

QUARTERLY REPORT

For the six months ended May 31st, 2017



GOODFELLOW
THE WOOD SPECIALIST



FINANCIAL HIGHLIGHTS

OPERATING RESULTS

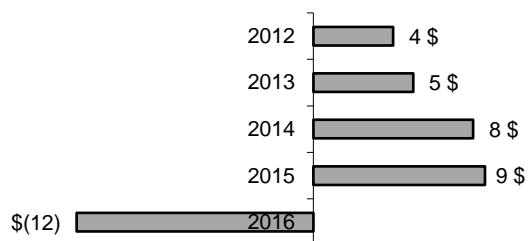
(in thousands of dollars except per share amounts)

	2016 IFRS	2015 IFRS	2014 IFRS (15 months)	2013 IFRS ⁽¹⁾ (Restated)	2012 IFRS ⁽¹⁾
Sales	\$565,173	\$538,975	\$610,587	\$483,485	\$500,688
(Loss) Earnings before income taxes	\$(16,294)	\$11,874	\$11,128	\$7,307	\$6,063
Net (loss) earnings	\$(12,105)	\$8,622	\$8,125	\$5,279	\$4,355
- per share	\$(1.42)	\$1.01	\$0.96	\$0.62	\$0.51
Cash flow (excluding non-cash working capital, Income tax paid and interest paid)	\$(10,802)	\$16,092	\$15,228	\$9,681	\$8,304
- per share ⁽²⁾	\$(1.27)	\$1.89	\$1.79	\$1.14	\$0.97
Shareholders' equity	\$110,693	\$128,100	\$119,486	\$117,138	\$116,036
- per share ⁽²⁾	\$13.01	\$15.06	\$14.05	\$13.77	\$13.57
Share price at year-end	\$9.05	\$10.35	\$9.50	\$9.06	\$8.10
Dividend paid per share	\$0.30	\$0.35	\$0.65	\$0.35	\$0.20

(1) Year ended August 31

(2) Non-GAAP measures – refer to “Non-GAAP Measures” section of MD&A

NET EARNINGS (in million \$)



SHARE PRICE

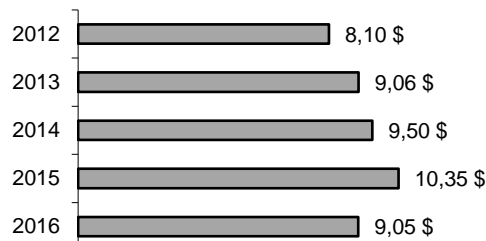


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MESSAGE TO THE SHAREHOLDERS

Initiatives that began in the second half of Q1 started to show positive benefits in Q2. The Costs of Goods Sold was reset in order to incorporate all freight charges and give management the necessary information to challenge Goodfellow's gross margin expectation upwards. The headcount reduction continued in the first half of Q2 to right size overhead primarily in Delson. Obsolete inventory sales action remained a priority concern through March and April. The aggressive nature of our obsolete inventory sell off, combined with heavy restrictions on inbound inventory, led to substantial losses in March and April.

By May 1st the company had right sized its inventory to a reasonable level giving it the ability to replenish prime goods and move forward. Crucial margin levels are being restored to historic norms, despite the compromised pressure treated wood margin, and the cost cutting measures have taken hold. The salesforce showed great resilience in regaining market share and re-establishing customer loyalty. May's results demonstrate the company is closer to normalcy. Yet, much work is to be done. There is greater clarity within the company of where our future success lies.

The dissolution of the pressure treated joint venture took place as expected by May 31st in common accord. The corporate guarantee of \$6.5 M related to the BN line has been released and Goodfellow is secured in regaining its initial \$3.0 M investment.

The company is continuing in its focused strategy to steadily increase margin levels and address all elements of obsolete inventory. Product lines are being reviewed to attribute precious inventory dollars properly and set a positive course leading to our annual warehouse sale August 15th in Delson and August 17th in Campbellville.

We want to thank our shareholders, customers, suppliers and employees for their continued support during this most challenging period.



Patrick Goodfellow
President and CEO
July 17th, 2017

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 July 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 six months ended May 31, 2017 and six months ended May 31, 2016. The consolidated financial statements ended May 31, 2017 and May 31, 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. 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.

RESTATEMENT

Goodfellow (the "Company") has completed the review of its accounts undertaken in connection with the discovery of certain discrepancies which led to the announcement on October 13, 2016 of the delay in the filing of its interim financial report, interim management discussion and analysis and interim certificates for the quarter ended August 31, 2016.

The review was conducted under the direction of the audit committee and the board of directors who also retained the services of its auditors, KPMG LLP, to perform selected procedures over the results of the nine-month period ended August 31, 2016, including inventory and cost of sales testing. Pursuant to management's review, issues with the recording of inventory value and its impact on the cost of goods sold were confirmed and additional steps were taken to test the integrity of the new Enterprise Resource Planning (ERP) system and the accuracy of its results. Further to this review, the Company concluded that 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. This material weakness was caused primarily by the absence of certain preventive and detective controls over inventory management.

Management has undertaken an extensive and thorough review of the transactions processed in the new Enterprise Resource Planning (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 design weakness. The Company has retained the services of Deloitte LLP to assist it in the design and implementation of such remediation plan. 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.

Restatement of Financial Statements for the Second Quarter 2016

As a result, the Company incorrectly presented the Company's consolidated statements of financial position as of May 31, 2016, Consolidated Statements of Comprehensive Income, Cash Flows and Statement of Change in Shareholders' Equity and Comprehensive Income for the three and six-month periods ended May 31, 2016 and is correcting such presentation. See note 1 in the notes to the consolidated financial statements included herein for a discussion of these corrections and a reconciliation of amounts previously reported to those shown herein. More specifically, a number of corrections were made to reduce net income for the second quarter from \$3.4 million to \$2.5 million after tax, or 29 cents per share.

The following second quarter 2016 items have been amended as a result of the restatement:

1. Financial Statements
2. Management's Discussion and Analysis of the Financial Condition and results of operations
3. Certification: Disclosure Controls and Procedures

The Chief Executive Officer and Chief Financial Officer have also reissued the certifications required by National Instrument 52-109.

