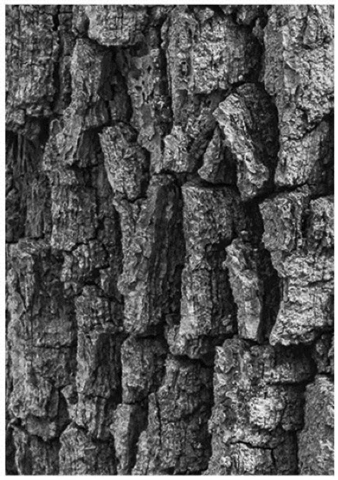
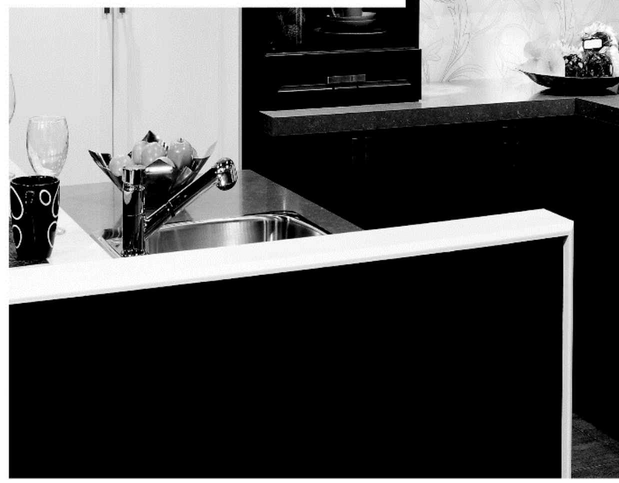
ANNUAL REPORT
2016

GOODFELLOW
THE WOOD SPECIALIST

FINANCIAL HIGHLIGHTS

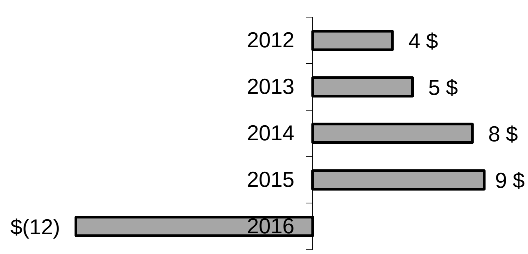
OPERATING RESULTS

(in thousands of dollars except per share amounts)

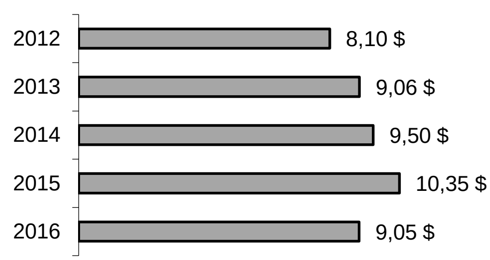
	2016 IFRS	2015 IFRS	2014 IFRS (15 months)	2013 IFRS(1) (Restated)	2012 IFRS(1)
Sales	**$565,173**	$538,975	$610,587	$483,485	$500,688
(Loss) Earnings before income taxes	**$(16,294)**	$11,874	$11,128	$7,307	$6,063
Net (loss) earnings	**$(12,105)**	$8,622	$8,125	$5,279	$4,355
- per share	**$(1.42)**	$1.01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

(1) Year ended August 31
(2) Non-GAAP measures – refer to "Non-GAAP Measures" section of MD&A

NET EARNINGS (in million $)



SHARE PRICE



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GOODFELLOW
THE WOOD SPECIALIST

ANNUAL MEETING

The annual Meeting of Shareholders will be held on April 19, 2017 at 11:00 a.m. at the Goodfellow Inc. Head Office: 225 Goodfellow Street, Delson, Quebec.

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CHAIRMAN’S REPORT TO THE SHAREHOLDERS

The Board of Directors is very disappointed with the results achieved during the last financial year.

At the beginning of the fiscal year, the Company began to use a new Enterprise Resource Planning system (‘ERP’) in order to improve customer service. Unfortunately, the system was launched prematurely which led to a deterioration in the quality of the information available to management.

In September, the Audit committee of the Board retained the services of its auditors to perform selected procedures over the results of the nine month period ended August 31, 2016, including inventory and cost of sales testing. Pursuant to the review, issues with the recording of inventory value and its impact on the cost of goods sold were confirmed and additional steps were taken to verify the integrity of the new ERP System and the accuracy of its results. This extra work delayed the publication of our third quarter results until the end of November.

Shortly after the preliminary results for the last quarter became available, the Board decided that a change in leadership was required. Mr. Patrick Goodfellow, a long-term employee of the Company was appointed President and Chief Executive Officer. The Board asked him to produce, in short order, a plan to make Goodfellow’s operations profitable.

The new experienced management team has already made significant progress; under normal market conditions, Goodfellow should return to profitability during the current financial year.

In closing, on behalf of the Board of Directors, I would like to thank all our employees for their efforts and cooperation over this past year full of changes.

Claude Garcia
Chairman of the Board
February 27, 2017

PRESIDENT'S REPORT TO THE SHAREHOLDERS

December 1st, 2015 to November 30th, 2016 will always be perceived as a negative time period in the company's 118 year history. Fundamental and structural changes were implemented much too hastily. These poorly executed changes compromised the company's historically profitable formula for the past 25 years. An accumulation of compromised G.P. levels, inventory write offs, inordinate expenses and bad receivables put Goodfellow's financial health at risk.

Sales at Y/E November 30th, 2016 were $565 million up from $539 million last year. Sales growth was driven by an exponential increase in pressure treated wood sales due to a large order secured from an important buying group. Across the board we saw reduced margin levels in all categories. This was due to a lack of transparency of cost of goods sold throughout the ERP implementation.

For the year ended November 30th, 2016, the Company shows a **loss** before income taxes of $16.3 million ($12.1 million net of taxes) compared to a **profit** before income taxes of $11.9 million ($8.6 million net of taxes) for the same period last year. This equates to a negative income before taxes variance of $28.2 million ($20.7 million net of taxes) year over year.

The major loss is a result of the very difficult implementation of an ERP system. Unfortunately, the system took some time to provide the hoped for quality of information available to management. Although the situation was perceived to have improved during the year, it was only in December/January 2017 that the disastrous effects were truly revealed.

On January 17th, 2017 a top management change was effected to myself and all energies and measures taken since have gone a long way to correcting the issues. The system transactionally is now working adequately in all locations and the downstream reporting has improved to a basic level.

This situation during 2016 was combined with the complete upheaval of our pressure-treated business with the formation of the TLGI Joint-Venture with the Lebel Group. This structural change is now under review and specific changes will be required.

Immediate measures taken post January 17th, 2017 are a complete physical review of inventories at all locations and an immediate freeze on any non-essential purchasing with the objective of reducing company-wide inventories 10 to 15%. A major sales initiative is now under way to achieve this objective.

In addition, a significant staff reduction has been initiated at all levels. All non-essential expenses are under immediate review. These initiatives have taken hold and prompt results are being seen. More cost cutting initiatives will be required in the coming months. All measures are being taken to ensure the company returns to its historic profitable operating situation by year-end 2017.

Richard Goodfellow, our President from 1988 until November 2014, has returned to work in Delson as a senior advisor to myself to assist in the re-structuring and the evaluation of the current situation. His presence has gone a long-way to re-establishing our staff's confidence in the future of the company. Clear steps are being taken to re-establish profitability short term.

Historic difficult winter conditions continue in Q1 but most parts of the business have positive expectations for the coming spring. All measures taken should be well reflected by the end of Q2 at the end of May.

Patrick Goodfellow
President and CEO
February 27th, 2017

PROSPECTIVE FINANCIAL INFORMATION

The following Management's Discussion and Analysis ("MD&A") and Goodfellow Inc. (hereafter the "Company") consolidated financial statements were approved by the Audit Committee and the Board of Directors on February 27, 2017. The MD&A should be read in conjunction with the consolidated financial statements and the corresponding notes for the twelve months ended November 30, 2016 and twelve months ended November 30, 2015. The MD&A provides a review of the significant developments and results of operations of the Company during the twelve months ended November 30, 2016 and twelve months ended November 30, 2015. The consolidated financial statements ended November 30, 2016 and November 30, 2015 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 restated financial results; and the appropriateness of the compensating controls over inventory management to be implemented under the remediation plan to mitigate the risk of a material misstatement. Although we believe that the expectations reflected in the forward-looking statements contained in this document, and the assumptions on which such forward-looking statements are made, are reasonable, there can be no assurance that such expectations and assumptions will prove to be correct. Readers are cautioned not to place undue reliance on forward-looking statements included in this document, as there can be no assurance that the plans, intentions or expectations upon which the forward-looking statements are based will occur. Our actual results could differ significantly from management's expectations if recognized or unrecognized risks and uncertainties affect our results or if our assessments or assumptions are inaccurate. These risks and uncertainties include, among other things: the possibility that the design deficiencies and impact thereof identified in our review are significantly different than assessed and anticipated; the potential ineffectiveness of the compensating controls over inventory management proposed to be implemented under the remediation plan; and other factors described in our public filings available at www.sedar.com. For these reasons, we cannot guarantee the results of these forward looking statements. The MD&A gives an insight into our past performance as well as the future strategies and key performance indicators as viewed by our management team at Goodfellow Inc. The Company disclaims any obligation to update or revise these forward-looking statements, except as required by applicable law.

Additional information relating to Goodfellow Inc., including the Annual Information Form and the Annual Report can be found on SEDAR at ***www.sedar.com****.*

NON-GAAP MEASURES

Cash flow per share and operating income before depreciation of property, plant and equipment and amortization of intangible assets (also referred to as earnings before interest, taxes, depreciation and amortization ["EBITDA"]), are financial measures not prescribed by the International Financial Reporting Standards ("IFRS") and are not likely to be comparable to similar measures presented by other issuers. Management considers it to be useful information to assist knowledgeable investors in evaluating the cash generating capabilities of the Company. Cash flow per share is defined as Cash flow from operations (excluding non-cash working capital, income tax paid and interest paid) of $(10.8) million for the fiscal period ended November 30, 2016 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 year ended**	
	November 30 2016	November 30 2015
	$	$
Net income for the period	**(12,105)**	8,622
Provision for income taxes	**(4,189)**	3,252
Financial expenses	**3,640**	2,582
Operating income	**(12,654)**	14,456
Depreciation and amortization	**3,850**	3,026
EBITDA	**(8,804)**	17,482

BUSINESS OVERVIEW

Goodfellow Inc. is one of Eastern Canada's largest independent remanufacturers and distributors of lumber products and hardwood flooring products. The Company carries on the business of wholesale distribution of wood products and remanufacturing, distribution and brokerage of lumber. The Company sells to over 7000 customers who represent three main sectors - retail trade, industrial, and manufacturing. The Company operates 12 distribution centres, 7 processing plants in Canada, and 1 distribution centre in the USA.

The Company's strength lies in its experienced sales force, focusing on an exceptional product mix and offering outstanding customer service combined with an experienced product management team and its ability to take advantage of opportunistic purchasing. Our focus, which is key to our business model, remains on value-added products with a diversified array of product offerings servicing our customers with value-added services and building strong business relations with key suppliers.

OVERALL PERFORMANCE

During Fiscal 2016, Management undertook a major project investing in a new Enterprise Resource Planning system ('ERP') in order to improve its customer service and establish a new base for the future. A new joint-venture was created and the acquisition of Quality Hardwoods was completed in the first month of fiscal 2016. Management focus was on growing the top line and improve its position as market leader. The implementation of the ERP proved to be extremely challenging. The biggest challenge was the integration of new technology and the lack of visibility on gross margin information through our business intelligence reporting system for the greater part of fiscal 2016. As the year progressed, price lists were being revised based on actual average costing fluctuations from our suppliers in order to maintain gross margins targets. After major review process, we noticed a disconnect between our supply costs (purchase orders) and our internal inventory average costing as well as our related pricing. Data analytics and searches were performed for the most part of the fourth quarter in order to confirm the integrity of our business intelligence database. In addition, the Q3-2016 financial and ERP review took major efforts from all members of Management to review, analyze and search for explanations. The impact of the lost visibility on margins resulted in a sharp decline in gross margins and overall financial performance. Q4 results were highly affected as the price fluctuation in our inventory purchases were not reflected adequately which resulted in quoting price to our clients at a lower margin. Overall gross margin decreased from 19.1% to 14.4% in fiscal 2016 as compared to fiscal 2015 mainly due to the lack of visibility on costing issues, changes in business methods for pressure treated and siding which were outsourced in fiscal 2016, increased raw material costs, higher salary expenses, increased freight cost, negative impact of the Canadian dollar as compared to the prior year, liquidation of some excess inventory at losses as well as increased inventory obsolescence provisions taken in the fourth quarter. The high inventory level during the year was due to previous strategies. This high inventory level could not be sold during the fall and had to be written-off in our fourth quarter. A net loss of $12.1 million was recorded. The first loss in the history of the Company.

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

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

INVESTMENT IN A JOINT VENTURE

On December 1, 2015, the Company and Groupe Lebel Inc. completed the closing of a joint venture and the creation of Traitement Lebel Goodfellow Inc. with seven wood treatment plants to serve markets across Ontario, Quebec and the Maritimes, Traitement Lebel Goodfellow Inc. became one of the largest treated wood producer in eastern Canada with unsurpassed geographical coverage. Groupe Lebel's four plants located in Bancroft and Caledon, Ontario, Dégelis and St-Joseph, Quebec, are now combined with the Company's three plants located in Delson, Quebec, Elmsdale, Nova Scotia, and Deer Lake, Newfoundland, and were leased to the joint venture forming a new business unit focused on operational excellence. With the creation of the joint venture, this transaction allows us to enhance the strengths of the two partners to better serve the treated wood clients across eastern Canada. The Company invested $3.0 million in the joint venture in the form of inventory of raw material pursuant to a shareholder agreement in return of 40% of the shares of the joint venture. The Company's share of profit of the joint venture, after elimination of unrealised profit on upstream sales was $0.4 million for the twelve months ended November 30, 2016.

BUSINESS COMBINATIONS

On December 31, 2015, the Company completed the acquisition of 100% of the shares of Quality Hardwoods Ltd. located in Powassan, Ontario. Quality Hardwoods Ltd. manufactures, sells and distributes hardwood lumber products in Ontario and in the US which is core to our business development strategy. Sales of the acquired company recognized since the acquisition date amounted to approximately $13.9 million for 11 months. The purchase price was $6.3 million, subject to post-closing adjustments. The Company has financed the acquisition through its existing revolving credit facility. The following fair value determination of the assets acquired and liabilities assumed is final.

The following is a summary of the assets acquired, the liabilities assumed and the consideration transferred at fair value as at the acquisition date. The transaction was made in Canadian dollars.

	December 31 2015
	$
Assets acquired	
Cash	892
Trade and others receivables	1,157
Inventories	2,601
Prepaid expenses	2
Property plant and equipment	3,097
Intangibles	538
Liabilities assumed	
Bank debt	560
Trade and other payables	815
Deferred income taxes	576
Total net assets acquired and liabilities assumed	**6,336**
Consideration transferred	
Cash	5,100
Holdback provision (short term)	1,236
Consideration transferred	**6,336**

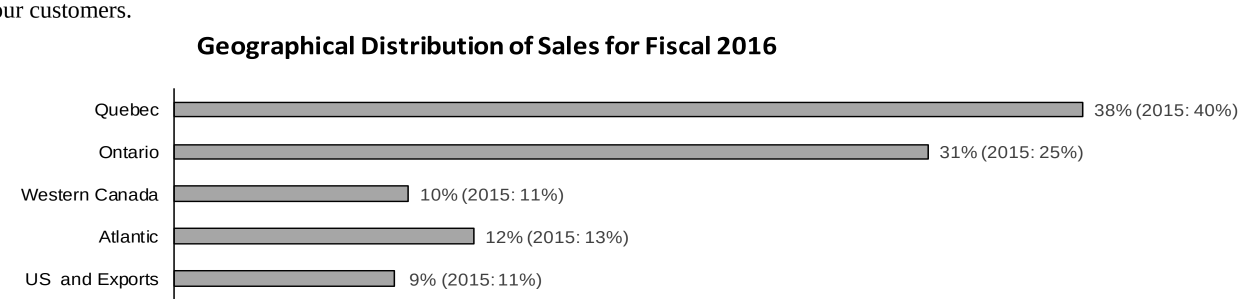
The intangible assets relate mainly to customer relationships. The assigned useful lives of customers' relationship are between 5 to 10 years. Significant assumptions used in the determination of intangible assets, as defined by Management, include year-over-year sales growth, attrition rate, discount rate and operating income before depreciation. From the holdback provision an amount of $0.6 million has been paid during the year.

