do not need to take any action as your broker will facilitate the conversion from units to 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 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 listing of Hardwoods Distribution Inc.’s shares on the Toronto Stock Exchange.

These forward looking statements reflect current expectations of the Hardwoods Distribution Inc.’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, the failure to receive approval of regulatory authorities or the Toronto Stock Exchange for the listing of the common shares on or before July 8, 2011.

Although the forward-looking statements contained in this news release are based upon what management believes to be reasonable assumptions, Hardwoods Distribution Inc. 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 Hardwoods Distribution Inc.

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, Hardwoods Distribution Inc. 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.

For further information, contact:

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Website: http://www.hardwoods-inc.com