

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### PROSPECTIVE FINANCIAL INFORMATION

The following Management's Discussion and Analysis ("MD&A") and Goodfellow Inc. (hereafter the "Company") consolidated financial statements were approved by the Audit Committee and the Board of Directors on April 17, 2017. The MD&A should be read in conjunction with the consolidated financial statements and the corresponding notes for the twelve months ended November 30, 2016 and 2015. The MD&A provides a review of the significant developments and results of operations of the Company during the three months ended February 28, 2017 and three months ended February 29, 2016. The consolidated financial statements ended February 28, 2017 and February 29, 2016 are prepared in accordance with International Financial Reporting Standards ("IFRS"). All amounts in this MD&A are in Canadian dollars unless otherwise indicated.

This MD&A contains implicit and/or explicit forecasts, as well as forward looking statements on the objectives, strategies, financial position, operating results and activities of Goodfellow Inc., including the implementation of a plan for the remediation of the design weakness in the area of inventory controls. These statements are forward looking to the extent that they are based on expectations relative to markets in which the Company exercises its activities and on various assessments and assumptions including: the nature and magnitude of design deficiencies; the effectiveness of measures taken in the interim to provide confidence in the validity of inventory counts and the appropriateness of the compensating controls over inventory management to be implemented under the remediation plan to mitigate the risk of a material misstatement. Although we believe that the expectations reflected in the forward-looking statements contained in this document, and the assumptions on which such forward-looking statements are made, are reasonable, there can be no assurance that such expectations and assumptions will prove to be correct. Readers are cautioned not to place undue reliance on forward-looking statements included in this document, as there can be no assurance that the plans, intentions or expectations upon which the forward-looking statements are based will occur. Our actual results could differ significantly from management's expectations if recognized or unrecognized risks and uncertainties affect our results or if our assessments or assumptions are inaccurate. These risks and uncertainties include, among other things: the possibility that the design deficiencies and impact thereof identified in our review are significantly different than assessed and anticipated; the potential ineffectiveness of the compensating controls over inventory management proposed to be implemented under the remediation plan; and other factors described in our public filings available at [www.sedar.com](http://www.sedar.com). For these reasons, we cannot guarantee the results of these forward looking statements. The MD&A gives an insight into our past performance as well as the future strategies and key performance indicators as viewed by our management team at Goodfellow Inc. The Company disclaims any obligation to update or revise these forward-looking statements, except as required by applicable law.

Additional information relating to Goodfellow Inc., including the Annual Information Form and the Annual Report can be found on SEDAR at [www.sedar.com](http://www.sedar.com).

### NON-GAAP MEASURES

Cash flow per share and operating income before depreciation of property, plant and equipment and amortization of intangible assets (also referred to as earnings before interest, taxes, depreciation and amortization ["EBITDA"]), are financial measures not prescribed by the International Financial Reporting Standards ("IFRS") and are not likely to be comparable to similar measures presented by other issuers. Management considers it to be useful information to assist knowledgeable investors in evaluating the cash generating capabilities of the Company. Cash flow per share is defined as Cash flow from operations (excluding non-cash working capital, income tax paid and interest paid) of \$(6.1) million for the three months ended February 28, 2017 divided by the total number of outstanding shares of 8,506,554.

#### Reconciliation of EBITDA and operating income to net income (thousands of dollars)

	For the three months ended	
	February 28 2017	February 29 2016
	\$	\$
Net loss for the period	(5,401)	(906)
Provision for income taxes	(2,182)	(352)
Financial expenses	952	635
Operating loss	(6,631)	(623)
Depreciation and amortization	949	798
EBITDA	(5,682)	175

### BUSINESS OVERVIEW

Goodfellow Inc. is a distributor of lumber products, building materials, and hardwood flooring products. The Company carries on the business of wholesale distribution of wood and associated products and remanufacturing, distribution and brokerage of lumber. The Company sells to over 7000 customers who represent three main sectors - retail trade, industrial, and manufacturing. The Company operates 12 distribution centres, 7 processing plants in Canada, and 1 distribution centre in the USA.

