

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 CPA Canada for a review of interim financial statements by an entity’s auditor.

The accompanying unaudited interim consolidated 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, 2020 and 2019

(in thousands of dollars, except per share amounts)

Unaudited

	For the three months ended		For the nine months ended	
	August 31 2020	August 31 2019	August 31 2020	August 31 2019
	\$	\$	\$	\$
Sales (Note 14)	138,843	130,594	331,462	342,460
Expenses				
Cost of goods sold (Note 4)	111,030	106,840	266,748	278,088
Selling, administrative and general expenses (Note 4)	17,835	19,426	51,413	58,053
(Gain) loss on disposal of property, plant and equipment	(1)	-	(11)	7
Net financial costs (Note 5)	679	895	2,152	2,449
	129,543	127,161	320,302	338,597
Earnings before income taxes	9,300	3,433	11,160	3,863
Income taxes	2,604	961	3,125	1,086
Total comprehensive income	6,696	2,472	8,035	2,777
Net earnings per share – Basic (Note 9 c))	0.78	0.29	0.94	0.33
Net earnings per share – Diluted (Note 9 c))	0.78	0.29	0.94	0.32

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

	As at August 31 2020	As at November 30 2019	As at August 31 2019
	\$	\$	\$
Assets			
Current Assets			
Cash	1,884	2,364	1,546
Trade and other receivables (Note 6)	64,511	48,498	65,216
Inventories	82,498	87,339	99,761
Prepaid expenses	2,077	2,563	2,552
Total Current Assets	150,970	140,764	169,075
Non-Current Assets			
Property, plant and equipment	31,536	32,838	32,754
Intangible assets	3,420	3,927	3,990
Right-of-use assets (Note 3)	15,113	-	-
Defined benefit plan asset	2,188	2,222	2,700
Investment in a joint venture	25	25	25
Other assets	753	805	849
Total Non-Current Assets	53,035	39,817	40,318
Total Assets	204,005	180,581	209,393
Liabilities			
Current liabilities			
Bank indebtedness (Note 7)	23,872	31,204	56,579
Trade and other payables (Note 8)	35,818	29,048	32,216
Income taxes payable	3,246	734	667
Provision	1,514	1,470	316
Dividend payable (Note 9 c))	-	856	-
Current portion of lease liabilities (Note 3)	4,338	15	15
Total Current Liabilities	68,788	63,327	89,793
Non-Current Liabilities			
Provision	-	-	1,319
Lease liabilities (Note 3)	14,194	28	32
Deferred income taxes	2,269	3,209	3,652
Defined benefit plan obligation	734	609	159
Total Non-Current Liabilities	17,197	3,846	5,162
Total Liabilities	85,985	67,173	94,955
Shareholders' Equity			
Share capital (Note 9)	9,424	9,424	9,152
Retained earnings	108,596	103,984	105,286
	118,020	113,408	114,438
Total Liabilities and Shareholders' Equity	204,005	180,581	209,393

GOODFELLOW INC.
Consolidated Statements of Cash Flows
For the three and nine months ended August 31, 2020 and 2019
(in thousands of dollars)
Unaudited

