

QUARTERLY REPORT

FOR THE SIX MONTHS ENDED MAY 31ST, 2019



FINANCIAL HIGHLIGHTS

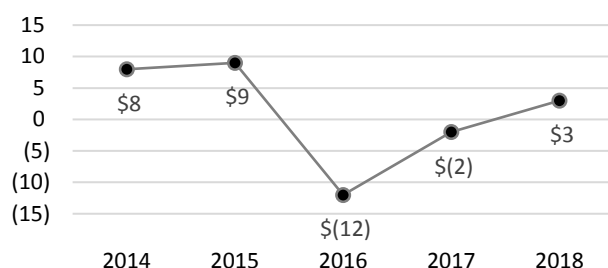
OPERATING RESULTS

(in thousands of dollars, except per share amounts)

	2018	2017	2016	2015	2014 (15 months)
Sales	\$475,207	\$523,659	\$565,173	\$538,975	\$610,587
Earnings (loss) before income taxes	\$3,277	\$(3,275)	\$(16,294)	\$11,874	\$11,128
Net earnings (loss)	\$2,571	\$(2,094)	\$(12,105)	\$8,622	\$8,125
- per share	\$0.30	\$(0.25)	\$(1.42)	\$1.01	\$0.96
Cash flow					
(excluding non-cash working capital, Income tax paid and interest paid)	\$9,705	\$2,630	\$(10,802)	\$16,092	\$15,228
- per share ⁽¹⁾	\$1.14	\$0.31	\$(1.27)	\$1.89	\$1.79
Shareholders' equity	\$112,863	\$109,434	\$110,693	\$128,100	\$119,486
- per share ⁽¹⁾	\$13.27	\$12.86	\$13.01	\$15.06	\$14.05
Share price at year-end	\$6.00	\$8.33	\$9.05	\$10.35	\$9.50
Dividend paid per share	-	-	\$0.30	\$0.35	\$0.65

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

NET EARNINGS (LOSS) (in million \$)



SHARE PRICE



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PRESIDENT'S REPORT TO THE SHAREHOLDERS

The results of the 2nd quarter reflect an aggressive market share retention strategy in a tougher Canadian economic landscape. Commodity price levels hit near record lows this spring which necessitates strong attention to turnover.

The spring rush on seasonal products was delayed well over a month due to poor weather conditions. Nonetheless, Goodfellow sees many growth opportunities heading into the summer. The Company is still fully committed to its core value added, offering which can rely on consistent demand.

Our customer service satisfaction is key to our success in changing times. We anticipate a successful second half of 2019 with an inventory which matches everchanging trends.



Patrick Goodfellow
President and Chief Executive Officer
July 4, 2019

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 July 4, 2019. The MD&A should be read in conjunction with the consolidated financial statements and the corresponding notes for the twelve months ended November 30, 2018 and twelve months ended November 30, 2017. The MD&A provides a review of the significant developments and results of operations of the Company during the six months ended May 31, 2019 and six months ended May 31, 2018. The interim consolidated financial statements ended May 31, 2019 and May 31, 2018 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. 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. 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 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 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 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 \$4.1 million for the three months and \$3.4 million for the six months period ended May 31, 2019 divided by the total number of outstanding shares of 8,506,554.

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

	For the three months ended		For the six months ended	
	May 31 2019	May 31 2018	May 31 2019	May 31 2018
	\$	\$	\$	\$
Net income for the period	1,855	1,812	305	381
Provision for income taxes	728	705	125	148
Financial expenses	863	892	1,554	1,573
Operating income	3,446	3,409	1,984	2,102
Depreciation and amortization	856	912	1,723	1,814
EBITDA	4,302	4,321	3,707	3,916

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)

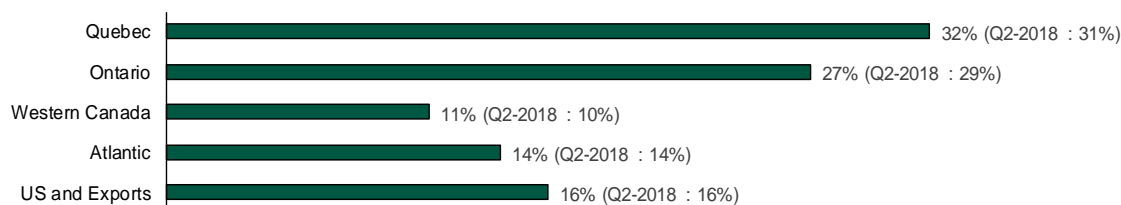
	2018	2017	2016
	\$	\$	\$
Sales	475,207	523,659	565,173
Earnings (loss) before income taxes	3,277	(3,275)	(16,294)
Net earnings (loss)	2,571	(2,094)	(12,105)
Total Assets	190,718	197,233	241,568
Total Long-Term Debt	43	55	126
Cash Dividends	-	-	2,552
PER COMMON SHARE			
Net earnings (loss) per share, Basic and Diluted	0.30	(0.25)	(1.42)
Cash Flow from Operations (excluding non-cash working capital items, income tax paid and interest paid)	1.14	0.31	(1.27)
Shareholders' Equity	13.27	12.86	13.01
Share Price	6.00	8.33	9.05
Cash Dividends	-	-	0.30

COMPARISON FOR THE THREE MONTHS ENDED MAY 31, 2019 AND 2018

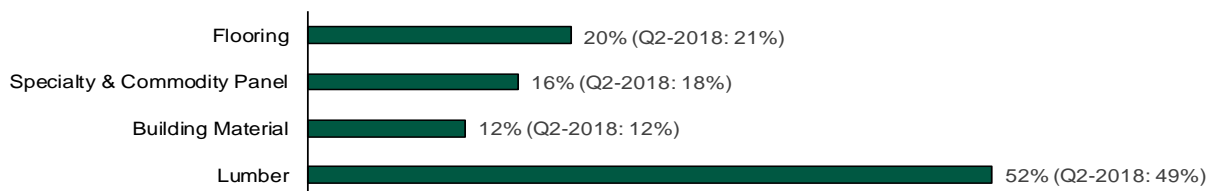
(In thousands of dollars, except per share amounts)

