

QUARTERLY REPORT

FOR THE NINE MONTHS ENDED AUGUST 31, 2018



GOODFELLOW

1898 - 2018

120

FINANCIAL HIGHLIGHTS

OPERATING RESULTS

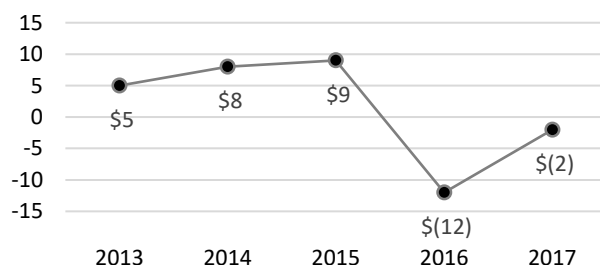
(in thousands of dollars, except per share amounts)

	2017 IFRS	2016 IFRS	2015 IFRS	2014 IFRS (15 months)	2013 IFRS ⁽¹⁾ (Restated)
Sales	\$523,659	\$565,173	\$538,975	\$610,587	\$483,485
(Loss) Earnings before income taxes	\$(3,275)	\$(16,294)	\$11,874	\$11,128	\$7,307
Net (loss) earnings	\$(2,094)	\$(12,105)	\$8,622	\$8,125	\$5,279
- per share	\$(0.25)	\$(1.42)	\$1.01	\$0.96	\$0.62
Cash flow (excluding non-cash working capital, Income tax paid and interest paid)	\$2,840	\$(10,802)	\$16,092	\$15,228	\$9,681
- per share ⁽²⁾	\$0.33	\$(1.27)	\$1.89	\$1.79	\$1.14
Shareholders' equity	\$109,434	\$110,693	\$128,100	\$119,486	\$117,138
- per share ⁽²⁾	\$12.86	\$13.01	\$15.06	\$14.05	\$13.77
Share price at year-end	\$8.33	\$9.05	\$10.35	\$9.50	\$9.06
Dividend paid per share	-	\$0.30	\$0.35	\$0.65	\$0.35

(1) Year ended August 31

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

NET (LOSS) EARNINGS (in million \$)



SHARE PRICE



TABLE OF CONTENTS

President's report to the Shareholders	2
Management's Discussion and Analysis	3
Financial Statements and Notes	12
Directors and Officers.....	21
Sales Offices and Distributions Centres	23

HEAD OFFICE
225 Goodfellow Street
Delson, Quebec
J5B 1V5
Canada



Toll-Free Canada: 1-800-361-6503
Tel.: 450-635-6511
Fax: 450-635-3729
info@goodfellowinc.com
www.goodfellowinc.com

PRESIDENT'S REPORT TO THE SHAREHOLDERS

The Company's primary focus in Q3 was regaining market share in what is peak seasonal demand in many of its key categories. Customer service was put at the forefront in order to continue the forward progress in customer loyalty.

Sales volumes were down Q3 2018 versus last year due in part to supply delays in the launch of several new innovative flooring lines. Turmoil in the hardwood lumber industry associated to US/China trade tariffs created significant pricing volatility and uncertainty affecting demand. US/Canada trade tensions softened demand and worsened business conditions especially in Ontario.

The Company nonetheless had relatively successful warehouse sales in August to wrap up Q3 on a historically profitable note.

Cost control initiatives continue to be at the forefront in a downward margin pressure business landscape. Moving forward in its 120th anniversary, the Company is focused on sales volume increases in its core lumber categories through opportune asset acquisitions. The Company intends to invest in the upgrade of its operational setups to re-establish its dominant position in value added custom orders.



Patrick Goodfellow
President and Chief Executive Officer
October 4, 2018

PROSPECTIVE FINANCIAL INFORMATION

The following Management's Discussion and Analysis ("MD&A") and Goodfellow Inc. (hereafter the "Company") interim consolidated financial statements were approved by the Audit Committee and the Board of Directors on October 4, 2018. The MD&A should be read in conjunction with the consolidated financial statements and the corresponding notes for the twelve months ended November 30, 2017 and twelve months ended November 30, 2016. The MD&A provides a review of the significant developments and results of operations of the Company during the nine months ended August 31, 2018 and nine months ended August 31, 2017. The interim consolidated financial statements ended August 31, 2018 and August 31, 2017 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, the effects of general economic and business conditions including the cyclical nature of our business; industry competition; inflation, credit, currency and interest rate risks; environmental risk; competition from vendors; dependence on key personnel and major customers; laws and regulation; information systems, cost structure and working capital requirements; 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.

NON-IFRS FINANCIAL MEASURES

Cash flow per share and operating income (loss) 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 items, income tax paid and interest paid) of \$4.5 million for the three months and \$8.1 million for the nine months period ended August 31, 2018 divided by the total number of outstanding shares of 8,506,554.

Reconciliation of EBITDA and operating income to net income (loss) (thousands of dollars)	For the three months ended		For the nine months ended	
	August 31 2018	August 31 2017	August 31 2018	August 31 2017
	\$	\$	\$	\$
Net income (loss) for the period	1,993	1,632	2,374	(4,310)
Provision for income taxes	777	682	925	(1,676)
Net financial costs	1,004	1,121	2,577	3,145
Operating income (loss)	3,774	3,435	5,876	(2,841)
Depreciation and amortization	932	987	2,746	2,893
EBITDA	4,706	4,422	8,622	52

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 13 distribution centres, 9 processing plants in Canada, and 1 distribution centre in the USA.