COMPARISON FOR THE YEARS ENDED NOVEMBER 30, 2016 AND 2015

HIGHLIGHTS FOR THE YEARS ENDED NOVEMBER 30, 2016 AND 2015	**2016**	2015	Variance
Consolidated sales	**$565,173**	$538,975	+4.9%
(Loss) Earnings before income taxes	**$(16,294)**	$11,874	-237.2%
Net (loss) earnings	**$(12,105)**	$8,622	-240.4%
(Loss) Earnings per share Basic and Diluted	**$(1.42)**	$1.01	-240.6%
Cash Flow from Operations (excluding non-cash working capital item, income tax paid and interest paid)	**$(10,802)**	$16,092	-167.1%
EBITDA	**$(8,804)**	$17,482	-150.4%
Average Bank indebtedness	**$94,728**	$65,447	+44.7%
Inventory average	**$130,940**	$111,742	+17.2%

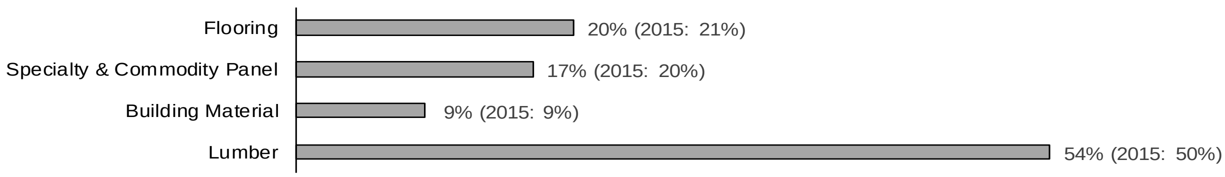
Sales in Canada during fiscal 2016 increased 8% compared to last year due principally to the increased market share in Ontario, the acquisition of Quality Hardwoods and increased Pressure Treated wood sales with retailers groups and improved sales of engineered wood products. Sales in Quebec decreased 1% compared to last year due to a sharp reduction in sales to manufacturing customer base, lower industrial shipments but was offset by increased volume of pressure treated wood business. Sales in Ontario increased 29% compared to last year impacted positively by the Quality Hardwoods acquisition, the new pressure treated wood distribution, strong market presence in engineered wood, flooring and building material products. Sales of Quality Hardwoods, acquired at December 1st, 2015, amounted to $13.9 million. Atlantic sales decreased 2% compared to last year mainly due mainly to a slow demand for Specialty and Commodity Panel products but was offset by the increased demand for pressure treated wood during fiscal 2016. Sales in Western Canada decreased 4% compared to last year mainly due to the slower housing market in Alberta affecting demand for building material and panel products during fiscal 2016 while British Colombia continued to be a strong market.

Total monthly average new housing starts in Canada decreased 1.2% to 177,842 units (Source: CMHC) during twelve months ended November 30, 2016 compared to 179,922 for the twelve months ended November 30, 2015. Market prices of panel products during the fiscal 2016 traded at same level as last year. As such, the Random Lengths Structural Panel Composite Price Index average during the twelve months ended November 30, 2016 showed no significant variance when compared to the twelve months ended November 30, 2015. The weakening of Canadian dollar against the US dollar continued to affect margins for US sourced products. The Canadian dollar weakened in the latter part of the fiscal 2016. As such, the Canadian dollar average was 1.3287 during the twelve months ended November 30, 2016 compared to 1.2607 in fiscal 2015. The weakened Canadian dollar increased our cost on products purchased abroad and negatively impacted our margins as we were not successful in passing all the increase to our customers.



Sales in the United States during fiscal 2016 decreased 10% on a Canadian dollar basis when compared to the same period last year due to lower demand of flooring products and lower projects deliveries of engineered wood products. On a US dollar basis, US denominated sales decreased 14% compared to last year. The North Eastern states housing market decreased during fiscal 2016 and according to the US Census Bureau, new housing starts decreased 8% compared to the comparative period a year ago. The average USD/CAD exchange rate for fiscal 2016 was up 5.4 % (1.3287 vs 1.2607 last year). Finally, export sales declined 12% during the twelve months ended November 30, 2016 compared to the same period a year ago mainly due to decreasing demand of hardwood products in Asia and lower sales in the United Kingdom.

Product Distribution of Sales for Fiscal 2016



These previously discussed factors impacted to various degrees our sales mix during fiscal 2016. Flooring sales during the twelve months ended November 30, 2016 decreased 1% compared to the corresponding period last year. The flooring sales were impacted by the slower demand in the US and the UK but mitigated by the strong performance in Ontario and British Columbia. Specialty and Commodity Panel sales during the twelve months ended November 30, 2016 decreased 11% compared to the corresponding period last year. Demand for panel products was impacted by the slowing housing starts and lower market prices for structural plywood compared to the corresponding period last year. Building Materials sales during the twelve months ended November 30, 2016 increased 3% compared to the corresponding period last year. Building Material sales were positively impacted by the introduction of new product lines and foreign exchange increasing prices during fiscal 2016. Finally, our core lumber business sales during twelve months ended November 30, 2016 increased 14% compared to the corresponding period last year. Lumber sales were strong due to the addition of Quality Hardwoods Ltd., the growth in the treated wood business and engineered wood beams.

Cost of Goods Sold

Cost of goods sold during fiscal 2016 was $483.9 million compared to $436.0 million, an increase of 11.0% when compared to last year reflecting the increased levels of sales activities, lack of visibility on costing issues, changes in business methods for pressure treated and siding which were outsourced in fiscal 2016, increased raw material costs, higher salary expenses, increased freight cost, negative impact of the Canadian dollar as compared to the prior year, liquidation of some excess inventory at losses as well as increased inventory obsolescence provisions taken in the fourth quarter.

Total freight and logistics cost during fiscal 2016 increased 12% compared to last year mainly due sales volumes and shipping issues related to our new system implementation during fiscal 2016. Overall gross margin decreased from 19.1% to 14.4% in fiscal 2016 as compared to fiscal 2015 as many of the increased costs indicated above were not passed along to the customer. The average selling price decreased while our raw material and production costs increased. In addition, the change in business method for treated wood and siding, which were outsourced in 2016 as compared to 2015, negatively impacted the margins. Additionally, the cost of purchased good increased throughout the year, however the Company was not able to pass along some of those increases to customers. Furthermore, the overall headcount of the Company, which was higher in the second part of the year as compared to the prior year reflecting the anticipated increase in volume, negatively impacted margins. The trend identified in the third quarter continued to worsen in the fourth quarter and as such, the Company, recorded significant reserves on inventory to reflect the lower/negative margins observed on certain products and on excess as well as obsolete inventory level.

Selling, Administrative and General Expenses

Selling, Administrative and General Expenses during fiscal 2016 were $93.9 million compared to $88.6 million for last year. Selling, Administrative and General Expenses increased 6.1% due to the ERP new implementation, additional expenses incurred with the audit related work, restatement and integrity of our databases review during the fourth quarter of fiscal 2016. In addition, collections expenses were incurred to help accounts reconciliations with customers during the second half of fiscal 2016 and increased bad debts provisions were recorded. The savings expected from the joint venture on operational costs did not fully materialize during the transition. IT related maintenance, communication and staffing costs increased with the new ERP. Finally, Marketing and promotion and legal costs were on the rise during the FY2016.

Net Financial Cost

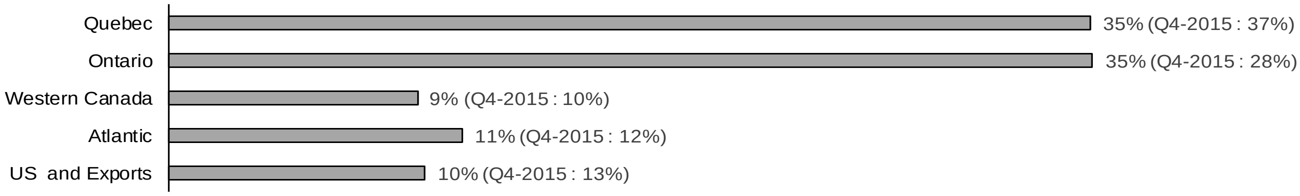
Net financial costs during fiscal 2016 were $3.6 million ($2.6 million a year ago). During the fiscal 2016, the average Canadian prime rate decreased to 2.70% compared to 2.81% last year. The average US prime rate increased from 3.25% to 3.50%. Average bank indebtedness during fiscal 2016 increased to $94.7 million compared to $65.4 million last year. Bank debt increased due to increased working capital, acquisition of Quality Hardwoods (4.8M$ net of cash acquired) in addition to capital expenditures (3.0M$). Average inventory during fiscal 2016 was $130.9 million compared to $111.7 million last year.

COMPARISON FOR THE THREE MONTHS ENDED NOVEMBER 30, 2016 AND 2015

HIGHLIGHTS FOR THE THREE MONTHS ENDED NOVEMBER 30, 2016 AND 2015	**Q4-2016**	Q4-2015	Variance
Consolidated sales	**$130,748**	$135,154	-3.3%
(Loss) Earnings before income taxes	**$(14,830)**	$2,547	-682.3%
Net (loss) earnings	**$(11,181)**	$2,000	-659.1%
(Loss) Earnings per share Basic and Diluted	**$(1.31)**	$0.23	-669.6%
Cash Flow from Operations (excluding non-cash working capital item, income tax paid and interest paid)	**$(13,174)**	$3,114	-523.1%
EBITDA	**$(12,604)**	$3,962	-418.1%
Average Bank indebtedness	**$99,678**	$52,205	+90.9%
Inventory average	**$124,241**	$102,746	+20.9%

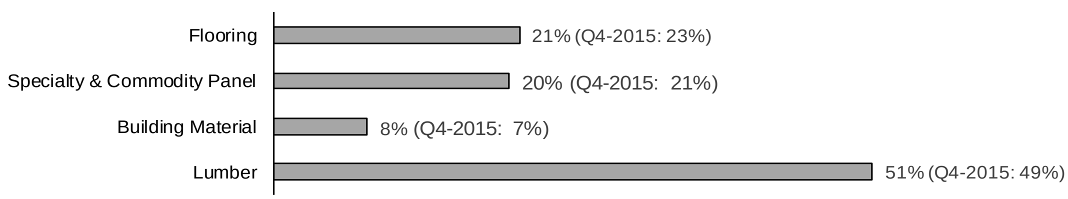
Sales in Canada during the fourth quarter of fiscal 2016 decreased 0.2% compared to the same period a year ago mainly due to the decreased demand in Quebec and the Atlantic provinces but was offset by the increased Pressure Treated wood sales with retailers groups and the acquisition of Quality Hardwoods. Total monthly average new housing starts in Canada decreased 9% to 180,801 units on average (Source: CMHC) for the three months ended November 30, 2016 compared to 198,949 units compared to the same period year ago. Market prices of panel products during the fourth quarter traded at higher prices compared to the same period a year ago. As such, the Random Lengths Structural Panel Composite Price Index average during the three months ended November 30, 2016 increased 4% compared to the corresponding period last year. Quebec sales decreased 10% due to slower housing starts and lower sales to industrial and manufacturing customer groups but this was mitigated by the increased sales of Pressure Treated wood. Sales in Ontario increased 22% impacted by the Quality Hardwoods acquisition, strong flooring sales, continued market share gains in value added product lines, and new distribution agreement for pressure treated wood. Atlantic region sales decreased 12% due to declined sales in most product groups except cedar and engineered wood products. Western Canada sales decreased 7% impacted by the slow housing market impacting our flooring, building material and hardwood sales during the fourth quarter of fiscal 2016.

Geographical Distribution of Sales for the Fourth Quarter ended November 30, 2016



Sales in the United States for the fourth quarter ended November 30, 2016 decreased 19% on a Canadian dollar basis compared to the same period last year mainly due to lower industrial projects shipments compared to the fourth quarter last year when a major contract was delivered. On a US dollar basis, US denominated sales decreased 20% compared to last year. The North Eastern states housing market declined during the fourth quarter and according to the US Census Bureau, new housing starts decreased 13% during the three months ended November 30, 2016 compared to the comparative quarter a year ago. The average USD/CAD exchange rate for the fourth quarter of fiscal 2016 increased 0.4% (1.3266 vs 1.3207 last year). Finally, Export sales decreased 10% during the fourth quarter of fiscal 2016 compared to the same period a year ago mainly due to decreasing demand for value added products in Asia and Europe and a decline in flooring sales in the UK.

Product Distribution of Sales for the Fourth Quarter ended November 30, 2016



These previously discussed factors impacted to various degrees our sales mix. Flooring and Specialty sales for the fourth quarter ended November 30, 2016 decreased 10% compared to the corresponding period last year. The flooring sales decreased in all regions in Canada except for Ontario and British Columbia. Specialty and Commodity Panel sales for the fourth quarter decreased 8% compared to the corresponding period last year. Demand for panel products was impacted by higher market prices for commodity plywood compared to last year and the slow housing market. Building Materials sales for the fourth quarter of fiscal 2016 decreased 2% compared to the corresponding period last year. Building Material sales' slight decrease was due to our efforts to develop our product offering with key suppliers; Huber ZIP® system and Rhinoroof® membrane contributed positively but was offset by the poor housing market conditions during the fourth quarter of fiscal 2016. Finally, Lumber sales for the fourth quarter of fiscal 2016 grew 2% compared to the corresponding period last year. Lumber sales were strong due to the performance of our pressure treated wood lumber product line and the addition of the Trus Joist® product line in Ontario.

Cost of Goods Sold

Cost of goods sold for the fourth quarter of fiscal 2016 was $119.6 million compared to $110.2 million for the corresponding period a year ago. Cost of purchased goods increased 8.6% compared to the corresponding period last year reflecting the increased raw material costs, higher salary expenses, increased freight cost, negative impact of the Canadian dollar as compared to the prior year, change in sales mix with higher proportion of sales on lower margin products, liquidation of some excess inventory at losses as well as increased inventory obsolescence provisions taken in the fourth quarter to reflect the excess inventory issues encountered as part of accumulating larger level of inventories in the second part of the year.

Overall gross margin decreased from 18.5% to 8.5% in the fourth as many of the increased costs indicated above were not passed along to the customer. The average selling price decreased while our raw material and production costs increased. In addition, the change in business for treated wood and siding, which were outsourced in 2016 as compared to 2015, negatively impacted the margins as the Company was not able to reduce the headcount to the planned levels to reflect the fact that the Company was no longer treating the wood internally. Additionally, the cost of purchased good increased throughout the year, however the Company was not able to pass along some of those increases to customers. Furthermore, the overall headcount of the Company, which was higher in the second part of the year as compare to the prior year reflecting the anticipated increase in volume, negatively impacted margins. The trend identified in the third quarter continued to worsen in the fourth quarter and as such, the Company, recorded significant reserves on inventory to reflect the lower/negative margins observed on certain products and on excess as well as obsolete inventory level.

Selling, Administrative and General Expenses

Selling, Administrative and General Expenses for the fourth quarter ended November 30, 2016 were $24.8 million compared to $21.8 million for the corresponding period last year. Selling, Administrative and General Expenses increased 13.7% compared to the fourth quarter last year additional expenses incurred with the audit, reconciliation and integrity audit of our databases review during the fourth quarter of fiscal 2016. In addition, collections expenses were incurred to help accounts reconciliations with customers during the fourth quarter of fiscal 2016 and increased bad debts provisions were recorded. Finally, Marketing and promotion and legal costs were on the rise during the fourth quarter of fiscal 2016.

Net Financial Cost

Net financial costs for the fourth quarter of fiscal 2016 were $1.2 million ($0.6 million a year ago). The average Canadian prime rate remained unchanged at 2.70% during the fourth quarter from previous year. The average US prime rate increased from 3.25% to 3.50% during the fourth quarter. Average bank indebtedness during the fourth quarter of fiscal 2016 was $99.7 million compared to $52.2 million for the corresponding period last year. Average inventory during the fourth quarter of fiscal 2016 was $124.2 million compared to $102.7 million for the same period last year.