HIGHLIGHTS FOR THE THREE MONTHS ENDED MAY 31, 2019 AND 2018	Q2-2019	Q2-2018	Variance
	\$	\$	%
Sales	123,713	133,326	-7.2
Earnings before income taxes	2,583	2,517	+2.6
Net earnings - Basic	1,855	1,812	+2.4
Net earnings - Diluted	1,816	1,812	+0.2
Net earnings per share - Basic	0.22	0.21	+4.8
Net earnings per share - Diluted	0.21	0.21	-
Cash Flow from Operations (excluding non-cash working capital items, income tax paid and interest paid)	4,102	4,186	-2.0
EBITDA	4,302	4,321	-0.4
Average Bank indebtedness	70,624	83,484	-15.4
Inventory average	108,618	108,189	+0.4

Sales in Canada during the second quarter of fiscal 2019 decreased 8% compared to last year due to decreased volume of flooring, commodity panels, siding, building materials and hardwood lumber products. Quebec sales decreased 4% due to a decrease in sales of flooring products and specialty and commodity panels. Sales in Ontario decreased 16% mainly due to a decline in sales of commodity panels, hardwood and flooring products. Western Canada sales decreased 2% due to decreased sales of building materials and hardwood lumber products but this was partially compensated by an increase in flooring products. Atlantic region sales decreased 3% due to decreased sales of siding and building materials.

Geographical Distribution of Sales for the Second Quarter ended May 31, 2019


Sales in the United States for the second quarter of fiscal 2019 decreased 10% on a Canadian dollar basis compared to last year due to lower demand of hardwood and engineered wood products. On a US dollar basis, US denominated sales decreased 13% compared to last year. Finally, export sales increased 9% during the second quarter of fiscal 2019 compared to last year mainly due to an increased demand for hardwood products.

Product Distribution of Sales for the Second Quarter ended May 31, 2019


In terms of the distribution of sales by product, flooring sales for the second quarter ended May 31, 2019 decreased 8% compared to last year. Specialty and Commodity Panel sales decreased 20% compared to last year. Building Materials sales decreased 11% compared to last year. Finally, Lumber sales decreased 1% compared to last year.

Cost of Goods Sold

Cost of goods sold for the second quarter of fiscal 2019 was \$100.0 million compared to \$108.8 million last year. Cost of goods sold decreased 8.1% compared to last year. Total freight outbound cost decreased 7.9% compared to last year. Gross profits decreased 3.4% compared to last year while gross margins increased from 18.4% to 19.2%.

Selling, Administrative and General Expenses

Selling, Administrative and General Expenses for the second quarter ended May 31, 2019 were \$20.3 million compared to \$21.1 million last year. Selling, Administrative and General Expenses decreased 4.0% compared to last year.

Net Financial Costs

Net financial costs for the second quarter of fiscal 2019 were \$0.9 million (same last year). The average Canadian prime rate increased to 3.95% during the second quarter of fiscal 2019 compared to 3.45% last year. The average US prime rate increased to 5.50% compared to 4.70% last year. Average bank indebtedness was \$70.6 million compared to \$83.5 million last year.

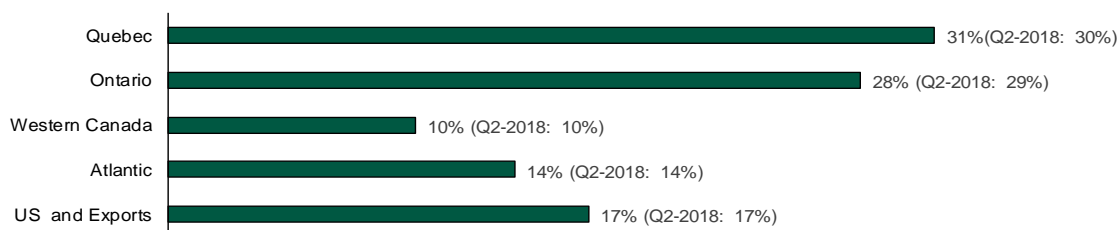
COMPARISON FOR THE SIX MONTHS ENDED MAY 31, 2019 AND 2018

(In thousands of dollars, except per share amounts)

HIGHLIGHTS FOR THE SIX MONTHS ENDED MAY 31, 2019 AND 2018	Q2-2019	Q2-2018	Variance
	\$	\$	%
Sales	211,866	230,010	-7.9
Earnings before income taxes	430	529	-18.7
Net earnings - Basic	305	381	-19.9
Net earnings - Diluted	266	381	-30.2
Net earnings per share - Basic	0.04	0.04	-
Net earnings per share - Diluted	0.03	0.04	-25.0
Cash Flow from Operations (excluding non-cash working capital items, income tax paid and interest paid)	3,410	3,616	-5.7
EBITDA	3,707	3,916	-5.3
Average Bank indebtedness	60,135	71,552	-16.0
Inventory average	106,939	104,460	+2.4

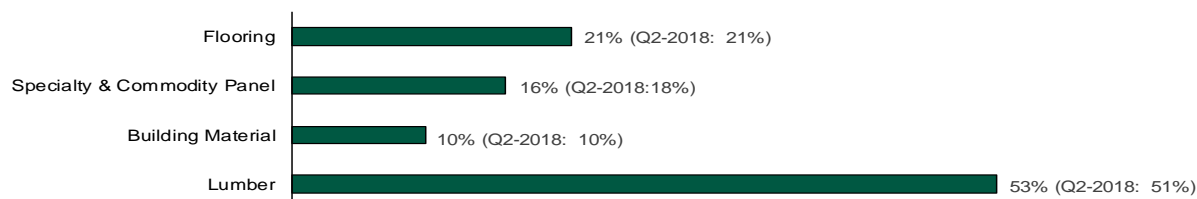
Sales in Canada during the first six months of fiscal 2019 decreased 8% compared to last year mainly due to decrease in sales of flooring, commodity panels, building materials and hardwood products. Quebec sales decreased 6% due to decrease in sales of pressure treated wood, flooring, specialty and commodity panels and spruce. Sales in Ontario decreased 12% mainly due to a decline in sales of flooring, commodity panels and hardwood products. Sales in Western Canada decreased 2% mainly due to decreased sales of building materials and hardwood products but this was partially compensated by an increase in flooring and siding products. Atlantic region sales decreased 8% due to decreased sales of pressure treated wood, specialty panels, siding and building materials.

Geographical Distribution of Sales for the First Six Months ended May 31, 2019



Sales in the United States for the first six months ended May 31, 2019 decreased 12% on a Canadian dollar basis compared to last year due to lower demand of hardwood lumber products. On US dollar basis, US denominated sales decreased 16% compared to last year. Finally, export sales decreased 2% during the first six months of fiscal 2019 compared to last year mainly due to decreasing demand of flooring products in the United Kingdom.