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

	2017	2016	2015
	\$	\$	\$
Consolidated sales	523,659	565,173	538,975
(Loss) Earnings before income taxes	(3,275)	(16,294)	11,874
Net (loss) earnings	(2,094)	(12,105)	8,622
Total Assets	197,233	241,568	212,081
Total Long-Term Debt	55	126	-
Cash Dividends	-	2,552	2,977
PER COMMON SHARE			
Net (loss) earnings per share Basic and Diluted	(0.25)	(1.42)	1.01
Cash Flow from Operations (excluding non-cash working capital items, income tax paid and interest paid)	0.33	(1.27)	1.89
Shareholders' Equity	12.86	13.01	15.06
Share Price	8.33	9.05	10.35
Cash Dividends	-	0.30	0.35

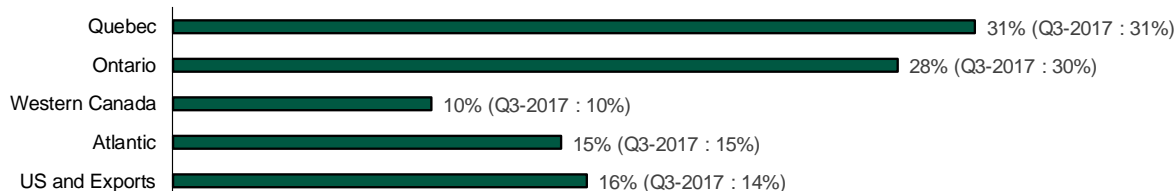
COMPARISON FOR THE THREE MONTHS ENDED AUGUST 31, 2018 AND 2017

(In thousands of dollars, except per share amounts)

HIGHLIGHTS FOR THE THREE MONTHS ENDED AUGUST 31, 2018 AND 2017	Q3-2018	Q3-2017	Variance
	\$	\$	%
Consolidated sales	132,455	142,970	-7.4
Earnings before income taxes	2,770	2,314	+19.7
Net earnings	1,993	1,632	+22.1
Net earnings per share Basic and Diluted	0.24	0.19	+26.3
Cash Flow from Operations (excluding non-cash working capital items, income tax paid and interest paid)	4,513	4,194	+7.6
EBITDA	4,706	4,422	+6.4
Average Bank indebtedness	79,060	80,787	-2.1
Inventory average	110,535	101,909	+8.5

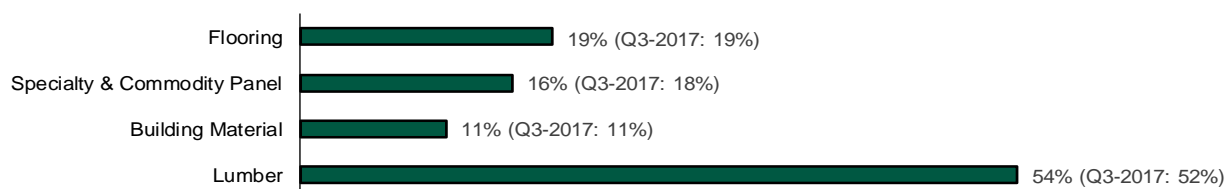
Sales in Canada during the third quarter of fiscal 2018 decreased 9% compared to the same period a year ago mainly due to decreased volume of pressure treated wood sales, panel and flooring products. Quebec sales decreased 8% due to decreased volume of pressure treated wood and panel sales. Sales in Ontario decreased 12% mainly due to a decline in sales of pressure treated wood and flooring products. Western Canada sales decreased 11% due to decreased sales of flooring and siding products. Atlantic region sales decreased 4% due to decrease sales of pressure treated wood and siding products.

Geographical Distribution of Sales for the Third Quarter ended August 31, 2018



Sales in the United States for the third quarter of fiscal 2018 increased 11% on a Canadian dollar basis compared to the same period last year due to increase in sales of hardwood lumber products. On a US dollar basis, US denominated sales increased 9% compared to last year. Finally, export sales decreased 8% during the third quarter of fiscal 2018 compared to the same period a year ago mainly due to decreased demand for hardwood lumber in Asia and Europe.

Product Distribution of Sales for the Third Quarter ended August 31, 2018



These previously discussed factors impacted to various degrees our sales mix. Flooring sales for the third quarter ended August 31, 2018 decreased 9% compared to the corresponding period last year. Specialty and Commodity Panel sales for the third quarter of fiscal 2018 decreased 15% compared to the corresponding period last year. Building Materials sales for the third quarter of fiscal 2018 decreased 11% compared to the corresponding period last year. Finally, Lumber sales for the third quarter of fiscal 2018 decreased 3% compared to the corresponding period last year.

Cost of Goods Sold

Cost of goods sold for the third quarter of fiscal 2018 was \$108.1 million compared to \$119.0 million for the corresponding period a year ago. Cost of goods sold decreased 9.2% compared to the third quarter last year. Total freight outbound cost for the third quarter of fiscal 2018 decreased 7.6% compared to the same period a year ago. Gross profits increased 2.0% during the third quarter of fiscal 2018 compared to last year and gross margins increased from 16.7% to 18.4%.

Selling, Administrative and General Expenses

Selling, Administrative and General Expenses for the third quarter ended August 31, 2018 were \$20.7 million compared to \$20.6 million for the corresponding period last year. Selling, Administrative and General Expenses increased 0.5% compared to the third quarter last year.

Net Financial Costs

Net financial costs for the third quarter of fiscal 2018 were \$1.0 million (\$1.1 million a year ago). The average Canadian prime rate increased to 3.60% during the third quarter of fiscal 2018 compared to 2.87% last year. The average US prime rate increased to 4.97% during the third quarter compared to 4.25% a year ago. Average bank indebtedness during the third quarter of fiscal 2018 was \$79.1 million compared to \$80.8 million for the corresponding period last year. Average inventory during the third quarter of fiscal 2018 was \$110.5 million compared to \$101.9 million for the same period last year.

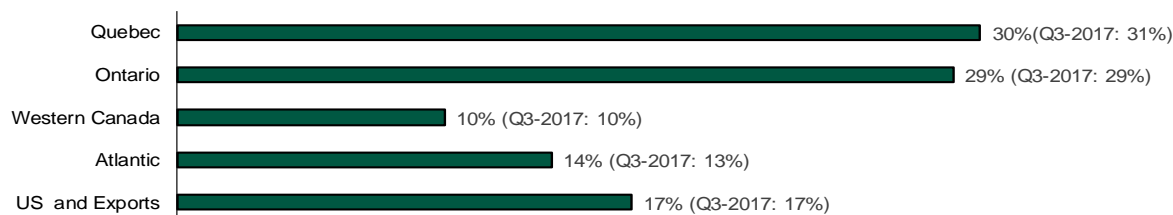
COMPARISON FOR THE NINE MONTHS ENDED AUGUST 31, 2018 AND 2017

(In thousands of dollars, except per share amounts)