Additional risk factor:

The following risk should be taken into account by investors. 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. Management determined that 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. This material weakness 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. The Company is in the process of implementing a plan for the remediation of this design weakness. There can be no assurance that the Company will be successful in implementing a remediation plan that will correct the design weakness. If the remediation plan is not successful in correcting this design weakness, it is possible that this design weakness, if left unaddressed, could result in a material misstatement of the Company's inventory balances.

Restatement of previously issued second quarter 2016 financial statements

Statement of Comprehensive Income:

	As previously reported	Restatement adjustment	As restated
	\$	\$	\$
For the 6-month period ended May 31, 2016:			
Sales	275,328	(46)	275,282
Cost of goods sold	225,216	1,492	226,708
Selling, administrative and general expenses	45,230	(117)	45,113
Earnings before income taxes	3,423	(1,421)	2,002
Income taxes	955	(520)	435
Net earnings	2,468	(901)	1,567
Net earnings per share – Basic and diluted	0.29	(0.11)	0.18
For the 3-month period ended May 31, 2016:			
Sales	166,669	(46)	166,623
Cost of goods sold	137,237	1,492	138,729
Selling, administrative and general expenses	23,927	(117)	23,810
Earnings before income taxes	4,681	(1,421)	3,260
Income taxes	1,307	(520)	787
Net earnings	3,374	(901)	2,473
Net earnings per share – Basic and diluted	0.40	(0.11)	0.29

Statement of Financial Position:

	As previously reported	Restatement adjustment	As restated
	\$	\$	\$
As at May 31, 2016:			
Trade and other receivables	121,800	516	122,316
Income taxes receivable	18	703	721
Inventories	141,162	(2,261)	138,901
Prepaid expenses	4,820	22	4,842
Property, plant and equipment	39,430	(87)	39,343
Intangibles	3,629	(15)	3,614
Total assets	320,690	(1,122)	319,568
Trade and other payables	82,588	(221)	82,367
Total liabilities	191,398	(221)	191,177
Retained earnings	120,140	(901)	119,239
Shareholders' Equity	129,292	(901)	128,391

Statement of Cash Flows:

	As previously reported	Restatement adjustment	As restated
	\$	\$	\$
For the 6-month period ended May 31, 2016:			
Net Earnings	2,468	(901)	1,567
Depreciation	1,636	100	1,736
Income taxes	955	(520)	435
Income taxes paid	(2,875)	(183)	(3,058)
Acquisition of property, plant and equipment	(938)	4	(934)
Net cash flows from operating activities	(46,395)	(448)	(46,843)
Net cash flows from Investing activities	(7,482)	448	(7,034)
For the 3-month period ended May 31, 2016:			
Net Earnings	3,374	(901)	2,473
Depreciation	838	100	938
Income taxes	1,307	(520)	787
Income taxes paid	(2,322)	(183)	(2,505)
Acquisition of property, plant and equipment	(572)	4	(568)
Net cash flows from operating activities	(9,534)	(448)	(9,982)
Net cash flows from Investing activities	(2,225)	448	(1,777)

The restated interim consolidated Statement of Financial Position as at May 31, 2016 and for the three and six-months ended May 31, 2016 includes adjustments relating to Inventory valuation following an extensive review process of the ERP, controls and procedures. Other adjustments were made to trade and other receivables and trade and other payables and to income tax. Upon review of the nine months transactions and extensive detailed testing, inventory were overstated by \$2.3 million due to delays in processing production work in process, stock transfers and physical inventory adjustments, offset by positive revaluation of undervalued inventory costs in regards to errors made in the receiving and production processes. Reversal of payable accruals against prepaid provisions were corrected and recorded in the appropriate section of the statement. The net impact on these changes on the statement of financial position was a reduction of \$1.1 million in assets, a reduction of \$0.2 million in current liabilities and a reduction of \$0.9 million in Shareholders' Equity.

The restated Consolidated Statements of Comprehensive Income for the three and six-months ended May 31, 2016 includes adjustments mainly to cost of goods sold following the revaluation of inventory, reversal of duplicate inventory accruals, recording of compensation accruals and reversal of bonus provisions. The net impact of these adjustments was a reduction of net income from \$3.4 million to \$2.5 million for the three months ended May 31, 2016. Net income for the six months ended May 31, 2016 was decreased from \$2.5 million to \$1.6 million.

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 \$1.1 million for the three months and \$(5.0) million for the six months period ended May 31, 2017 divided by the total number of outstanding shares of 8,506,544.

Reconciliation of EBITDA and operating income to net income (thousands of dollars)	For the three months ended		For the six months ended	
	May 31 2017	May 31 2016 Restated	May 31 2017	May 31 2016 Restated
	\$	\$	\$	\$
Net (loss) income for the period	(541)	2,473	(5,942)	1,567
Provision for income taxes	(176)	787	(2,358)	435
Financial expenses	1,072	824	2,024	1,459
Operating income	355	4,084	(6,276)	3,461
Depreciation and amortization	957	938	1,906	1,736
EBITDA	1,312	5,022	(4,370)	5,197

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)

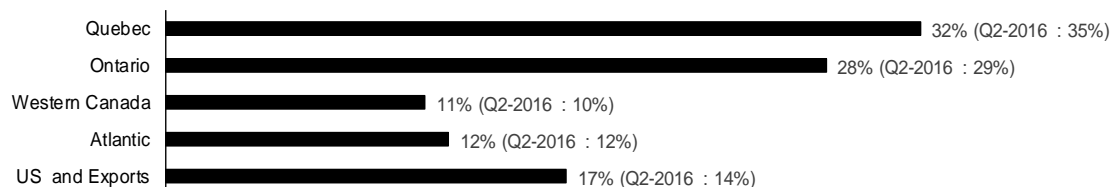
	2016 (12 months)	2015 (12 months)	2014 (15 months)
Consolidated sales	\$565,173	\$538,975	\$610,587
(Loss) Earnings before income taxes	\$(16,294)	\$11,874	\$11,128
Net (loss) earnings	\$(12,105)	\$8,622	\$8,125
Total Assets	\$241,568	\$212,081	\$195,847
Total Long-Term Debt	\$126	-	\$692
Cash Dividends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