**SELECTED ANNUAL INFORMATION** (in thousands of dollars, except per share amounts)

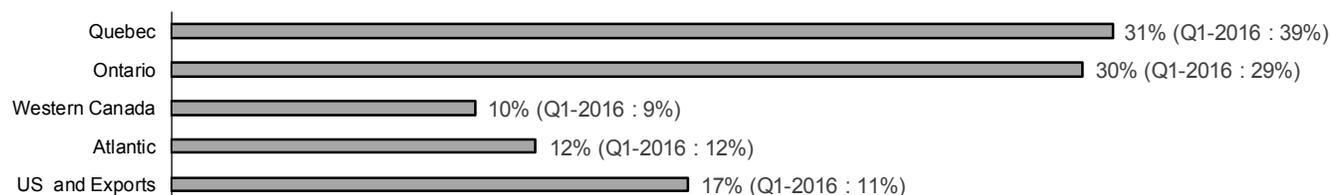
	<b>2016</b> <b>(12 months)</b>	2015 (12 months)	2014 (15 months)
Consolidated sales	<b>\$565,173</b>	\$538,975	\$610,587
(Loss) Earnings before income taxes	<b>\$(16,294)</b>	\$11,874	\$11,128
Net (loss) earnings	<b>\$(12,105)</b>	\$8,622	\$8,125
Total Assets	<b>\$241,568</b>	\$212,081	\$195,847
Total Long-Term Debt	<b>\$126</b>	-	\$692
Cash Dividends	<b>\$2,552</b>	\$2,977	\$5,529
<b>PER COMMON SHARE</b>			
(Loss) Earnings per share Basic and Diluted	<b>\$(1.42)</b>	\$1.01	\$0.96
Cash Flow from Operations (excluding non-cash working capital item, income tax paid and interest paid)	<b>\$(1.27)</b>	\$1.89	\$1.79
Shareholders' Equity	<b>\$13.01</b>	\$15.06	\$14.05
Share Price	<b>\$9.05</b>	\$10.35	\$9.50
Cash Dividends	<b>\$0.30</b>	\$0.35	\$0.65

**COMPARISON FOR THE THREE MONTHS ENDED FEBRUARY 28, 2017 AND FEBRUARY 29, 2016**

<b>HIGHLIGHTS FOR THE THREE MONTHS ENDED FEBRUARY 28, 2017</b>	<b>Q1-2017</b>	<b>Q1-2016</b>	<b>Variance</b>
	\$	\$	%
Consolidated sales	<b>113,490</b>	108,659	+4.4
Loss before income taxes	<b>(7,583)</b>	(1,258)	-502.8
Net loss	<b>(5,401)</b>	(906)	-496.1
Loss per share Basic and Diluted	<b>(0.63)</b>	(0.11)	-472.7
Cash Flow from Operations (excluding non-cash working capital item, income tax paid and interest paid)	<b>(6,135)</b>	(138)	-4,345.7
EBITDA	<b>(5,682)</b>	175	-3,346.9
Average Bank indebtedness	<b>89,519</b>	77,724	+15.2
Inventory average	<b>119,572</b>	125,861	-5.0