SUMMARY OF THE LAST EIGHT MOST RECENTLY COMPLETED QUARTERS

(In thousands of dollars, except earnings per share)

	Feb-2016	May-2016 Restated	Aug-2016	Nov-2016
Sales	$108,659	$166,623	$159,143	$130,748
Net Earnings (Loss)	$(906)	$2,473	$(2,491)	$(11,181)
(Loss) Earnings per share Basic and Diluted	$(0.11)	$0.29	$(0.29)	$(1.31)

	Feb-2015	May-2015	Aug-2015	Nov-2015
Sales	$98,097	$153,975	$151,749	$135,154
Net (Loss) Earnings	$(357)	$3,248	$3,731	$2,000
(Loss) Earnings per share Basic and Diluted	$(0.04)	$0.38	$0.44	$0.23

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 November 30, 2016 increased from $212.1 million at November 30, 2015 to $241.6 million. Cash at November 30, 2016 closed at $0.7 million ($1.0 million at November 30, 2015). Trade and other receivables at November 30, 2016 was $64.3 million compared to $65.7 million at November 30, 2015 reflecting the lower sales volume during the fourth quarter compared to last year. Income tax receivable stood at 6.6 million (result from the recorded loss in fiscal 2016) compared to income tax payables in fiscal 2015 of $1.6 million. Inventories at November 30, 2016 was $115.4 million compared to $97.7 million at November 30, 2015 reflecting the commitment toward value-added lumber products which requires longer processing time, and significant reserves on inventory to reflect the lower/negative margins observed on certain products and on excess as well as obsolete inventory level during the fourth quarter. Prepaid expenses at November 30, 2016 was $4.9 million compared to $4.2 million at November 30, 2015. Defined benefit plan assets was $2.2 million at November 30, 2016 compared to $4.8 million a year ago. Investment closed at $3.4 million on November 30, 2016 reflecting the investment in a joint venture.

Property, plant, equipment and intangible assets

Property, plant, equipment at November 30, 2016 was $38.7 million compared to $36.1 million at November 30, 2015. Capital expenditures during fiscal 2016 amounted to $3.0 million ($2.1 million last year). Property, plant, equipment capitalized during fiscal 2016 included asphalt paving, computers, and yard equipment. It also includes the acquisition of Quality Hardwoods Ltd. with assets measured at fair market value of $3.1 million. Intangible assets at November 30, 2016 closed at $5.4 million ($2.7 million last year). Intangible assets included the investment in our new ERP system and the acquisition of Quality Hardwoods Ltd. Proceeds on disposal of capital assets during fiscal 2016 amounted to nil thousand ($96 thousand last year). Depreciation of property, plant, equipment and intangible assets during fiscal 2016 was $3.9 million ($3.0 million last year). Historically, capital expenditures in general have been capped at depreciation levels.

Total Liabilities

Total liabilities at November 30, 2016 was $130.9 million ($84.0 million last year). Bank indebtedness was $94.1 million compared to $46.8 million on November 30, 2015. Bank debt increased due to increased working capital, acquisition of Quality Hardwoods ($4.8 million net of cash acquired) in addition to capital expenditures and intangible assets ($5.8 million). Trade and other payables at on November 30, 2016 was $30.7 million compared to $29.8 million on November 30, 2015. Trade and other payables reflect higher inventory levels. Provision at November 30, 2016 was $1.4 million ($1.6 million on November 30, 2015). Long-term debt was $0.3 million ($0.1 million on November 30, 2015). Deferred income taxes at November 30, 2016 closed at $3.3 million ($4.1 million on November 30, 2015). Defined benefit plan obligations was $1.0 million at November 30, 2016 compared to nil at November 30, 2015.

Shareholders' Equity

Total Shareholders' Equity at November 30, 2016 decreased to $110.7 million from $128.1 million last year. The Company generated a return on equity of (-10.9%) during fiscal 2016 (+6.7% last year). Market share price closed at $9.05 per share on November 30, 2016 ($10.35 on November 30, 2015). Share book value at November 30, 2016 was $13.01 per share ($15.06 on November 30, 2015). Share capital closed at $9.2 million (same as last year). Eligible dividend payments during fiscal 2016 amounted to $2.6 million or $0.30 per share compared to $3.0 million or $0.35 per share paid in the twelve months ended November 30, 2015.

LIQUIDITY AND CAPITAL RESOURCES

Financing

In May 2015, the Company renewed its credit agreement with two chartered Canadian banks. As at November 30, 2016, under the new credit agreement, the Company was using $91.5 million of its facility compared to $44 million last year. The credit agreement was amended on June 30, 2016 to increase from $100 million to $125 million. 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. The Company exercised its option to increase its bank line due to increased working capital requirement due to our transition to a new enterprise resource planning software delaying the collection of accounts receivable which, combined with the increased sales during the peak season, had an impact on our short term borrowing requirements. As at November 30, 2016, the Company was in default of its financial covenants under its credit agreement and borrowings under the revolving credit facility exceeded the borrowing base under its credit agreement. Subsequent to year-end, Management obtained from its lenders waivers of the defaults and amended the terms of its credit facility. Pursuant to the amended credit facility, the available facility has been reduced from $125 million to $100 million, except for the months of February to August 2017. Furthermore, the Company needs to comply with monthly maximum funded debt to capitalization ratio and achieve minimum quarterly EBITDA budget approved by the lenders. The Company's business follows a seasonal pattern with sales activities traditionally higher in the second and third quarter. As a result, cash flow requirements are generally higher during these periods. The current facility is considered by management to be adequate to support its current forecasted cash flow requirements. Source of funding and access to capital is disclosed in details under LIQUIDITY AND RISK MANAGEMENT IN THE CURRENT ECONOMIC CONDITIONS.

Cash Flow

Net cash flow from operating activities for the twelve months of fiscal 2016 decreased to $(34.0) million from $4.4 million for the same period last year due to the loss in fiscal 2016, increased inventory and income tax and interest paid. Financing activities during the twelve months of fiscal 2016 increased to $44.5 million compared to $1.7 million for the twelve months ended November 30, 2015. Financing activities reflects the increased cash flow requirements linked with the non-recurring expenses of the ERP implementation and increased inventory during the twelve months of fiscal 2016. Bank debt during the twelve months of fiscal 2016 increased $47.5 million compared to an increase of $5.5 million during the twelve months ended November 30, 2015. The increase was mainly due to the poor performance of fiscal 2016 combined with the increased inventory levels, the acquisition of Quality Hardwoods and the investment in the ERP which were all financed through our operating line of credit. Financing activities also include the eligible dividend payments totaling $2.6 million or $0.30 per share during the twelve months of fiscal 2016 compared to $3.0 million or $0.35 per share paid in the twelve months ended November 30, 2015. Investing activities during the twelve months of fiscal 2016 were $10.6 million ($4.2 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 capital as Shareholders' equity and funded debt. Shareholders' equity includes the amount of paid-up capital in respect of all issued and fully-paid and non-assessable shares of the share capital together with the contributed surplus and retained earnings, calculated on a consolidated basis in accordance with IFRS.

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

The Company is subject to certain covenants on its credit facilities. The covenants include a Debt-to-capitalization ratio and debt service coverage ratio. The Company monitors the ratios on a monthly basis. Following the fourth quarter performance, the Company's restrictive covenant related to debt service coverage ratio was not complied with as at November 30, 2016 and the bank loan balance was higher than its borrowing base as at December 31, 2016. The Company did not comply with all the terms of the financing agreement as of November 30, 2016 and therefore was in default under the terms of the agreement. According to the financial forecasts the Company has filed with its lenders, the restrictive covenant related to debt service coverage would not be met on any of the valuation dates during the fiscal year ending November 30 2017. As such, subsequent to year-end, management amended the terms of the credit facility to exclude the restrictive covenant relating to the debt service coverage ratio for fiscal 2017. All other covenants set out in the agreement were met as at November 30, 2016 and for all valuation dates in fiscal 2016. The Company obtained a waiver of the rights resulting from the defects above until December 1, 2017. As part of the amendment, the Company has a new financial covenants whereby it will be required to achieve a minimum quarterly year-to-date EBITDA covenant based on the forecast submitted to and approved by the lenders. 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 the past twelve months. The financial objectives and strategy included major investments in ERP technology, improvements to its operational structure, sales and profitability growth through acquisitions and new products offering. Changes to its credit agreement and working capital structure were required and Management have addressed the shortfall with its lenders. Although there is a risk that the future performance will not be met, 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 November 30, 2016 and 2015, the Company achieved the following results regarding its capital management objectives:

Capital management	**As at November 30, 2016**	As at November 30, 2015
Debt-to-capitalization ratio	**47.3%**	25.8%
Return on shareholders' equity	**(10.9)%**	6.7%
Current ratio	**1.5**	2.1
EBITDA	**$(8,804)**	$17,482

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

- Debt-to-capitalization ratio represents the funded debt over total shareholders' equity. Funded debt is bank indebtedness less cash and cash equivalents. Capitalization is funded debt plus shareholders' equity.
- Return on shareholders' equity is the net earnings (loss) divided by shareholders' equity.
- Current ratio is total current assets divided by total current liabilities.
- EBITDA is earnings before interest, taxes, depreciation and amortization.

General

Management makes every effort to ensure that the Company benefits from effective risk management, which has been strengthened according to even stricter criteria with economic fluctuations. Management is responsible for identifying and assessing the potential risks that could have a material impact on the Company's operations and financial position, as well as the risk management strategies implemented within the Company. It is also responsible for setting up risk management oversight provisions, notably by developing and recommending to the Board of Directors or its Audit Committee various policies and procedures to support effective strategies in regards to internal and external control in order to improve and reduce the impact of business and operational risk factors.

Credit Risk

The Company strictly manages the credit granted to its customers. In recent months, special emphasis has been placed on the monitoring and collection of accounts receivables. For instance, the Company has performed a thorough review of all its customer credit files and credit limits have been reduced in many cases. The accounts receivable collection period has been historically longer in the second and third quarter of its fiscal year. Credit management remains relatively cautious and risks and rewards situation are analyzed on a regular basis. A rapid weakening of the economic conditions could result in further bad debts expenses.

Supplier-Related Risk

The Company's business model is largely built on long-term relationships with a network of international, national and local manufacturers, which enables it to reduce the risks associated with inventory valuation and to adjust to fluctuations in demand. In addition, the Company's practice is to take discounts and pay its suppliers on a timely basis which results in strong relationships with our key vendors and partners.

Cost Structure, Working Capital Requirements

At November 30, 2016, its total debt to capitalization ratio stood at 47.3% compared to 25.8% on November 30, 2015. Pursuant to the amended credit facility, the available facility has been reduced from $125 million to $100 million, except for the months of February to August 2017. Furthermore, the Company needs to comply with monthly maximum funded debt to capitalization ratio and achieve minimum quarterly EBITDA budget approved by the lenders with a maturity date of May 2018.

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

COMMITMENTS AND CONTINGENCIES

As at November 30, 2016, 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	20,225	4,959	6,359	3,892	5,015
Purchase obligations	286	286	-	-	-
Total Contractual Obligations	**20,511**	**5,245**	**6,359**	**3,892**	**5,015**

Contingent liabilities

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

RISKS AND UNCERTAINTIES

Currency Risk

Certain valuation risks exist depending on the performance of the Canadian dollar compared to the U.S. dollar, Euro and the Pound sterling. From time-to-time, the Company enters into forward exchange contracts to hedge certain accounts payable and certain future purchase commitments denominated in U.S. dollar and Euro. During twelve months ended November 30, 2016, the Company did not use foreign exchange contracts to mitigate its effect on sales and purchases. Consequently, at November 30, 2016 there were no outstanding foreign exchange contracts.

Interest Risk

The Company uses a revolving line of credit 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 by increases in the bank prime rate.

Credit Risk

The Company is exposed to credit risks from customers. This risk is alleviated by minimizing the amount of exposure the Company has to any one customer, thereby ensuring a diversified customer mix. Additionally, the Company has a system of credit management to mitigate the risk of losses due to insolvency or bankruptcy of its customers. It also utilizes credit insurance for foreign accounts to reduce the potential for credit losses in foreign countries. The loss of any major customer could have a material effect on the company's results, operations and financial conditions.

Environmental Risk

The Company's St-André (QC) site shows continued traces of surface contamination from previous treating activities exceeding existing regulatory requirements. The Company received approval for the environmental rehabilitation plan in fiscal 2015. The Company started to implement its plan during the fiscal 2016 and treatment of soil on-site will be performed over an estimated period of 5 years. Based on current available information, the provision as at November 30, 2016 is considered by management to be adequate to cover any projected costs that could be incurred in the future.

Because of the long-term nature of the liability, the biggest uncertainty in estimating the provision is the amounts of soil to be treated and the costs that will be incurred. In particular, the Company has assumed that the site will be restored using technology and materials that are currently available. The Company has been provided with a reasonable estimate, reflecting different assumptions about pricing of the individual components of the cost. The provision has been calculated using a discount rate of 4.7% and an inflation rate of 2%. The rehabilitation is expected to occur progressively over the next 5 years.

Competition from Vendors

The Company is exposed to competition from some of its vendors in certain markets. From time to time, vendors might decide to distribute directly to some of our customers and therefore becoming competitors. This would adversely affect the Company's ability to compete effectively and thereby potentially impact its sales.

Dependence on Key Personnel

The Company is dependent on the continued services of its senior management team. Although the Company believes that it could replace such key employees in a timely fashion should the need arise, the loss of such key personnel could have a material adverse effect on the Company.

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 exceed 10% of total company sales in the twelve months ended November 30, 2016 (same as last year). The following represents the total sales consisting primarily of various wood products of the major customer:

	Years ended			
	November 30, 2016		November 30, 2015	
(in thousands of dollars)	**$**	**%**	$	%
Sales to a major customer that exceeded 10% of total Company's sales	**90,241**	**16.0**	75,550	14.2

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

Dependence on Market Economic Conditions

The Company demand for products depends significantly upon the home improvement, new residential and commercial construction markets. The level of activity in the home improvement and new residential construction markets depends on many factors, including the general demand for housing, interest rates, availability of financing, housing affordability, levels of unemployment, shifting demographic trends, gross domestic product growth, consumer confidence and other general economic conditions. Since such markets are sensitive to cyclical changes in the economy, future downturns in the economy or lack of further improvement in the economy could have a material adverse effect on the Company.

Supply Chain

The Company is exposed to supply chain risks relating mainly to the Asian imports from time-to-time. Management does not expect to incur any major losses related to supply due to the fact that it has built solid long-term relationships with numerous reputable suppliers.

Acquisition Risk

Acquisitions and business combinations involve inherent risks, including assumption of transaction costs, risk of non-completion, undisclosed liabilities, unforeseen issues, customer and supplier risks, assimilation and successfully managing growth. While the company conducts extensive due diligence and takes steps to ensure successful assimilation, factors beyond the Company's control could influence the results of acquisitions. The Company may not be able to find appropriate acquisition candidates, acquire those candidates that it finds, obtain necessary permits or integrate acquired businesses effectively or profitably, and it may experience other impediments to its acquisition strategy. Increased competition may reduce the number of acquisition targets available to the Company and may lead to unfavourable terms as part of any potential acquisition, including high purchase prices. If acquisition candidates are unavailable or too costly, the Company may need to change its business strategy.

The Company's integration plan for acquisitions often contemplates certain cost savings. Unforeseen factors may offset the estimated cost savings or other components of its integration plan in whole or in part and, as a result, it may not realize any cost savings or other benefits from recently completed and/or future acquisitions. Further, any difficulties the Company encounters in the integration process could interfere with its operations and reduce its operating margins. Even if the Company is able to make acquisitions on advantageous terms and is able to integrate them successfully into its operations and organization, some acquisitions may not fulfill its strategy in a given market due to factors that it cannot control, such as market conditions or customer base. As a result, operating margins could be less than the Company originally anticipated when it made those acquisitions. It then may change its strategy with respect to that market or those businesses and decide to sell the operations at a loss, or keep those operations and recognize an impairment of goodwill and/or intangible assets.