COMPARISON FOR THE THREE MONTHS ENDED MAY 31, 2017 AND 2016

HIGHLIGHTS FOR THE THREE MONTHS ENDED MAY 31, 2017	Q2-2017	Q2-2016 Restated	Variance
Consolidated sales	\$139,641	\$166,623	-16.2%
(Loss) Earnings before income taxes	\$(717)	\$3,260	-122.0%
Net (loss) earnings	\$(541)	\$2,473	-121.9%
(Loss) Earnings per share Basic and Diluted	\$(0.07)	\$0.29	-124.1%
Cash Flow from Operations (excluding non-cash working capital item, income tax paid and interest paid)	\$1,146	\$4,242	-73.0%
EBITDA	\$1,312	\$5,022	-73.9%
Average Bank indebtedness	\$88,764	\$96,324	-7.8%
Inventory average	\$104,155	\$139,658	-25.4%

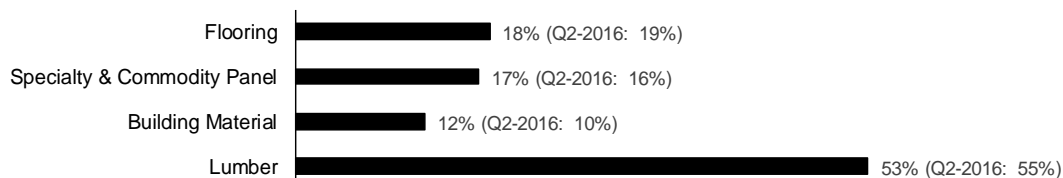
Sales in Canada during the second quarter of fiscal 2017 decreased 19% compared to the same period a year ago mainly due to decreased volume of Pressure Treated wood sales and decreased sales of flooring. Quebec sales decreased 24% due to decrease demand from the retailers and manufacturing sales groups. Sales in Ontario decreased 17% mainly due to decline in sales of pressure treated wood and flooring. Western Canada sales decreased 6% affected by the slower economy in the Prairies but was mitigated by a strong performance from our sales team in British Columbia. Sales in the Atlantic Provinces decreased 16% due to decline in demand of flooring and treated wood products.

Geographical Distribution of Sales for the Second Quarter ended May 31, 2017



Sales in the United States for the second quarter ended May 31, 2017 decreased 7% on a Canadian dollar basis compared to the same period last year due to decrease in sales of hardwood lumber products. On a US dollar basis, US denominated sales decreased 10% compared to last year. Finally, export sales increased 9% during the second quarter of fiscal 2017 compared to the same period a year ago mainly due to increasing demand of value-added products in Asia and Europe.

Product Distribution of Sales for the Second Quarter ended May 31, 2017



These previously discussed factors impacted to various degrees our sales mix during the second quarter of fiscal 2017. Flooring sales for the second quarter ended May 31, 2017 decreased 21% compared to the same quarter a year ago. Specialty and Commodity Panel sales decreased 9% compared

to the corresponding period last year. Building Materials sales decreased 6% compared to the corresponding period last year. Finally, our core lumber business sales decreased 19% compared to the corresponding period last year.

Cost of Goods Sold

Cost of goods sold for the second quarter of fiscal 2017 was \$119.6 million compared to \$138.7 million for the corresponding period a year ago. Cost of purchased goods decreased 13.8% compared to last year reflecting the decreased sales level and the cost structure in regards to outsourced production of Pressure Treated wood and siding product line. Total freight outbound cost decreased 1.0% compared to the same period a year ago. This decrease was due to lower levels of imported products. Average gas and diesel purchased prices during the second quarter increased approximately 20% compared to the corresponding period a year ago. Gross profits decreased 28.1% during the second quarter ended May 31, 2017 compared to last year while gross margins decreased from 16.7% to 14.4% due to our cost structure regarding Pressure Treated wood.

Selling, Administrative and General Expenses

Selling, Administrative and General Expenses for the second quarter ended May 31, 2017 were \$19.7 million compared to \$23.8 million for the corresponding period last year. Selling, Administrative and General Expenses decreased 17.3% due to our continued cost reduction strategy.

Net Financial Cost

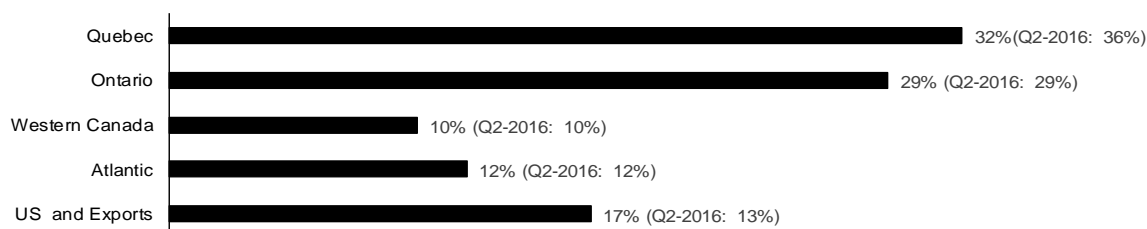
Net financial costs for the second quarter ended May 31, 2017 were \$1.1 million (\$0.8 million a year ago). The Canadian prime rate remained unchanged at 2.70% during the second quarter ended May 31, 2017 (same for the corresponding period a year ago). The average US prime rate increased to 4.00% compared to 3.50% a year ago. Average bank indebtedness during the second quarter ended May 31 2017 was \$88.8 million compared to \$96.3 million for the corresponding period last year. Average inventory during the second quarter ended May 31, 2017 was \$104.2 million compared to \$139.7 million for the same period last year.