HIGHLIGHTS FOR THE NINE MONTHS ENDED AUGUST 31, 2018 AND 2017	Q3-2018	Q3-2017	Variance
	\$	\$	%
Consolidated sales	362,465	396,101	-8.5
Earnings (loss) before income taxes	3,299	(5,986)	+155.1
Net earnings (loss)	2,374	(4,310)	+155.1
Net earnings (loss) per share Basic and Diluted	0.28	(0.51)	+154.9
Cash Flow from Operations (excluding non-cash working capital items, income tax paid and interest paid)	8,096	(795)	+1,118.4
EBITDA	8,622	52	+16,480.8
Average Bank indebtedness	74,054	86,357	-14.2
Inventory average	106,485	108,540	-1.9

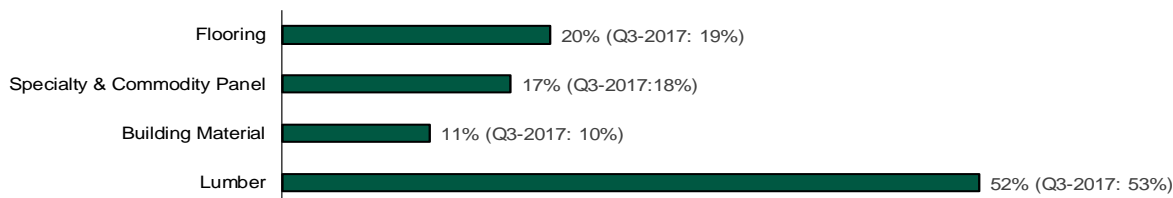
Sales in Canada during the first nine months of fiscal 2018 decreased 9% compared to the same period a year ago mainly due to decrease in sales of pressure treated wood and hardwood products. Quebec sales decreased 12% compared to last year due to decrease in sales of pressure treated wood and panels. Sales in Ontario decreased 10% mainly due to a decline in sales of pressure treated wood and flooring products. Sales in Western Canada decreased 14% mainly due to decreased sales of flooring, siding, building materials and hardwood products. Atlantic region sales increased 3% due to an increase in sales of Specialty and Commodity Panel, engineering and flooring products.

Geographical Distribution of Sales for the First Nine Months ended August 31, 2018



Sales in the United States for the first nine months ended August 31, 2018 decreased 8% on a Canadian dollar basis compared to the same period last year due to lower demand of hardwood lumber products. On US dollar basis, US denominated sales decreased 6% compared to last year. Finally, export sales decreased 2% during the first nine months of fiscal 2018 compared to the same period a year ago mainly due to lower demand of hardwood products in Asia but increase the hardwood sales in Europe.

Product Distribution of Sales for the First Nine Months ended August 31, 2018



These previously discussed factors impacted to various degrees our sales mix. Flooring and Specialty sales for the first nine months ended August 31, 2018 decreased 5% compared to the corresponding period last year. Specialty and Commodity Panel sales for the first nine months of fiscal 2018 decreased 11% compared to the corresponding period last year. Building Materials sales for the first nine months of fiscal 2018 decreased 5% compared to the corresponding period last year. Finally, Lumber sales for the first nine months of fiscal 2018 decreased 10% compared to the corresponding period last year.

Cost of Goods Sold

Cost of goods sold for the first nine months of fiscal 2018 was \$295.4 million compared to \$337.7 million for the corresponding period a year ago. Cost of goods sold decreased 12.5% compared to the corresponding period last year. Total freight outbound cost decreased 14.4% compared to the same period a year ago. Gross profits increased 14.7% during the first nine months ended August 31, 2018 compared to the corresponding period last year while gross margins increased from 14.8% to 18.5%.

Selling, Administrative and General Expenses

Selling, Administrative and General Expenses for the first nine months ended August 31, 2018 was \$61.2 million compared to \$61.3 million for the corresponding period last year. Selling, Administrative and General Expenses decreased 0.3% compared to the corresponding period last year.

Net Financial Costs

Net financial costs for the first nine months of fiscal 2018 were \$2.6 million (\$3.1 million a year ago). The average Canadian prime rate increased to 3.45% for the first nine months of fiscal 2018 (2.76% a year ago). The average US prime rate increased to 4.71% compared to 4.00% a year ago. Average bank indebtedness during the first nine months of fiscal 2018 was \$74.1 million compared to \$86.4 million for the corresponding period last year. Average inventory during the first nine months of fiscal 2018 was \$106.5 million compared to \$108.5 million for the same period last year.

SUMMARY OF THE LAST EIGHT MOST RECENTLY COMPLETED QUARTERS

(In thousands of dollars, except per share amounts)

	Nov-2017	Feb-2018	May-2018	Aug-2018
	\$	\$	\$	\$
Sales	127,558	96,684	133,326	132,455
Net earnings (loss)	2,216	(1,431)	1,812	1,993
Net earnings (loss) per share Basic and Diluted	0.26	(0.17)	0.21	0.24
	Nov-2016	Feb-2017	May-2017	Aug-2017
	\$	\$	\$	\$
Sales	130,748	113,490	139,641	142,970
Net (loss) earnings	(11,181)	(5,401)	(541)	1,632
Net (loss) earnings per share Basic and Diluted	(1.31)	(0.63)	(0.07)	0.19

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

STATEMENT OF FINANCIAL POSITION

Total Assets

Total assets at August 31, 2018 decreased from \$225.5 million at August 31, 2017 to \$218.3 million. Cash at August 31, 2018 closed at \$2.2 million (\$1.1 million at August 31, 2017). Trade and other receivables at August 31, 2018 was \$65.9 million compared to \$69.4 million at August 31, 2017. Income taxes receivable was nil compared to \$8.4 million last year. Inventories at August 31, 2018 was \$104.1 million compared to \$98.0 million at August 31, 2017. Prepaid expenses at August 31, 2018 was \$4.3 million compared to \$3.9 million at August 31, 2017. Defined benefit plan assets were \$2.4 million at August 31, 2018 compared to \$2.2 million a year ago. Investment closed at \$25 thousand at August 31, 2018 compared to \$282 thousand reflecting the dissolution of the joint venture.