Product Distribution of Sales for the First Six Months ended May 31, 2019



In terms of the distribution of sales by product, flooring sales for the first six months ended May 31, 2019 decreased 6% compared to last year. Specialty and Commodity Panel sales decreased 15% compared to last year. Building Materials sales decreased 12% compared to last year. Finally, Lumber sales decreased 5% compared to last year.

Cost of Goods Sold

Cost of goods sold for the first six months of fiscal 2019 was \$171.2 million compared to \$187.4 million last year. Cost of goods sold decreased 8.6% compared to last year. Total freight outbound cost decreased 9.7% compared to last year. Gross profits decreased 4.8% during the first six months ended May 31, 2019 compared to last year while gross margins increased from 18.5% to 19.2%.

Selling, Administrative and General Expenses

Selling, Administrative and General Expenses for the first six months ended May 31, 2019 was \$38.6 million compared to \$40.5 million last year. Selling, Administrative and General Expenses decreased 4.6% compared to last year.

Net Financial Costs

Net financial costs for the first six months of fiscal 2019 were \$1.6 million (same last year). The average Canadian prime rate increased to 3.95% for the first six months of fiscal 2019 compared to 3.38% last year. The average US prime rate increased to 5.48% compared to 4.58% last year. Average bank indebtedness during the first six months of fiscal 2019 was \$60.1 million compared to \$71.6 million last year.

SUMMARY OF THE LAST EIGHT MOST RECENTLY COMPLETED QUARTERS

(In thousands of dollars, except per share amounts)

	Aug-2018	Nov-2018	Feb-2019	May-2019
	\$	\$	\$	\$
Sales	132,455	112,742	88,153	123,713
Net earnings (loss) - Basic	1,993	197	(1,550)	1,855
Net earnings (loss) - Diluted	1,993	197	(1,550)	1,816
Net earnings (loss) per share - Basic	0.24	0.02	(0.18)	0.22
Net earnings (loss) per share - Diluted	0.24	0.02	(0.18)	0.21

	Aug-2017	Nov-2017	Feb-2018	May-2018
	\$	\$	\$	\$
Sales	142,970	127,558	96,684	133,326
Net earnings (loss) - Basic	1,632	2,216	(1,431)	1,812
Net earnings (loss) - Diluted	1,632	2,216	(1,431)	1,812
Net earnings (loss) per share - Basic	0.19	0.26	(0.17)	0.21
Net earnings (loss) per share - Diluted	0.19	0.26	(0.17)	0.21

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

STATEMENT OF FINANCIAL POSITION

Total Assets

Total assets at May 31, 2019 was \$231.2 million compared to \$245.9 million last year. Cash at May 31, 2019 closed at \$2.9 million compared to \$1.5 million last year. Trade and other receivables at May 31, 2019 was \$75.9 million compared to \$86.0 million last year. Income tax receivable at May 31, 2019 was \$0.1 million compared to \$1.6 million last year. Inventories at May 31, 2019 was \$108.6 million compared to \$109.7 million last year. Prepaid expenses at May 31, 2019 was \$2.6 million compared to \$3.6 million last year. Defined benefit plan assets was \$2.7 million at May 31, 2019 compared to \$2.4 million last year. Investment was \$25 thousand at May 31, 2019 compared to \$285 thousand last year reflecting the carrying amount of the investment in the JV. Other assets was \$0.9 million at May 31, 2019 (same last year).

Property, plant, equipment and intangible assets

Property, plant and equipment at May 31, 2019 was \$33.2 million compared to \$35.2 million last year. Capital expenditures during the first six months of fiscal 2019 amounted to \$0.2 million compared to \$0.6 million last year. Property, plant and equipment capitalized during the first six months of fiscal 2019 mainly included buildings, yard equipment, computers and rolling stock. Intangible assets at May 31, 2019 was \$4.1 million

compared to \$4.7 million last year. Proceeds on disposal of capital assets during the first six months of fiscal 2019 was \$8 thousand compared to \$48 thousand last year. Depreciation of property, plant, equipment and intangible assets during the first six months of fiscal 2019 was \$1.7 million compared to \$1.8 million last year. Historically, capital expenditures in general have been capped at depreciation levels.

Total Liabilities

Total liabilities at May 31, 2019 was \$119.2 million compared to \$136.0 million last year. Bank indebtedness was \$68.0 million compared to \$83.3 million last year. Trade and other payables at May 31, 2019 was \$45.7 million compared to \$46.6 million last year. Provision at May 31, 2019 was \$1.7 million compared to \$1.4 million last year. Long-term debt at May 31, 2019 was \$51 thousand compared to \$126 thousand last year. Deferred income taxes at May 31, 2019 was \$3.7 million compared to \$3.6 million last year. Defined benefit plan obligation was \$0.1 million at May 31, 2019 compared to \$0.9 million last year.

Shareholders' Equity

Total Shareholders' Equity at May 31, 2019 was \$112.0 million compared to \$109.8 million last year. The Company generated a return on equity of 0.5 % during the first six months of fiscal 2019 compared to 0.7 % last year. Market share price closed at \$5.31 per share on May 31, 2019 (\$7.48 on May 31, 2018). Share book value at May 31, 2019 was \$13.16 per share compared to \$12.91 last year. Share capital was \$9.2 million at May 31, 2019 (same last year). On February 14, 2019, the Company declared a dividend of \$0.10 per share, totaling \$851 thousand to shareholders of record on February 28, 2019, which was paid on March 15, 2019 (none last year).

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 at the grant date (\$494 thousand) and the shares were vested at November 30, 2017 as the Company met the non-market performance targets. On April 12, 2019, the Company modified these deferred shares to allow for a cash alternative at the key executive's discretion. The cash alternative allows the key executive to a cash payment equal to the number of deferred shares exercised multiplied by the fair value of the shares calculated using the average closing trading price during the preceding twenty trading days of the exercise. On April 12, 2019 (the date of the modification), based on an average closing share price of \$6.27 for the twenty trading days preceding April 12, 2019, an amount of \$351 thousand was transferred from retained earnings to Payroll related liabilities.