COMPARISON FOR THE SIX MONTHS ENDED MAY 31, 2017 AND 2016

HIGHLIGHTS FOR THE SIX MONTHS ENDED MAY 31, 2017	Q2-2017	Q2-2016 Restated	Variance
Consolidated sales	\$253,131	\$275,282	-8.0%
(Loss) Earnings before income taxes	\$(8,300)	\$2,002	-514.6%
Net (loss) earnings	\$(5,942)	\$1,567	-479.2%
(Loss) Earnings per share Basic and Diluted	\$(0.70)	\$0.18	-488.9%
Cash Flow from Operations (excluding non-cash working capital item, income tax paid and interest paid)	\$(4,989)	\$4,104	-221.6%
EBITDA	\$(4,370)	\$5,197	-184.1%
Average Bank indebtedness	\$89,142	\$87,024	+2.4%
Inventory average	\$111,863	\$132,760	-15.7%

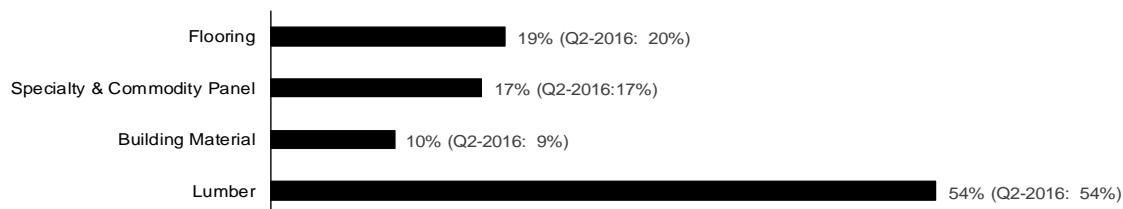
Sales in Canada during the first six months of fiscal 2017 decreased 12% compared to the same period a year ago mainly due to decrease in sales of pressure treated wood and flooring products. Quebec sales decreased 20% compared to last year due to the pressure treated wood contract with one of our major retailer's group and a weak performance of our flooring products group. Sales in Ontario decreased 7% impacted by the decrease demand for pressure treated wood and flooring products. Sales in Western Canada decreased 1% mainly due to the slower housing market in Alberta but was offset by strong performances in British Columbia and the increased geographical coverage in Saskatchewan during the first six months of fiscal 2017. Atlantic region sales decreased 8% due mainly to a decrease in demand for Specialty and Commodity Panel products but was offset by the increased demand for pressure treated wood during the first six months of fiscal 2017.

Geographical Distribution of Sales for the First Six Months ended May 31, 2017



Sales in the United States for the first six months ended May 31, 2017 increased 15% on a Canadian dollar basis compared to the same period last year due to higher demand of hardwood lumber and flooring products. On a non-converted basis, US denominated sales increased 16% compared to last year. Finally, Export sales increased 29% during the first six months 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 Six Months ended May 31, 2017



These previously discussed factors impacted to various degrees our sales mix. Flooring and Specialty sales for the first six months ended May 31, 2017 decreased 11% compared to the corresponding period last year. Specialty and Commodity Panel sales for the first six months decreased 1% compared to the corresponding period last year. Building Materials sales for the first six months of fiscal 2017 decreased 5% compared to the corresponding period last year. Finally, Lumber sales for the first six months of fiscal 2017 decreased 9% compared to the corresponding period last year.

Cost of Goods Sold

Cost of goods sold for the first six months of fiscal 2017 was \$218.7 million compared to \$226.7 million for the corresponding period a year ago. Cost of purchased goods decreased 3.5% compared to the corresponding period last year reflecting the decreased sales level and the cost structure in regards to outsourced production of Pressure Treated wood and siding product line. Total freight outbound cost increased 1.0% compared to the same period a year ago. Average gas and diesel purchased prices during the first six months increased approximately 19% compared to the six months ended May 31, 2016. Gross profits decreased 29.1% during the first six months ended May 31, 2017 compared to the corresponding period last year while gross margins decreased from 17.7% to 13.6%.

Selling, Administrative and General Expenses

Selling, Administrative and General Expenses for the first six months ended May 31, 2017 was \$40.7 million compared to \$45.1 million for the corresponding period last year. Selling, Administrative and General Expenses decreased 9.7% compared to the corresponding period last year. The decrease results from the headcount reduction.

Net Financial Cost

Net financial costs for the first six months of fiscal 2017 were \$2.0 million (\$1.5 million a year ago). The average Canadian prime rate remained unchanged at 2.70% for the first six months of fiscal 2017 (same for the corresponding period a year ago). The average US prime rate increased to 3.88% compared to 3.50% a year ago. Average bank indebtedness during the first six months of fiscal 2017 was \$89.1 million compared to \$87.0 million for the corresponding period last year. Average inventory during the first six months of fiscal 2017 was \$111.9 million compared to \$132.8 million for the same period last year.

SUMMARY OF THE LAST EIGHT MOST RECENTLY COMPLETED QUARTERS

(In thousands of dollars, except earnings per share)

	Aug-2016	Nov-2016	Feb-2017	May-2017
Sales	\$159,143	\$130,748	\$113,490	\$139,641
Net loss	\$(2,491)	\$(11,181)	\$(5,401)	\$(541)
Loss per share Basic and Diluted	\$(0.29)	\$(1.31)	\$(0.63)	\$(0.07)

	Aug-2015	Nov-2015	Feb-2016	May-2016 Restated
Sales	\$151,749	\$135,154	\$108,659	\$166,623
Net Earnings (Loss)	\$3,731	\$2,000	\$(906)	\$2,473
Earnings (Loss) per share Basic and Diluted	\$0.44	\$0.23	\$(0.11)	\$0.29

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 decreased from \$319.6 million at May 31, 2016 to \$252.1 million at May 31, 2017. Cash at May 31, 2017 closed at \$1.8 million (\$1.4 million at May 31, 2016). Trade and other receivables at May 31, 2017 was \$86.6 million compared to \$122.3 million at May 31, 2016 reflecting a better collection rate from our collections department and reduction of backlog of invoicing due to better efficiency (re: new systems) and less sales compared to the corresponding period last year. Income taxes receivable at May 31, 2017 were \$9.6 million compared to \$0.7 million last year. Inventories at May 31, 2017 was \$101.1 million compared to \$138.9 million at May 31, 2016. This decrease was due to the decreased sales volume and lower Goods in Transit and work in process. Prepaid expenses at May 31, 2017 was \$4.5 million compared to \$4.8 million at May 31, 2016. Defined benefit plan assets was \$2.2 million at May 31, 2017 compared to \$5.0 million a year ago. Investment closed at \$3.5 million on May 31, 2017 compared to \$3.4 million at May 31, 2016.