	For the three months ended		For the nine months ended	
	August 31 2020	August 31 2019	August 31 2020	August 31 2019
	\$	\$	\$	\$
Operating Activities				
Net earnings	6,696	2,472	8,035	2,777
Adjustments for:				
Depreciation and amortization of:				
Property, plant and equipment (Note 4)	678	696	2,002	2,076
Right-of-use assets	1,084	-	3,265	-
Intangible assets	183	173	546	516
Accretion expense on provision	18	3	54	10
Decrease in provision	-	(28)	(10)	(28)
Income taxes	2,604	961	3,125	1,086
(Gain) loss on disposal of property, plant and equipment	(1)	-	(11)	7
Interest expense	187	603	825	1,708
Interest on lease liabilities	167	-	520	-
Funding in deficit of pension plan expense	52	35	158	106
Other assets	-	-	-	67
Other	(13)	-	28	-
	11,655	4,915	18,537	8,325
Changes in non-cash working capital items (Note 12)	9,239	6,126	(3,915)	(19,079)
Interest paid	(114)	(580)	(733)	(1,791)
Income taxes recovered (paid)	478	(152)	(613)	(828)
	9,603	5,394	(5,261)	(21,698)
Net Cash Flows from Operating Activities	21,258	10,309	13,276	(13,373)
Financing Activities				
Net decrease in bank loans	-	(3,000)	(5,000)	(1,000)
Net (decrease) increase in banker's acceptances	(21,000)	(12,000)	(5,000)	13,000
Payment of lease liabilities	(1,312)	(4)	(3,954)	(10)
Dividend Paid	-	-	(1,712)	(851)
	(22,312)	(15,004)	(15,666)	11,139
Investing Activities				
Acquisition of property, plant and equipment	(222)	(263)	(732)	(488)
Increase in intangible assets	(3)	(17)	(39)	(62)
Proceeds on disposal of property, plant and equipment	(1)	-	13	8
	(226)	(280)	(758)	(542)
Net cash outflow	(1,280)	(4,975)	(3,148)	(2,776)
Cash position, beginning of period	(708)	2,942	1,160	743
Cash position, end of period	(1,988)	(2,033)	(1,988)	(2,033)
Cash position is comprised of:				
Cash	1,884	1,546	1,884	1,546
Bank overdraft (Note 7)	(3,872)	(3,579)	(3,872)	(3,579)
	(1,988)	(2,033)	(1,988)	(2,033)

GOODFELLOW INC.
Consolidated Statements of Change in Shareholders' Equity
For the nine months ended August 31, 2020 and 2019
(in thousands of dollars)
Unaudited

	Share Capital	Retained Earnings	Total
	\$	\$	\$
Balance as at November 30, 2018	9,152	103,711	112,863
Net earnings	-	2,777	2,777
Total comprehensive income	-	2,777	2,777
<i>Transactions with owners of the Company</i>			
Dividend (Note 9 c))	-	(851)	(851)
Modification of share-based payment (Note 9 b))	-	(351)	(351)
Balance as at August 31, 2019	9,152	105,286	114,438
Balance as at November 30, 2019	9,424	103,984	113,408
IFRS 16 adoption adjustment, net of taxes of \$940 (Note 3)	-	(2,567)	(2,567)
Balance as at December 1, 2019	9,424	101,417	110,841
Net earnings	-	8,035	8,035
Total comprehensive income	-	8,035	8,035
<i>Transactions with owners of the Company</i>			
Dividend (Note 9 c))	-	(856)	(856)
Balance as at August 31, 2020	9,424	108,596	118,020

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Unaudited

For the three and nine months ended August 31, 2020 and 2019

(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), Canada, J5B 1V5.

The interim consolidated financial statements of the Company as at and for the nine months ended August 31, 2020 and 2019 includes the accounts of the Company and its wholly-owned subsidiaries.

2. Basis of preparation

Statement of compliance

These interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Boards (“IASB”). These interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements for the year ended November 30, 2019, as set out in the 2019 annual report. Certain comparative figures have been reclassified to conform to the current year’s presentation.

These interim consolidated financial statements were authorized for issue by the Board of Directors on October 15, 2020.

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

Estimates, Judgments and Assumptions

The preparation of the interim consolidated financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, the disclosure of contingent assets and contingent liabilities at the date of the consolidated financial statements and reported amounts of revenues and expenses during the period. These estimates and assumptions are based on historical experience, other relevant factors and expectations of the future and are reviewed regularly. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. Actual results may differ from these estimates.

In preparing these interim consolidated financial statements, the significant judgements made by management in applying the Company’s accounting policies and key sources of estimation of uncertainty were the same as those applied and described in the Company’s audited annual consolidated financial statements for the year ended November 30, 2019, except as noted below relating to the adoption of IFRS 16, Leases.

Judgments Made in Relation to New Accounting Policies Applied

Management exercises judgment in determining the appropriate lease term on a lease by lease basis. Management considers all facts and circumstances that create an economic incentive to exercise a renewal option or to not exercise a termination option. The periods covered by renewal options are only included in the lease term if management is reasonably certain to renew.