At the end of each reporting period until the liability is settled, the fair value of the liability is remeasured, with any changes in fair value recognized in profit and loss for the period. As at May 31, 2019, based on a closing share price of \$5.31, the Company recognized a share-based compensation recovery of \$54 thousand in Employee benefits expense for the three months ended May 31, 2019 with a corresponding change in Payroll related liabilities. As at May 31, 2019, the deferred share liability included in Payroll related liabilities is \$297 thousand, and no shares have been issued or exercised for cash.

LIQUIDITY AND CAPITAL RESOURCES

Financing

In May 2019, the Company renewed its credit agreement with its present lenders, two chartered Canadian banks. The credit agreement has a maximum revolving operating facility of \$90 million renewable in May 2021. In addition, an accordion of \$10 million is available once per fiscal year for a maximum of 150 days only. Funds advanced under these credit facilities bear interest at the prime rate plus a premium and are secured by first ranking security on the universality of the movable property of the Company. As at May 31, 2019, the Company was compliant with its financial covenants. As at May 31, 2019, under the credit agreement, the Company was using \$68.0 million of its facility compared to \$77.0 million last year.

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 six months of fiscal 2019 was \$(23.7) million compared to \$(30.4) million last year. Financing activities during the first six months of fiscal 2019 was \$26.1 million compared to \$25.9 million last year. Investing activities during the first six months of fiscal 2019 was \$(0.3) million compared to \$(0.6) million last year (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's financial objectives and strategy remain substantially unchanged.

The Company is subject to certain covenants on its credit facilities. The covenants include a Debt-to-capitalization ratio 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 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 May 31, 2019 and 2018, the Company achieved the following results regarding its capital management objectives:

	As at May 31 2019	As at May 31 2018
Capital management		
Debt-to-capitalization ratio	37.0 %	42.9 %
Interest coverage ratio	3.0	3.5
Return on shareholders' equity	0.5 %	0.7 %
Current ratio	1.7	1.5
EBITDA (in thousands of dollars)	\$3,707	\$3,916

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 May 31, 2019, its total debt-to-capitalization ratio decreased to 37.0% compared to 42.9% on May 31, 2018. In May 2019, the Company renewed its credit agreement with its present lenders, two chartered Canadian banks. The credit agreement has a maximum revolving operating facility of \$90 million renewable in May 2021. In addition, an accordion of \$10 million is available once per fiscal year for a maximum of 150 days only. Funds advanced under these credit facilities bear interest at the prime rate plus a premium and are secured by first ranking security on the universality of the movable property of the Company. As at May 31, 2019, the Company was compliant with its financial covenants. As at May 31, 2019, under the credit agreement, the Company was using \$68.0 million of its facility compared to \$77.0 million last year.

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, 2018 as well as in the 2018 Annual Information Form available on SEDAR (www.sedar.com).

COMMITMENTS AND CONTINGENCIES

As at May 31, 2019, 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	18,430	4,861	7,551	4,563	1,455
Purchase obligations	214	214	-	-	-
Total Contractual Obligations	18,644	5,075	7,551	4,563	1,455

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 2018 Annual report. Only those factors with variability components are described below:

Dependence on Major Customers

Only one major customer exceeds 10% of total Company sales in the three months and six months ended May 31, 2019 compared to two 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 six months ended			
	May 31, 2019		May 31, 2018		May 31, 2019		May 31, 2018	
	\$	%	\$	%	\$	%	\$	%
Sales to major customer(s) that exceeded 10% of total Company's sales	16,258	13.1	32,387	24.3	27,853	13.1	57,403	25.0

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

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 2018 Annual report. Only those factors with variability components are described below:

The following are the contractual maturities of financial liabilities as at May 31, 2019:
(in thousands of dollars)

Financial Liabilities				
	Carrying Amount	Contractual cash flows	0 to 12 Months	12 to 36 Months
Bank indebtedness	68,000	68,000	68,000	-
Trade and other payables	45,696	45,696	45,696	-
Long-term debt	51	51	15	36
Total financial liabilities	113,747	113,747	113,711	36

Interest Rate Risk

The Company uses a credit facility to finance working capital requirements. The interest cost of this facility is dependent upon Canadian and US bank prime rates. 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 \$68.0 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 significant effect on the Company's net earnings. As at May 31, 2019, the Company had the following currency exposure:

Financial assets and liabilities measured at amortized costs

(in thousands of dollars)

	USD	GBP	Euro
Cash	1,598	391	12
Trade and other receivables	6,983	204	-
Trade and other payables	(8,879)	(20)	(520)
Long-term debt	(38)	-	-
Net exposure	(336)	575	(508)
CAD exchange rate as at May 31, 2019	1.3516	1.7072	1.5095
Impact on net earnings based on a fluctuation of 5% on CAD	(16)	35	(28)

Credit Risk

The Company is exposed to credit risks from customers. As a result of having a diversified customer mix, this risk is alleviated by minimizing the amount of exposure the Company has to any one customer. Additionally, the Company has a system of credit management to mitigate the risk of losses due to insolvency or bankruptcy of its customers. It also utilizes credit insurance to reduce the potential for credit losses.

Finally, the Company has adopted a credit policy that defines the credit conditions to be met by its customers and specific credit limit for each customer is established and regularly revised. Based on historical payment behaviour and current credit information and experience available, the Company believes that, apart from provision for doubtful accounts recorded, no impairment allowance is necessary in respect of trade receivables that are current or past due. The Company does not have long-term contracts with any of its customers. Distribution agreements are usually awarded annually and can be revoked.

The following table presents information on credit risk exposure and expected credit losses related to trade accounts receivable:
(in thousands of dollars)

	May 31 2019	May 31 2018
	\$	\$
Current	71,901	81,764
31 - 60 days past due	2,475	2,675
61 - 90 days past due	1,168	541
91 - 120 days past due	123	199
Over 120 days past due	390	802
	76,057	85,981
Loss allowance	(398)	(353)
Balance, end of period	75,659	85,628

As at May 31, 2019, an amount of \$218 thousand included in the loss allowance represents a specific allowance for trade accounts receivable that amount to \$273 thousand. Other than specific allowance, expected credit losses are limited to \$180 thousand and therefore, the expected credit losses by trade accounts receivable aging have not been presented separately in the table above.