Property, plant, equipment and intangible assets

Property, plant, equipment at May 31, 2017 was \$37.5 million compared to \$39.3 million at May 31, 2016. Capital expenditures during the six months of fiscal 2017 amounted to \$0.4 million (\$0.9 million for the six months ended May 31, 2016). Property, plant, equipment capitalized during the six months ended May 31, 2017 included asphalt paving, computers, and yard equipment. Intangible assets at May 31, 2017 closed at \$5.3 million (\$3.6 million last year). Proceeds on disposal of capital assets during the first six months of fiscal 2017 were \$49 thousand (\$nil for the six months ended May 31, 2016). Depreciation of property, plant, equipment and intangible assets during the six months of fiscal 2017 was \$1.9 million (\$1.7 million for the six months ended May 31, 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 May 31, 2017 was \$147.4 million (\$191.2 million last year). Bank indebtedness was \$86.6 million compared to \$102.1 million on May 31, 2016. Trade and other payables at May 31, 2017 was \$54.8 million compared to \$82.4 million on May 31, 2016. Provision at May 31, 2017 was \$0.9 million (\$1.1 million last year). Long-term debt was \$0.2 million (\$0.4 million on May 31, 2016). Deferred income taxes at May 31, 2017 closed at \$3.3 million (\$4.7 million on May 31, 2016). Defined benefit plan obligations was \$1.1 million at May 31, 2017 compared to \$nil at May 31, 2016.

Shareholders' Equity

Total Shareholders' Equity at May 31, 2017 decreased to \$104.8 million from \$128.4 million last year. The Company generated a return on equity of (11.3) % during the first six months of fiscal 2017 (2.4% for the six months ended May 31, 2016). Market share price closed at \$7.40 per share on May 31, 2017 (\$11.15 on May 31, 2016). Share book value at May 31, 2017 was \$12.31 per share (\$15.09 on May 31, 2016). Share capital closed at \$9.2 million (same as last year). No eligible dividend payments during the six months of fiscal 2017 (\$1.3 million or \$0.15 per share paid during the same period last year).

LIQUIDITY AND CAPITAL RESOURCES

Financing

As at May 31, 2017, under the new credit agreement, the Company was using \$83.5 million of its facility compared to \$90.0 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 May 31, 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 six months of fiscal 2017 increased to \$9.3 million from \$(46.8) million for the same period last year. Financing activities during the first six months of fiscal 2017 decreased to \$(8.1) million compared to \$45.0 million for the six months ended May 31, 2016. Investing activities during the first six months of fiscal 2017 were \$0.6 million (\$7.0 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 Q2-2017, the Company incurred a net loss of \$0.5 million and positive cash flow from operating activities (excluding non-cash working capital items) of \$1.1 million compared to a net earnings of \$2.5 million and positive cash flows from operating activities (excluding non-cash working capital items) of \$4.2 million in Q2-2016. For the six months ended May 31, 2017, the Company incurred a net loss of \$5.9 million and negative cash flow from operating activities (excluding non-cash working capital items) of \$5.0 million compared to a net earnings of \$1.6 million and positive cash flows from operating activities (excluding non-

cash working capital items) of \$4.1 million for the corresponding period last year. 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 May 31, 2017 and 2016, the Company achieved the following results regarding its capital management objectives:

	As at	As at
Capital management	May 31 2017	May 31 2016 Restated
Debt-to-capitalization ratio	46,9 %	42,1 %
Return on shareholders' equity	(11.3) %	2.4 %
Current ratio	1.4	1.4
EBITDA	(4,370)	5,197

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 May 31, 2017, its total debt to capitalization ratio stood at 46.9% compared to 42.1% last year. 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).

COMMITMENTS AND CONTINGENCIES

As at May 31, 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	22,167	4,896	7,376	5,308	4,587
Purchase obligations	281	281	-	-	-
Total Contractual Obligations	22,448	5,177	7,376	5,308	4,587

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 three and six months ended May 31, 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				For the six months ended			
	May 31, 2017		May 31, 2016		May 31, 2017		May 31, 2016	
	\$	%	\$	%	\$	%	\$	%
Sales of major customer(s) that exceeded 10% of total Company's sales	29,032	20.8	29,205	17.5	52,523	20.7	47,544	17.3

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 May 31, 2017:
(in thousands of dollars)

Financial Liabilities	Carrying Amount	Contractual cash flows	0 to 6 Months	6 to 36 Months
Bank indebtedness	86,586	86,586	86,586	-
Trade and other payable	54,784	54,784	54,784	-
Long-term debt	189	189	62	127
Total financial liabilities	141,559	141,559	141,432	127

Currency Risk

As at May 31, 2017, the Company had the following currency exposure on;

Financial assets and liabilities measured at amortized costs

(in thousands of dollars)

	USD	GBP	Euro
Cash	3 036	200	7
Trade and other receivables	8 688	308	-
Trade and other payables	(11 623)	3	-
Net exposure	101	511	7
<hr/>			
CAD exchange rate as at May 31, 2017	1.3500	1.7387	1.5059
Impact on net earnings based on a fluctuation of 5% on CAD	5	32	-

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 2.8% (13.9% on May 31, 2016) of total trade and other receivables at May 31, 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.

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 May 31, 2017, there were 8,506,554 common shares issued (same last year). The Company has authorized an unlimited number of common shares to be issued, without par value. At July 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. The dissolution of the pressure treated joint venture took place as expected on May 31st, 2017 in common accord. Closing procedures for the dissolution will continue in Q3 and we expect to finalize the closing in Q4.

In addition, pursuant to the amended credit facility, the available facility will be reduced by amounts received throughout Q3 and Q4. We expect the credit limit to be reduced for approximately \$10 million.

OUTLOOK

The company is continuing in its focused strategy to steadily increase margin levels and address all elements of obsolete inventory. Product lines are being reviewed to attribute precious inventory dollars properly and set a positive course leading to our annual warehouse sale August 15th in Delson and August 17th in Campbellville.

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 May 31, 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 and six month periods ended May 31, 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.

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 and six months ended May 31, 2017 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting. Subsequent to Q1 results, on March 3, 2017, the Company announced a change to the CFO position.

Delson, July 17, 2017



Patrick Goodfellow
President and C.E.O.



