

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

Under National Instrument 51-102 “Continuous Disclosure Obligations”, if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The Company’s independent auditors, KPMG LLP., has not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity’s auditor.

The accompanying unaudited interim financial statements of the company have been prepared by and are the responsibility of the Company’s management.

GOODFELLOW INC.

Consolidated Statements of Comprehensive Income

For the three and nine months ended August 31, 2017 and 2016

(in thousands of dollars, except per share amounts)

Unaudited

	For the three months ended		For the nine months ended	
	August 31 2017	August 31 2016	August 31 2017	August 31 2016
	\$	\$	\$	\$
Sales	142,970	159,143	396,101	434,425
Expenses				
Cost of goods sold (Note 4)	119,074	137,561	337,762	364,269
Selling, administrative and general expenses (Note 4)	20,461	24,034	61,180	69,147
Net financial costs	1,121	1,014	3,145	2,473
	140,656	162,609	402,087	435,889
Earnings (Loss) before income taxes	2,314	(3,466)	(5,986)	(1,464)
Income taxes	682	(975)	(1,676)	(540)
Total comprehensive income (loss)	1,632	(2,491)	(4,310)	(924)
Net earnings (loss) per share - Basic and diluted (Note 8)	0.19	(0.29)	(0.51)	(0.11)

GOODFELLOW INC.**Consolidated Statements of Financial Position***(in thousands of dollars)***Unaudited**

	As at August 31 2017	As at November 30 2016	As at August 31 2016
	\$	\$	\$
Assets			
Current Assets			
Cash	1,121	703	1,327
Trade and other receivables (Note 5)	69,414	64,255	84,930
Income taxes receivable	8,408	6,598	2,455
Inventories	97,996	115,391	129,789
Prepaid expenses	3,861	4,863	5,831
Total Current Assets	180,800	191,810	224,332
Non-Current Assets			
Property, plant and equipment	37,074	38,693	39,867
Intangible assets	5,116	5,428	3,589
Defined benefit plan asset	2,227	2,234	4,983
Investment in a joint venture	282	3,403	3,468
Total Non-Current Assets	44,699	49,758	51,907
Total Assets	225,499	241,568	276,239
Liabilities			
Current liabilities			
Bank indebtedness (Note 6)	73,715	94,113	107,969
Trade and other payables (Note 7)	39,305	30,721	37,004
Provision	925	963	1,093
Current portion of long-term debt (Note 6)	138	136	157
Total Current Liabilities	114,083	125,933	146,223
Non-Current Liabilities			
Provision	513	475	516
Long-term debt (Note 6)	89	126	158
Deferred income taxes	3,296	3,296	4,718
Defined benefit plan obligation	1,135	1,045	-
Total Non-Current Liabilities	5,033	4,942	5,392
Total Liabilities	119,116	130,875	151,615
Shareholders' equity			
Share capital (Note 8)	9,152	9,152	9,152
Retained earnings	97,231	101,541	115,472
	106,383	110,693	124,624
Total Liabilities and Shareholders' Equity	225,499	241,568	276,239

Going concern and future operations (Note 2 b))

GOODFELLOW INC.
Consolidated Statements of Cash Flows
For the three and nine months ended August 31, 2017 and 2016
(in thousands of dollars)
Unaudited