Fair Value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is based on available public market information or, when such information is not available, is estimated using present value techniques and assumptions concerning the amount and timing of future cash flows and discount rates which factor in the appropriate level of risk for the instrument. The estimated fair values may differ in amount from that which could be realized in an immediate settlement of the instruments. The carrying amounts of cash, trade and other receivables, bank indebtedness, trade and other payables and long-term debt approximate their fair values.

RELATED PARTY TRANSACTIONS

The related party transactions remain substantially unchanged from those included in the Company's Annual MD&A contained in its 2018 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 2018 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 2018 Annual consolidated financial statements, except as described in Note 3 contained in the interim consolidated financial statements ended May 31, 2019 in the changes in accounting standards section.

DISCLOSURE OF OUTSTANDING SHARE DATA

At May 31, 2019, 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 4, 2019, there were 8,506,554 common shares outstanding.

OUTLOOK

During Fiscal 2019, 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

Management is responsible for establishing and maintaining a system of disclosure controls and procedures to provide reasonable assurance that all material information relating to the Company and its subsidiaries is gathered and reported to senior management on a timely basis so that appropriate decisions can be made regarding public disclosure.

Management is responsible for establishing and maintaining adequate internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial reports for external purposes in accordance with IFRS.

In designing such controls, it should be recognized that due to inherent limitations, any controls, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives and may not prevent or detect misstatements. Projections of any evaluations of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. Additionally, management is required to use judgment in evaluating controls and procedures.

There has been no change in the Company's internal control over financial reporting that occurred during the three and six months ended May 31, 2019 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Delson, July 4, 2019



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 six months ended May 31, 2019 and 2018

(in thousands of dollars, except per share amounts)

Unaudited

	For the three months ended		For the six months ended	
	May 31 2019	May 31 2018	May 31 2019	May 31 2018
	\$	\$	\$	\$
Sales (Note 13)	123,713	133,326	211,866	230,010
Expenses				
Cost of goods sold (Note 4)	100,007	108,774	171,248	187,366
Selling, administrative and general expenses (Note 4)	20,260	21,106	38,627	40,503
Loss on disposal of property, plant and equipment	-	37	7	39
Net financial costs	863	892	1,554	1,573
	121,130	130,809	211,436	229,481
Earnings before income taxes	2,583	2,517	430	529
Income taxes	728	705	125	148
Total comprehensive income	1,855	1,812	305	381
Net earnings per share - Basic (Note 8 d))	0.22	0.21	0.04	0.04
Net earnings per share - Diluted (Note 8 d))	0.21	0.21	0.03	0.04

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

	As at May 31 2019 \$	As at November 30 2018 \$	As at May 31 2018 \$
Assets			
Current Assets			
Cash	2,942	2,578	1,545
Trade and other receivables (Note 5)	75,939	50,008	86,013
Income taxes receivable	142	-	1,612
Inventories	108,594	92,544	109,653
Prepaid expenses	2,626	3,143	3,593
Total Current Assets	190,243	148,273	202,416
Non-Current Assets			
Property, plant and equipment	33,186	34,356	35,199
Intangible assets	4,145	4,444	4,703
Defined benefit plan asset	2,702	2,704	2,403
Investment in a joint venture	25	25	285
Other assets	849	916	849
Total Non-Current Assets	40,907	42,445	43,439
Total Assets	231,150	190,718	245,855
Liabilities			
Current liabilities			
Bank indebtedness (Note 6)	68,000	42,835	83,343
Trade and other payables (Note 7)	45,696	29,192	46,622
Income taxes payable	-	409	-
Provision	336	336	964
Current portion of long-term debt (Note 6)	15	14	77
Total Current Liabilities	114,047	72,786	131,006
Non-Current Liabilities			
Provision	1,324	1,317	471
Long-term debt (Note 6)	36	43	49
Deferred income taxes	3,652	3,652	3,582
Defined benefit plan obligation	125	57	932
Total Non-Current Liabilities	5,137	5,069	5,034
Total Liabilities	119,184	77,855	136,040
Shareholders' Equity			
Share capital (Note 8)	9,152	9,152	9,152
Retained earnings	102,814	103,711	100,663
	111,966	112,863	109,815
Total Liabilities and Shareholders' Equity	231,150	190,718	245,855

GOODFELLOW INC.
Consolidated Statements of Cash Flows
For the three and six months ended May 31, 2019 and 2018
(in thousands of dollars)
Unaudited

	For the three months ended		For the six months ended	
	May 31	May 31	May 31	May 31
	2019	2018	2019	2018
	\$	\$	\$	\$
Operating Activities				
Net earnings	1,855	1,812	305	381
Adjustments for:				
Depreciation	856	912	1,723	1,814
Accretion expense on provision	4	13	7	26
Increase in provision	-	25	-	25
Income taxes	728	705	125	148
Loss on disposal of property, plant and equipment	-	37	7	39
Interest expense	623	653	1,105	1,129
Funding in deficit of pension plan expense	36	29	71	21
Other assets	-	-	67	33
	4,102	4,186	3,410	3,616
Changes in non-cash working capital items (Note 11)	(13,424)	(21,034)	(25,205)	(32,531)
Interest paid	(725)	(656)	(1,211)	(1,342)
Income taxes paid	(223)	(55)	(676)	(171)
	(14,372)	(21,745)	(27,092)	(34,044)
Net Cash Flows from Operating Activities	(10,270)	(17,559)	(23,682)	(30,428)
Financing Activities				
Net increase (decrease) in bank loans	5,000	(1,000)	2,000	(4,000)
Net increase in banker's acceptances	10,000	14,000	25,000	30,000
Reimbursement of long-term debt	(2)	(34)	(6)	(68)
Dividend Paid	(851)	-	(851)	-
	14,147	12,966	26,143	25,932
Investing Activities				
Acquisition of property, plant and equipment	87	(316)	(225)	(551)
Increase in intangible assets	(26)	(79)	(45)	(112)
Proceeds on disposal of property, plant and equipment	-	28	8	48
	61	(367)	(262)	(615)
Net cash inflow (outflow)	3,938	(4,960)	2,199	(5,111)
Cash position, beginning of period	(996)	162	743	313
Cash position, end of period	2,942	(4,798)	2,942	(4,798)
Cash position is comprised of:				
Cash	2,942	1,545	2,942	1,545
Bank overdraft (Note 6)	-	(6,343)	-	(6,343)
	2,942	(4,798)	2,942	(4,798)

GOODFELLOW INC.**Consolidated Statements of Change in Shareholders' Equity****For the six months ended May 31, 2019 and 2018***(in thousands of dollars)***Unaudited**

	Share Capital	Retained Earnings	Total
	\$	\$	\$
Balance as at November 30, 2017 (Audited)	9,152	100,282	109,434
Net income	-	381	381
Total comprehensive income	-	381	381
Balance as at May 31, 2018	9,152	100,663	109,815
Balance as at November 30, 2018 (Audited)	9,152	103,711	112,863
Net earnings	-	305	305
Total comprehensive income	-	305	305
<i>Transactions within equity</i>			
Dividend	-	(851)	(851)
Modification of share-based payment (Note 8 b))	-	(351)	(351)
Balance as at May 31, 2019	9,152	102,814	111,966

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three and six months ended May 31, 2019 and 2018

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

1. Status and nature of activities

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

The interim consolidated financial statements of the Company as at and for the six months ended May 31, 2019 and 2018 includes the accounts of the Company and its wholly-owned subsidiaries.