Charles Brisebois, CPA, CMA
Senior Controller

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 six months ended May 31, 2017 and 2016

(in thousands of dollars, except per share amounts)

Unaudited

	For the three months ended		For the six months ended	
	May 31 2017	May 31 2016 Restated	May 31 2017	May 31 2016 Restated
	\$	\$	\$	\$
Sales	139,641	166,623	253,131	275,282
Expenses				
Cost of goods sold (Note 5)	119,585	138,729	218,688	226,708
Selling, administrative and general expenses (Note 5)	19,701	23,810	40,719	45,113
Net financial costs	1,072	824	2,024	1,459
	140,358	163,363	261,431	273,280
 (Loss) Earnings before income taxes	 (717)	 3,260	 (8,300)	 2,002
Income taxes	(176)	787	(2,358)	435
Total comprehensive (loss) earnings	(541)	2,473	(5,942)	1,567
 Net (loss) earnings per share - Basic and diluted (Note 9)	 (0.07)	 0.29	 (0.70)	 0.18

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

	As at	As at	As at
	May 31 2017	November 30 2016	May 31 2016 Restated
	\$	\$	\$
Assets			
Current Assets			
Cash	1,841	703	1,396
Trade and other receivables (Note 6)	86,625	64,255	122,316
Income taxes receivable	9,564	6,598	721
Inventories	101,074	115,391	138,901
Prepaid expenses	4,490	4,863	4,842
Total Current Assets	203,594	191,810	268,176
Non-Current Assets			
Property, plant and equipment	37,512	38,693	39,343
Intangible assets	5,263	5,428	3,614
Defined benefit plan asset	2,233	2,234	4,991
Investment in a joint venture	3,524	3,403	3,444
Total Non-Current Assets	48,532	49,758	51,392
Total Assets	252,126	241,568	319,568
Liabilities			
Current liabilities			
Bank indebtedness (Note 7)	86,586	94,113	102,107
Trade and other payables (Note 8)	54,784	30,721	82,367
Provision	929	963	1,111
Current portion of long-term debt (Note 7)	125	136	183
Total Current Liabilities	142,424	125,933	185,768
Non-Current Liabilities			
Provision	500	475	503
Long-term debt (Note 7)	64	126	188
Deferred income taxes	3,296	3,296	4,718
Defined benefit plan obligation	1,091	1,045	-
Total Non-Current Liabilities	4,951	4,942	5,409
Total Liabilities	147,375	130,875	191,177
Shareholders' equity			
Share capital (Note 9)	9,152	9,152	9,152
Retained earnings	95,599	101,541	119,239
	104,751	110,693	128,391
Total Liabilities and Shareholders' Equity	252,126	241,568	319,568

Going concern and future operations (Note 3 b))

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

	For the three months ended		For the six months ended	
	May 31 2017	May 31 2016 Restated	May 31 2017	May 31 2016 Restated
	\$	\$	\$	\$
Operating Activities				
Net (loss) earnings	(541)	2,473	(5,942)	1,567
Adjustments for :				
Depreciation	957	938	1,906	1,736
Accretion expense on provision	13	13	25	26
Decrease in provision	(3)	-	(33)	-
Income taxes	(176)	787	(2,358)	435
Loss on disposal of property, plant and equipment	1	-	13	-
Interest expense	782	529	1,474	963
Funding in deficit (excess) of pension plan expense	31	(54)	47	(179)
Share of the profits of a joint venture	82	(444)	(121)	(444)
	1,146	4,242	(4,989)	4,104
Changes in non-cash working capital items (Note 13)	534	(11,211)	16,401	(46,725)
Interest paid	(807)	(508)	(1,492)	(1,164)
Income taxes paid	(52)	(2,505)	(608)	(3,058)
	(325)	(14,224)	14,301	(50,947)
Net Cash Flows from Operating Activities	821	(9,982)	9,312	(46,843)
Financing Activities				
Net increase in bank loans	11,000	2,500	-	15,500
Net (decrease) increase in banker's acceptances	(8,000)	2,500	(8,000)	30,500
Increase in long-term debt	-	560	-	1,050
Reimbursement of long-term debt	(30)	(56)	(73)	(792)
Dividends paid	-	(1,276)	-	(1,276)
	2,970	4,228	(8,073)	44,982
Investing Activities				
Acquisition of property, plant and equipment	(191)	(568)	(401)	(934)
Increase in intangible assets	(133)	(622)	(222)	(1,305)
Proceeds on disposal of property, plant and equipment	23	-	49	-
Business acquisitions, net of cash acquired	-	(587)	-	(4,795)
	(301)	(1,777)	(574)	(7,034)
Net cash inflow (outflow)	3,490	(7,531)	665	(8,895)
Cash position, beginning of period	(4,735)	(3,180)	(1,910)	(1,816)
Cash position, end of period	(1,245)	(10,711)	(1,245)	(10,711)
Cash position is comprised of :				
Cash	1,841	1,396	1,841	1,396
Bank overdraft (Note 7)	(3,086)	(12,107)	(3,086)	(12,107)
	(1,245)	(10,711)	(1,245)	(10,711)

GOODFELLOW INC.**Consolidated Statements of Change in Shareholders' Equity****For the six months ended May 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 earnings	-	1,567	1,567
Total Comprehensive income	-	1,567	1,567
<i>Transactions with owners of the Company</i>			
Dividends	-	(1,276)	(1,276)
Balance as at May 31, 2016 (Restated – Note 2)	9,152	119,239	128,391
Balance as at November 30, 2016 (Audited)	9,152	101,541	110,693
Net loss	-	(5,942)	(5,942)
Total Comprehensive loss	-	(5,942)	(5,942)
Balance as at May 31, 2017	9,152	95,599	104,751

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the three-month and six-month periods ended May 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 six months ended May 31, 2017 and May 31, 2016 includes the accounts of the Company and its wholly-owned subsidiaries.

2. Restatement of previously issued second quarter 2016 financial statements

Issues with the recording of inventory value and its impact on the cost of goods sold were detected related to the integrity of the new integrated financial information system (the “ERP System”) and the accuracy of its results.

As a result, the Company incorrectly presented the Company’s Consolidated Statements of Financial Position as of May 31, 2016, Consolidated Statements of Comprehensive Income, Consolidated Statements of Cash Flows and Statement of Change in Shareholders’ Equity and Comprehensive Income for the three and six-month periods ended May 31, 2016 and is restating its previously-filed second quarter financial statements. Below is a reconciliation of amounts previously reported to those shown herein.