The Company also cannot be certain that it will have enough capital or be able to raise enough capital by issuing equity or debt securities or through other financing methods on reasonable terms, if at all, to complete the purchases of the businesses that it wants to buy. The Company's acquisitions will also involve the potential risk that it will fail to assess accurately all of the pre-existing liabilities of the operations acquired, including environmental liabilities. Also, as the Company increases its size in particular markets, competition laws in Canada, or elsewhere, may limit its ability to continue to expand by acquisition, or impose conditions on further acquisitions that could limit their benefit to the Company. If the Company is unsuccessful in implementing its acquisition strategy for the reasons discussed above or otherwise, its financial condition and results of operations could be materially adversely affected.

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. The Company uses financial instruments from time to time to reduce the risk resulting from changes in foreign exchange rates and does not hold or issue financial instruments for trading purposes.

Financing and Liquidity Risk
The Company makes use of short term financing with two chartered Canadian banks. Should a significant decrease in cash and cash equivalents occur, the Company could make use of these facilities. The company entered into a contribution agreement with the Minister of Innovation, Business and Rural Development of the Province of Newfoundland providing funding support for the construction of a treating plant in Deer Lake, NFLD**.** The contribution funding was made in the form of a reimbursement of eligible costs up to a maximum amount of $250,000. The funds disbursed were recorded at 150,000$ interest-free loan repayable over the next 3 years starting in February 2014 and $100,000 as forgivable loan ("grant"). The grant was offset against the fixed assets and the repayable loan was recorded in Long-term Debt at its carrying amount as it approximates its fair value. Should a significant decrease in cash and cash equivalents occur, the Company could make use of these facilities.

The following are the contractual maturities of financial liabilities as at November 30, 2016:
(in thousands of dollars)

Financial Liabilities				
	Carrying Amount	**Contractual cash flows**	**0 to 6 Months**	**6 to 36 Months**
Bank indebtedness	94,113	94,113	94,113	-
Trade and other payable	31,034	31,034	31,034	-
Long-term debt	262	262	74	188
Total financial liabilities	**125,409**	**125,409**	**125,221**	**188**

The following are the contractual maturities of financial liabilities as at November 30, 2015:

Financial Liabilities				
	Carrying Amount	Contractual cash flows	0 to 6 Months	6 to 36 Months
Bank indebtedness	46,781	46,781	46,781	-
Trade and other payable	29,762	29,762	29,762	-
Long-term debt	113	113	52	61
Total financial liabilities	76,656	76,656	76,595	61

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 $94.1 million in bank indebtedness would impact interest expense by $1.0 million annually.

Currency Risk

The Company could enter into forward exchange contracts to hedge certain trade payables and from time to time future purchase commitments denominated in U.S. dollars, Euros and Pound sterling. Certain valuation risks exist depending on the performance of the Canadian dollar compared to the U.S. dollar, Euro and the Pound sterling. The Company through diversification of its customer base and product offering, coupled with developments of its markets, reduces global risks related to certain business segments. During the twelve months ended November 30, 2016, the Company did not use foreign exchange contracts. Consequently, at November 30, 2016 there were no outstanding foreign exchange contracts. 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 November 30, 2016, the Company had the following currency exposure on;

Financial assets and liabilities measured at amortized costs

(in thousands of dollars)

	USD	**GBP**	**Euro**
Cash	549	334	8
Trade and other receivables	9,768	587	-
Trade and other payables	(3,242)	(68)	(178)
Net exposure	**7,075**	**853**	**(170)**
CAD exchange rate as at November 30, 2016	1.3429	1.6798	1.4231
Impact on net earnings based on a fluctuation of 5% on CAD	**347**	**52**	**(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 for foreign accounts to reduce the potential for credit losses in foreign countries. Finally, the Company has adopted a credit policy that defines the credit conditions to be met by its customers and specific credit limit for each customer is established and regularly revised. Accounts receivable over 60 days past their due date and not impaired represents 7.1% (4.0% on November 30, 2015) of total trade and other receivables at November 30, 2016. The movement in the allowance for doubtful accounts in respect to trade and other receivables were as follows:

	November 30 2016	November 30 2015
(in thousands of dollars)	**$**	$
Balance - Beginning of year	**426**	261
Provision	**1,575**	317
Bad debt write offs	**(185)**	(152)
Balance - End year	**1,816**	426

Based on historical payment behaviour and current credit information and experience available, the Company believes that, apart from the above, 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. Only one major customer exceeds the 10% of total company sales threshold. Total sales consisting primarily of various wood products for that customer represent approximately $90.2 million or 16.0% of total sales during the years ended November 30, 2016 compared to $76.6 million or 14.2% last year. 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 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 and cash equivalents, trade and other receivables, bank indebtedness, trade and other payables and long-term debt approximate their fair values.

RELATED PARTY TRANSACTIONS

Related parties include the key management and other related parties as described below. Unless otherwise noted, no related party transactions contains special features, conditions and guarantees that have been given or received. Balances are generally settled in cash. Transactions between the parent company and its subsidiaries and between subsidiaries themselves, which are related parties, have been eliminated upon consolidation. These transactions and balances are not presented in this section. The details of these transactions occurred in the normal course of business between the Company and other related parties and are presented below.

Commercial Transactions
During the year ended November 30, 2016, the entities of the Company have not entered into business transactions with related parties that are not members of the Company.

Other related party transactions

	November 30 2016	November 30 2015
(in thousands of dollars)	**$**	$
Joint venture – Lebel-Goodfellow Treating Inc.		
Sales of goods	**3,782**	-
Purchase of goods	**83,921**	-
Lease rental income	**415**	-
Miscellaneous charges	**734**	-
Company controlled by a member of the Board – Jarislowsky Fraser Ltd.		
- Management fee	**183**	137

These transactions are in the normal course of business and measured at the exchange amount of considerations established and agreed to in the contractual arrangements between the related parties. The Company has an outstanding payable balance to Lebel-Goodfellow Treating Inc. of $3.5 million as at November 30, 2016 (nil in 2015).

Loans to related parties
No executive officers, senior officers, directors or any person related to them is indebted to the Company.

Key management personnel compensation
Key management includes members of the board of directors, senior management and key executives. The following table shows the remuneration of officers and other key executives during the years ended:

	November 30 2016	November 30 2015
(in thousands of dollars)	**$**	$
Salaries and other short-term benefits	**2,278**	2,311
Post-employment benefits	**350**	212
	2,628	2,523

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in compliance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. These estimates are based on management's best knowledge of current events and actions that the Company may undertake in the future. Estimates are volatile by their nature and are continuously monitored by management. Actual results may differ from these estimates. A discussion of the significant estimates that could have a material effect on the financial statements is provided below:

i. Allowance for doubtful accounts and sales returns
Management reviews its trade and other receivables at the end of each reporting period and estimates balances deemed non-collectible in the future. This review requires the use of assumptions and takes into consideration certain factors, such as historical collection trends and past due accounts for each customer balance. In the event that future collections differ from provisions estimated, future earnings will be affected.

The Company provides for the possibility that merchandise already sold may be returned by customers. To this end, the Company has made certain assumptions based on the quantity of merchandise expected to be returned in the future.

ii. Measurement of defined benefit plan assets and liabilities
The Company’s measurement of defined benefit plan assets and liabilities requires the use of statistical data and other parameters used to anticipate future changes. These parameters include the discount rate, the expected rate of return on assets, the expected rate of compensation increase, the retirement age of employees, and mortality tables. If the actuarial assumptions are found to be significantly different from the actual data subsequently observed, it could lead to changes to the pension expense recognized in net earnings, and the net assets or net liabilities related to these obligations presented in the consolidated statement of financial position.

iii. Valuation of inventory
Estimating the impact of certain factors on the net realizable value of inventory, such as obsolescence and losses of inventory, requires a certain level of judgment. Inventory quantities, age and condition are measured and assessed regularly throughout the year.

iv. Environmental provisions
Environmental provisions relate to the discounted present value of estimated future expenditures associated with the obligations of restoring the environmental integrity of certain properties. Environmental expenditures are estimated taking into consideration the anticipated method and extent of the remediation consistent with regulatory requirements, industry practices, current technology and possible uses of the site. The estimated amount of future remediation expenditures is reviewed periodically based on available information. The provision requires the use of estimates and

assumptions such as the estimated amount of future remediation expenditures, the anticipated method of remediation, the discount rate and the estimated time frame for remediation. See note 14 of our consolidated financial statement for further details.

v. Critical Judgments in applying accounting policies:

The preparation of financial statements in compliance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. These estimates are based on management's best knowledge of current events and actions that the Company may undertake in the future. Estimates are volatile by their nature and are continuously monitored by management. Actual results may differ from these estimates. A discussion of the significant estimates that could have a material effect on the financial statements is provided below:

i. Going concern assumption

The 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 incurred a net loss of $12.1 million and negative cash flow from operating activities (excluding non-cash working capital items) of $10.8 million in fiscal 2016 compared to a net income of $8.6 million and positive cash flows from operating activities (excluding non-cash working capital items) of $16.1 million in fiscal 2015. Due to the impact of the Company's financial performance in fiscal 2016 and the level of inventories and capital requirements, there is a possibility that its existing cash, cash generated from operations and funds available under its credit agreement could be insufficient to fund its future operations. As at November 30, 2016, the Company was in default of its financial covenants under its credit agreement and borrowings under the revolving credit facility exceeded the borrowing base under its credit agreement. Subsequent to year-end, Management obtained from its lenders waivers of the defaults and amended the terms of its credit facility. Pursuant to the amended credit facility, the available facility has been reduced from $125 million to $100 million, except for the months of February to August 2017. Furthermore, the Company needs to comply with quarterly maximum funded debt to capitalization ratio, and achieve minimum quarterly EBITDA budget approved by the lenders.

In evaluating the Company's ability to continue as a going concern, the Company is required to determine whether it has the ability to fund its operations, meet its cash flow requirements and comply with the covenants as established by its amended credit facility. This evaluation requires to estimate and forecast the cash flows for at least the next twelve months to determine whether the Company has sufficient resources to attain these objectives. The Company believes that it will be able to adequately fund its operations and meet its cash flow requirements for at least the next twelve months. This determination, however, could be impacted by future economic, financial and competitive factors, as well as other future events that are beyond the Company's control, Significant estimates that have the greatest impact on the analysis and the Company's ability to meet its financial covenants in fiscal 2017 include the estimate of sales, gross margins and expenses, inventories and receivable levels which determine the borrowing base and availability under its credit facility, timing of inventory acquisitions, vendor and customer terms and payments, interest rate and foreign exchange rate assumptions.

If any of the factors or events described above result in significant variances from the assumptions used in the preparation of the going concern analysis, this could significantly impact the Company's ability to meet its projected cash flows and could result in the Company's lenders imposing additional restrictions on the Company's ability to borrow funds under its credit facility or the lenders having the right to demand repayment of balances owed under the credit facility thus impacting the Company's ability to meet its operations and cash flow requirements, and there could be significant uncertainty about the Company's ability to continue as a going concern, and its capacity to realize the carrying value of its assets and repay its existing and future obligations as they generally become due without obtaining additional financing which may not be available.

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

ii. Interests in equity-accounted investees

Management reviews the financial statements of the joint venture at the end of each reporting period and estimates its share of the interests. This review requires the use of assumptions and takes into consideration certain factors, such as historical average prices and production costs. In the event that future prices and costs differs from provisions estimated, future earnings will be affected.

SIGNIFICANT ACCOUNTING POLICIES

The Company's significant accounting policies are described in Note 3 to the consolidated financial statements for the year ended November 30, 2016.

IMPACT OF ACCOUNTING PRONOUNCEMENTS NOT YET IMPLEMENTED

IFRS 15, Revenue from Contracts with Customers

On May 28, 2014 the IASB issued IFRS 15 Revenue from Contracts with Customers. The new standard is effective for annual periods beginning on or after January 1, 2018. Earlier application is permitted. IFRS 15 will replace IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfer of Assets from Customers, and SIC

31 Revenue – Barter Transactions Involving Advertising Services. The standard contains a single model that applies to contracts with customers and two approaches to recognising revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. The new standard applies to contracts with customers. It does not apply to insurance contracts, financial instruments or lease contracts, which fall in the scope of other IFRSs. The Company intends to adopt IFRS 15 in its financial statements for the annual period beginning on January 1, 2018. The Company has not yet assessed the impact of adoption of IFRS 15, and does not intend to early adopt IFRS 15 in its consolidated financial statements.

IFRS 9, Financial Instruments
On July 24, 2014 the IASB issued the complete IFRS 9 (IFRS 9 (2014)). The mandatory effective date of IFRS 9 is for annual periods beginning on or after January 1, 2018 and must be applied retrospectively with some exemptions. Early adoption is permitted. The restatement of prior periods is not required and is only permitted if information is available without the use of hindsight. IFRS 9 (2014) introduces new requirements for the classification and measurement of financial assets. Under IFRS 9 (2014), financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. The standard introduces additional changes relating to financial liabilities. It also amends the impairment model by introducing a new 'expected credit loss' model for calculating impairment. IFRS 9 (2014) also includes a new general hedge accounting standard which aligns hedge accounting more closely with risk management. This new standard does not fundamentally change the types of hedging relationships or the requirement to measure and recognize ineffectiveness, however it will provide more hedging strategies that are used for risk management to qualify for hedge accounting and introduce more judgment to assess the effectiveness of a hedging relationship. Special transitional requirements have been set for the application of the new general hedging model. The Company intends to adopt IFRS 9 (2014) in its financial statements for the annual period beginning on January 1, 2018. The Company has not yet assessed the impact of adoption of IFRS 9, and does not intend to early adopt IFRS 9 in its consolidated financial statements.

IFRS 16, Leases
On January 13, 2016 the IASB issued IFRS 16 Leases. The new standard is effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted for entities that apply IFRS 15 Revenue from Contracts with Customers at or before the date of initial adoption of IFRS 16. IFRS 16 will replace IAS 17 Leases. This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than twelve months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. This standard substantially carries forward the lessor accounting requirements of IAS 17, while requiring enhanced disclosures to be provided by lessors. Other areas of the lease accounting model have been impacted, including the definition of a lease. Transitional provisions have been provided. The Company intends to adopt IFRS 16 in its financial statements for the annual period beginning on January 1, 2019. The Company has not yet assessed the impact of adoption of IFRS 16, and does not intend to early adopt IFRS 16 in its consolidated financial statements.

DISCLOSURE OF OUTSTANDING SHARE DATA

At November 30, 2016, there were 8,506,554 common shares issued (8,506,554 last year). The Company has authorized an unlimited number of common shares to be issued, without par value. At February 27, 2017, there were 8,506,554 common shares outstanding.

SUBSEQUENT EVENT

Credit Agreement Amendment
Following the fourth quarter performance, the Company's restrictive covenant related to Debt Service Coverage was not complied with as at November 30, 2016 and the bank loan balance was higher than its borrowing base as at December 31, 2016. The Company did not comply with all the terms of the financing agreement as of November 30, 2016 and therefore was in default under the terms of the agreement. According to the financial forecasts the Company has filed with its lenders, the restrictive covenant related to Debt Service Coverage would not be met on any of the valuation dates during the fiscal year ending November 30 2017. As such, subsequent to year end, management amended the terms of the credit facility to exclude the restrictive covenant relating to the Debt service coverage ratio for fiscal 2017. All other covenants set out in the agreement were met as at November 30, 2016 and for all valuation dates in fiscal 2017. As part of the amendment, the Company has a new financial covenants whereby it will be required to have a minimum quarterly EBITDA covenant based on the forecast submitted to the lenders. The Company obtained a waiver of the rights resulting from the defects above until December 1, 2017.

New President and CEO announced on January 17, 2017
The company announced on January 17, 2017, that Mr. Patrick Goodfellow, previously Vice-President, Hardwood, has been promoted to President and Chief Executive Officer of the Corporation. Mr. Denis Fraser has step down as President and Chief Executive Officer of the Corporation, effective on the same date.