2. Basis of preparation

Statement of compliance

These interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”). These interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements for the year ended November 30, 2018, as set out in the 2018 annual report. Certain comparative figures have been reclassified to conform to the current year’s presentation.

The financial statements were authorized for issue by the Board of Directors on July 4, 2019.

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.

3. Significant Accounting Policies

The Company’s significant accounting policies described in Note 3 contained in its 2018 Annual consolidated financial statements have been applied consistently in the preparation of these unaudited interim consolidated financial statements except as noted below:

Changes in accounting standards

Effective December 1, 2018, the Company adopted IFRS 9 Financial Instruments (“IFRS 9”) and IFRS 15 Revenue from Contracts with Customers (“IFRS 15”).

a) IFRS 9, Financial Instruments

IFRS 9 replaces IAS 39 relating to the recognition, classification and measurement of financial assets and financial liabilities, de-recognition of financial instruments, impairment of financial assets and hedge accounting.

The adoption of IFRS 9 did not have a significant impact on these unaudited interim consolidated financial statements given the nature of the Company’s operations and the types of financial instruments that it currently holds.

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics. Financial assets are not reclassified subsequent to their initial recognition unless the Company identifies changes in its business model in managing financial assets.

The following summarizes the classification and measurement changes for the Company’s financial assets and financial liabilities as a result of the adoption of IFRS 9:

	IAS 39	IFRS 9
Financial assets:		
Cash and cash equivalents	Loans and receivables	Amortized cost
Trade and other receivables	Loans and receivables	Amortized cost
Financial liabilities:		
Trade and other payables	Other financial liabilities	Amortized cost
Bank indebtedness	Other financial liabilities	Amortized cost
Long-term debt	Other financial liabilities	Amortized cost

In accordance with the transitional provisions of IFRS 9, the financial assets and financial liabilities held at December 1, 2018 were reclassified retrospectively without prior period restatement based on the new classification requirements and the characteristics of each financial instrument at December 1, 2018. The accounting for these instruments and the line item in which they are included in the consolidated statement of financial position were unaffected by the adoption of IFRS 9.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three and six months ended May 31, 2019 and 2018

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

3. Significant Accounting Policies (*Continued*)

The Company also applied the expected credit loss model to the assessment of impairment on trade and other receivables. The application of the expected credit loss model to determine the allowance for credit loss had a nominal effect. The Company's new policy in the allowance for credit loss is determined using both specific identification of customer accounts and the expected credit loss model. The Company uses an estimate of the net recoverable amount for specific customer accounts it has identified and the expected credit loss model for the remaining customer accounts based on historical experience of uncollectable amounts. Accounts that are considered uncollectable are written off.

b) *IFRS 15, Revenue from Contracts with Customers*

IFRS 15 replaces IAS 11 Construction Contracts and IAS 18 Revenue and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. IFRS 15 contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The new standard establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The Company's revenue recognition accounting policy is that revenue from the sale of products is measured based on the consideration specified in the contract with a customer. The Company recognizes revenue at a point in time when control of the goods is transferred to the customer. The Company satisfies its performance obligation and control of the goods is transferred to the customer generally when the customer has taken delivery of the goods. No component of the transaction price is allocated to unsatisfied performance obligations.

The standard requires entities to exercise judgment, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. In accordance with the transition provisions in IFRS 15, the Company has adopted the new rules retrospectively. The new standard did not result in any change to the timing of revenue recognition for the Company for previously reported periods (as a result a consolidated statement of financial position at December 1, 2017 has not been presented) and did not have a significant impact on the financial results of the Company but does, however, result in more extensive disclosures on the Company's revenue transactions (Note 13).

Update to significant accounting policies

As a result of the initial adoption of IFRS 9 and IFRS 15, as described above, the Company has updated its significant accounting policies as follows:

a) *Financial Instruments*

The Company initially recognizes financial assets on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

Financial assets are initially measured at fair value. If the financial asset is not subsequently accounted for at fair value through profit or loss, then the initial measurement includes transaction costs that are directly attributable to the asset's acquisition or origination. On initial recognition, the Company classifies its financial assets as subsequently measured at either amortized cost or fair value, depending on its business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

i. *Financial assets measured at amortized cost*

A financial asset is subsequently measured at amortized cost, using the effective interest method and net of any impairment loss, if:

- The asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and/or interest.

The Company currently classifies its cash and cash equivalents and trade and other receivables as assets measured at amortized cost.

Impairment of financial assets

The Company uses the "expected credit loss" model for calculating impairment and recognizes expected credit losses as a loss allowance if they relate to a financial asset measured at amortized cost. The carrying amount of these assets in the consolidated statement of financial position is stated net of any loss allowance.

ii. *Financial assets measured at fair value*

These assets are measured at fair value and changes therein, including any interest or dividend income, are recognized in profit or loss. There are currently no financial assets measured at fair value with changes in fair value recognized in profit or loss.

However, for investments in equity instruments that are not held for trading, the Company may elect at initial recognition to present gains and losses in other comprehensive income. For such investments measured at fair value through other comprehensive income, gains and losses are never reclassified to profit or loss, and no impairment is recognized in profit or loss.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three and six months ended May 31, 2019 and 2018

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

3. Significant Accounting Policies (Continued)

Dividends earned from such investments are recognized in profit or loss, unless the dividend clearly represents a repayment of part of the cost of the investment. The Company currently has no equity instruments that are not held for trading.

iii. Financial liabilities are classified into the following categories:

Financial liabilities measured at amortized cost

The Company classifies non-derivative financial liabilities as measured at amortized cost. Non-derivative financial liabilities are initially recognized at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these liabilities are measured at amortized cost using the effective interest method. The Company currently classifies trade and other payables, bank indebtedness and long-term debt as financial liabilities measured at amortized cost.