	For the three months ended		For the nine months ended	
	August 31 2017	August 31 2016	August 31 2017	August 31 2016
	\$	\$	\$	\$
Operating Activities				
Net earnings (loss)	1,632	(2,491)	(4,310)	(924)
Adjustments for:				
Depreciation	987	1,055	2,893	2,791
Accretion expense on provision	12	13	37	39
Decrease in provision	(4)	-	(37)	-
Income taxes	682	(975)	(1,676)	(540)
Gain on disposal of property, plant and equipment	(68)	-	(55)	-
Interest expense	781	682	2,255	1,645
Funding in deficit (excess) of pension plan expense	50	8	97	(171)
Share of the profits of a joint venture	122	(24)	1	(468)
	4,194	(1,732)	(795)	2,372
Changes in non-cash working capital items (Note 12)	5,475	210	21,876	(46,515)
Interest paid	(817)	(746)	(2,309)	(1,910)
Income taxes received (paid)	474	(759)	(134)	(3,817)
	5,132	(1,295)	19,433	(52,242)
Net Cash Flows from Operating Activities	9,326	(3,027)	18,638	(49,870)
Financing Activities				
Net (decrease) increase in bank loans	(4,000)	(12,000)	(4,000)	3,500
Net (decrease) increase in banker's acceptances	(12,500)	27,000	(20,500)	57,500
Increase in long-term debt	69	-	69	1,050
Reimbursement of long-term debt	(31)	(56)	(104)	(848)
Dividends paid	-	(1,276)	-	(2,552)
	(16,462)	13,668	(24,535)	58,650
Investing Activities				
Acquisition of property, plant and equipment	(395)	(1,027)	(796)	(1,961)
Increase in intangible assets	(73)	(545)	(295)	(1,850)
Proceeds on disposal of property, plant, equipment and intangible assets	135	-	184	-
Business acquisitions, net of cash acquired	-	-	-	(4,795)
Dissolution of the joint venture	3,120	-	3,120	-
	2,787	(1,572)	2,213	(8,606)
Net cash (outflow) inflow	(4,349)	9,069	(3,684)	174
Cash position, beginning of period	(1,245)	(10,711)	(1,910)	(1,816)
Cash position, end of period	(5,594)	(1,642)	(5,594)	(1,642)
Cash position is comprised of:				
Cash	1,121	1,327	1,121	1,327
Bank overdraft (Note 6)	(6,715)	(2,969)	(6,715)	(2,969)
	(5,594)	(1,642)	(5,594)	(1,642)

GOODFELLOW INC.**Consolidated Statements of Change in Shareholders' Equity****For the nine months ended August 31, 2017 and 2016***(in thousands of dollars)***Unaudited**

	Share Capital	Retained Earnings	Total
	\$	\$	\$
Balance as at November 30, 2015 (Audited)	9,152	118,948	128,100
Net loss	-	(924)	(924)
Total Comprehensive loss	-	(924)	(924)
<i>Transactions with owners of the Company</i>			
Dividends	-	(2,552)	(2,552)
Balance as at August 31, 2016	9,152	115,472	124,624
Balance as at November 30, 2016 (Audited)	9,152	101,541	110,693
Net loss	-	(4,310)	(4,310)
Total Comprehensive loss	-	(4,310)	(4,310)
Balance as at August 31, 2017	9,152	97,231	106,383

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended August 31, 2017 and 2016

(tabular amounts are in thousands of dollars, except per share amounts)

1. Status and nature of activities

Goodfellow Inc. (hereafter the “Company”), incorporated under the *Canada Business Corporations Act*, carries on various business activities related to remanufacturing and distribution of lumber and wood products. The Company’s head office and primary place of business is located at 225 Goodfellow Street in Delson, Quebec, J5B 1V5, Canada.

The consolidated financial statements of the Company as at and for the nine months ended August 31, 2017 and 2016 includes the accounts of the Company and its wholly-owned subsidiaries.

2. Basis of preparation

- a) These interim consolidated financial statements have been prepared in compliance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”). These condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting (“IAS 34”). These interim consolidated financial statements should be read in conjunction with the audited consolidated statements for the year ended November 30, 2016, as set out in the 2016 annual report.

The financial statements were authorized for issue by the Board of Directors on October 12, 2017.

These financial statements are available on the SEDAR website at www.sedar.com and on the Company’s website at www.goodfellowinc.com.

- b) Going concern and future operations

These consolidated financial statements have been prepared on a going concern basis, which assumes the Company will continue its operations in the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business.

The Company is subject to a number of risks and uncertainty associated with its products and services, the competition from vendors, its dependence on the economy as well as major customers, the supply chain, its information systems, environmental risk, credit risk, interest risk, currency risk as well as meeting its financing requirements for its operations. The attainment of profitable operations is dependent upon future events, including successful implementation of the Company’s operation plan and obtaining adequate financing.