Property, plant, equipment and intangible assets

Property, plant, equipment at August 31, 2018 was \$34.8 million compared to \$37.1 million at August 31, 2017. Capital expenditures during the first nine months of fiscal 2018 amounted to \$0.9 million (\$0.8 million last year). Property, plant, equipment capitalized during the first nine months of fiscal 2018 included leasehold improvements, computers, rolling stock and yard equipment. Intangible assets at August 31, 2018 closed at \$4.6 million (\$5.1 million last year). Proceeds on disposal of capital assets during the first nine months of fiscal 2018 amounted to \$45 thousand (\$184 thousand last year). Depreciation of property, plant, equipment and intangible assets during the first nine months of fiscal 2018 was \$2.7 million (\$2.9 million last year). Historically, capital expenditures in general have been capped at depreciation levels.

Total Liabilities

Total liabilities at August 31, 2018 was \$106.5 million (\$119.1 million last year). Bank indebtedness closed at \$68.2 million compared to \$73.7 million last year. Trade and other payables at August 31, 2018 was \$31.7 million compared to \$39.3 million a year ago. Income taxes payable was \$0.5 million compared to nil last year. Provision at August 31, 2018 was \$1.5 million (\$1.4 million last year). Long-term debt at August 31, 2018 was \$91 thousand (\$227 thousand last year). Deferred income taxes at August 31, 2018 closed at \$3.6 million (\$3.3 million last year). Defined benefit plan obligations was \$1.0 million at August 31, 2018 compared to \$1.1 million at August 31, 2017.

Shareholders' Equity

Total Shareholders' Equity at August 31, 2018 increased to \$111.8 million from \$106.4 million last year. The Company generated a return on equity of 2.8 % during the first nine months of fiscal 2018 ((5.4) % last year). Market share price closed at \$7.10 per share on August 31, 2018 (\$7.81 on August 31, 2017). Share book value at August 31, 2018 was \$13.14 per share (\$12.51 on August 31, 2017). Share capital closed at \$9.2 million (same as last year). No eligible dividend was declared and paid to the holders of participating shares during the first nine months of fiscal 2018 and 2017.

LIQUIDITY AND CAPITAL RESOURCES

Financing

As at August 31, 2018, under the credit agreement, the Company was using \$63.0 million of its facility compared to \$67 million last year. In December 2017, the Company renewed its credit agreement with its present lenders, two chartered Canadian banks. The credit agreement has a maximum revolving operating facility of \$100 million renewable in May 2019. On November 30, 2018, the facility will be reduced to \$90 million which corresponds to the low seasonality of the business. Funds advanced under these credit facilities bear interest at the prime rate plus a premium and are secured by first ranking security on the universality of the movable property of the Company. As at August 31, 2018, the Company was compliant with its financial covenants.

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 detail under LIQUIDITY AND RISK MANAGEMENT IN THE CURRENT ECONOMIC CONDITIONS.

Cash Flow

Net cash flow from operating activities for the first nine months of fiscal 2018 decreased to \$(14.4) million from \$18.6 million for the same period last year. Financing activities during the first nine months of fiscal 2018 increased to \$11.9 million compared to \$(24.5) million for the same period last year. Investing activities during the first nine months of fiscal 2018 were \$(0.8) million, \$2.2 million for the corresponding period a year ago (See Property, plant, equipment and intangible assets for more details).

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 capitalization as shareholders' equity and debt. Shareholders' equity includes the amount of paid-up capital in respect of all issued and fully-paid common shares together with the retained earnings, calculated on a consolidated basis in accordance with IFRS. Debt includes bank indebtedness reduced by the amounts of cash and cash equivalents. Capitalization represents the sum of debt and shareholders' equity.

The Company manages its capital 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, the Company may adjust the amount of dividends paid to shareholders, issue new shares or repurchase shares under the normal course issuer bid, 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 credit facilities.

The Company realized a net income of \$2.0 million and positive cash flow from operating activities (excluding non-cash working capital items) of \$4.5 million in Q3-2018 compared to a net income of \$1.6 million and positive cash flow from operating activities (excluding non-cash working capital items) of \$4.2 million in Q3-2017. For the nine months ended August 31, 2018, the Company realized a net income of \$2.4 million and positive cash flow from operating activities (excluding non-cash working capital items) of \$8.1 million compared to a net loss of \$4.3 million and negative cash flow from operating activities (excluding non-cash working capital items) of \$0.8 million for the corresponding period last year. In December 2017, the Company renewed its credit agreement with its present lenders, two chartered Canadian banks. The credit agreement has a maximum revolving operating facility of \$100 million renewable in May 2019. On November 30, 2018, the facility will be reduced to \$90 million which corresponds to the low seasonality of the business. Funds advanced under these credit facilities bear interest at the prime rate plus a premium and are secured by first ranking security on the universality of the movable property of the Company. As at August 31, 2018, the Company was compliant with its financial covenants.

The Company is subject to certain covenants on its credit facilities. The covenants include a debt-to-capitalization ratio, year-to-date EBITDA (not required after Q1-2018) and an interest coverage ratio. The Company monitors the ratios on a monthly basis. The Company currently complies with all externally imposed capital requirements. Other than the covenants required for the credit facilities, the Company is not subject to any externally imposed capital requirements.

The Company's financial objectives and strategy have changed in Fiscal 2017. The financial objectives and strategy were to stabilize the Company and bring back to traditionally conservative management. Changes to its credit agreement and working capital structure were required and Management have addressed them with a renewed credit agreement starting December 2017 and maturing in May 2019 with its lenders. The Company believes that all its ratios are within reasonable limits, in light of the relative size of the Company and its capital management objectives.

As at August 31, 2018 and 2017, the Company achieved the following results regarding its capital management objectives:

	As at August 31 2018	As at August 31 2017
Capital management		
Debt-to-capitalization ratio	37.3%	39.2%
Interest coverage ratio	3.7	- *
Return on shareholders' equity	2.8 %	(5.4) %
Current ratio	1.7	1.6
EBITDA (in thousands of dollars)	8,622	52

* The interest coverage ratio was not required in Fiscal 2017.

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.
- 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.

Cost Structure, Working Capital Requirements

At August 31, 2018, its total debt-to-capitalization ratio stood at 37.3% compared to 39.2% on August 31, 2017. In December 2017, the Company renewed its credit agreement with its present lenders, two chartered Canadian banks. The credit agreement has a maximum revolving operating facility of \$100 million renewable in May 2019. On November 30, 2018, the facility will be reduced to \$90 million which corresponds to the low seasonality of the business. 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.