Management considers reasonably certain to be a high threshold. Changes in the economic environment or changes in the industry may impact management’s assessment of lease term, and any changes in management’s estimate of lease terms may have a material impact on the Company’s statement of financial position and consolidated statement of comprehensive income.

Key Sources of Estimation Uncertainty

In determining the carrying amount of right-of-use assets and lease liabilities, the Company is required to estimate the incremental borrowing rate specific to each leased asset if the interest rate implicit in the lease is not readily determinable. Management determines the incremental borrowing rate of each leased asset by incorporating the Company’s creditworthiness, the security, term and value of the underlying leased asset, and the economic environment in which the leased asset operates in. The incremental borrowing rates are subject to change mainly due to macroeconomic changes in the environment.

In addition, the Company reflected, where appropriate, the impact of COVID-19 pandemic and the related climate of uncertainty on some of its estimates and assumptions, including significant judgment areas, used in preparing the interim consolidated financial statements for the three months and nine months periods ended August 31, 2020. The main areas impacted were the determination of whether there is an indication that assets are impaired and where appropriate, the estimates and assumptions used in the establishment of their recoverable amount. Additional revisions might be required in the future depending on the development of the COVID-19 pandemic and its impact on the Company’s results of operations and financial position, and this could have a material impact on the final measurement of the carrying amount of the Company’s assets.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Unaudited

For the three and nine months ended August 31, 2020 and 2019

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

3. Significant Accounting Policies

The Company's significant accounting policies described in Note 3 contained in its 2019 Annual consolidated financial statements have been applied consistently in the preparation of these unaudited interim consolidated financial statements except as noted below:

Adoption of New Accounting Policies

IFRS 16 – Leases

In January 2016, the IASB issued IFRS 16, *Leases* ("IFRS 16"), replacing IAS 17, *Leases* and related interpretations. The standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments.

Lessors continue to classify leases as finance and operating leases. Other areas of the lease accounting model have been impacted, including the definition of a lease. Transitional provisions have been provided. IFRS 16 became effective for annual periods beginning on or after January 1, 2019.

The Company adopted the standard for the annual period beginning December 1, 2019 and applied the requirements of the standard using the modified retrospective approach with the cumulative effects of initial application recorded in opening retained earnings as at December 1, 2019 with no restatements of the comparative period. Under the modified retrospective approach, the Company has elected to use the following practical expedients permitted on adoption of IFRS 16:

- the Company did not reassess whether a contract is, or contains, a lease at the date of initial application and instead applied IFRS 16 to contracts that were previously identified as leases applying IAS 17, *Leases*;
- the Company relied on the assessment of the onerous lease provisions under IAS 37, *Provisions, contingent liabilities and contingent assets*, instead of performing an impairment review;
- the Company excluded initial direct costs in the measurement of the right-of-use assets at the date of initial application; and
- the Company used hindsight in determining the lease term at the date of initial application.

When applying the modified retrospective transition approach, for leases previously classified as operating leases under IAS 17 and IFRIC 4, on initial application, a lessee is permitted to measure the ROU (right-of-use) asset, on a lease-by-lease basis, using one of two methods: (1) as if IFRS 16 had always been applied, using the incremental borrowing rate at the date of initial application; or (2) at an amount equal to the lease liability (subject to certain adjustments). The Company applied the first option to certain leases, which resulted in a lower carrying amount of the ROU asset at the date of initial application as compared to the lease liability, for those leases. For the remainder of the leases, the Company recognized the ROU assets based on the corresponding lease liability.