Due to the impact of the Company’s financial performance in fiscal 2016 and the level of inventories and capital requirements, there is a possibility that its existing cash, cash generated from operations and funds available under its credit agreement could be insufficient to fund its future operations. As at November 30, 2016, the Company was in default of its financial covenants under its credit agreement and borrowings under the revolving credit facility exceeded the borrowing base under its credit agreement. Subsequent to year-end, Management obtained from its lenders waivers of the defaults and amended the terms of its credit facility. For 2017, the available facility was \$125 million corresponding to the amount available during the peak season (February 1, 2017 to August 31, 2017) and has since been reduced to \$100 million which corresponds to the low seasonality of the business (September 1, 2017 to January 31, 2018). Furthermore, the Company needs to comply with monthly maximum funded debt to capitalization ratio, a minimum debt service coverage ratio only at December 31, 2017 and achieve minimum quarterly year-to-date EBITDA budget approved by the lenders (see notes 12 and 24 in the 2016 Annual Report). As at August 31, 2017, the Company was compliant with its financial covenants and the lenders issued a waiver for financial covenant breaches reported in prior quarters of fiscal 2017. Furthermore, the Company is currently in negotiation with its lenders to refinance and extend the credit facility for a longer term.

In evaluating the Company’s ability to continue as a going concern, the Company is required to determine whether it has the ability to fund its operations, meet its cash flow requirements and comply with the covenants as established by its amended credit facility. This evaluation requires to estimate and forecast the cash flows for at least the next twelve months to determine whether the Company has sufficient resources to attain these objectives. The Company believes that it will be able to adequately fund its operations and meet its cash flow requirements for at least the next twelve months. This determination, however, could be impacted by future economic, financial and competitive factors, as well as other future events that are beyond the Company’s control. Significant estimates that have the greatest impact on the analysis and the Company’s ability to meet its financial covenants in fiscal 2017 include the estimate of sales, gross margins and expenses, inventories and receivable levels which determine the borrowing base and availability under its credit facility, timing of inventory acquisitions, vendor and customer terms and payments, interest rate and foreign exchange rate assumptions.

If any of the factors or events described above result in significant variances from the assumptions used in the preparation of the going concern analysis, this could significantly impact the Company’s ability to meet its projected cash flows and could result in the Company’s lenders imposing additional restrictions on the Company’s ability to borrow funds under its credit facility or the lenders having the right to demand repayment of balances owed under the credit facility thus impacting the Company’s ability to meet its operations and cash flow requirements, and there could be significant uncertainty about the Company’s ability to continue as a going concern, and its capacity to realize the carrying value of its assets and repay its existing and future obligations as they generally become due without obtaining additional financing which may not be available.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended August 31, 2017 and 2016

(tabular amounts are in thousands of dollars, except per share amounts)

2. Basis of preparation (Continued)

If the going concern assumption were not appropriate for these financial statements, adjustments to the carrying value of assets and liabilities, reported expenses and statement of financial position classifications would be necessary. Such adjustments could be material and may occur in the near term.

3. Significant Accounting Policies

The Company's significant accounting policies are described in Note 3 contained in its 2016 Annual consolidated financial statements.

4. Additional information on comprehensive income

	For the three months ended		For the nine months ended	
	August 31 2017	August 31 2016	August 31 2017	August 31 2016
	\$	\$	\$	\$
Employee benefits expense	13,526	15,030	40,153	44,991
Write-down of inventories included in cost of goods sold	126	460	(752)	1,419
Depreciation included in cost of goods sold	338	423	991	1,121
Depreciation included in selling, administrative and general expenses	649	632	1,902	1,670
Expense related to minimum operating lease payments recognized in net earnings	1,262	1,041	3,572	2,754
(Gain) Loss in foreign exchange	(231)	506	(103)	(782)

5. Trade and other receivables

	August 31 2017	November 30 2016	August 31 2016
	\$	\$	\$
Trade receivables	69,048	64,693	84,734
Allowance for doubtful accounts	(590)	(1,816)	(784)
	68,458	62,877	83,950
Other receivables	956	1,378	980
	69,414	64,255	84,930

6. Bank Indebtedness and Long-Term Debt

	August 31 2017	November 30 2016	August 31 2016
	\$	\$	\$
Bank Loans	7,000	11,000	12,500
Banker's Acceptances	60,000	80,500	92,500
Bank overdraft	6,715	2,613	2,969
	73,715	94,113	107,969

As at August 31, 2017, under the new credit agreement, the Company was using \$67 million of its facility compared to \$105 million last year. The credit agreement has a maximum revolving operating facility of \$125 million renewable in May 2018. For 2017, the available facility was \$125 million corresponding to the amount available during the peak season (February 1, 2017 to August 31, 2017) and has since been reduced to \$100 million which corresponds to the low seasonality of the business (September 1, 2017 to January 31, 2018). Funds advanced under these credit facilities bear interest at the prime rate plus a premium and are secured by first ranking security on the universality of the movable property of the Company.