OUTLOOK

During Fiscal 2017, our immediate priority is to restore profitability, reduce our working capital requirements and complete the implementation of the required measures to assure the ongoing integrity of our inventory costing and reporting which was identified as a material weakness. While we are engaged in the reorganisation of our cost structure, we will continue to modernise our tools to improve our customer service offering. Actions taken to restore margin and profitability were taken early in fiscal 2017 and gross margin definition were revised on all price lists. Overall, we remain cautious about the prospect of 2017. The Company's balance sheet remain strong and Management will work diligently to return to profitability, restore financial ratios and reduce inventory levels. The current status of our ERP implementation and inventory costing is stabilized and our major focus now is to restore profitability and return to normal inventory levels. Price lists were revised early in fiscal 2017. Internal reporting integrity was confirmed with the auditors' work and recommendations for preventive and monitoring controls are being implemented. Corrections on our average costing system were implemented and updated in mid-November. Our inventory focus and commitment during the Q1-2017 is to reduce and liquidate our excess inventory.

Overall Canadian market conditions remain relatively balanced and stable. CMHC is forecasting the housing starts to range from 174,500 units to 184,300 units in 2017 declining slightly from the 2016 levels ranging from 185,100 units to 192,900 units in 2016 (Source: CMHC Q4-2016). MLS® sales are expected to decline in 2017 ranging 489,500 units and 509,700 units compared to 517,000 to 533,400 units in 2016. Forecasted resale prices are pointing to higher levels than the 2016 average price of $495,000, but represent a considerable deceleration in 2017 and 2018, as existing overvaluation in most major housing markets are resolved in an orderly manner.

In the United States, the housing market is expected to remain strong in 2017. Despite the probability of more interest rate hikes in 2017, mortgage rates should remain at historically low levels, supporting price appreciation and sales growth. Home prices should continue to increase at a moderate pace. Total housing starts are expected to increase by approximately 5% in 2017. Residential construction should pick up this year, courtesy of an improving labor market, higher household formations and pent-up demand. The positive effect of the exchange rate on export to the US is expected to yield positive returns. In the short term, the uncertainty related to the unresolved Softwood Lumber Agreement remains as there is much speculation about the impact on wood pricing.

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 and effectiveness of the Company's disclosure controls and procedures and internal control over financial reporting as of November 30, 2016 concluded that the Company's disclosure controls and procedures and internal control over financial reporting were ineffective because of the material weakness described below.

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

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

While it is possible that this design weakness, if left unaddressed, could result in a material misstatement of the Company's inventory balances now or in the future, management has concluded that the consolidated financial statements included in this annual report fairly present the Company's financial position, consolidated results of operations and cash flows for the twelve month periods ended November 30, 2016.

Management has undertaken an extensive and thorough review of the transactions processed in the new ERP software with the objective of resolving all design deficiencies and implementing compensating controls to mitigate the risk of a material misstatement. The Company is in the process of implementing a plan for the remediation of this material weakness. In the short term, the number of inventory counts increased to a level at which the Company can be confident of the statistical validity of the results of those counts and the Company has established many review procedures to ensure the accuracy of the financial information. The Company will report on its progress of remediation in the second part of 2017.
The evaluation was performed in accordance with the Committee of Sponsoring Organizations of the Treadway Commission (COSO 2013 Framework) control framework adopted by the Company.

Other than as described above, there has been no change in the Company's internal control over financial reporting that occurred during the three months ended November 30, 2016 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting. Subsequent to year end, on January 17, 2017, the Company changed its President and CEO.

Delson, February 27, 2017

Patrick Goodfellow
President and C.E.O.

Pierre Lemoine, CPA, CMA
Vice President and C.F.O.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS AND OTHER FINANCIAL INFORMATION

The accompanying consolidated financial statements, which have been prepared in accordance with International Reporting Financial Standards, and the other financial information provided in the Annual Report, which is consistent with the financial statement, are the responsibility of management and have been approved by the Board of Directors.

The consolidated financial statements include some amounts that are based on management's best estimates and judgment and, in their opinion, present fairly the Company's financial position, results of operations and cash flows. The Company's procedures and internal control systems are designed to provide reasonable assurance that accounting records are reliable and safeguard the Company's assets.

The Audit Committee is responsible for reviewing the consolidated financial statements and Annual Report and recommending their approval to the Board of Directors. In order to fulfill its responsibilities, the Audit Committee meets with management and external auditors to discuss internal control over financial reporting process, significant accounting policies, other financial matters and the results of the examination by the external auditors.

These consolidated financial statements have been audited by the external auditors KPMG LLP, Chartered Accountants, and their report is included herein.

Patrick Goodfellow	Pierre Lemoine, CPA, CMA
President and C.E.O.	Vice President and C.F.O.

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Goodfellow Inc.

We have audited the accompanying consolidated financial statements of Goodfellow Inc., which comprise the consolidated statements of financial position as at November 30, 2016 and November 30, 2015, the consolidated statements of comprehensive income, changes in shareholders' equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Goodfellow Inc. as at November 30, 2016 and November 30, 2015, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

KPMG LLP*

February 27, 2017
Montreal, Canada

*CPA Auditor, CA public accountancy permit no. A123145

GOODFELLOW INC.
Consolidated Statements of Comprehensive Income
For the years ended November 30, 2016 and 2015
(in thousands of dollars, except per share amounts)

	Years ended	
	November 30 2016	November 30 2015
	$	$
Sales	**565,173**	538,975
Expenses		
Cost of goods sold (Note 4)	**483,885**	435,960
Selling, administrative and general expenses (Note 4)	**93,942**	88,559
Net financial costs (Note 5)	**3,640**	2,582
	581,467	527,101
(Loss) Earnings before income taxes	**(16,294)**	11,874
Income taxes (Note 16)	**(4,189)**	3,252
Net (loss) earnings	**(12,105)**	8,622
Items that will not subsequently be reclassified to net earnings		
Remeasurement of defined benefit plan obligation (asset), recovery of taxes of $1,070 (2015 – net of taxes of $1,099) (Note 17)	**(2,750)**	2,969
Total comprehensive income	**(14,855)**	11,591
Net (loss) earnings per share - Basic and diluted (Note 15)	**(1.42)**	1.01

The notes 1 to 25 are an integral part of these consolidated financial statements.

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

	As at November 30 2016	As at November 30 2015
	$	$
Assets		
Current Assets		
Cash	**703**	965
Trade and other receivables (Note 6)	**64,255**	65,670
Income taxes receivable	**6,598**	-
Inventories (Note 7)	**115,391**	97,665
Prepaid expenses	**4,863**	4,156
Total Current Assets	**191,810**	168,456
Non-Current Assets		
Property, plant and equipment (Note 8)	**38,693**	36,146
Intangible assets (Note 9)	**5,428**	2,667
Defined benefit plan asset (Note 17)	**2,234**	4,812
Investment in a joint venture (Note 10)	**3,403**	-
Total Non-Current Assets	**49,758**	43,625
Total Assets	**241,568**	212,081
Liabilities		
Current liabilities		
Bank indebtedness (Note 12)	**94,113**	46,781
Trade and other payables (Note 13)	**30,721**	29,762
Income taxes payable	**-**	1,595
Provision (Note 14)	**963**	1,112
Current portion of long-term debt (Note 12)	**136**	113
Total Current Liabilities	**125,933**	79,363
Non-Current Liabilities		
Provision (Note 14)	**475**	477
Long-term debt (Note 12)	**126**	-
Deferred income taxes (Note 16)	**3,296**	4,141
Defined benefit plan obligation (Note 17)	**1,045**	-
Total Non-Current Liabilities	**4,942**	4,618
Total Liabilities	**130,875**	83,981
Shareholders' equity		
Share capital (Note 15)	**9,152**	9,152
Retained earnings	**101,541**	118,948
	110,693	128,100
Total Liabilities and Shareholders' Equity	**241,568**	212,081

Going concern and future operations (Note 2 b))
Commitments and contingent liabilities (Note 22)

Approved by the Board

Claude Garcia, Director

G. Douglas Goodfellow, Director

GOODFELLOW INC.
Consolidated Statements of Cash Flows
For the years ended November 30, 2016 and 2015
(in thousands of dollars)

	Years ended	
	November 30 2016	November 30 2015
	$	$
Operating Activities		
Net (Loss) Earnings	**(12,105)**	8,622
Adjustments for :		
Depreciation	**3,850**	3,026
Accretion expense on provision	**52**	53
(Decrease) Increase in provision	**(202)**	84
Income taxes	**(4,189)**	3,252
Gain on disposal of property, plant and equipment	**-**	(26)
Interest expense	**2,392**	1,555
Funding in excess of pension plan expense	**(197)**	(474)
Share of the profits of a joint venture (Note 10)	**(403)**	-
	(10,802)	16,092
Changes in non-cash working capital items (Note 18)	**(16,054)**	(7,859)
Interest paid	**(2,482)**	(1,659)
Income taxes paid	**(4,663)**	(2,146)
	(23,199)	(11,664)
Net Cash Flows from Operating Activities	**(34,001)**	4,428
Financing Activities		
Net increase in bank loans	**2,000**	5,500
Increase in banker's acceptances	**45,500**	-
Increase in long-term debt	**369**	51
Reimbursement of long-term debt	**(780)**	(858)
Dividends paid	**(2,552)**	(2,977)
	44,537	1,716
Investing Activities		
Acquisition of property, plant and equipment	**(2,970)**	(2,101)
Increase in intangible assets	**(2,865)**	(2,216)
Proceeds on disposal of property, plant and equipment	**-**	96
Business acquisitions, net of cash acquired (Note 11)	**(4,795)**	-
	(10,630)	(4,221)
Net cash (outflow) inflow	**(94)**	1,923
Cash position, beginning of year	**(1,816)**	(3,739)
Cash position, end of year	**(1,910)**	(1,816)
Cash position is comprised of :		
Cash	**703**	965
Bank overdraft (Note 12)	**(2,613)**	(2,781)
	(1,910)	(1,816)

GOODFELLOW INC.
Consolidated Statements of Change in Shareholders' Equity
For the years ended November 30, 2016 and 2015
(in thousands of dollars)

	Share Capital	Retained Earnings	Total
	$	$	$
Balance as at November, 2014	9,152	110,334	119,486
Net earnings	-	8,622	8,622
Other comprehensive income	-	2,969	2,969
Total Comprehensive income	-	11,591	11,591
Transactions with owners of the Company			
Dividends	-	(2,977)	(2,977)
Balance as at November 30, 2015	9,152	118,948	128,100
Net loss	**-**	**(12,105)**	**(12,105)**
Other comprehensive loss	**-**	**(2,750)**	**(2,750)**
Total Comprehensive loss	**-**	**(14,855)**	**(14,855)**
Transactions with owners of the Company			
Dividends	**-**	**(2,552)**	**(2,552)**
Balance as at November 30, 2016	**9,152**	**101,541**	**110,693**

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 consolidated financial statements of the Company as at and for the year ended November 30, 2016 and 2015 includes the accounts of the Company and its wholly-owned subsidiaries.

2. Basis of preparation

a) *Statement of compliance*

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Boards ("IASB").

The financial statements were authorized for issue by the Board of Directors on February 27, 2017.

b) *Going concern and future operations*

These consolidated financial statements have been prepared on a going concern basis, which assumes the Company will continue its operations in the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business.

The Company is subject to a number of risks and uncertainty associated with its products and services, the competition from vendors, its dependence on the economy as well as major customers, the supply chain, its information systems, environmental risk, credit risk, interest risk, currency risk as well as meeting its financing requirements for its operations. The attainment of profitable operations is dependent upon future events, including successful implementation of the Company's operation plan and obtaining adequate financing.

The Company incurred a net loss of $12.1 million and negative cash flow from operating activities (excluding non-cash working capital items) of $10.8 million in fiscal 2016 compared to a net income of $8.6 million and positive cash flows from operating activities (excluding non-cash working capital items) of $16.1 million in fiscal 2015. Due to the impact of the Company's financial performance in fiscal 2016 and the level of inventories and capital requirements, there is a possibility that its existing cash, cash generated from operations and funds available under its credit agreement could be insufficient to fund its future operations. As at November 30, 2016, the Company was in default of its financial covenants under its credit agreement and borrowings under the revolving credit facility exceeded the borrowing base under its credit agreement. Subsequent to year-end, Management obtained from its lenders waivers of the defaults and amended the terms of its credit facility. Pursuant to the amended credit facility, the available facility has been reduced from $125 million to $100 million, except for the months of February to August 2017. Furthermore, the Company needs to comply with quarterly maximum funded debt to capitalization ratio, a minimum debt service coverage ratio only at December 31, 2017 and achieve minimum quarterly year-to-date EBITDA budget approved by the lenders. (see notes 12 and 24)

In evaluating the Company's ability to continue as a going concern, the Company is required to determine whether it has the ability to fund its operations, meet its cash flow requirements and comply with the covenants as established by its amended credit facility. This evaluation requires to estimate and forecast the cash flows for at least the next twelve months to determine whether the Company has sufficient resources to attain these objectives. The Company believes that it will be able to adequately fund its operations and meet its cash flow requirements for at least the next twelve months. This determination, however, could be impacted by future economic, financial and competitive factors, as well as other future events that are beyond the Company's control. Significant estimates that have the greatest impact on the analysis and the Company's ability to meet its financial covenants in fiscal 2017 include the estimate of sales, gross margins and expenses, inventories and receivable levels which determine the borrowing base and availability under its credit facility, timing of inventory acquisitions, vendor and customer terms and payments, interest rate and foreign exchange rate assumptions.

If any of the factors or events described above result in significant variances from the assumptions used in the preparation of the going concern analysis, this could significantly impact the Company's ability to meet its projected cash flows and could result in the Company's lenders imposing additional restrictions on the Company's ability to borrow funds under its credit facility or the lenders having the right to demand repayment of balances owed under the credit facility thus impacting the Company's ability to meet its operations and cash flow requirements, and there could be significant uncertainty about the Company's ability to continue as a going concern, and its capacity to realize the carrying value of its assets and repay its existing and future obligations as they generally become due without obtaining additional financing which may not be available.

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

2. Basis of preparation *(Continued)*

c) *Basis of measurement*
These consolidated financial statements have been prepared on the historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for assets. Environmental provision are recorded at present value of the expected expenditure to be refunded. Pension plans are recorded at net of the fair value of plan assets and present value of obligation.

d) *Functional and presentation currency*
These consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency. All financial information presented in Canadian dollars has been rounded to the nearest thousand unless otherwise noted.

e) *Use of estimates and judgments*

Key sources of estimation uncertainty:

The preparation of financial statements in compliance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. These estimates are based on management's best knowledge of current events and actions that the Company may undertake in the future. Estimates are volatile by their nature and are continuously monitored by management. Actual results may differ from these estimates. A discussion of the significant estimates that could have a material effect on the financial statements is provided below:

i. *Allowance for doubtful accounts and sales returns*
Management reviews its trade and other receivables at the end of each reporting period and estimates balances deemed non-collectible in the future. This review requires the use of assumptions and takes into consideration certain factors, such as historical collection trends and past due accounts for each customer balance. In the event that future collections differ from provisions estimated, future earnings will be affected.

The Company provides for the possibility that merchandise already sold may be returned by customers. To this end, the Company has made certain assumptions based on the quantity of merchandise expected to be returned in the future.

ii. *Measurement of defined benefit plan assets and liabilities*
The Company's measurement of defined benefit plan assets and liabilities requires the use of statistical data and other parameters used to anticipate future changes. These parameters include the discount rate, the expected rate of return on assets, the expected rate of compensation increase, the retirement age of employees, and mortality tables. If the actuarial assumptions are found to be significantly different from the actual data subsequently observed, it could lead to changes to the pension expense recognized in net earnings, and the net assets or net liabilities related to these obligations presented in the consolidated statement of financial position.

iii. *Valuation of inventory*
Estimating the impact of certain factors on the net realizable value of inventory, such as obsolescence and losses of inventory, as well as estimating the cost of inventory, including the standard cost, freight accrual and inventory provisions, requires a certain level of judgment. Inventory quantities, age and condition, average costs and standard costs are measured and assessed regularly throughout the year.

iv. *Environmental provisions*
Environmental provisions relate to the discounted present value of estimated future expenditures associated with the obligations of restoring the environmental integrity of certain properties. Environmental expenditures are estimated taking into consideration the anticipated method and extent of the remediation consistent with regulatory requirements, industry practices, current technology and possible uses of the site. The estimated amount of future remediation expenditures is reviewed periodically based on available information. The provision requires the use of estimates and assumptions such as the estimated amount of future remediation expenditures, the anticipated method of remediation, the discount rate and the estimated time frame for remediation. See note 14 for further details.