In addition, deferred lease credits (relating to lease inducements) that were recorded in accounts payable and accrued liabilities were derecognized with a corresponding transition adjustment to retained earnings on transition date, as a result of the adoption of IFRS 16, and prepaid rent that was recorded in trade and other receivables and in other assets, on the consolidated statement of financial position as at December 1, 2019 was transferred to the recognized ROU asset.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

The following table summarizes the impact of adopting IFRS 16 on certain items on the Company's consolidated balance sheet as at December 1, 2019:

	As at November 30 2019	Transition adjustments	As at December 1 2019
	\$	\$	\$
Current assets			
Trade and other receivables	48,498	(37)	48,461
Non-current assets			
Property, plant and equipment ⁽¹⁾	32,838	(30)	32,808
Right-of-use assets	-	17,152	17,152
Other Assets	805	(52)	753
Current Liabilities			
Trade and other payables	29,048	(127)	28,921
Current portion of lease liabilities	-	4,686	4,686
Current portion of obligations under finance leases ^{(1) (2)}	15	(15)	-
Non-current liabilities			
Deferred income tax	3,209	(940)	2,269
Lease liabilities	-	16,024	16,024
Obligations under finance leases ^{(1) (2)}	28	(28)	-
Shareholders' equity			
Retained earnings	103,984	(2,567)	101,417

(1) Leases previously classified as finance lease arrangements under IAS 17 were presented within property plant and equipment, and obligations under finance leases. Effective December 1, 2019, these balances are included in right-of-use assets, and lease liabilities.

(2) Presented under Lease liabilities in the statement of financial position at August 31, 2019 and November 30, 2019 for comparative purposes.

The Company used its incremental borrowing rates as at December 1, 2019 to measure its lease liabilities. The weighted average incremental borrowing rate was 3.60% at date of adoption.

The following table reconciles the operating lease commitments disclosed under IAS 17 as at November 30, 2019 and the lease liabilities recognized on December 1, 2019:

	\$
Total operating lease commitments disclosed as at November 30, 2019	19,115
Other service contracts	(103)
Obligation under finance leases	43
Operating lease commitments of leases commencing on or after December 1, 2019	(418)
Extension options reasonable certain to be exercised	4,171
Lease liabilities recognized as at December 1, 2019 – undiscounted	22,808
Discounted using the incremental borrowing rate as at December 1, 2019	20,710
Current portion of lease liabilities	4,686
Non-current portion of lease liabilities	16,024
Total lease liabilities	20,710

As a result of the adoption of IFRS 16, the Company updated its accounting policy for leases as follows:

The Company recognizes a right-of-use asset and a lease liability based on the present value of future lease payments when the leased asset is available for use by the Company. The lease payments include fixed and in-substance fixed payments and variable lease payments that depend on an index or rate, less any lease incentives receivable. The lease payments are discounted using the interest rate implicit in the lease or the lessee's incremental borrowing rate. Generally, the Company's uses the lessee's incremental borrowing rate for its present value calculations. Lease payments are discounted over the lease term, which includes the fixed term and renewal options that the Company is reasonably certain to exercise. Lease payments are allocated between the lease liability and a finance cost, which is recognized in finance costs over the lease term in the consolidated statement of earnings.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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For the three and nine months ended August 31, 2020 and 2019

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

When a contract contains both lease and non-lease components, the Company will allocate the consideration in the contract to each of the components on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components. Relative stand-alone prices are determined by maximizing the most observable prices for a similar asset and/or service.

Lease payments for assets that are exempt through the short-term exemption and variable payments not based on an index or rate are recognized in selling, distribution and administrative expenses as incurred.

Right-of-use assets are measured at cost, less any accumulated depreciation and accumulated impairment losses, and adjusted for any re-measurement of lease liabilities. Cost is calculated as the initial measurement of the lease liability plus any initial direct costs and any lease payments made at or before the commencement date. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term or the useful life.

4. Additional information on cost of goods sold and selling, administrative and general expenses

	For the three months ended		For the nine months ended	
	August 31 2020	August 31 2019	August 31 2020	August 31 2019
	\$	\$	\$	\$
Employee benefits expense ⁽¹⁾	12,316	12,776	33,563	38,049
Obsolescence adjustment included in cost of goods sold	896	282	1,285	572
Depreciation included in cost of goods sold	219	242	643	731
Depreciation included in selling, administrative and general expenses	459	454	1,359	1,345
Foreign exchange (losses) gains	(45)	(58)	291	(63)

(1) As at August 31, 2020, the Company was qualified to receive the Canada Emergency Wage Subsidy (CEWS). The CEWS is available to qualifying employers that have lost revenue due to COVID-19, and generally provides a subsidy to employers based on revenue declined percentage by month basis of employee's remuneration paid, up to a maximum weekly amount (\$847 to \$1,129/week) per employee. The Company believes that there was reasonable assurance that the CEWS will be received from the Canadian federal government and as a result, recognized a \$0.5 million CEWS receivable against the salary expense that qualified for the CEWS under "Employee benefits expense" for the three months ended August 31, 2020 and \$3.0 million for the nine months periods ended August 31, 2020. As at August 31, 2020 \$2.9 million was received from the government.