As at August 31, 2017, the Company was compliant with its financial covenants and the lenders issued a waiver for financial covenant breaches reported in prior quarters of fiscal 2017. Furthermore, the Company is currently in negotiation with its lenders to refinance and extend the credit facility for a longer term.

As a result of the dissolution of the joint venture, the company's investment decreased by \$3.1 million. Consequently, the credit facility was reduced by \$3.1 million, from \$125 million to \$122 million as at August 31, 2017.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended August 31, 2017 and 2016

(tabular amounts are in thousands of dollars, except per share amounts)

7. Trade and other payables

	August 31 2017	November 30 2016	August 31 2016
	\$	\$	\$
Trade payables and accruals	31,388	23,034	28,906
Payroll related liabilities	5,356	6,357	5,746
Sales taxes payables	2,561	1,330	2,352
	39,305	30,721	37,004

8. Share Capital

- a) Authorized
An unlimited number of common shares, without par value

	August 31 2017	November 30 2016	August 31 2016
Number of shares outstanding at the end of the period	8,506,554	8,506,554	8,506,554

- b) Earnings and dividend per share

The calculation of basic and diluted earnings was based on the following:

	For the three months ended		For the nine months ended	
	August 31 2017	August 31 2016	August 31 2017	August 31 2016
Net earnings (loss) - basic and diluted	\$1,632	\$(2,491)	\$(4,310)	\$(924)
Weighted average number of common shares - basic and diluted	8,506,554	8,506,554	8,506,554	8,506,554

No eligible dividend was declared and paid to the holders of participating shares for the nine months ended August 31, 2017 (\$0.30 per share declared and paid in the corresponding period last year).

9. Seasonal Pattern

The Company's business follows a seasonal pattern, with merchandise sales traditionally higher in the second and third quarter as compared to the other quarterly periods. As a result, a higher share of total earnings is typically earned in the second and third quarter. This business seasonality results in performance, for the nine months ended August 31, 2017 which is not necessarily indicative of performance for the balance of the year.

10. Economic Dependence

Two major customers exceed 10% of total company sales in the three and nine months ended August 31, 2017 while only one major customer exceeded 10% of total company sales in the three and nine months ended August 31, 2016. The following represents the total sales consisting primarily of various wood products of the major customers:

	For the three months ended				For the nine months ended			
	August 31, 2017		August 31, 2016		August 31, 2017		August 31, 2016	
	\$	%	\$	%	\$	%	\$	%
Sales of major customer(s) that exceeded 10% of total Company's sales	32,180	22.5	29,668	18.6	84,703	21.4	75,152	17.3

The loss of any major customer could have a material effect on the Company's results, operations and financial positions.

11. Financial Instruments and Financial Risk Management

Financing and Liquidity Risk

The Company makes use of short term financing and could make further use of this facility if necessary. The Company operates with negligible long-term debt as at August 31, 2017.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended August 31, 2017 and 2016

(tabular amounts are in thousands of dollars, except per share amounts)

11. Financial Instruments and Financial Risk Management (Continued)

The following are the contractual maturities of financial liabilities as at August 31, 2017:

Financial Liabilities				
	Carrying Amount	Contractual cash flows	0 to 6 Months	6 to 60 Months
Bank indebtedness	73,715	73,715	73,715	-
Trade and other payables	39,305	39,305	39,305	-
Long-term debt	227	227	68	159
Total financial liabilities	113,247	113,247	113,088	159

Currency Risk

The Company could enter into forward exchange contracts to economically hedge certain trade payables and from time to time future purchase commitments denominated in U.S. dollars, Euros and Pound sterling. Fluctuation in the Canadian dollar of 5% in relation to foreign currencies would not have a significant effect on the Company's net earnings. As at August 31, 2017, the Company had the following currency exposure on:

Financial assets and liabilities measured at amortized costs

	USD	GBP	Euro
Cash	644	329	9
Trade and other receivables	7,893	295	-
Trade and other payables	(7,969)	(75)	(303)
Long-term debt	(55)	-	-
Net exposure	513	549	(294)
CAD exchange rate as at August 31, 2017	1.2536	1.6161	1.4887
Impact on net earnings based on a fluctuation of 5% on CAD	23	32	(16)

Credit Risk

The Company is exposed to credit risks from customers. As a result of having a diversified customer mix, this risk is alleviated by minimizing the amount of exposure the Company has to any one customer. Additionally, the Company has a system of credit management to mitigate the risk of losses due to insolvency or bankruptcy of its customers. It also utilizes credit insurance for foreign accounts to reduce the potential for credit losses in foreign countries. Finally, the Company has adopted a credit policy that defines the credit conditions to be met by its customers and specific credit limit for each customer is established and regularly revised. Accounts receivable over 60 days past their due date and not impaired represents 1.3% (8.6% on August 31, 2016) of total trade and other receivables as at August 31, 2017.