Critical Judgments in applying accounting policies:

i. *Going concern assumption*
Determining whether there exists material uncertainty that cast significant doubt about the Company's ability to continue as a going concern requires Management to exercise judgment in particular about its future operations and projected future cash flows. See note 2 b) for further details.

Other than the going concern assessment mentioned above, the Company did not identify any other critical judgements that management has made in the process of applying accounting policies that may have a significant effect on the amounts recognized in the consolidated financial statement.

2. Basis of preparation *(Continued)*

ii. Interests in equity-accounted investees
Management reviews the financial statements of the joint venture at the end of each reporting period and estimates its share of the interests. This review requires the use of assumptions and takes into consideration certain factors, such as historical average prices and production costs. In the event that future prices and costs differs from provisions estimated, future earnings will be affected.

3. Significant Accounting Policies

a) Principles of Consolidation
The consolidated financial statements incorporate the Company's accounts and the accounts of the subsidiaries, all wholly-owned, that it controls. The Company has control when it has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. All intercompany transactions, balances, revenues and expenses were fully eliminated upon consolidation.

b) Cash and Cash Equivalents
Cash and cash equivalents consist of cash on hand and highly liquid investments with an initial term of three months or less.

c) Inventories
Inventories, which consist of raw materials, work in process and finished goods are recorded at the lower of cost and net realizable value. Cost is determined using the weighted average cost method. The cost of inventories comprises all costs of purchase and other costs incurred in bringing the inventory to its present location and condition. Net realizable value is the estimated selling price in the ordinary course of business less any applicable estimated selling expenses. The cost of inventory is recognized as an expense when the inventory is sold. Previous write-downs to net realizable value are reversed if there is a subsequent increase in the value of the related inventories.

d) Property, Plant, Equipment and intangible assets
Items of property, plant, equipment and intangible assets are measured at cost less accumulated depreciation and accumulated impairment losses. Government grants received in respect to property, plant and equipment are recognized as a reduction to the cost.

Cost includes expenditures that are directly attributable to the acquisition of the asset, including any costs directly attributable to bringing the asset to a working condition for its intended use, and borrowing costs.

When an item of property, plant, equipment and intangible assets is made up of components that have differing useful lives, cost is allocated among the different components that are depreciated separately.

A gain or loss on the disposal or retirement of an item of property, plant, equipment and intangible assets, which is the difference between the proceeds from the disposal and the carrying amount of the asset, is recognized in net earnings as selling, administrative and general expenses. Depreciation is recognized on a declining balance method at the following rates:

Buildings	4% to 20%
Yard improvements	8% to 10%
Furniture and fixtures	4% to 20%
Equipment	4% to 20%
Computer equipment	20%
Rolling stock	30%

Estimated useful lives, depreciation methods, rates and residual values are reviewed at each annual reporting date, with the effect of any changes accounted for on a prospective basis.

e) Intangible assets
Costs associated with maintaining computer software programmes are recognized as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Company are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the software product so that it will be available for use;
- management intends to complete the software product and use it;
- there is an ability to use the software product;
- it can be demonstrated how the software product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use the software product are available and;
- the expenditure attributable to the software product during its development can be reliably measured.

Directly attributable costs that are capitalised as part of the software product include the software development employee costs and an appropriate portion of relevant overheads.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

3. Significant Accounting Policies *(Continued)*

Computer software is subject to the declining balance method at a rate of 20%. Our new ERP system is subject to a linear amortization of 10 years and the customer relationship is subject to a linear amortization of 5 years.

f) Leases

The Company accounts for a leased asset as a finance lease when substantially all of the risks and rewards of ownership of the asset have been transferred to the Company. The asset is initially recognized at the lower of the fair value of the leased asset at the inception of the lease and of the present value of the minimum lease payments. The corresponding debt appears on the consolidated statement of financial position as a financial liability in long-term debt. Assets held under finance leases are depreciated over their expected useful life on the same basis as owned assets or, where shorter, the lease term.

All other leases are classified as operating leases. Rent is recognized in net earnings on a straight-line basis over the term of the corresponding lease.

g) Impairment

i) Non-Financial Assets

On each reporting date, the Company reviews the carrying amounts of property, plant and equipment and intangible assets for any indication of impairment. If there is such an indication, the recoverable amount of the asset is estimated in order to determine the amount of any impairment loss. If the recoverable amount of the individual asset cannot be estimated, the Company estimates the recoverable amount of the cash generating unit (CGU) to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGUs; otherwise, they are allocated to the smallest group of CGUs for which a reasonable and consistent basis of allocation can be identified.

Recoverable amount is the higher of fair value less costs to sell and the value in use. To measure value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. If the estimated recoverable amount of an asset or of a CGU is less than its carrying amount, the carrying amount of the asset or of the CGU is reduced to its recoverable amount. An impairment loss is immediately recognized in net earnings.

When an impairment loss subsequently reverses, the carrying amount of the asset or of the CGU is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset or the CGU in the prior periods. Reversals of impairment losses are immediately recognized in net earnings.

ii) Financial Assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortized cost (loans and receivables) is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in net earnings and reflected in an allowance account against loans and receivables. Interest on the impaired asset continues to be recognized through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through net earnings.

h) Foreign Currency Translation

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into the functional currency at the exchange rate at that date. Non-monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rates prevailing at the respective transaction dates. Revenues and expenses denominated in foreign currencies are translated into the functional currency at average rates of exchange prevailing during the period. The resulting gains or losses on translation are included in cost of goods sold in the determination of net earnings.

i) Revenue Recognition

Revenues from activities relating to remanufacturing, distribution of lumber and wood products, services rendered, sales of consignment inventory and direct shipments are net of discounts and credit notes and are recognized at the fair value of the consideration received or receivable when all of the following conditions have been met:

i. The accounting policy for the provision of our services follows the same policy as set out in Note 3 to the financial statements.
ii. No services are invoiced separately. Revenue recognition (including services) were considered when all the significant risks and rewards of ownership have been transferred to the buyer.
iii. The value of work in progress related to the services offered are zero.

Sales are recorded net of estimated volume rebates and sales returns, which is based on historical experience, current trends and other known factors.

3. Significant Accounting Policies *(Continued)*

j) Post-Employment Benefits

a) Defined Contribution Plans
Defined contribution plans include pension plans offered by the Company that are regulated by the Régie des rentes du Québec and by the Canada Revenue Agency and 408 Simple IRA plans (for its US employees). The Company recognizes the contributions paid under defined contribution plans in net earnings in the period in which the employees rendered service entitling them to the contributions. The Company has no legal or constructive obligation to pay additional amounts other than those set out in the plans.

b) Defined Benefit Plans
The Company accrues its obligations under employee benefit plans and the related costs, net of plan assets, as the services are rendered.

The Company has a number of defined benefit pension plans and has adopted the following policies:

i. The cost of pensions earned by employees is actuarially determined using the projected unit credit method based on management’s best estimate of salary escalation, retirement ages of employees, discount rates and mortality tables. Actuarial valuations are performed by independent actuaries on each reporting date of the annual financial statements.
ii. For the purpose of calculating the costs of the plans, assets are recorded at fair value and interest on the service cost is allowed for in the interest cost.
iii. Actuarial gains or losses are recognized, for each reporting period, through other comprehensive income. Past service cost arising from plan amendments are recognized immediately in net earnings to the extent that the benefits are already vested; otherwise, they are amortized on a straight-line basis over the average period remaining until the benefits become vested.
iv. The defined benefit plans are subject to minimum funding requirements which under certain circumstances could generate an additional liability under IFRIC 14. Any variation in that liability would be recognized immediately in net earnings.

k) Income taxes
Income taxes consist of current tax and deferred tax. Current tax and deferred tax are recognized in net earnings except when they are related to items recognized directly in shareholders’ equity or in other comprehensive income, in which case the current tax and deferred tax are recognized directly in shareholders’ equity or in other comprehensive income, in accordance with the accounting treatment of the item to which it relates.

The Company’s income tax expense is based on tax rules and regulations that are subject to interpretation and require estimates and assumptions that may be challenged by taxation authorities. Current income tax is the expected tax payable or receivable on the taxable income or loss for the period, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to taxes payable in respect of previous years. The Company’s estimates of current income tax assets and liabilities are periodically reviewed and adjusted as circumstances warrant, such as changes to tax laws and administrative guidance, and the resolution of uncertainties through either the conclusion of tax audits or expiration of prescribed time limits within the relevant statutes. The final results of government tax audits and other events may vary materially compared to estimates and assumptions used by management in determining the income tax expense and in measuring current income tax assets and liabilities.

Deferred tax is recognized on the temporary differences between the carrying amounts of the assets and liabilities presented in the consolidated statement of financial position and the corresponding tax bases used for tax purposes. Deferred income tax assets and liabilities are measured using enacted or substantively enacted income tax rates expected to apply to taxable income in the years in which temporary differences are expected to be recovered or settled. The effect on deferred income tax assets and liabilities of a change in tax rates is included in net earnings in the period that includes the enactment or substantively enacted date except to the extent that it relates to an item recognized either in other comprehensive income or directly in equity in the current or in a previous period.

The Company only offsets income tax assets and liabilities if it has a legally enforceable right to set off the recognized amounts and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

A deferred income tax asset is recognized to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred income tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Deferred income tax assets and liabilities are recognized under non-current assets or liabilities, irrespective of the expected date of realization or settlement.

l) Earnings per Share
Basic earnings per share (EPS) are calculated by dividing the net earnings of the Company by the weighted average number of common shares outstanding during the period. Diluted EPS is determined by adjusting the weighted average number of shares outstanding to include additional shares issued from the assumed exercise of share options, if dilutive. The number of additional shares is calculated by assuming that the proceeds from such exercises, as well as the amount of unrecognized share-based payment, if any, are used to purchase common shares at the average market share price during the reporting period.

3. Significant Accounting Policies *(Continued)*

m) *Share-based payments*
The grant date fair value of share-based payment awards granted to employees is recognized as an employee expense, with a corresponding increase in equity, over the period that the employees unconditionally becomes entitled to the awards. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognized as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

n) *Financial Instruments*
All financial instruments are classified into one of the following five categories: financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments, including derivatives, are included on the statement of financial position and are measured at fair value with the exception of loans and receivables, held-to-maturity investments and other financial liabilities, which are initially measured at fair value and subsequently measured at amortized cost using the effective interest rate method, less impairment and adjusted for transaction costs. Subsequent measurement and recognition of changes in fair value of financial instruments depend on their initial classification. Financial instruments classified as financial assets at fair value through profit or loss are measured at fair value and all gains and losses are included in net earnings in the period in which they arise. Available-for-sale financial instruments are measured at fair value and changes therein, other than impairment losses, are recognized in other comprehensive income. When an available-for-sale is derecognized, the cumulative gain or loss in other comprehensive income is transferred to net earnings.

Financial assets and liabilities measured at fair value use a fair value hierarchy to prioritize the inputs used in measuring fair value. Level 1, defined as observable inputs such as quoted prices in active markets; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions.

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously. The Company has the following classifications:

- Cash and cash equivalents and trade and other receivables are classified as loans and receivables.
- Bank loans, bankers acceptances, bank overdraft and trade and other payables are classified as other financial liabilities.

o) *Non-Interest-Bearing Debt*
Non-interest-bearing debt is measured at amortized cost using the effective interest rate method. When a non-interest-bearing loan is obtained, to the extent that it was received as a grant related to an asset, the difference between the fair value of the loan and the consideration received is accounted for by deducting the grant from the carrying amount of the corresponding asset.

p) *Borrowing Costs*
Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use, are added to the cost of these assets until the assets are in the condition necessary for them to be capable of operating in the manner intended by management. In instances where the Company does not have borrowings directly attributable to the acquisition of qualifying assets, the Company uses the weighted average of the borrowing costs. The borrowing costs thus added to the qualifying assets will not exceed the borrowing costs incurred during the corresponding period.

Investment revenues earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization. All other borrowing costs are recognized in net earnings in the period in which they are incurred.

q) *Provisions*
Provisions are recognized if, as a result of past events, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties related to the obligation. If the effect of the time value of money is material, the provisions are measured at their present value.

i) *Onerous contracts*
A provision for onerous contracts is measured and recognized when the Company has concluded a contract for which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received from the contract.

3. Significant Accounting Policies *(Continued)*

ii) Environmental provisions

Environmental provisions relate to the discounted present value of estimated future expenditures associated with the obligations of restoring the environmental integrity of certain properties. Environmental expenditures are estimated taking into consideration the anticipated method and extent of the remediation consistent with regulatory requirements, industry practices, current technology and possible uses of the site. The estimated amount of future remediation expenditures is reviewed periodically based on available information. The amount of the provision is the present value of the estimated future remediation expenditures discounted using a pre-tax rate that reflects current market assessments of time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognized as financial costs, while the revision of estimates of environmental expenditures and discount rates are recorded in selling, administrative and general expenses in the consolidated statement of comprehensive income.

r) Government Grants

Government grants related to depreciable assets, including investment tax credits, are recognized in the consolidated statement of financial position as a reduction of the carrying amount of the related asset. They are then recognized in net earnings, as a deduction from the depreciation expense, over the estimated useful life of the depreciable asset. Other government grants are recognized in net earnings as a deduction from the related expense.

s) Presentation of Dividends and Interest Paid in Cash Flow Statements

IFRS permits dividends and interest paid to be shown as operating or financing activities, as deemed relevant for the entity. The Company has elected to classify dividends paid as cash flows used in financing activities and interest paid as cash flows used in operating activities.

t) Financial costs

Financial costs comprise interest expense on borrowings, unwinding of the discount on provisions and other financial charges. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized in net earnings using the effective interest method.

u) Business Combinations

The Company accounts for business combinations using the acquisition method when control is transferred to the Company. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a purchase is recognized in profit and loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

v) Interests in equity-accounted investees

The company interests in equity-accounted investees comprise interests in a joint venture. A joint venture is an arrangement in which the Company has joint control, whereby the Company has rights to the net assets of the arrangement, rather than the rights to its assets and obligations for its liabilities. Interests in the joint venture are accounted for using the equity method. They are recognized initially at cost, which includes transactions cost. Subsequent to initial recognition, the consolidated financial statements include the company's share of the profit and loss and Other Comprehensive Income of equity-accounted investees, until the date on which significant influence or joint control ceases.

w) IFRS Standard Issued, But Not Yet Effective

i) IFRS 15, Revenue from Contracts with Customers

On May 28, 2014 the IASB issued IFRS 15 *Revenue from Contracts with Customers*. The new standard is effective for annual periods beginning on or after January 1, 2018. Earlier application is permitted. IFRS 15 will replace IAS 11 *Construction Contracts*, IAS 18 *Revenue*, IFRIC 13 *Customer Loyalty Programmes*, IFRIC 15 *Agreements for the Construction of Real Estate*, IFRIC 18 *Transfer of Assets from Customers*, and SIC 31 *Revenue – Barter Transactions Involving Advertising Services*. The standard contains a single model that applies to contracts with customers and two approaches to recognising revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. The new standard applies to contracts with customers. It does not apply to insurance contracts, financial instruments or lease contracts, which fall in the scope of other IFRSs. The Company intends to adopt IFRS 15 in its financial statements for the annual period beginning on January 1, 2018. The Company has not yet assessed the impact of adoption of IFRS 15, and does not intend to early adopt IFRS 15 in its consolidated financial statements.

ii) IFRS 9, Financial Instruments

On July 24, 2014 the IASB issued the complete IFRS 9 (IFRS 9 (2014)). The mandatory effective date of IFRS 9 is for annual periods beginning on or after January 1, 2018 and must be applied retrospectively with some exemptions. Early adoption is permitted. The restatement of prior periods is not required and is only permitted if information is available without the use of hindsight. IFRS 9 (2014) introduces new requirements for the classification and measurement of financial assets. Under IFRS 9 (2014), financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. The standard introduces additional changes relating to financial liabilities. It also amends the impairment model by introducing a new 'expected credit loss' model for calculating impairment. IFRS 9 (2014) also includes a

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

3. Significant Accounting Policies *(Continued)*

new general hedge accounting standard which aligns hedge accounting more closely with risk management. This new standard does not fundamentally change the types of hedging relationships or the requirement to measure and recognize ineffectiveness, however it will provide more hedging strategies that are used for risk management to qualify for hedge accounting and introduce more judgment to assess the effectiveness of a hedging relationship. Special transitional requirements have been set for the application of the new general hedging model. The Company intends to adopt IFRS 9 (2014) in its financial statements for the annual period beginning on January 1, 2018. The Company has not yet assessed the impact of adoption of IFRS 9, and does not intend to early adopt IFRS 9 in its consolidated financial statements.

iii) IFRS 16, Leases

On January 13, 2016 the IASB issued IFRS 16 *Leases*. The new standard is effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted for entities that apply IFRS 15 *Revenue from Contracts with Customers* at or before the date of initial adoption of IFRS 16. IFRS 16 will replace IAS 17 *Leases*. This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than twelve months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. This standard substantially carries forward the lessor accounting requirements of IAS 17, while requiring enhanced disclosures to be provided by lessors. Other areas of the lease accounting model have been impacted, including the definition of a lease. Transitional provisions have been provided. The Company intends to adopt IFRS 16 in its financial statements for the annual period beginning on January 1, 2019. The Company has not yet assessed the impact of adoption of IFRS 16, and does not intend to early adopt IFRS 16 in its consolidated financial statements.