5. Net financial costs

	For the three months ended		For the nine months ended	
	August 31 2020	August 31 2019	August 31 2020	August 31 2019
	\$	\$	\$	\$
Interest expense	187	603	825	1,708
Interest expense on lease liabilities	167	-	520	-
Accretion expense on provision	18	3	54	10
Other financial costs	307	276	754	742
Financial cost	679	882	2,153	2,460
Financial income	-	13	(1)	(11)
Net financial cost	679	895	2,152	2,449

6. Trade and other receivables

	August 31	November 30	August 31
	2020	2019	2019
	\$	\$	\$
Trade receivables	64,707	47,832	65,336
Allowance for doubtful accounts	(460)	(144)	(421)
	64,247	47,688	64,915
Other receivables	264	810	301
	64,511	48,498	65,216

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Unaudited

For the three and nine months ended August 31, 2020 and 2019

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

7. Bank indebtedness

	August 31 2020	November 30 2019	August 31 2019
	\$	\$	\$
Bank loans	-	5,000	2,000
Banker's acceptances	20,000	25,000	51,000
Bank overdraft	3,872	1,204	3,579
	23,872	31,204	56,579

In May 2019, the Company renewed its credit agreement with its present lenders, two chartered Canadian banks. The credit agreement has a maximum revolving operating facility of \$90 million maturing in May 2021. In addition, an accordion of \$10 million is available once per fiscal year for a maximum of 150 days only.

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 immovable and movable property of the Company. As at August 31, 2020, the Company was compliant with its financial covenants. As at August 31, 2020, under the credit agreement, the Company was using \$20.0 million of its facility compared to \$53.0 million last year.

8. Trade and other payables

	August 31 2020	November 30 2019	August 31 2019
	\$	\$	\$
Trade payables and accruals	27,537	20,438	22,664
Payroll related liabilities	5,618	5,569	5,537
Sales taxes payables	2,663	3,041	4,015
	35,818	29,048	32,216

9. Share Capital

a) Authorized

An unlimited number of common shares, without par value

	August 31 2020	November 30 2019	August 31 2019
Number of shares outstanding at the beginning and at the end of the period	8,562,554	8,562,554	8,506,554

b) Share-based payments

On January 15, 2017, the Company granted deferred shares to a key executive. On April 12, 2019, the Company modified these deferred shares to allow for a cash alternative at the key executive's discretion. The cash alternative allows the key executive to a cash payment equal to the number of deferred shares exercised multiplied by the fair value of the shares calculated using the average closing trading price during the preceding twenty trading days of the exercise.

At the end of each reporting period until the liability is settled, the fair value of the liability is remeasured, with any changes in fair value recognized in profit and loss for the period. On November 14, 2019, based on a closing share price of \$4.85, the key executive exercised his right and received 56,000 shares of the Company. The Company recognized a share-based compensation recovery of nil in Employee benefits expense for the three months ended August 31, 2020 (\$44 thousand last year) with a corresponding change in Payroll related liabilities for the three months ended August 31, 2020 and the three months ended August 31, 2019. The Company recognized a share-based compensation recovery of nil in Employee benefits expense for the nine months ended August 31, 2020 and \$98 thousand for the nine months ended August 31, 2019 with a corresponding change in Payroll related liabilities for the nine months ended August 31, 2020 and the nine months ended August 31, 2019. All shares under this grant have been issued. Therefore, the payroll related liabilities is nil at August 31, 2020.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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For the three and nine months ended August 31, 2020 and 2019

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

- c) Net earnings and dividend per share

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

	For the three months ended		For the nine months ended	
	August 31 2020	August 31 2019	August 31 2020	August 31 2019
	\$	\$	\$	\$
Net earnings				
- basic	6,696	2,472	8,035	2,777
- diluted	6,696	2,440	8,035	2,706
Weighted average number of common shares				
- basic	8,562,554	8,506,554	8,562,554	8,506,554
- diluted	8,562,554	8,562,554	8,562,554	8,562,554

Dividends of \$0.20 and \$0.10 per share were paid for the nine-month periods ended August 31, 2020 and August 31, 2019, respectively.