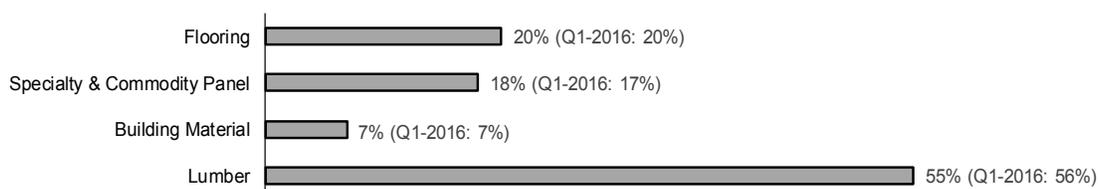
Sales in Canada during the first quarter of fiscal 2017 decreased 3% compared to the same period a year ago mainly due to a decrease in volume of Pressure Treated wood sales. Quebec sales decreased 14% due to a decrease in sales of Pressure Treated wood. Sales in Ontario increased 7% mainly due to a strong performance from our sales team noticeably for Hardwood sales. Sales in the Atlantic Provinces increased 3% due the higher demand for plywood products impacted by an increased housing starts activity. Western Canada sales increased 7% due to a strong performance from our sales teams in Winnipeg and Edmonton.

**Geographical Distribution of Sales for the First Quarter ended February 28, 2017**



Sales in the United States for the first quarter of fiscal 2017 increased 63% on a converted basis compared to the same period last year due to higher demand of hardwood lumber products. On a non-converted basis, US denominated sales increased 71% compared to last year. Export sales increased 61% during the first quarter of fiscal 2017 compared to the same period a year ago mainly due to increasing demand of hardwood and cedar lumber products in Asia and Europe.

## Product Distribution of Sales for the First Quarter ended February 28, 2017



These previously discussed factors impacted to various degrees our sales mix during the first quarter of fiscal 2017. Flooring sales increased 3% during the first three months ended February 28, 2017 compared to the corresponding period last year. The flooring sales increased in Ontario, Western Canada and Quebec. Specialty and Commodity Panel sales increased 10% compared to the corresponding period last year. Building Materials sales decreased 3% compared to the corresponding period last year. Finally, our core lumber business sales increased 4% compared to the corresponding period last year.

### Cost of Goods Sold

Cost of goods sold for the first quarter of fiscal 2017 was \$99.1 million compared to \$88.0 million for the corresponding period a year ago. Cost of purchased goods increased 12.6% compared to last year reflecting the increased sales level and the cost structure in regards to outsourced production of Pressure Treated wood and siding product line. Total freight outbound cost increased 3.1% compared to the same period a year ago due to the higher sales level in Q1-2017 versus Q1-2016. Average gas and diesel purchased prices during the first three months increased approximately 31% compared to the corresponding period a year ago. Gross profits decreased 30.4% during the first quarter of fiscal 2017 compared to last year while gross margins decreased from 19.0% to 12.7%. The trend that was identified in the third quarter of Fiscal 2016 continues to affect 2017. Reserves on inventory still need to be recorded to reflect the lower/negative margins observed on certain products and as well as obsolete inventory level.

### Selling, Administrative and General Expenses

Selling, Administrative and General Expenses for the first quarter of fiscal 2017 were \$21.0 million compared to \$21.3 million for the corresponding period last year. Selling, Administrative and General Expenses decreased 1.3%. The slight decrease shows actions taken to reduce overhead staff. The benefits of these costs cutting measures will start to appear in the second quarter of Fiscal 2017.

### Net Financial Cost

Net financial costs for the first quarter of fiscal 2017 were \$0.9 million (\$0.6 million a year ago). The average Canadian prime rate remained unchanged at 2.70% during the first quarter (same for the corresponding period a year ago). The average US prime rate also remained unchanged at 3.50% for the first quarter. Average bank indebtedness during the first quarter of fiscal 2017 was \$89.5 million compared to \$77.7 million for the corresponding period last year. Average inventory during the first quarter of fiscal 2017 was \$119.6 million compared to \$125.9 million for the same period last year.