Based on historical payment behaviour and current credit information and experience available, the Company believes that, apart from provision for doubtful accounts recorded, no impairment allowance is necessary in respect of trade receivables not past due or past due. The Company does not have long-term contracts with any of its customers. Distribution agreements are usually awarded annually and can be revoked.

Fair Value

Fair values of assets and liabilities approximate amounts at which these items could be exchanged in a transaction between knowledgeable and willing parties. Fair value is based on available public market information or, when such information is not available, is estimated using present value techniques and assumptions concerning the amount and timing of future cash flows and discount rates which factor in the appropriate level of risk for the instrument. The estimated fair values may differ in amount from that which could be realized in an immediate settlement of the instruments. The carrying amounts of cash, trade and other receivables, bank indebtedness, trade and other payables and long-term debt approximate their fair values.

12. Additional Cash Flow Information

Changes in Non-Cash Working Capital Items

	For the three months ended		For the nine months ended	
	August 31 2017	August 31 2016	August 31 2017	August 31 2016
	\$	\$	\$	\$
Trade and other receivables	17,211	37,386	(5,159)	(18,115)
Inventories	3,078	9,112	17,395	(32,523)
Prepaid expenses	667	(919)	981	(1,424)
Trade and other payables	(15,481)	(45,369)	8,659	5,547
	5,475	210	21,876	(46,515)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended August 31, 2017 and 2016

(tabular amounts are in thousands of dollars, except per share amounts)

12. Additional Cash Flow Information (Continued)

Joint Venture

In fiscal 2016, the Company invested \$3.0 million in the joint venture in the form of inventory of raw material pursuant to a shareholder agreement in return of 40% of the shares of the joint venture.

13. Capital Management

The Company's objectives remain substantially unchanged from those included in the Company's annual consolidated financial statements contained in its 2016 Annual report.

For the nine months ended August 31, 2017 and 2016, the Company achieved the following results regarding its capital management objectives:

	As at	As at
Capital management (in thousands of dollars)	August 31 2017	August 31 2016
Debt-to-capitalization ratio	39.2 %	46.2 %
Return on shareholders' equity	(5.4) %	(1.0) %
Current ratio	1.6	1.5
EBITDA	\$52	\$3,800

These measures are not prescribed by IFRS and are defined by the Company as follows:

- Debt-to-capitalization ratio represents the funded debt over total shareholders' equity. Funded debt is bank indebtedness less cash and cash equivalents. Capitalization is funded debt plus shareholders' equity.
- Return on shareholders' equity is the net earnings (loss) divided by shareholders' equity.
- Current ratio is total current assets divided by total current liabilities.
- EBITDA is earnings before interest, taxes, depreciation and amortization.

As at August 31, 2017, the Company was compliant with its financial covenants and the lenders issued a waiver for financial covenant breaches reported in prior quarters of fiscal 2017. Furthermore, the Company is currently in negotiation with its lenders to refinance and extend the credit facility for a longer term.

14. Subsequent event

In September 2017, the Company closed the sale of a parcel of land and building in Drummondville. Proceeds from the sale adds up to \$1.4 million, resulting in a gain from disposal of \$1.0 million net of tax.

In addition, pursuant to the amended credit facility, the available facility has been reduced by \$11.0 million in September 2017 due to tax refunds of \$6.9 million, \$3.1 million for the LGTI investment and \$1.0 million for the sale of land in Drummondville. Therefore, the available credit is reduced from \$100 million to \$89 million. The current facility is considered by management to be adequate to support its current forecasted cash flow requirements. Furthermore, the Company is currently in negotiation with its lenders to refinance and extend the credit facility for a longer term.

15. Comparative information

Certain prior period information has been reclassified to conform with the current period presentation.