10. Seasonal Pattern

The Company's business follows a seasonal pattern with sales activities traditionally higher in the second and third quarters. 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, 2020 which is not necessarily indicative of performance for the balance of the year.

11. Financial instruments and other instruments

Risk Management

The Company is exposed to financial risks that arise from fluctuations in interest rates and foreign exchange rates and the degree of volatility of these rates.

Financing and Liquidity Risk

The Company makes use of short-term financing with two chartered Canadian banks.

The following are the contractual maturities of financial liabilities as at August 31, 2020:

Financial Liabilities				
	Carrying Amount	Contractual cash flows	0 to 12 Months	12 to 36 Months
Bank indebtedness	23,872	23,872	23,872	-
Trade and other payables	35,818	35,818	35,818	-
Lease liabilities	18,532	18,532	4,338	14,194
Total financial liabilities	78,222	78,222	64,028	14,194

Interest Rate Risk

The Company uses a credit facility to finance working capital requirements. The interest cost of this facility is dependent upon Canadian and US bank prime rates as well as the Company's funded debt to capitalization ratio. The profitability of the Company could be adversely affected with increases in the bank prime rate. Management does not believe that the impact of interest rate fluctuations will be significant on its operating results. A 1% fluctuation of interest rate on the \$23.9 million in bank indebtedness would impact interest expense annually by \$0.2 million.

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.

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

As at August 31, 2020, the Company had the following currency exposure on:

Financial assets and liabilities measured at amortized costs

	USD	GBP	Euro
Cash	1,732	243	11
Trade and other receivables	4,468	105	-
Trade and other payables	(5,339)	(76)	(109)
Lease liabilities	(587)	-	-
Net exposure	274	272	(98)
CAD exchange rate as at August 31, 2020	1.3047	1.7443	1.5574
Impact on net earnings based on a fluctuation of 5% on CAD	13	17	(6)

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 to reduce the potential for credit losses. 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. 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 that are current 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. In its assessment of the loss allowance for credit losses as at August 31, 2020, the Company considered the economic impact of the COVID-19 pandemic on its assessment, including the risk of default of its customers given the economic downturn caused by this pandemic.

The following table presents information on credit risk exposure and expected credit losses related to trade accounts receivable:

	August 31 2020	August 31 2019
	\$	\$
Current	61,464	60,416
31 - 60 days past due	2,077	2,890
61 - 90 days past due	464	1,340
91 - 120 days past due	331	342
Over 120 days past due	371	348
	64,707	65,336
Loss allowance	(460)	(421)
Balance, end of period	64,247	64,915

As at August 31, 2020, an amount of \$261 thousand included in the loss allowance represents a specific allowance for trade accounts receivable that amounts to \$636 thousand. Other than specific allowance, expected credit losses are limited to \$199 thousand and therefore, the expected credit losses by trade accounts receivable aging have not been presented separately in the table above.

Economic Dependence

Only one major customer exceeds 10% of total Company sales in the three months and nine months ended August 31, 2020 (same last year). The following represents the total sales consisting primarily of various wood products of the major customer(s):

	For the three months ended				For the nine months ended			
	August 31, 2020		August 31, 2019		August 31, 2020		August 31, 2019	
	\$	%	\$	%	\$	%	\$	%
Sales to major customer(s) that exceeded 10% of total Company's sales	21,188	15.1	17,555	13.4	50,510	15.1	45,408	13.3

The loss of any major customer could have a material effect on the Company's results, operations and financial position. The carrying amounts of financial assets represent the maximum credit exposure.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Unaudited