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

	November 30 2016	November 30 2015
	$	$
Employee benefits expense	**59,610**	57,167
Write-down of inventories included in cost of goods sold	**3,305**	35
Depreciation included in cost of goods sold	**1,467**	1,263
Depreciation included in selling, administrative and general expenses	**2,383**	1,763
Expense related to minimum operating lease payments	**3,877**	4,895
Foreign exchange gains	**(653)**	(576)

5. Net financial costs

	November 30 2016	November 30 2015
	$	$
Interest expense	**2,392**	1,555
Accretion expense on provision	**52**	53
Other financial costs	**1,256**	975
Financial cost	**3,700**	2,583
Finance income	**(60)**	(1)
Net finance cost	**3,640**	2,582

6. Trade and other receivables

	November 30 2016	November 30 2015
	$	$
Trade receivables	**64,693**	65,230
Allowance for doubtful accounts	**(1,816)**	(426)
	62,877	64,804
Other receivables	**1,378**	866
	64,255	65,670

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

7. Inventories

	November 30 2016	November 30 2015
	$	$
Raw materials	**12,613**	11,791
Work in process	**8,307**	833
Finished goods	**98,335**	85,525
	119,255	98,149
Provision for obsolescence	**(3,864)**	(484)
	115,391	97,665

For the year ended November 30, 2016, $447.2 million (2015 - $404.2 million) of inventory were expensed as cost of goods sold.

8. Property, plant and equipment

	Carrying amount November 30 2015	Additions	Through business acquisition	Dispositions	Depreciation	Carrying amount November 30 2016
	$	**$**	**$**	**$**	**$**	**$**
Land	**6,157**	**-**	**202**	**-**	**-**	**6,359**
Buildings	**16,501**	**868**	**1,297**	**-**	**(1,016)**	**17,650**
Yard improvements	**7,124**	**372**	**6**	**-**	**(585)**	**6,917**
Furniture and fixtures	**110**	**164**	**4**	**-**	**(30)**	**248**
Equipment	**4,542**	**615**	**1,496**	**-**	**(1,183)**	**5,470**
Computer equipment	**1,335**	**636**	**5**	**-**	**(360)**	**1,616**
Rolling Stock	**377**	**115**	**87**	**-**	**(146)**	**433**
	36,146	**2,770**	**3,097**	**-**	**(3,320)**	**38,693**

	November 30, 2016		
	Cost	**Accumulated depreciation**	**Carrying Amount**
	$	**$**	**$**
Land	**6,359**	**-**	**6,359**
Buildings	**36,842**	**19,192**	**17,650**
Yard improvements	**12,049**	**5,132**	**6,917**
Furniture and fixtures	**1,201**	**953**	**248**
Equipment	**26,180**	**20,710**	**5,470**
Computer equipment	**4,540**	**2,924**	**1,616**
Rolling Stock	**6,039**	**5,606**	**433**
	93,210	**54,517**	**38,693**

	Carrying amount November 30 2014	Additions	Through business acquisition	Dispositions	Depreciation	Carrying amount November 30 2015
	$	$	$	$	$	$
Land	6,157	-	-	-	-	6,157
Buildings	17,110	336	-	-	(945)	16,501
Yard improvements	7,683	56	-	-	(615)	7,124
Furniture and fixtures	102	32	-	-	(24)	110
Equipment	4,631	864	-	(69)	(884)	4,542
Computer equipment	534	929	-	-	(128)	1,335
Rolling Stock	562	197	-	(1)	(381)	377
	36,779	2,414	-	(70)	(2,977)	36,146

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

8. Property, plant and equipment *(Continued)*

	November 30, 2015		
	Cost	Accumulated depreciation	Carrying Amount
	$	$	$
Land	6,157	-	6,157
Buildings	34,677	18,176	16,501
Yard improvements	11,671	4,547	7,124
Furniture and fixtures	1,032	922	110
Equipment	24,070	19,528	4,542
Computer equipment	3,898	2,563	1,335
Rolling Stock	5,836	5,459	377
	87,341	51,195	36,146

Leased equipment

The company leases computer equipment under a finance lease. The leased equipment secures the lease obligation. At 30 November 2016, the net carrying amount of leased equipment was $249 thousand ($54 thousand in 2015).

There has been no impairments or recoveries recorded during the fiscal years ended November 30, 2016 and November 30, 2015.

9. Intangible assets

	Carrying amount November 30 2015	**Additions**	**Through business acquisition**	**Dispositions**	**Depreciation**	**Carrying amount November 30 2016**
	$	**$**	**$**	**$**	**$**	**$**
Software and technologies	**2,667**	**2,753**	**8**	**-**	**(433)**	**4,995**
Customer relationship	**-**	**-**	**530**	**-**	**(97)**	**433**
	2,667	**2,753**	**538**	**-**	**(530)**	**5,428**

	November 30, 2016		
	Cost	**Accumulated depreciation**	**Carrying Amount**
	$	**$**	**$**
Software and technologies	**5,915**	**920**	**4,995**
Customer relationship	**530**	**97**	**433**
	6,445	**1,017**	**5,428**

	Carrying amount November 30 2014	Additions	Through business acquisition	Dispositions	Depreciation	Carrying amount November 30 2015
	$	$	$	$	$	$
Software and technologies	241	2,475	-	-	(49)	2,667
	241	2,475	-	-	(49)	2,667

	November 30, 2015		
	Cost	Accumulated depreciation	Carrying Amount
	$	$	$
Software and technologies	3,155	488	2,667
	3,155	488	2,667

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

10. Investment in a joint venture

On December 1, 2015, the Company and Groupe Lebel Inc. completed the closing of a joint venture and the creation of Traitement Lebel Goodfellow Inc. with seven wood treatment plants to serve markets across Ontario, Quebec and the Maritimes, Traitement Lebel Goodfellow Inc. became one of the largest treated wood producer in eastern Canada with unsurpassed geographical coverage. Groupe Lebel's four plants located in Bancroft and Caledon, Ontario, Dégelis and St-Joseph, Quebec, are now combined with the Company's three plants located in Delson, Quebec, Elmsdale, Nova Scotia, and Deer Lake, Newfoundland, and were leased to the joint venture forming a new business unit focused on operational excellence. With the creation of the joint venture, this transaction allows us to enhance the strengths of the two partners to better serve the treated wood clients across eastern Canada. The Company invested $3.0 million in the joint venture in the form of inventory of raw material pursuant to a shareholder agreement in return of 40% of the shares of the joint venture. The Company's share of profit of the joint venture, after elimination of unrealised profit on upstream sales was $0.4 million for the year ended November 30, 2016 and was recognised in Cost of Goods Sold.

	November 30 2016	**November 30 2015**
	$	**$**
Investment	**3,000**	-
Group's share of profit and total comprehensive income	**403**	-
Balance as at November 30, 2016	**3,403**	-

The following table summarise the financial information of Lebel-Goodfellow Treating Inc. as included in its own financial statements. The table also reconciles the summarised financial information to the carrying amount of the Company's interest in Lebel-Goodfellow Treating Inc.

	November 30 2016	November 30 2015
	$	$
Non-current assets	**821**	-
Current assets (including cash and cash equivalent – nil in 2016 and 2015)	**18,361**	-
Non-current liabilities	**(15)**	-
Current liabilities (including a credit facility of $7.3 million)	**(9,725)**	-
Net assets (100%)	**9,442**	-
Company's share of net assets (40%)	**3,777**	-
Elimination of unrealised profit on upstream sales	**(374)**	-
Carrying amount of interest in joint venture	**3,403**	-
Revenue	**84,336**	-
Depreciation	**(204)**	-
Interest expense	**(332)**	-
Income tax expense	**(703)**	-
Profit and total comprehensive income (100%)	**1,942**	-
Profit and total comprehensive income (40%)	**777**	-
Elimination of unrealised profit on upstream sales	**(374)**	-
Company's share of profit and total comprehensive income	**403**	-

11. Business combinations

On December 31, 2015, the Company completed the acquisition of 100% of the shares of Quality Hardwoods Ltd. located in Powassan, Ontario. Quality Hardwoods Ltd. manufactures, sells and distributes hardwood lumber products in Ontario and in the US which is core to our business development strategy. Sales of the acquired company recognized since the acquisition date amounted to approximately $13.9 million for 11 months. The purchase price was $6.3 million, subject to post-closing adjustments. The Company has financed the acquisition through its existing revolving credit facility.

The following fair value determination of the assets acquired and liabilities assumed is final. The following is a summary of the assets acquired, the liabilities assumed and the consideration transferred at fair value as at the acquisition date. The transaction was made in Canadian dollars.

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

11. Business combinations *(Continued)*

	December 31 2015
	$
Assets acquired	
Cash	892
Trade and others receivables	1,157
Inventories	2,601
Prepaid expenses	2
Property plant and equipment	3,097
Intangibles	538
Liabilities assumed	
Bank debt	560
Trade and other payables	815
Deferred income tax	576
Total net assets acquired and liabilities assumed	**6,336**
Consideration transferred	
Cash	5,100
Holdback provision (short term)	1,236
Consideration transferred	**6,336**

The intangible assets relate mainly to customer relationships. The assigned useful lives of customers' relationship are between 5 to 10 years. Significant assumptions used in the determination of intangible assets, as defined by Management, include year-over-year sales growth, attrition rate, discount rate and operating income before depreciation. From the holdback provision an amount of $0.6 million has been paid during the year.

12. Bank indebtedness and long-term debt

	November 30 2016	November 30 2015
	$	$
Bank Loans	**11,000**	9,000
Banker's Acceptances	**80,500**	35,000
Bank overdraft	**2,613**	2,781
	94,113	46,781

In May 2015, the Company renewed its credit agreement with two chartered Canadian banks. As at November 30, 2016, under the new credit agreement, the Company was using $91.5 million of its facility compared to $44 million last year. The credit agreement has a maximum revolving operating facility of $125 million renewable in May 2018. The credit agreement was amended on June 30, 2016 to increase from $100 million to $125 million. 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. The Company exercised its option to increase its bank line due to increased working capital requirement due to our transition to a new enterprise resource planning software delaying the collection of accounts receivable which, combined with the increased sales during the peak season, had an impact on our short term borrowing requirements. As at November 30, 2016, the Company was in default of its financial covenants under its credit agreement and borrowings under the revolving credit facility exceeded the borrowing base under its credit agreement. Subsequent to year-end, Management obtained from its lenders waivers of the defaults and amended the terms of its credit facility. Pursuant to the amended credit facility, the available facility has been reduced from $125 million to $100 million, except for the months of February to August 2017. Furthermore, the Company needs to comply with quarterly maximum funded debt to capitalization ratio, a minimum debt service coverage ratio only at December 31, 2017 and achieve minimum quarterly year-to-date EBITDA budget approved by the lenders. The amendment also changes the Company applicable interest rate margin on outstanding debt based on the Company funded debt to capitalization ratio.

The Company has entered into finance leases secured by the leased computer equipment. The obligation under finance lease bears interest at a rate of 2.7% per annum, maturing December 2018.

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

13. Trade and other payables

	November 30 2016	November 30 2015
	$	$
Trade payables and accruals	**23,034**	20,989
Payroll related liabilities	**6,357**	7,441
Sales taxes payables	**1,330**	1,332
	30,721	29,762

14. Provision

The Company's St-André (QC) site shows continued traces of surface contamination from previous treating activities exceeding existing regulatory requirements. The Company received approval for the environmental rehabilitation plan in fiscal 2016. The Company started to implement its plan during the fiscal 2016 and treatment of soil on-site will be performed over an estimated period of 5 years. Based on current available information, the provision as at November 30, 2016 is considered by management to be adequate to cover any projected costs that could be incurred in the future.

Because of the long-term nature of the liability, the biggest uncertainty in estimating the provision is the amounts of soil to be treated and the costs that will be incurred. In particular, the Company has assumed that the site will be restored using technology and materials that are currently available. The Company has been provided with a reasonable estimate, reflecting different assumptions about pricing of the individual components of the cost. The provision has been calculated using a discount rate of 4.7% and an inflation rate of 2%. The rehabilitation is expected to occur progressively over the next 5 years.

The change in environmental provision is as follows:

	November 30 2016	November 30 2015
	$	$
Balance at beginning of year	**1,589**	1,452
Changes due to:		
Revision of future expected expenditures	**(151)**	126
Accretion expense	**52**	53
Expenditures incurred	**(52)**	(42)
Balance at end year	**1,438**	1,589
Current portion	**963**	1,112
Long-term portion	**475**	477

Change in estimates of future expenditures are as a result of periodic reviews of the underlying assumptions supporting the provision, including remediation costs and regulatory requirements.

15. Share Capital

a) Authorized

An unlimited number of common shares, without par value

	November 30 2016	November 30 2015
Number of shares outstanding at the beginning and at the end of the year	**8,506,554**	8,506,554

b) 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 November 30, 2016, 220 000 common shares are reserved for the granting of options.

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

15. Share Capital (*Continued)*

c) Earnings and dividend per share

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

	November 30 2016	November 30 2015
	$	$
Net (loss) earnings - basic and diluted	**(12,105)**	8,622
Weighted average number of shares – basic and diluted	**8,506,554**	8,506,554

Dividends of $0.30 per share were declared and paid to the holders of participating shares for the year ended November 30, 2016 and $0.35 for the year ended November 30, 2015.

16. Income Taxes

The income tax expenses is as follows:

	November 30 2016	November 30 2015
	$	$
Current tax expenses	**(3,838)**	2,744
Deferred tax expenses	**(351)**	508
	(4,189)	3,252

The provision for income taxes is at an effective tax rate, which differs from the basic corporate statutory tax rate as follows:

	November 30 2016	November 30 2015
	$	$
Earnings before income taxes	**(16,294)**	11,874
Statutory income tax rate (%)	**27.0**	27.0
Income taxes based on above rates	**(4,399)**	3,206
Increase resulting from:		
Permanent differences	**62**	46
Difference in expected rate of reversal versus current rate	**90**	24
Other	**58**	(24)
	(4,189)	3,252

The tax effect of temporary differences that give rise to significant portions of the deferred income tax liability is as follows:

	November 30 2016	November 30 2015
	$	$
Deferred tax assets		
Deferred pension liability (asset)	**(317)**	(1,302)
Provisions and other	**1,388**	581
	1,071	(721)
Deferred tax liability		
Property, plant and equipment	**(4,367)**	(3,420)
Net deferred tax liability	**(3,296)**	(4,141)

On an annual basis, the Company assesses the need to establish a valuation allowance for its deferred income tax assets, and if it is probable its deferred income tax assets will be realized based on its taxable income projections. As at November 30, 2016, it is probable that the Company will realize its deferred income tax assets from the generation of future taxable income.

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

17. Post-employment benefits

The Company has a number of pension plans providing pension benefits to most of its employees.

The Pension Plan for the Hourly Employees of Goodfellow Inc. ("Hourly Plan") is a hybrid pension plan funded by employer and members contributions. Defined benefits are based on career average earnings for service up to April 30, 2008. The Hourly Plan was a pure defined benefit plan until April 30, 2008 but has been amended effective May 1, 2008 to introduce a defined contribution (DC) component.