## SUMMARY OF THE LAST EIGHT MOST RECENTLY COMPLETED QUARTERS

(In thousands of dollars, except earnings per share)

	May-2016 Restated	Aug-2016	Nov-2016	Feb-2017
<b>Sales</b>	\$166,623	\$159,143	\$130,748	\$113,490
Net Earnings (Loss)	\$2,473	\$(2,491)	\$(11,181)	\$(5,401)
Earnings (Loss) per share Basic and Diluted	\$0.29	\$(0.29)	\$(1.31)	\$(0.63)
	May-2015	Aug-2015	Nov-2015	Feb-2016
<b>Sales</b>	\$153,975	\$151,749	\$135,154	\$108,659
Net Earnings (Loss)	\$3,248	\$3,731	\$2,000	\$(906)
Earnings (Loss) per share Basic and Diluted	\$0.38	\$0.44	\$0.23	\$(0.11)

As indicated above, our results over the past eight quarters follow a seasonal pattern with sales activities traditionally higher in the second and third quarter.

## STATEMENT OF FINANCIAL POSITION

### Total Assets

Total assets at February 28, 2017 decreased from \$279.2 million at February 29, 2016 to \$245.8 million. Cash at February 28, 2017 closed at \$0.9 million (\$2.0 million at February 29, 2016). Trade and other receivables at February 28, 2017 was \$70.6 million compared to \$86.5 million at February 29, 2016 reflecting a better collection rate from our collections department and reduction of backlog of invoicing due to better efficiency (re: new systems) compared to the first quarter last year. Inventories at February 28, 2017 was \$113.1 million compared to \$131.7 million at February 29, 2016. This decrease was due to management's commitment to reduce the inventory level. Prepaid expenses at February 28, 2017 was \$2.6 million compared to \$8.1 million at February 29, 2016. Defined benefit plan assets was \$2.2 million at February 28, 2017 compared to \$4.9 million a year ago. Investment closed at \$3.6 million on February 28, 2017 compared to \$3.0 million at February 29, 2016.

### Property, plant, equipment and intangible assets

Property, plant, equipment at February 28, 2017 was \$38.1 million compared to \$39.4 million at February 29, 2016. Capital expenditures during the three months of fiscal 2017 amounted to \$0.2 million (\$0.4 million for the three months ended February 29, 2016). Property, plant and equipment capitalized during the three months ended February 28, 2017 included buildings, computers, and yard equipment. Proceeds on disposal of capital assets during the three months of fiscal 2017 were \$26 thousand (\$nil for the three months ended February 29, 2016). Depreciation of property, plant, equipment and intangible assets during the three months of fiscal 2017 was \$0.9 million (\$0.8 million for the three months ended February 29, 2016). Historically, capital expenditures in general have been capped at depreciation levels. Capital expenditures were financed from operational cash flows. No major capital expenditures are committed for at this time.

### Total Liabilities

Total liabilities at February 28, 2017 was \$140.5 million (\$152.0 million last year). Bank indebtedness was \$86.2 million compared to \$90.2 million on February 29, 2016. Trade and other payables at February 28, 2017 was \$48.3 million compared to \$54.1 million on February 29, 2016. Income tax payable at February 28, 2017 was \$nil (\$1.0 million last year). Provision at February 28, 2017 was \$1.4 million (\$1.6 million last year). Long-term debt was \$0.2 million (\$0.4 million on February 29, 2016). Deferred income taxes at February 28, 2017 closed at \$3.3 million (\$4.7 million on February 29, 2016). Defined benefit plan obligations was \$1.1 million at February 28, 2017 compared to \$nil at February 29, 2016.

### Shareholders' Equity

Total Shareholders' Equity at February 28, 2017 decreased from \$127.2 million to \$105.3 million last year. The Company generated a return on equity of (20.5) % during the first three months of fiscal 2017 ((2.8) % for the three months ended February 29, 2016). Market share price closed at \$8.58 per share on February 28, 2017 (\$10.66 on February 29, 2016). Share book value at February 28, 2017 was \$12.38 per share (\$14.95 on February 29, 2016). Share capital closed at \$9.2 million (same as last year). No eligible dividend was paid during the first three months of fiscal 2017 (same as last year).