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, 2017 as well as in the Annual Information Form 2017 available on SEDAR (www.sedar.com).

COMMITMENTS AND CONTINGENCIES

As at August 31, 2018, 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	20,159	5,161	7,402	5,268	2,328
Purchase obligations	184	184	-	-	-
Total Contractual Obligations	20,343	5,345	7,402	5,268	2,328

Contingent liabilities

During the normal course of business, certain product liability and other claims have been brought against the Company and, where applicable, its suppliers. While there is inherent difficulty in predicting the outcome of such matters, management has vigorously contested the validity of these claims, where applicable, and based on current knowledge, believes that they are without merit and does not expect that the outcome of any of these matters, in consideration of insurance coverage maintained, or the nature of the claims, individually or in the aggregate, would have a material adverse effect on the consolidated financial position, results of operations or future earnings of the Company.

RISKS AND UNCERTAINTIES

The risks and uncertainty factors affecting the Company in the future remain substantially unchanged from those included in the Company's Annual MD&A contained in its 2017 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. Only one major customer exceeded 10% of total company sales during the three months ended August 31, 2018 compared to two last year and two major customers exceeded 10% of total company sales during the nine months ended August 31, 2018 (same last year). The following represents the total sales consisting primarily of various wood products of the major customer(s):

(in thousands of dollars)	For the three months ended				For the nine months ended			
	August 31, 2018		August 31, 2017		August 31, 2018		August 31, 2017	
	\$	%	\$	%	\$	%	\$	%
Sales to major customer(s) that exceeded 10% of total Company's sales	17,766	13.4	32,180	22.5	87,985	24.3	84,703	21.4

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

FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

The financial instruments and other instruments remain substantially unchanged from those included in the Company's Annual MD&A contained in its 2017 Annual report. Only those factors with variability components are described below:

The following are the contractual maturities of financial liabilities as at August 31, 2018:

(in thousands of dollars)

Financial Liabilities				
	Carrying Amount	Contractual cash flows	0 to 6 Months	6 to 36 Months
Bank indebtedness	68,205	68,205	68,205	-
Trade and other payables	31,708	31,708	31,708	-
Long-term debt	91	91	39	52
Total financial liabilities	100,004	100,004	99,952	52

Interest 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. 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 \$68.2 million in bank indebtedness would impact interest expense by \$0.7 million annually.

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 material effect on the Company's net earnings. As at August 31, 2018, the Company had the following currency exposure on:

Financial assets and liabilities measured at amortized costs

(in thousands of dollars)

	USD	GBP	Euro
Cash	2,205	276	16
Trade and other receivables	9,772	373	-
Trade and other payables	(3,792)	(58)	(189)
Long term debt	(45)	-	-
Net exposure	8,140	591	(173)
CAD exchange rate as at August 31, 2018	1.3095	1.6853	1.5215
Impact on net earnings based on a fluctuation of 5% on CAD	384	36	(9)

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. Accounts receivable over 60 days past their due date and not impaired represents 1.0% (1.3% on August 31, 2017) of total trade and other receivables at August 31, 2018.

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

Fair Value

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

RELATED PARTY TRANSACTIONS

The related party transactions remain substantially unchanged from those included in the Company's Annual MD&A contained in its 2017 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 2017 Annual report.

SIGNIFICANT ACCOUNTING POLICIES

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 2017 Annual consolidated financial statements.

DISCLOSURE OF OUTSTANDING SHARE DATA

At August 31, 2018, 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 October 4, 2018, there were 8,506,554 common shares outstanding.

OUTLOOK

During Fiscal 2018, the Company will focus on growing sales while maintaining margin discipline and keep looking for growth opportunity to increase its market share. Our focus on value-added product lines will continue to be at the forefront of our core strategy. Management is committed to keep operating costs in line with the variability of the economic situation. Furthermore, the Company is committed to improving its customer experience on an ongoing basis.

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 Chief Financial Officer together with Management, after evaluating the design of the Company's disclosure controls and procedures and internal control over financial reporting as of August 31, 2018 concluded that the Company's disclosure controls and procedures and internal control over financial reporting were ineffective and the material weakness previously disclosed continues to only be partially remediated. The material weakness remains because the controls put in place to remediate the deficiency have not operated for a sufficient length of time to properly evaluate their effectiveness.

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 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 ERP software with the objective of resolving all design deficiencies and implementing compensating controls to mitigate the risk of a material misstatement. The Company partially remediated the material weakness by implementing changes in its inventory management cycle. The significant changes in internal controls were as follows:

- Implemented many preventive and detective controls over the inventory cycle either directly in the ERP system or through management review controls;
- Established monitoring controls, exception reports, edits checks and other tools to improve the accuracy of the information from the ERP system;
- Established controls over inventory management and financial reporting including management review controls over inventory costing, valuation and inventory movements;
- Increased the level of oversight and review of inventory balances;
- Increased training and knowledge awareness throughout the organization.

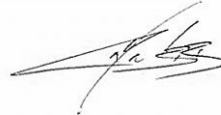
The evaluation was performed in accordance with the Committee of Sponsoring Organizations of the Treadway Commission (COSO 2013 Framework) control framework adopted by the Company.

Other than as described above, there has been no change in the Company's internal control over financial reporting that occurred during the three and nine months ended August 31, 2018 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Delson, October 4, 2018



Patrick Goodfellow
President and Chief Executive Officer



Charles Brisebois, CPA, CMA
Chief Financial Officer

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, 2018 and 2017

(in thousands of dollars, except per share amounts)

Unaudited

	For the three months ended		For the nine months ended	
	August 31 2018	August 31 2017	August 31 2018	August 31 2017
	\$	\$	\$	\$
Sales	132,455	142,970	362,465	396,101
Expenses				
Cost of goods sold (Note 4)	108,072	119,049	295,438	337,669
Selling, administrative and general expenses (Note 4)	20,650	20,554	61,153	61,328
Gain on disposal of property, plant and equipment	(41)	(68)	(2)	(55)
Net financial costs	1,004	1,121	2,577	3,145
	129,685	140,656	359,166	402,087
Earnings (loss) before income taxes	2,770	2,314	3,299	(5,986)
Income taxes	777	682	925	(1,676)
Total comprehensive income (loss)	1,993	1,632	2,374	(4,310)
Net earnings (loss) per share - Basic and diluted (Note 8)	0.24	0.19	0.28	(0.51)

