

## Report of Organizational Actions Affecting Basis of Securities

▶ See separate instructions.

**Part I Reporting Issuer**

<b>1</b> Issuer's name		<b>2</b> Issuer's employer identification number (EIN)	
HARDWOODS DISTRIBUTION INC.		98-0419502	
<b>3</b> Name of contact for additional information	<b>4</b> Telephone No. of contact	<b>5</b> Email address of contact	
ROB BROWN	604-881-1990	ROBBROWN@HARDWOODS-INC.COM	
<b>6</b> Number and street (or P.O. box if mail is not delivered to street address) of contact		<b>7</b> City, town, or post office, state, and Zip code of contact	
306 - 9440 202ND STREET		LANGLEY, BC, CANADA, V1M 4A6	
<b>8</b> Date of action		<b>9</b> Classification and description	
JULY 1, 2011		COMMON SHARES	
<b>10</b> CUSIP number	<b>11</b> Serial number(s)	<b>12</b> Ticker symbol	<b>13</b> Account number(s)
		TSE: HWD	

**Part II Organizational Action** Attach additional statements if needed. See back of form for additional questions.

**14** Describe the organizational action and, if applicable, the date of the action or the date against which shareholders' ownership is measured for the action ▶ On July 1, 2011, all of the unitholders of Hardwoods Distribution Income Fund (the "Fund") exchanged their units of the Fund for an equivalent number of common shares of Hardwoods Distribution Inc. (the "Exchange").

**15** Describe the quantitative effect of the organizational action on the basis of the security in the hands of a U.S. taxpayer as an adjustment per share or as a percentage of old basis ▶ A shareholder's adjusted US federal income tax basis in each common share of Hardwoods Distribution Inc. received in exchange for each unit of the Fund should be the same as the shareholder's adjusted US federal income tax basis of the Fund unit at the time of the exchange.

**16** Describe the calculation of the change in basis and the data that supports the calculation, such as the market values of securities and the valuation dates ▶ The Exchange should be a carryover basis transaction for US federal income tax consequences.

**Part II Organizational Action** (continued)

17 List the applicable Internal Revenue Code section(s) and subsection(s) upon which the tax treatment is based ▶ The exchange of Fund units for shares of Hardwoods Distribution Inc. should be governed by Internal Revenue Code section 351.

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18 Can any resulting loss be recognized? ▶ No.

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19 Provide any other information necessary to implement the adjustment, such as the reportable tax year ▶ Each shareholder of Hardwoods Distribution Inc. should consult their own tax advisor to determine the effect of the Exchange on the basis of their common shares of Hardwoods Distribution Inc. The information reported in this information return is not binding on the Internal Revenue Service (the "IRS") or the US courts, and no assurance can be provided that the conclusions reached within this summary will not be challenged in whole or in part by the IRS or will be sustained by a US court if so challenged.

The statements herein apply to investors that owned less than 5 percent of the Fund at the time of the exchange. An investor that owned more than 5 percent of the Fund at the time of the exchange should consult their own tax advisor.

Other information pertinent to the exchange can be found on www.sedar.com.

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Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than officer) is based on all information of which preparer has any knowledge.

**Sign Here**

Signature ▶ Rob Brown

Date ▶ January 13, 2012

Print your name ▶ Rob Brown

Title ▶ CFO