## LIQUIDITY AND CAPITAL RESOURCES

### Financing

As at February 28, 2017, under the new credit agreement, the Company was using \$80.5 million of its facility compared to \$85 million last year. The credit agreement has a maximum revolving operating facility of \$125 million renewable in May 2018. For 2017, the available facility has been reduced from \$125 million to \$100 million, except for the months of February to August 2017. 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 February 28, 2017, the Company was in default with one of its financial covenants, the minimum quarterly year-to-date EBITDA budget approved by the lenders. The Company is in discussions with its lenders to obtain the necessary waivers. There is no guarantee that the lender will provide the required waivers.

The Company's business follows a seasonal pattern with sales activities traditionally higher in the second and third quarter. As a result, cash flow requirements are generally higher during these periods. The current facility is considered by management to be adequate to support its current forecasted cash flow requirements. Source of funding and access to capital is disclosed in details under LIQUIDITY AND RISK MANAGEMENT IN THE CURRENT ECONOMIC CONDITIONS.

### Cash Flow

Net cash flow from operating activities for the first quarter of fiscal 2017 increased to \$8.5 million from \$(36.9) million for the same period last year. Financing activities during the three months of fiscal 2017 decreased to \$(11.0) million compared to \$40.8 million in the first three months last year. Investing activities during the first quarter of fiscal 2017 were \$(0.3) million compared to \$(5.3) million for the corresponding period a year ago. Investing activities in 2016 reflected the capital expenditures and investments required for our new ERP system as well as the net cash effect of the acquisition of Quality Hardwoods Ltd.

## LIQUIDITY AND RISK MANAGEMENT IN THE CURRENT ECONOMIC CONDITIONS

The Company's objectives are as follows:

1. Maintain financial flexibility in order to preserve its ability to meet financial obligations;
2. Maintain a low debt-to-capitalization ratio to preserve its capacity to pursue its organic growth strategy;
3. Maintain financial ratios within covenants requirements;
4. Provide an adequate return to its shareholders.

The Company defines its capital as Shareholders' equity and funded debt. Shareholders' equity includes the amount of paid-up capital in respect of all issued and fully-paid and non-assessable shares of the share capital together with the contributed surplus and retained earnings, calculated on a consolidated basis in accordance with IFRS.

The Company manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust its capital structure, the Company may adjust the amount of dividends paid to shareholders, issue new shares or repurchase shares under normal course issuer bids, acquire or sell assets to improve its financial performance and flexibility or return capital to shareholders. The Company's primary uses of capital are to finance increases in non-cash working capital and capital expenditures for capacity expansion. The Company currently funds these requirements out of its internally-generated cash flows and operating lines of credit.

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. Pursuant to the amended credit facility, the available facility has been reduced from \$125 million to \$100 million, except for the months of February to August 2017. 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). In Q1-2017, the Company incurred a net loss of \$5.4 million and negative cash flow from operating activities (excluding non-cash working capital items) of \$6.1 million compared to a net loss of \$0.9 million and negative cash flows from operating activities (excluding non-cash working capital items) of \$0.1 million in Q1-2016. Therefore, the Company did not achieve one of his covenants, the minimum quarterly year-to-date EBITDA budget approved by the lenders. The Company is in discussion with its lenders to obtain a waiver of the default and amendment of the terms of its credit facility, if required. There can be no guarantee that the lender will provide the required waivers.

As at February 28, 2017 and February 29, 2016, the Company achieved the following results regarding its capital management objectives:

	As at February 28 2017	As at February 29 2016
<b>Capital management</b>		
Debt-to-capitalization ratio	45.8 %	40.4 %
Return on shareholders' equity	(20.5) %	(2.8) %
Current ratio	1.4	1.6
EBITDA	(5,682)	175

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.