The Pension Plan for the Salaried Employees of Goodfellow Inc. ("Salaried Plan") is also a hybrid pension plan funded by employer and members contributions. Defined benefits are based on length of service up to May 31, 2007 and final average earnings calculated at the earliest of retirement, termination or death. The Salaried Plan was a pure defined benefit plan until May 31, 2007 but has been amended effective June 1, 2007 to introduce a defined contribution (DC) component. As for the DC components, the Company matches employee contributions.

All employees have ceased to accrue service under the defined benefit portions of the plans.

A. Defined Contribution Plans

The Company contributes to several defined contribution plan and 408 Simple IRA plans (for its US employees). The pension expense under these plans is equal to the Company's contributions. The pension expense for the year ended November 30, 2016 was $1.6 million (2015 - $1.5 million).

B. Defined Benefit Plans

The most recent actuarial valuations for funding purposes were filed with the pension regulators on December 31, 2015 for both plans. The next actuarial valuation for both plans for funding will be completed no later than December 31, 2018.

Full actuarial valuations of the accrued pension benefit obligations for accounting purposes were prepared as at December 31, 2014 for both plans and the results were extrapolated to November 30, 2015 based on the assumptions applicable at that date to determine the periodic net retirement expense for the period from December 1, 2015 to November 30, 2016. In addition, full actuarial valuations of the accrued pension benefit obligations for accounting purposes were prepared as at December 31, 2015 And the results have been extrapolated to 30 November 2016 on the basis of the assumptions applicable at that date in order to determine the funded status of the pension schemes as at 30 November 2016.

The measurement date for the plan assets and obligations is November 30.

Information about the Company's defined benefit plans is as follows:

	November 30 2016	November 30 2015
	$	$
Defined benefit obligation		
Balance, beginning of year	**47,937**	50,926
Interest cost	**2,013**	2,005
Benefits paid	**(2,267)**	(2,844)
Actuarial (gain) loss		
Effect of experience adjustments	**(6)**	(308)
Changes in financial assumptions	**4,190**	(1,842)
Balance, end of year	**51,867**	47,937
Plan assets		
Fair value, beginning of year	**52,749**	51,196
Interest income	**2,219**	2,025
Employer contributions	**185**	679
Benefits paid	**(2,267)**	(2,844)
Administrative expenses paid from plan assets	**(205)**	(225)
Return on plan assets in excess of interest income	**375**	1,918
Fair value, end of year	**53,056**	52,749
Net asset	**1,189**	4,812

The actual return on plan assets was $2.4 million in 2016 and $3.7 million in 2015.

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

17. Post-employment benefits *(Continued)*

The funded status of the defined benefits plans are as follows:

	November 30 2016	November 30 2015
	$	$
Defined benefits obligation		
- funded	**13,983**	47,937
- partly funded	**37,884**	-
Fair value of plan assets		
- funded	**16,217**	52,749
- partly funded	**36,839**	-
Funded status - surplus (deficit)		
- funded	**2,234**	4,812
- partly funded	**(1,045)**	-

The significant actuarial weighted average assumptions used are as follows:

	November 30 2016	November 30 2015
	%	%
Defined benefit obligation:		
Discount rate	**3.75**	4.30
Rate of compensation increase	**3.00**	3.00
Net benefit plan expense:		
Discount rate	**4.30**	4.05
Rate of compensation increase	**3.00**	3.00

Net benefit plan expense:

	November 30 2016	November 30 2015
	$	$
Interest cost	**2,013**	2,005
Interest income	**(2,219)**	(2,025)
Administrative expenses	**205**	225
Net benefit plan expense	**(1)**	205

The net benefit plan expense is included in Cost of goods sold, and Selling, Administrative, and General Expenses in the statement of comprehensive income.

The plan assets by asset category are as follows:

	Novembre 30 2016	Novembre 30 2015
	%	%
Equity security:		
Canadian stocks	**21**	20
US stocks	**20**	21
International stocks	**18**	19
Debt securities:		
Universal type	**40**	39
Treasury	**1**	1

All investments are quoted on an active market.

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

17. Post-employment benefits *(Continued)*

History of deficit and of experience gains and losses:

	November 30 2016	November 30 2015
	$	$
Benefit obligation	**51,867**	47,937
Fair value of plan assets	**53,056**	52,749
Surplus	**1,189**	4,812
Experience loss on plan liabilities*		
- Amount	**(6)**	(308)
- Percentage	**0.0%**	0.6%

** Excluding impact of change in assumptions*

A one percent change in discount rate would not have a significant impact on pension expense.

Amount, timetable and uncertainty of future cash flows:

- Sensitive analysis

Sensitivity to the discount rate:

	Down of 0.25 %	Assumption used	Up to 0.25 %
Defined benefit obligation	$53,789	$51,867	$50,053
Discount rate	3,50 %	3,75 %	4,00 %

Sensitivity to the life expectancy:

	Up to one year	Assumption used
Defined benefit obligation	$53,149	$51,867
Mortality table (CPM2014Priv – CPM-B)		
Life expectancy of man of 65 years	22.6 years	21.6 years
Life expectancy of woman of 65 years	25.0 years	24.0 years

- Funding policy

Goodfellow Inc. contributes amounts required to comply with provincial and federal legislation.

- Expected contributions

The total cash payment for post-employment benefits for 2016, consisting of cash contributed by the Company to its funded pension plans, was $0.2 million ($0.7 million in 2015). Based on the latest filed actuarial valuation for funding purposes as at December 31, 2015, the Company expects to contribute nil in 2017.

- Duration

The weighted average duration of the weighted average duration of the defined benefit obligation is 15 years.

18. Additional Cash Flow Information

Changes in Non-Cash Working Capital Items

	November 30 2016	November 30 2015
	$	$
Trade and other receivables	**2,572**	(5,079)
Inventories	**(18,125)**	(5,409)
Prepaid expenses	**(528)**	(760)
Trade and other payables	**27**	3,389
	(16,054)	(7,859)

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

18. Additional Cash Flow Information *(Continued)*

Non-cash transaction
The Company purchased property, plant, equipment and intangible assets for which an amount of $0.3 million was unpaid as at November 30, 2016 ($0.6 million as at November 30, 2015).

Joint venture
The Company invested $3.0 million in the joint venture in the form of inventory of raw material pursuant to a shareholder agreement in return of 40% of the shares of the joint venture.

19. Segmented Information

The Company manages its operations under one operating segment. Revenues are generated from the sale of various wood products and operating expenses are managed at the aggregate company level. The Company's sales to clients located in Canada represent approximately 86% (83% in 2015) of total sales, the sales to clients located in the United States represent approximately 9% (11% in 2015) of total sales, and the sales to clients located in other markets represent approximately 5% (6% in 2015) of total sales. All significant property, plant and equipment are located in Canada.

20. 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.

The following are the contractual maturities of financial liabilities as at November 30, 2016:

Financial Liabilities				
	Carrying Amount	**Contractual cash flows**	**0 to 6 Months**	**6 to 36 Months**
Bank indebtedness	94,113	94,113	94,113	-
Trade and other payable	31,034	31,034	31,034	-
Long-term debt	262	262	74	188
Total financial liabilities	**125,409**	**125,409**	**125,221**	**188**

The following are the contractual maturities of financial liabilities as at November 30, 2015:

Financial Liabilities				
	Carrying Amount	Contractual cash flows	0 to 6 Months	6 to 36 Months
Bank indebtedness	46,781	46,781	46,781	-
Trade and other payable	29,762	29,762	29,762	-
Long-term debt	113	113	52	61
Total financial liabilities	76,656	76,656	76,595	61

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 $94.1 million in bank indebtedness would impact interest expense annually by $1.0 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 November 30, 2016, the Company had the following currency exposure on;

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

20. Financial Instruments and Financial Risk Management *(Continued)*

Financial assets and liabilities measured at amortized costs

	USD	GBP	Euro
Cash	549	334	8
Trade and other receivables	9,768	587	-
Trade and other payables	(3,242)	(68)	(178)
Net exposure	**7,075**	**853**	**(170)**
CAD exchange rate as at November 30, 2016	1.3429	1.6798	1.4231
Impact on net earnings based on a fluctuation of 5% on CAD	**347**	**52**	**(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 for foreign accounts to reduce the potential for credit losses in foreign countries. Finally, the Company has adopted a credit policy that defines the credit conditions to be met by its customers and specific credit limit for each customer is established and regularly revised. Accounts receivable over 60 days past their due date and not impaired represents 7.1% (4.0% on November 30, 2015) of total trade and other receivables at November 30, 2016.

Based on historical payment behaviour and current credit information and experience available, the Company reviewed the impairment allowance in respect of trade receivables not past due or past due. The impact of this review as at November 30, 2016 was an additional allowance for impairment. The Company does not have long-term contracts with any of its customers. Distribution agreements are usually awarded annually and can be revoked.

The movement in the allowance for doubtful accounts in respect to trade and other receivables were as follows;

	November 30 2016	November 30 2015
	$	$
Balance - Beginning of year	**426**	261
Provision	**1,575**	317
Bad debt write offs	**(185)**	(152)
Balance - End year	**1,816**	426

Only one major customer exceed 10% of total company sales in the twelve months ended November 30, 2016 (same as last year). The following represents the total sales consisting primarily of various wood products of the major customer:

	Years ended			
	November 30, 2016		November 30, 2015	
	$	**%**	$	%
Sales to a major customer that exceeded 10% of total Company's sales	**90,241**	**16.0**	76,550	14.2

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

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.

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

21. Capital Management

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 is subject to certain covenants on its credit facilities. The covenants include a Debt-to-capitalization ratio and debt service coverage ratio. The Company monitors the ratios on a monthly basis. Following the fourth quarter performance, the Company's restrictive covenant related to debt service coverage ratio was not complied with as at November 30, 2016 and the bank loan balance was higher than its borrowing base as at December 31, 2016. The Company did not comply with all the terms of the financing agreement as of November 30, 2016 and therefore was in default under the terms of the agreement. According to the financial forecasts the Company has filed with its lenders, the restrictive covenant related to debt service coverage would not be met on any of the valuation dates during the fiscal year ending November 30 2017. As such, subsequent to year-end, management amended the terms of the credit facility to exclude the restrictive covenant relating to the debt service coverage ratio for fiscal 2017. All other covenants set out in the agreement were met as at November 30, 2016 and for all valuation dates in fiscal 2016. The Company obtained a waiver of the rights resulting from the defects above until December 1, 2017. As part of the amendment, the Company has a new financial covenants whereby it will be required to achieve a minimum quarterly year-to-date EBITDA covenant based on the forecast submitted to and approved by the lenders. 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 the past twelve months. The financial objectives and strategy included major investments in ERP technology, improvements to its operational structure, sales and profitability growth through acquisitions and new products offering. Changes to its credit agreement and working capital structure were required and Management have addressed the shortfall with its lenders. Although there is a risk that the future performance will not be met, 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 November 30, 2016 and 2015, the Company achieved the following results regarding its capital management objectives:

Capital management	**As at November 30, 2016**	As at November 30, 2015
Debt-to-capitalization ratio	**47.3%**	25.8%
Return on shareholders' equity	**(10.9)%**	6.7%
Current ratio	**1.5**	2.1
EBITDA	**$(8,804)**	$17,482

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

- Debt-to-capitalization ratio represents the funded debt over total shareholders' equity. Funded debt is bank indebtedness less cash and cash equivalents. Capitalization is funded debt plus shareholders' equity.
- Return on shareholders' equity is the net earnings (loss) divided by shareholders' equity.
- Current ratio is total current assets divided by total current liabilities.
- EBITDA is earnings before interest, taxes, depreciation and amortization.

22. Commitments and Contingent liabilities

Commitments
As at November 30, 2016, the minimum future rentals payable under long-term operating leases, for offices, warehouses, vehicles, yards, and equipment are as follows:

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

22. Commitments and Contingent liabilities *(Continued)*

	$
Less than 1 year	5,245
More than 1 year, but less than 5 years	10,251
More than 5 years	5,015
	20,511

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

23. Related party transactions

Related parties include the key management personnel and other related parties as described below.

Other related party transactions

	November 30 2016	November 30 2015
	$	$
Joint venture – Lebel-Goodfellow Treating Inc.		
Sales of goods	**3,782**	-
Purchase of goods	**83,921**	-
Lease rental income	**415**	-
Miscellaneous charges	**734**	-
Company controlled by a member of the Board – Jarislowsky Fraser Ltd.		
- Management fee	**183**	137

These transactions are in the normal course of business and measured at the exchange amount of considerations established and agreed to in the contractual arrangements between the related parties. The Company has an outstanding payable balance to Lebel-Goodfellow Treating Inc. of $3.5 million as at November 30, 2016 (nil in 2015).

Key management personnel compensation
Key management includes members of the board of directors, senior management and key executives. The following table shows the remuneration of key management personnel during the years ended:

	November 30 2016	November 30 2015
	$	$
Salaries and other short-term benefits	**2,278**	2,311
Post-employment benefits	**350**	212
	2,628	2,523

24. Subsequent event

Credit Agreement Amendment
Following the fourth quarter performance, the Company's restrictive covenant related to debt service coverage was not complied with as at November 30, 2016 and the bank loan balance was higher than its borrowing base as at December 31, 2016. The Company did not comply with all the terms of the financing agreement as of November 30, 2016 and therefore was in default under the terms of the agreement. According to the financial forecasts the Company has filed with its lenders, the restrictive covenant related to debt service coverage would not be met on any of the valuation dates during the fiscal year ending November 30 2017. As such, subsequent to year end, management amended the terms of the credit facility to exclude the restrictive covenant relating to the debt service coverage ratio for fiscal 2017. All other covenants set out in the agreement were met as at November 30, 2016 and for all valuation dates in fiscal 2016. Pursuant to the amended credit facility signed subsequent to year-end, the available facility has been reduced from $125 million to $100 million, except for the months of February to August 2017. Furthermore, the Company needs to comply with quarterly maximum funded debt to capitalization ratio, a minimum debt service coverage ratio only at December 31, 2017 and achieve minimum quarterly year-to-date EBITDA budget approved by the lenders. The amendment also changes the Company applicable interest rate margin on outstanding debt based on the Company funded debt to capitalization ratio. The Company obtained a waiver of the rights resulting from the defects above until December 1, 2017.

25. Comparative information

Certain prior period information has been reclassified to conform to the current period presentation. In 2016, the Company reclassified certain expenditures relating to promotion materials from cost of goods sold to selling, administrative and general expenses. To conform to the current period presentation, the Company reclassified the related amounts in 2015. The amounts reclassified for the year ended November 30, 2015 was $1.8 million.

CORPORATE INFORMATION

BOARD OF DIRECTORS

Claude Garcia */**
Chairman of the Board
.

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

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

Normand Morin */**
Chairman of the Audit Committee

David A. Goodfellow
Director

R. Keith Rattray
Director

*   Member of the Audit Committee
** Member of the Executive Compensation Committee

OFFICERS

Patrick Goodfellow
President & Chief Executive Officer

G. Douglas Goodfellow
Secretary of the Board

Pierre Lemoine, CPA, CMA
Vice President &
Chief Financial Officer

Mary Lohmus
Senior Vice President,
Ontario and Western Canada

David Warren
Vice President,
Atlantic

Christian Levasseur
Vice President,
Procurement

MANAGEMENT COMMITTEE

Patrick Goodfellow*
Pierre Lemoine *

G. Douglas Goodfellow
Mary Lohmus *

David Warren*
Christian Levasseur *

* Member of the Executive Committee

OTHER INFORMATION

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Sollicitors
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Quebec, Quebec

Auditors
KPMG LLP
Montreal, Quebec

Transfer Agent
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Montreal, Quebec

Stock Exchange
Toronto
Trading Symbol: GDL

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

NOTES:

OUR DIVISIONS

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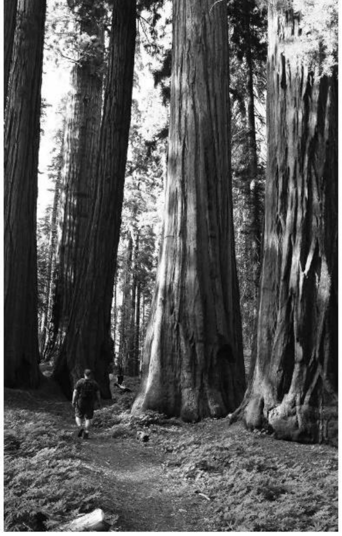


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