Statement of Comprehensive Income:

	As previously reported	Restatement adjustment	As restated
	\$	\$	\$
For the 6-month period ended May 31, 2016:			
Sales	275,328	(46)	275,282
Cost of goods sold	225,216	1,492	226,708
Selling, administrative and general expenses	45,230	(117)	45,113
Earnings before income taxes	3,423	(1,421)	2,002
Income taxes	955	(520)	435
Net earnings	2,468	(901)	1,567
Net earnings per share – Basic and diluted	0.29	(0.11)	0.18
For the 3-month period ended May 31, 2016:			
Sales	166,669	(46)	166,623
Cost of goods sold	137,237	1,492	138,729
Selling, administrative and general expenses	23,927	(117)	23,810
Earnings before income taxes	4,681	(1,421)	3,260
Income taxes	1,307	(520)	787
Net earnings	3,374	(901)	2,473
Net earnings per share – Basic and diluted	0.40	(0.11)	0.29

Statement of Financial Position:

	As previously reported	Restatement adjustment	As restated
	\$	\$	\$
As at May 31, 2016:			
Trade and other receivables	121,800	516	122,316
Income taxes receivable	18	703	721
Inventories	141,162	(2,261)	138,901
Prepaid expenses	4,820	22	4,842
Property, plant and equipment	39,430	(87)	39,343
Intangibles	3,629	(15)	3,614
Total assets	320,690	(1,122)	319,568
Trade and other payables	82,588	(221)	82,367
Total liabilities	191,398	(221)	191,177
Retained earnings	120,140	(901)	119,239
Shareholders’ Equity	129,292	(901)	128,391

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the three-month and six-month periods ended May 31, 2017 and 2016
(tabular amounts are in thousands of dollars, except per share amounts)

2. Restatement of previously issued second quarter 2016 financial statements (Continued)

Statement of Cash Flows:

	As previously reported	Restatement adjustment	As restated
	\$	\$	\$
For the 6-month period ended May 31, 2016:			
Net Earnings	2,468	(901)	1,567
Depreciation	1,636	100	1,736
Income taxes	955	(520)	435
Income taxes paid	(2,875)	(183)	(3,058)
Acquisition of property, plant and equipment	(938)	4	(934)
Net cash flows from operating activities	(46,395)	(448)	(46,843)
Net cash flows from Investing activities	(7,482)	448	(7,034)
For the 3-month period ended May 31, 2016:			
Net Earnings	3,374	(901)	2,473
Depreciation	838	100	938
Income taxes	1,307	(520)	787
Income taxes paid	(2,322)	(183)	(2,505)
Acquisition of property, plant and equipment	(572)	4	(568)
Net cash flows from operating activities	(9,534)	(448)	(9,982)
Net cash flows from Investing activities	(2,225)	448	(1,777)

The restated interim consolidated Statements of Financial Position at May 31, 2016 includes adjustments mainly in the Inventory valuation. Other adjustments were made to trade and other receivable and Trade and other payables and to income tax. Inventory was overstated by \$2.3 million due to delays in processing production work in process, stock transfers and physical inventory adjustments. Offset by positive revaluation of undervalued inventory costs in regards to errors made in the receiving and production processes. Reversal of payable accruals against prepaid provisions were corrected and recorded in the appropriate section of the statement. The Net impact on these changes on the statement of financial position was a reduction of \$1.1 million in assets, a reduction of \$0.2 million in current liabilities and a reduction of \$0.9 million in Shareholders' Equity.

The restated Consolidated Statements of Comprehensive Income for the three months ended May 31, 2016 includes adjustments mainly to cost of goods sold following the revaluation of inventory, reversal of duplicate inventory accruals, recording of compensation accruals and reversal of bonus provisions. The net impact of these adjustments was a reduction of net income from \$3.4 million to \$2.5 million for the Three months ended May 31, 2016. Net income for the six months ended May 31, 2016 was decreased from \$2.5 million to \$1.6 million.

3. 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 July 17, 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the three-month and six-month periods ended May 31, 2017 and 2016
(tabular amounts are in thousands of dollars, except per share amounts)

3. Basis of preparation (Continued)

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 Q2-2017, the Company incurred a net loss of \$0.5 million and positive cash flow from operating activities (excluding non-cash working capital items) of \$1.1 million compared to a net earnings of \$2.5 million and positive cash flows from operating activities (excluding non-cash working capital items) of \$4.2 million in Q2-2016. For the six months ended May 31, 2017, the Company incurred a net loss of \$5.9 million and negative cash flow from operating activities (excluding non-cash working capital items) of \$5.0 million compared to a net earnings of \$1.6 million and positive cash flows from operating activities (excluding non-cash working capital items) of \$4.1 million for the corresponding period last year. 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.

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.

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.

4. Significant Accounting Policies

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

5. Additional information on comprehensive income

	For the three months ended		For the six months ended	
	May 31 2017	May 31 2016 Restated	May 31 2017	May 31 2016 Restated
	\$	\$	\$	\$
Employee benefits expense	13,268	15,744	26,627	29,961
Write-down of inventories included in cost of goods sold	(269)	656	(878)	959
Depreciation included in cost of goods sold	329	378	653	698
Depreciation included in selling, administrative and general expenses	628	560	1 253	1,038
Expense related to minimum operating lease payments recognized in net earnings	1,172	780	2,310	1,713
Loss (Gain) in foreign exchange	118	(922)	128	(1,288)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the three-month and six-month periods ended May 31, 2017 and 2016
(tabular amounts are in thousands of dollars, except per share amounts)

6. Trade and other receivables

	May 31 2017	November 30 2016	May 31 2016 Restated
	\$	\$	\$
Trade receivables	86,791	64,693	122,164
Allowance for doubtful accounts	(1,088)	(1,816)	(678)
	85,703	62,877	121,486
Other receivables	922	1,378	830
	86,625	64,255	122,316

7. Bank Indebtedness and Long-Term Debt

	May 31 2017	November 30 2016	May 31 2016
	\$	\$	\$
Bank Loans	11,000	11,000	24,500
Banker's Acceptances	72,500	80,500	65,500
Bank overdraft	3,086	2,613	12,107
	86,586	94,113	102,107

As at May 31, 2017, under the new credit agreement, the Company was using \$83.5 million of its facility compared to \$90 million last year. 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. 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 May 31, 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.