### Cost Structure, Working Capital Requirements

At February 28, 2017, its total debt to capitalization ratio stood at 45.8% compared to 40.4% on February 29, 2016. Pursuant to the amended credit facility, the available facility has been reduced from \$125 million to \$100 million, except for the months of February 2017 to August 2017. Furthermore, the Company needs to comply with monthly maximum funded debt to capitalization ratio and achieve minimum quarterly EBITDA budget approved by the lenders with a maturity date of May 2018.

For further information, the principal risk factors to which the Company is exposed are described in the Management's Report contained in its Annual Report for the twelve months ended November 30, 2016 as well as in the 2016 Annual Information Form available on SEDAR ([www.sedar.com](http://www.sedar.com)).

## COMMITMENTS AND CONTINGENCIES

As at February 28, 2017, the minimum future rentals payable under long-term operating leases, for offices, warehouses, vehicles, yards and equipment, did not materially change and are as follows:

Contractual obligations	Payments due by Period (in thousands of dollars)				
	Total	Less than 1 year	1 – 3 Years	4 –5 Years	After 5 years
Operating Leases	19,536	4,862	6,302	3,805	4,567
Purchase obligations	410	410	-	-	-
<b>Total Contractual Obligations</b>	<b>19,946</b>	<b>5,272</b>	<b>6,302</b>	<b>3,805</b>	<b>4,567</b>

### Contingent liabilities

The Company is party to claims which are being contested relate primarily to damaged goods, quality issues or transportation related issues. The amount of claims currently being contested and/or addressed is approximately \$0.2 million. Management believes that the resolution of these claims will not have a material adverse effect on the Company's financial position, earnings or cash flows.

## RISKS AND UNCERTAINTIES

The risks and uncertainty factors affecting the Company in the future remains substantially unchanged from those included in the Company's Annual MD&A contained in its 2016 Annual report. Only those factors with variability components are described below:

### Dependence on Major Customers

The Company does not have long-term contracts with any of its customers. Distribution agreements are usually awarded annually and can be revoked. Two major customers exceed 10% of total company sales in the first quarter of fiscal 2017 (one last year). The following represents the total sales consisting primarily of various wood products of the major customers:

	For the three months ended			
	February 28, 2017		February 29, 2016	
	\$	%	\$	%
Sales of major customer(s) that exceeded 10% of total Company's sales	23,491	20.7	16,280	15.0

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

## FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

The Financial instruments and other instruments remains substantially unchanged from those included in the Company's Annual MD&A contained in its 2016 Annual report. Only those factors with variability components are described below:

The following are the contractual maturities of financial liabilities as at February 28, 2017:  
(in thousands of dollars)

Financial Liabilities	Carrying Amount	Contractual cash flows	0 to 6 Months	6 to 36 Months
Bank indebtedness	86,170	86,170	86,170	-
Trade and other payable	48,332	48,332	48,332	-
Long-term debt	219	219	62	157
<b>Total financial liabilities</b>	<b>134,721</b>	<b>134,721</b>	<b>134,564</b>	<b>157</b>

### Currency Risk

As at February 28, 2017, the Company had the following currency exposure on;

**Financial assets and liabilities measured at amortized costs**  
(in thousands of dollars)

	<b>USD</b>	<b>GBP</b>	<b>Euro</b>
Cash	897	191	8
Trade and other receivables	9,658	347	-
Trade and other payables	(5,184)	(20)	(5)
<b>Net exposure</b>	<b>5,371</b>	<b>518</b>	<b>3</b>
CAD exchange rate as at February 28, 2017	1.3281	1.6480	1.4071
<b>Impact on net earnings based on a fluctuation of 5% on CAD</b>	<b>257</b>	<b>31</b>	<b>-</b>

*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 3.4% (9.2% on February 29, 2016) of total trade and other receivables at February 28, 2017.

Based on historical payment behaviour and current credit information and experience available, the Company believes that, 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.

**RELATED PARTY TRANSACTIONS**

The Related Party Transactions remains substantially unchanged from those included in the Company's Annual MD&A contained in its 2016 Annual report.