Financial liabilities measured at fair value

Financial liabilities measured at fair value are initially recognized at fair value and are re-measured at each reporting date with any changes therein recognized in profit or loss. The Company currently has no financial liabilities measured at fair value.

iv. Non-hedge derivative financial instruments measured at fair value

Non-hedge derivative financial instruments, if any, are recorded as either assets or liabilities measured initially at their fair value. Attributable transaction costs are recognized in profit or loss as incurred. All derivative financial instruments not designated in a hedge relationship are classified as financial instruments at fair value through profit and loss. Any subsequent change in the fair value of non-hedge foreign exchange contracts are accounted for in cost of goods sold for the period in which it arises.

b) Revenue Recognition

Revenue from the sale of goods from activities relating to remanufacturing, distribution of lumber and wood products is recognized, net of discounts and customer rebates, at the point in time when the transfer of control of the related products has taken place (based on shipping or delivery terms as specified in the sales contract), and collectability is reasonably assured. Revenue is only recognized to the extent that it is highly probable that a significant reversal will not occur. Revenue is only recognized to the extent that it is highly probable that a significant reversal will not occur.

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

	For the three months ended		For the six months ended	
	May 31 2019	May 31 2018	May 31 2019	May 31 2018
	\$	\$	\$	\$
Employee benefits expense	13,370	13,556	25,273	26,193
Obsolescence adjustment included in cost of goods sold	151	(68)	290	216
Depreciation included in cost of goods sold	240	265	489	531
Depreciation included in selling, administrative and general expenses	616	647	1,234	1,283
Operating lease expense	1,229	1,211	2,487	2,404
Foreign exchange (losses) gains	(92)	76	(5)	80

5. Trade and other receivables

	May 31 2019	November 30 2018	May 31 2018
	\$	\$	\$
Trade receivables	76,057	50,253	85,981
Allowance for doubtful accounts	(398)	(570)	(353)
	75,659	49,683	85,628
Other receivables	280	325	385
	75,939	50,008	86,013

6. Bank indebtedness and long-term debt

a) Bank indebtedness

	May 31 2019	November 30 2018	May 31 2018
	\$	\$	\$
Bank loans	5,000	3,000	3,000
Banker's acceptances	63,000	38,000	74,000
Bank overdraft	-	1,835	6,343
	68,000	42,835	83,343

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three and six months ended May 31, 2019 and 2018

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

6. Bank indebtedness and long-term debt (Continued)

In May 2019, the Company renewed its credit agreement with its present lenders, two chartered Canadian banks. The credit agreement has a maximum revolving operating facility of \$90 million renewable in May 2021. In addition, an accordion of \$10 million is available once per fiscal year for a maximum of 150 days only. Funds advanced under these credit facilities bear interest at the prime rate plus a premium and are secured by first ranking security on the universality of the movable property of the Company. As at May 31, 2019, the Company was compliant with its financial covenants. As at May 31, 2019, under the credit agreement, the Company was using \$68.0 million of its facility compared to \$77.0 million last year.

b) Long-term debt

The Company has entered into finance leases secured by the leased lift trucks. The obligation under finance leases bear interests at a rate of 6.1% per annum, maturing August 2022.

7. Trade and other payables

	May 31 2019	November 30 2018	May 31 2018
	\$	\$	\$
Trade payables and accruals	37,474	22,789	39,046
Payroll related liabilities	6,273	6,093	5,806
Sales taxes payables	1,949	310	1,770
	45,696	29,192	46,622

8. Share Capital

a) Authorized

An unlimited number of common shares, without par value

	May 31 2019	November 30 2018	May 31 2018
Number of shares outstanding at the beginning and 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 at the grant date (\$494 thousand) and the shares were vested at November 30, 2017 as the Company met the non-market performance targets. On April 12, 2019, the Company modified these deferred shares to allow for a cash alternative at the key executive's discretion. The cash alternative allows the key executive to a cash payment equal to the number of deferred shares exercised multiplied by the fair value of the shares calculated using the average closing trading price during the preceding twenty trading days of the exercise. On April 12, 2019 (the date of the modification), based on an average closing share price of \$6.27 for the twenty trading days preceding April 12, 2019, an amount of \$351 thousand was transferred from retained earnings to Payroll related liabilities.

At the end of each reporting period until the liability is settled, the fair value of the liability is remeasured, with any changes in fair value recognized in profit and loss for the period. As at May 31, 2019, based on a closing share price of \$5.31, the Company recognized a share-based compensation recovery of \$54 thousand in Employee benefits expense for the three months ended May 31, 2019 with a corresponding change in Payroll related liabilities. As at May 31, 2019, the deferred share liability included in Payroll related liabilities is \$297 thousand, and no shares have been issued or exercised for cash.

c) Share option plan

The Company has a share option plan for directors, officers and employees, which provides for the purchase of common shares up to a maximum number of 420,000 issuable shares. Under the plan, the exercise price of each option equals the market price of the Company's share on the date of grant and an option's maximum term is five years. The rights relating to the options are vested over five years at a rate of 50% after three years and the balance after five years.

No options were granted or exercised and there were no outstanding options in the current and prior fiscal year. As at May 31, 2019, 220 000 common shares are reserved for the granting of options.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three and six months ended May 31, 2019 and 2018

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

8. Share Capital (Continued)

- d) Net earnings and dividend per share

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

	For the three months ended		For the six months ended	
	May 31 2019	May 31 2018	May 31 2019	May 31 2018
	\$	\$	\$	\$
Net earnings				
- basic	1,855	1,812	305	381
- diluted (see Note 8b)	1,816	1,812	266	381
Weighted average number of common shares				
- basic	8,506,554	8,506,554	8,506,554	8,506,554
- diluted	8,562,554	8,562,554	8,562,554	8,562,554

On February 14, 2019, the Company declared a dividend of \$0.10 per share, totaling \$851 thousand to shareholders of record on February 28, 2019, which was paid on March 15, 2019 (none last year).