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

	As at August 31 2018	As at November 30 2017	As at August 31 2017
	\$	\$	\$
Assets			
Current Assets			
Cash	2,229	1,622	1,121
Trade and other receivables (Note 5)	65,865	58,317	69,414
Income taxes receivable	-	1,589	8,408
Inventories	104,106	88,860	97,996
Prepaid expenses	4,289	3,007	3,861
Total Current Assets	176,489	153,395	180,800
Non-Current Assets			
Property, plant and equipment	34,834	36,198	37,074
Intangible assets	4,588	4,942	5,116
Defined benefit plan asset	2,396	2,413	2,227
Investment in a joint venture	25	285	282
Total Non-Current Assets	41,843	43,838	44,699
Total Assets	218,332	197,233	225,499
Liabilities			
Current liabilities			
Bank indebtedness (Note 6)	68,205	52,309	73,715
Trade and other payables (Note 7)	31,708	29,409	39,305
Income taxes payable	461	-	-
Provision	1,019	938	925
Current portion of long-term debt (Note 6)	45	139	138
Total Current Liabilities	101,438	82,795	114,083
Non-Current Liabilities			
Provision	484	446	513
Long-term debt (Note 6)	46	55	89
Deferred income taxes	3,582	3,582	3,296
Defined benefit plan obligation	974	921	1,135
Total Non-Current Liabilities	5,086	5,004	5,033
Total Liabilities	106,524	87,799	119,116
Shareholders' equity			
Share capital (Note 8)	9,152	9,152	9,152
Retained earnings	102,656	100,282	97,231
	111,808	109,434	106,383
Total Liabilities and Shareholders' Equity	218,332	197,233	225,499

Going concern and future operations (Note 2 b)

GOODFELLOW INC.
Consolidated Statements of Cash Flows
For the three and nine months ended August 31, 2018 and 2017
(in thousands of dollars)
Unaudited

	For the three months ended		For the nine months ended	
	August 31 2018	August 31 2017	August 31 2018	August 31 2017
	\$	\$	\$	\$
Operating Activities				
Net earnings (loss)	1,993	1,632	2,374	(4,310)
Adjustments for:				
Depreciation	932	987	2,746	2,893
Accretion expense on provision	12	12	38	37
Increase (decrease) in provision	55	(4)	80	(37)
Income taxes	777	682	925	(1,676)
Gain on disposal of property, plant and equipment	(41)	(68)	(2)	(55)
Interest expense	737	781	1,866	2,255
Funding in deficit of pension plan expense	48	50	69	97
Share of the losses of a joint venture	-	122	-	1
	4,513	4,194	8,096	(795)
Changes in non-cash working capital items (Note 12)	10,863	5,475	(21,635)	21,876
Interest paid	(663)	(817)	(2,005)	(2,309)
Income taxes recovered (paid)	1,296	474	1,125	(134)
	11,496	5,132	(22,515)	19,433
Net Cash Flows from Operating Activities	16,009	9,326	(14,419)	18,638
Financing Activities				
Net increase (decrease) in bank loans	2,000	(4,000)	(2,000)	(4,000)
Net (decrease) increase in banker's acceptances	(16,000)	(12,500)	14,000	(20,500)
Increase in long-term debt	-	69	-	69
Reimbursement of long-term debt	(35)	(31)	(103)	(104)
	(14,035)	(16,462)	11,897	(24,535)
Investing Activities				
Acquisition of property, plant and equipment	(345)	(395)	(896)	(796)
Increase in intangible assets	(64)	(73)	(176)	(295)
Proceeds on disposal of property, plant and equipment	(3)	135	45	184
Dividends from the joint venture	260	-	260	-
Dissolution of the joint venture	-	3,120	-	3,120
	(152)	2,787	(767)	2,213
Net cash inflow (outflow)	1,822	(4,349)	(3,289)	(3,684)
Cash position, beginning of period	(4,798)	(1,245)	313	(1,910)
Cash position, end of period	(2,976)	(5,594)	(2,976)	(5,594)
Cash position is comprised of:				
Cash	2,229	1,121	2,229	1,121
Bank overdraft (Note 6)	(5,205)	(6,715)	(5,205)	(6,715)
	(2,976)	(5,594)	(2,976)	(5,594)

GOODFELLOW INC.**Consolidated Statements of Change in Shareholders' Equity****For the nine months ended August 31, 2018 and 2017***(in thousands of dollars)***Unaudited**

	Share Capital	Retained Earnings	Total
	\$	\$	\$
Balance as at November 30, 2016 (Audited)	9,152	101,541	110,693
Net loss	-	(4,310)	(4,310)
Total comprehensive loss	-	(4,310)	(4,310)
Balance as at August 31, 2017	9,152	97,231	106,383
Balance as at November 30, 2017 (Audited)	9,152	100,282	109,434
Net income	-	2,374	2,374
Total comprehensive income	-	2,374	2,374
Balance as at August 31, 2018	9,152	102,656	111,808

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended August 31, 2018 and 2017

(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 interim consolidated financial statements of the Company as at and for the nine months ended August 31, 2018 and 2017 includes the accounts of the Company and its wholly-owned subsidiaries.

2. Basis of preparation

a) *Statement of compliance*

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 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 financial statements for the year ended November 30, 2017, as set out in the 2017 annual report.

These interim consolidated financial statements were authorized for issue by the Board of Directors on October 4, 2018.

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.

b) *Going concern and future operations*

These interim 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.

The Company realized a net income of \$2.0 million and positive cash flow from operating activities (excluding non-cash working capital items) of \$4.5 million in Q3-2018 compared to a net income of \$1.6 million and positive cash flow from operating activities (excluding non-cash working capital items) of \$4.2 million in Q3-2017. For the nine months ended August 31, 2018, the Company realized a net income of \$2.4 million and positive cash flow from operating activities (excluding non-cash working capital items) of \$8.1 million compared to a net loss of \$4.3 million and negative cash flow from operating activities (excluding non-cash working capital items) of \$0.8 million for the corresponding period last year. In December 2017, the Company renewed its credit agreement with its present lenders, two chartered Canadian banks. The credit agreement has a maximum revolving operating facility of \$100 million renewable in May 2019. On November 30, 2018, the facility will be reduced to \$90 million which corresponds to the low seasonality of the business. Funds advanced under these credit facilities bear interest at the prime rate plus a premium and are secured by first ranking security on the universality of the movable property of the Company. As at August 31, 2018, the Company was compliant with its financial covenants.