**CRITICAL ACCOUNTING ESTIMATES**

The critical accounting estimates remain substantially unchanged from those included in the Company's Annual MD&A contained in its 2016 Annual report.

**CHANGES IN ACCOUNTING POLICIES**

The changes in accounting policies remain substantially unchanged from those included in its 2016 Annual report.

**SIGNIFICANT ACCOUNTING POLICIES & USE OF ESTIMATES AND JUDGEMENTS**

The Company's significant accounting policies applied in the Company's interim financial statements are the same as those described in Note 3 contained in its 2016 Annual Report.

**DISCLOSURE OF OUTSTANDING SHARE DATA**

At February 28, 2017, there were 8,506,554 common shares issued (8,506,554 last year). The Company has authorized an unlimited number of common shares to be issued, without par value. At April 17, 2017, there were 8,506,554 common shares outstanding.

**SUBSEQUENT EVENT**

On April 17, 2017, the Board agreed to terminate the joint venture agreement and dissolve Lebel Goodfellow Treating Inc. Under the terms, the dissolution will be effective May 31<sup>st</sup>, 2017.

## CERTIFICATION

### Disclosure Controls and Procedures and Internal Controls over Financial Reporting

The Company's management is responsible for establishing and maintaining appropriate control systems, procedures and information systems and internal control over financial reporting. The Chief Executive Officer and the Senior Controller together with Management, after evaluating the design of the Company's disclosure controls and procedures and internal control over financial reporting as of February 28, 2017 concluded that the Company's disclosure controls and procedures and internal control over financial reporting were ineffective because of the material weakness described below.

A material weakness existed in the design of the Company's internal control over financial reporting in the area of inventory controls, principally due to the implementation of the new ERP system on December 1, 2015. For its financial year beginning on December 1, 2015, Goodfellow started using a new ERP software for its financial accounting records. In the course of the preparation of its financial statements for the quarter ended August 31, 2016, management noticed certain anomalies relating principally to the cost of inventory for its products. Management undertook an extensive review process to determine the nature of the problem and the means of remediating the financial accounting records. This material weakness, which we now realize existed in earlier quarters, was caused primarily by the absence of certain preventive and detective controls over inventory management.

This control deficiency resulted in the Company determining that its interim financial statements for the three and six-month periods ended May 31, 2016 were materially misstated. The Company has restated and refiled those financial statements. This control deficiency also delayed the filing of its interim financial statements for the three and nine-month periods ended August 31, 2016 while management performed additional substantive procedures to validate the recorded value of inventory.

While it is possible that this design weakness, if left unaddressed, could result in a material misstatement of the Company's inventory balances now or in the future, management has concluded that the consolidated financial statements included in this interim report fairly present the Company's financial position, consolidated results of operations and cash flows for the three month periods ended February 28, 2017.

Management has undertaken an extensive and thorough review of the transactions processed in the new ERP software with the objective of resolving all design deficiencies and implementing compensating controls to mitigate the risk of a material misstatement. The Company is in the process of implementing a plan for the remediation of this material weakness. In the short term, the number of inventory counts increased to a level at which the Company can be confident of the statistical validity of the results of those counts and the Company has established many review procedures to ensure the accuracy of the financial information. The Company will report on its progress of remediation in the second part of 2017.

The evaluation was performed in accordance with the Committee of Sponsoring Organizations of the Treadway Commission (COSO 2013 Framework) control framework adopted by the Company.

During the quarter, on January 17, 2017, the Company changed its President and CEO. Other than as described above, there has been no change in the Company's internal control over financial reporting that occurred during the three months ended February 28, 2017 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting. Subsequent to the quarter-end, on March 3, 2017, the Company announced a change to the CFO position.

Delson, April 17<sup>th</sup>, 2017



Patrick Goodfellow  
President and C.E.O.



Charles Brisebois, CPA, CMA  
Senior Controller