For the three and nine months ended August 31, 2020 and 2019

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

Fair Value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. 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 2020	August 31 2019	August 31 2020	August 31 2019
	\$	\$	\$	\$
Trade and other receivables	5,020	10,723	(16,050)	(15,208)
Inventories	9,573	8,833	4,841	(7,217)
Prepaid expenses	(653)	39	416	654
Trade and other payables	(4,701)	(13,469)	6,878	2,692
	9,239	6,126	(3,915)	(19,079)

13. Capital Management

The Company's financial objectives and strategy remain substantially unchanged from those included in the Company's annual consolidated financial statements contained in its 2019 Annual report.

As at August 31, 2020 and 2019, the Company achieved the following results regarding its capital management objectives:

Capital management	As at	As at
	August 31 2020	August 31 2019
Debt-to-capitalization ratio	15.8%	32.7%
Interest coverage ratio	7.4	3.2
Return on shareholders' equity	9.1%	3.2%
Current ratio	2.2	1.9
EBITDA	\$19,125	\$8,904

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

- Debt-to-capitalization ratio represents debt over total shareholders' equity. Debt is defined as bank indebtedness less cash and cash equivalents (ie debt excludes lease liabilities). Capitalization is debt plus shareholders' equity.
- Interest Coverage ratio represents the EBITDA during the period for which the calculation is made over interest expenses for the same period on a consolidated basis, calculated on a rolling four-quarter basis.
- 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.

14. Segmented Information and Sales

The Company manages its operations under one operating segment. Revenues are generated from the sale of various wood products and operating expenses are managed at the aggregate Company level. All significant property, plant and equipment are located in Canada.

The following table presents sales disaggregated by geographic markets and by categories as this best depicts how the nature, amount, timing and uncertainty of sales and cash flows are affected by economic factors.

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Unaudited

For the three and nine months ended August 31, 2020 and 2019

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

Primary geographic markets

The Company's sales to clients located in Canada represent approximately 87% (85% in 2019) of total sales, the sales to clients located in the United States represent approximately 8% (9% in 2019) of total sales, and the sales to clients located in other markets represent approximately 5% (6% in 2019) of total sales

	For the three months ended		For the nine months ended	
	August 31 2020	August 31 2019	August 31 2020	August 31 2019
	\$	\$	\$	\$
Canada	123,792	113,269	287,337	290,252
US	9,337	9,902	28,017	30,807
Export	5,714	7,423	16,108	21,401
	138,843	130,594	331,462	342,460

Sales categories

	For the three months ended		For the nine months ended	
	August 31 2020	August 31 2019	August 31 2020	August 31 2019
	\$	\$	\$	\$
Flooring	26,092	27,285	68,560	71,669
Specialty & commodity panels	20,110	20,919	51,341	55,697
Building materials	18,291	15,891	39,433	37,168
Lumber	74,350	66,499	172,128	177,926
	138,843	130,594	331,462	342,460

15. Subsequent events

On September 24, 2020 the Company detected a ransomware cyberattack on its information technology systems. The malware used to perform the attack encrypted certain electronic data stored on the Company's network so it cannot be read or used. The attack took place after the close of business on September 23, 2020 and was immediately detected at the opening of business on the following day, with steps immediately taken to contain and mitigate any potential impact to the Company's data and operations and start the recovery process.

In collaboration with its cybersecurity insurance carriers, independent cybersecurity experts were brought in to assist the Company in dealing with the matter in accordance with industry best practices. The Company also reported the attack to law enforcement agencies.

At present time there is no evidence that customers' personal information was compromised as a result of this attack, and the Company generally does not receive personal information from its clients comprised mainly of businesses. However, some employee personal information may have been compromised and the Company is taking measures to minimize the impact for affected employees, including retaining the services of TransUnion to proactively monitor and manage their credit record.

The Company is in the process of re-establishing its data and systems and is hopeful it will be successful in doing so with limited impact on its operations and sales. However, as this work and the investigation of the attack is still ongoing, the full extent of the impact of the attack cannot be determined at this stage.