8. Trade and other payables

	May 31 2017	November 30 2016	May 31 2016 Restated
	\$	\$	\$
Trade payables and accruals	48,028	23,034	74,412
Payroll related liabilities	5,216	6,357	6,596
Sales taxes payables	1,540	1,330	1,359
	54,784	30,721	82,367

9. Share Capital

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

	May 31 2017	November 30 2016	May 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 six months ended	
	May 31 2017	May 31 2016 Restated	May 31 2017	May 31 2016 Restated
	\$	\$	\$	\$
Net (loss) earnings - basic and diluted	(541)	2,473	(5,942)	1,567
Weighted average number of common shares - basic and diluted	8,506,554	8,506,554	8,506,554	8,506,554

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the three-month and six-month periods ended May 31, 2017 and 2016
(tabular amounts are in thousands of dollars, except per share amounts)

9. Share Capital (Continued)

No eligible dividend was declared and paid to the holders of participating shares for the six months ended May 31, 2017 (\$0.15 per share declared and paid in the corresponding period last year).

10. 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 six months ended May 31, 2017 which is not necessarily indicative of performance for the balance of the year.

11. Economic Dependence

Two major customers exceed 10% of total company sales in the three and six months ended May 31, 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				For the six months ended			
	May 31, 2017		May 31, 2016		May 31, 2017		May 31, 2016	
	\$	%	\$	%	\$	%	\$	%
Sales of major customer(s) that exceeded 10% of total Company's sales	29,032	20.8	29,205	17.5	52,523	20.7	47,544	17.3

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

12. 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 at May 31, 2017.

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

Financial Liabilities				
	Carrying Amount	Contractual cash flows	0 to 6 Months	6 to 36 Months
Bank indebtedness	86,586	86,586	86,586	-
Trade and other payable	54,784	54,784	54,784	-
Long-term debt	189	189	62	127
Total financial liabilities	141,559	141,559	141,432	127

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 May 31, 2017, the Company had the following currency exposure on;

Financial assets and liabilities measured at amortized costs

	USD	GBP	Euro
Cash	3 036	200	7
Trade and other receivables	8 688	308	-
Trade and other payables	(11 623)	3	-
Net exposure	101	511	7
CAD exchange rate as at May 31, 2017	1.3500	1.7387	1.5059
Impact on net earnings based on a fluctuation of 5% on CAD	5	32	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the three-month and six-month periods ended May 31, 2017 and 2016
(tabular amounts are in thousands of dollars, except per share amounts)

12. Financial Instruments and Financial Risk Management (Continued)

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 2.8% (13.9% on May 31, 2016) of total trade and other receivables at May 31, 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.

13. Additional Cash Flow Information

Changes in Non-Cash Working Capital Items

	For the three months ended		For the six months ended	
	May 31 2017	May 31 2016 Restated	May 31 2017	May 31 2016 Restated
	\$	\$	\$	\$
Trade and other receivables	(16,055)	(35,822)	(22,370)	(55,501)
Inventories	11,991	(7,225)	14,317	(41,635)
Prepaid expenses	(1,913)	3,414	314	(505)
Trade and other payables	6,511	28,422	24,140	50,916
	534	(11,211)	16,401	(46,725)

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.

14. 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 six months ended May 31, 2017 and 2016, the Company achieved the following results regarding its capital management objectives:

	As at May 31 2017	As at May 31 2016 Restated
Capital management		
Debt-to-capitalization ratio	46.9 %	42.1 %
Return on shareholders' equity	(11.3) %	2.4 %
Current ratio	1.4	1.4
EBITDA	(4,370)	5,197

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the three-month and six-month periods ended May 31, 2017 and 2016
(tabular amounts are in thousands of dollars, except per share amounts)

14. Capital Management (Continued)

As at May 31, 2017, the Company was in default with one of its financial covenants on its credit facilities (refer to Note 3 b) and Note 7).

15. Subsequent event

On April 17, 2017, the Board agreed to terminate the joint venture agreement and dissolve Lebel Goodfellow Treating Inc. The dissolution of the pressure treated joint venture took place as expected on May 31st, 2017 in common accord. Closing procedures for the dissolution will continue in Q3 and we expect to finalize the closing in Q4.

In addition, pursuant to the amended credit facility, the available facility will be reduced by amounts received throughout Q3 and Q4. We expect the credit limit to be reduced for approximately \$10 million.

16. Comparative information

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

CORPORATE INFORMATION

BOARD OF DIRECTORS

Claude Garcia */**
Chairman of the Board

G. Douglas Goodfellow **
Secretary of the Board
Goodfellow Inc.

Stephen A. Jarislowsky */**
Director
Partner, Jarislowsky Fraser & Co. Ltd

Normand Morin */**
Chairman of the Audit Committee

David A. Goodfellow
Director

* Member of the Audit Committee

** Member of the Executive Compensation Committee

OFFICERS

Patrick Goodfellow
President & Chief Executive Officer

G. Douglas Goodfellow
Secretary of the Board

Mary Lohmus
Senior Vice President
Ontario and Western Canada

David Warren
Vice President,
Atlantic

MANAGEMENT COMMITTEE

Patrick Goodfellow*
David Warren*

G. Douglas Goodfellow

Mary Lohmus *

* Member of the Executive Committee

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Trading Symbol: GDL

Wholly-owned Subsidiary
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Notes



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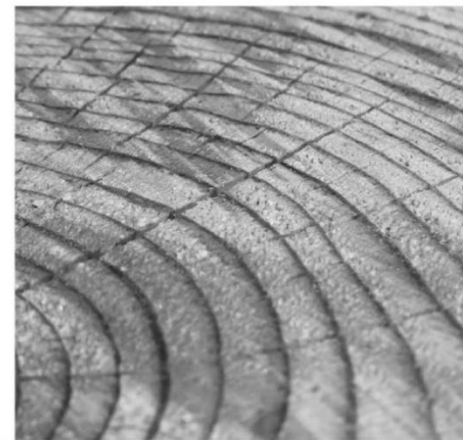
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U.K. Branch