9. Seasonal Pattern

The Company's business follows a seasonal pattern with sales activities traditionally higher in the second and third quarters. As a result, a higher share of total earnings is typically earned in the second and third quarter. This business seasonality results in performance, for the six months ended May 31, 2019 which is not necessarily indicative of performance for the balance of the year.

10. Financial instruments and other instruments

Risk Management

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

Financing and Liquidity Risk

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

The following are the contractual maturities of financial liabilities as at May 31, 2019:

Financial Liabilities				
	Carrying Amount	Contractual cash flows	0 to 12 Months	12 to 36 Months
Bank indebtedness	68,000	68,000	68,000	-
Trade and other payables	45,696	45,696	45,696	-
Long-term debt	51	51	15	36
Total financial liabilities	113,747	113,747	113,711	36

Interest Rate Risk

The Company uses a credit facility to finance working capital requirements. The interest cost of this facility is dependent upon Canadian and US bank prime rates as well as the Company's funded debt to capitalization ratio. The profitability of the Company could be adversely affected with increases in the bank prime rate. Management does not believe that the impact of interest rate fluctuations will be significant on its operating results. A 1% fluctuation of interest rate on the \$68.0 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.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three and six months ended May 31, 2019 and 2018

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

10. Financial instruments and other instruments (Continued)

As at May 31, 2019, the Company had the following currency exposure:

	USD	GBP	Euro
Cash	1,598	391	12
Trade and other receivables	6,983	204	-
Trade and other payables	(8,879)	(20)	(520)
Long-term debt	(38)	-	-
Net exposure	(336)	575	(508)
CAD exchange rate as at May 31, 2019	1.3516	1.7072	1.5095
Impact on net earnings based on a fluctuation of 5% on CAD	(16)	35	(28)

Credit Risk

The Company is exposed to credit risks from customers. As a result of having a diversified customer mix, this risk is alleviated by minimizing the amount of exposure the Company has to any one customer. Additionally, the Company has a system of credit management to mitigate the risk of losses due to insolvency or bankruptcy of its customers. It also utilizes credit insurance to reduce the potential for credit losses. Finally, the Company has adopted a credit policy that defines the credit conditions to be met by its customers and specific credit limit for each customer is established and regularly revised. Based on historical payment behaviour and current credit information and experience available, the Company believes that, apart from provision for doubtful accounts recorded, no impairment allowance is necessary in respect of trade receivables that are current or past due. The Company does not have long-term contracts with any of its customers. Distribution agreements are usually awarded annually and can be revoked.

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

	May 31 2019	May 31 2018
	\$	\$
Current	71,901	81,764
31 - 60 days past due	2,475	2,675
61 - 90 days past due	1,168	541
91 - 120 days past due	123	199
Over 120 days past due	390	802
	76,057	85,981
Loss allowance	(398)	(353)
Balance, end of period	75,659	85,628

As at May 31, 2019, an amount of \$218 thousand included in the loss allowance represents a specific allowance for trade accounts receivable that amount to \$273 thousand. Other than specific allowance, expected credit losses are limited to \$180 thousand and therefore, the expected credit losses by trade accounts receivable aging have not been presented separately in the table above.

Economic Dependence

Only one major customer exceeds 10% of total Company sales in the three and six months ended May 31, 2019 compared to two 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 six months ended			
	May 31, 2019		May 31, 2018		May 31, 2019		May 31, 2018	
	\$	%	\$	%	\$	%	\$	%
Sales to major customer(s) that exceeded 10% of total Company's sales	16,258	13.1	32,387	24.3	27,853	13.1	57,403	25.0

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

Fair Value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is based on available public market information or, when such information is not available, is estimated using present value techniques and assumptions concerning the amount and timing of future cash flows and discount rates which factor in the appropriate level of risk for the instrument. The estimated fair values may differ in amount from that which could be realized in an immediate settlement of the instruments. The carrying amounts of cash, trade and other receivables, bank indebtedness, trade and other payables and long-term debt approximate their fair values.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three and six months ended May 31, 2019 and 2018

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

11. Additional Cash Flow Information

Changes in Non-Cash Working Capital Items

	For the three months ended		For the six months ended	
	May 31 2019	May 31 2018	May 31 2019	May 31 2018
	\$	\$	\$	\$
Trade and other receivables	(21,597)	(23,327)	(25,931)	(28,406)
Inventories	(715)	(7,134)	(16,050)	(20,793)
Prepaid expenses	(390)	463	615	(544)
Trade and other payables	9,278	8,964	16,161	17,212
	(13,424)	(21,034)	(25,205)	(32,531)

The change in Trade and other payables reflects the impact of \$351 thousand that was transferred from retained earnings to Payroll related liabilities (see Note 8b).

12. Capital Management

The Company's financial objectives and strategy remain substantially unchanged from those included in the Company's annual consolidated financial statements contained in its 2018 Annual report.

As at May 31, 2019 and 2018, the Company achieved the following results regarding its capital management objectives:

	As at May 31 2019	As at May 31 2018
Capital management		
Debt-to-capitalization ratio	37.0 %	42.9 %
Interest coverage ratio	3.0	3.5
Return on shareholders' equity	0.5 %	0.7 %
Current ratio	1.7	1.5
EBITDA	\$3,707	\$ 3,916

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.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three and six months ended May 31, 2019 and 2018

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

13. Sales

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

Primary geographic markets

	For the three months ended		For the six months ended	
	May 31 2019	May 31 2018	May 31 2019	May 31 2018
	\$	\$	\$	\$
Canada	103,492	112,419	176,983	192,123
US	12,428	13,773	20,905	23,670
Export	7,793	7,134	13,978	14,217
	123,713	133,326	211,866	230,010

Sales categories

	For the three months ended		For the six months ended	
	May 31 2019	May 31 2018	May 31 2019	May 31 2018
	\$	\$	\$	\$
Flooring	25,210	27,524	44,384	47,247
Specialty & commodity panels	19,296	24,212	34,778	40,882
Building materials	14,650	16,490	21,277	24,185
Lumber	64,557	65,100	111,427	117,696
	123,713	133,326	211,866	230,010

CORPORATE INFORMATION

BOARD OF DIRECTORS

Claude 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

* 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
Executive Vice President,
Ontario & Western Canada

David Warren
Vice President,
Atlantic

Luc Dignard
Vice President,
Sales, Quebec

Jeff Morrison
Vice President,
National accounts

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Stock Exchange
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Trading Symbol: GDL

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