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.

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 meet its financial obligation.

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

3. Significant Accounting Policies

The Company’s significant accounting policies are described in Note 3 contained in its 2017 Annual consolidated financial statements.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended August 31, 2018 and 2017

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

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 2018	August 31 2017	August 31 2018	August 31 2017
	\$	\$	\$	\$
Employee benefits expense	13,158	13,526	39,351	40,153
Write-down of inventories included in cost of goods sold	123	126	8	(752)
Depreciation included in cost of goods sold	264	338	795	991
Depreciation included in selling, administrative and general expenses	668	649	1,951	1,902
Expense related to minimum operating lease payments	1,262	1,262	3,666	3,572
Foreign exchange losses (gains)	99	(231)	179	(103)

5. Trade and other receivables

	August 31 2018	November 30 2017	August 31 2017
	\$	\$	\$
Trade receivables	65,309	57,073	69,048
Allowance for doubtful accounts	(465)	(225)	(590)
	64,844	56,848	68,458
Other receivables	1,021	1,469	956
	65,865	58,317	69,414

6. Bank indebtedness and long-term debt

a) Bank indebtedness

	August 31 2018	November 30 2017	August 31 2017
	\$	\$	\$
Bank loans	5,000	7,000	7,000
Banker's acceptances	58,000	44,000	60,000
Bank overdraft	5,205	1,309	6,715
	68,205	52,309	73,715

As at August 31, 2018, under the credit agreement, the Company was using \$63 million of its facility compared to \$67 million last year. In December 2017, the Company renewed its credit agreement with its present lenders, two chartered Canadian banks. The credit agreement has a maximum revolving operating facility of \$100 million renewable in May 2019. On November 30, 2018, the facility will be reduced to \$90 million which corresponds to the low seasonality of the business. Funds advanced under these credit facilities bear interest at the prime rate plus a premium and are secured by first ranking security on the universality of the movable property of the Company. As at August 31, 2018, the Company was compliant with its financial covenants.

b) Long-term debt

The Company has entered into capital leases secured by the leased computer equipment and lift trucks. The obligation under capital leases bear interests at a rate of 2.7% and 6.1% per annum, maturing December 2018 and August 2022.

7. Trade and other payables

	August 31 2018	November 30 2017	August 31 2017
	\$	\$	\$
Trade payables and accruals	25,717	22,333	31,388
Payroll related liabilities	5,518	5,658	5,356
Sales taxes payables	473	1,418	2,561
	31,708	29,409	39,305

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended August 31, 2018 and 2017

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

8. Share Capital

a) Authorized

An unlimited number of common shares, without par value

	August 31 2018	November 30 2017	August 31 2017
Number of shares outstanding at the end of the period	8,506,554	8,506,554	8,506,554

b) Share-based payments

On January 15, 2017, the Company granted deferred shares to a key executive. Under this program, the executive was eligible to receive shares of the Company if specific non-market performance targets were met. The Company recognized the fair value of the shares of \$494,000 at the grant date and the shares were vested at November 30, 2017 as the Company met the non-market performance targets. As at August 31, 2018, no shares have been issued under this program.

c) Net earnings (loss) and dividend per share

The calculation of basic and diluted earnings (loss) per share was based on the following:

	For the three months ended		For the nine months ended	
	August 31 2018	August 31 2017	August 31 2018	August 31 2017
	\$	\$	\$	\$
Net earnings (loss) - basic and diluted	1,993	1,632	2,374	(4,310)
Weighted average number of common shares - basic and diluted	8,506,554	8,506,554	8,506,554	8,506,554

No eligible dividend was declared and paid to the holders of participating shares for the nine months ended August 31, 2018 (same as last year).

9. Seasonal Pattern

The Company's business follows a seasonal pattern, with merchandise sales traditionally higher in the second and third quarter as compared to the other quarterly periods. As a result, a higher share of total earnings is typically earned in the second and third quarter. This business seasonality results in performance, for the nine months ended August 31, 2018 which is not necessarily indicative of performance for the balance of the year.

10. Economic Dependence

The Company does not have long-term contracts with any of its customers. Distribution agreements are usually awarded annually and can be revoked. Only one major customer exceeded 10% of total company sales during the three months ended August 31, 2018 compared to two last year and two major customers exceeded 10% of total company sales during the nine months ended August 31, 2018 (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, 2018		August 31, 2017		August 31, 2018		August 31, 2017	
	\$	%	\$	%	\$	%	\$	%
Sales to major customer(s) that exceeded 10% of total Company's sales	17,766	13.4	32,180	22.5	87,985	24.3	84,703	21.4

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

11. Financial Instruments and Financial Risk Management

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.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended August 31, 2018 and 2017

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

11. Financial Instruments and Financial Risk Management (Continued)

The following are the contractual maturities of financial liabilities as at August 31, 2018:

Financial Liabilities				
	Carrying Amount	Contractual cash flows	0 to 6 Months	6 to 36 Months
Bank indebtedness	68,205	68,205	68,205	-
Trade and other payables	31,708	31,708	31,708	-
Long-term debt	91	91	39	52
Total financial liabilities	100,004	100,004	99,952	52

Interest 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 \$68.2 million in bank indebtedness would impact interest expense annually by \$0.7 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. As at August 31, 2018, the Company had the following currency exposure on:

Financial assets and liabilities measured at amortized costs

	USD	GBP	Euro
Cash	2,205	276	16
Trade and other receivables	9,772	373	-
Trade and other payables	(3,792)	(58)	(189)
Long-term debt	(45)	-	-
Net exposure	8,140	591	(173)
CAD exchange rate as at August 31, 2018	1.3095	1.6853	1.5215
Impact on net earnings based on a fluctuation of 5% on CAD	384	36	(9)

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. Accounts receivable over 60 days past their due date and not impaired represents 1.0% (1.3% on August 31, 2017) of total trade and other receivables at August 31, 2018.

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

Fair Value

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

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended August 31, 2018 and 2017

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

12. Additional Cash Flow Information

Changes in Non-Cash Working Capital Items

	For the three months ended		For the nine months ended	
	August 31 2018	August 31 2017	August 31 2018	August 31 2017
	\$	\$	\$	\$
Trade and other receivables	20,858	17,211	(7,548)	(5,159)
Inventories	5,547	3,078	(15,246)	17,395
Prepaid expenses	(621)	667	(1,132)	981
Trade and other payables	(14,921)	(15,481)	2,291	8,659
	10,863	5,475	(21,635)	21,876

13. Capital Management

The Company's objectives remain substantially unchanged from those included in the Company's annual consolidated financial statements contained in its 2017 Annual report.

As at August 31, 2018 and 2017, the Company achieved the following results regarding its capital management objectives:

Capital management	As at	As at
	August 31 2018	August 31 2017
Debt-to-capitalization ratio	37.3%	39.2%
Interest coverage ratio	3.7	- *
Return on shareholders' equity	2.8 %	(5.4) %
Current ratio	1.7	1.6
EBITDA	8,622	52

* The interest coverage ratio was not required in Fiscal 2017.

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.
- 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. Comparative information

Certain prior period information has been reclassified to conform to the current period presentation. In 2018, the Company reclassified certain expenditures from cost of goods sold to selling, administrative and general expenses. To conform to the period presentation, the Company reclassified the related amounts in 2017. The amounts reclassified for the three months ended August 31, 2017 was \$25 thousand and for the nine months ended August 31, 2017 was \$93 thousand.

CORPORATE INFORMATION

BOARD OF DIRECTORS

Claude A. Garcia */**
Chairman of the Board

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

Stephen A. Jarislowsky */**
Director
Founder of Jarislowsky Fraser. Ltd

Normand Morin */**
Chairman of the Audit Committee

David A. Goodfellow
Director

Alain Côté */**
Director
Partner, Deloitte LLP

* Member of the Audit Committee

** Member of the Executive Compensation Committee

OFFICERS

Patrick Goodfellow
President & Chief Executive Officer

Charles Brisebois
Chief Financial Officer

G. Douglas Goodfellow
Secretary of the Board

Mary Lohmus
Senior Vice President,
Ontario and Western Canada

David Warren
Vice President,
Atlantic

Luc Dignard
Vice President,
Sales, Quebec

Jeffrey Morrison
Vice President,
National accounts

OTHER INFORMATION

Head Office
225 Goodfellow Street
Delson, Quebec J5B 1V5
Tel.: 450-635-6511
Fax: 450-635-3730

Solicitors
Bernier Beaudry
Quebec, Quebec

Auditors
KPMG LLP
Montreal, Quebec

Transfer Agent
Computershare Investor Services Inc.
Montreal, Quebec

Stock Exchange
Toronto
Trading Symbol: GDL

Wholly-owned Subsidiaries
Goodfellow Distribution Inc.
Quality Hardwoods Ltd.



DIVISIONS

CANBAR

B.P. 460 - 9184 Twiss Road
Campbellville ON LOP 1B0
Tel.: 905 854-5800
1 800 263-6269
Fax: 905 854-6104

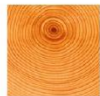
OLIVER LUMBER

B.P. 460 - 9184 Twiss Road
Campbellville ON LOP 1B0
Tel.: 416 233-1227
1 800 268-2471
Fax: 416 233-0015

QUALITY

HARDWOOD LTD.

B.P. 40 - 196 Crois Latour
Powassan ON POH 1Z0
Tel.: 705 724-2424
Fax: 705 724-6053



OUR BRANCHES

HEAD OFFICE

MONTREAL / DELSON
225 Goodfellow Street
Delson QC J5B 1V5
Tel.: 450 635-6511
1 800 361-6503
Fax: 450 635-3729/30

QUEBEC

5100 John Molson Street
Quebec City QC G1X 3X4
Tel.: 418 650-5100
1 800 463-4318
Fax: 418 650-0171

DARTMOUTH

20 Vidito Drive
Dartmouth NS B3B 1P5
Tel.: 902 468-2256
Maritimes 1 800 565-7563
Fax: 902 468-9409

WINNIPEG

1431 Church Avenue - Unit B
Winnipeg MB R2X 1G5
Tel.: 204 779-3370
1 800 955-9436
Fax: 204 779-3314

AMERICAN

368 Pepsi Road
Manchester NH 03109
Tel.: 603 623-9811
1 800 990-0722
Fax: 603 623-9484

EDMONTON

11128 - 158 Street
Edmonton AB T5M 1Y4
Tel.: 780 469-1299
Fax: 780 469-1717

OTTAWA

3091 Albion Road North
Ottawa ON K1V 9V9
Tel.: 613 244-3169
1 800 577-7842
Fax: 613 244-0488

MONCTON

660 Edinburgh Drive
Moncton NB E1E 4C6
Tel.: 506 857-2134
Maritimes 1 800 561-7965
Fax: 506 859-7184

CALGARY

2600 61st Avenue S.E.
Calgary AB, T2C 4V2
Tel.: 403 252-9638
1 888 316-7208
Fax: 403 252-9516

EUROPEAN

P.O. Box 36
Llangollen, R.U., LL20 7ZW
Tel.: 011-44-1691718872
Fax: 011-44-1691-718436
www.goodfellowuk.com

SASKATOON

802 58th Street East
Saskatoon SK S7K 5Z4
Tel.: 306 242-9977
Fax: 306 242-9997

TORONTO /

CAMPBELLVILLE

P.O. Box 460 9184 Twiss Road
Campbellville ON LOP 1B0
Tel.: 905 854-5800
1 800 263-6269
Fax: 905 854-6104

DEER LAKE

4 Wellon Drive
Deer Lake NL A8A 2G5
Tel.: 709 635-2991
Cell.: 709 638-0574
Fax: 709 635-3079

VANCOUVER

2060 Van Dyke Place
Richmond BC V6V 1X9
Tel.: 604 940-9640
1 800 821-2053
Fax: 604 940-9641