ANNUAL REPORT

2018

GOODFELLOW

FINANCIAL HIGHLIGHTS

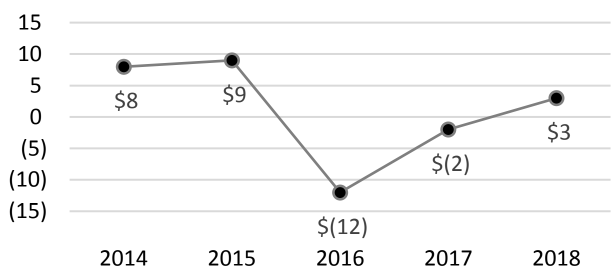
OPERATING RESULTS

(in thousands of dollars, except per share amounts)

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

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

NET EARNINGS (LOSS) (in million $)



SHARE PRICE

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GOODFELLOW
THE WOOD SPECIALIST

ANNUAL MEETING

The annual Meeting of Shareholders will be held on April 12, 2019 at 11:00 a.m. at the Goodfellow Inc. Head Office: 225 Goodfellow Street, Delson, Quebec.

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

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

CHAIRMAN'S REPORT TO THE SHAREHOLDERS

The new federal mortgage financing rules that came into effect in January 2018 caused a significant drop in our sales in the Toronto area beginning in June. This sales drop, combined with a sudden downfall in plywood and lumber prices, prevented Goodfellow from achieving the profitability level that the restoration of our gross margins would normally have produced.

These difficulties did not prevent management from continuing to improve our balance sheet during the year. Better management of our cashflow allowed us to reduce our line of credit by nearly $ 10 million in 2018.

In closing, on behalf of the Board of Directors, I wish to thank all our employees for their efforts during this past year. We are very grateful for their dedication.

Claude Garcia
Chairman of the Board
February 14, 2019

PRESIDENT'S REPORT TO THE SHAREHOLDERS

December 1, 2017 to November 30, 2018 must be evaluated and perceived as a second year of transition and correction after the severe losses incurred in 2016. Management took hold of its transparent and accurate business information to strive towards a profitable budget and an actual profitable result for 2018. Continued process improvements within the Company's ERP system made this a viable outcome.

Fiscal 2018 was budgeted as a transition into historical profitability. As responsible operators, management continued in its objective of eradicating obsolete inventory. Cost control measures continued to be implemented through operational efficiencies and continued process improvements within the ERP. Through pricing discipline, margins held overall despite very volatile commodity fluctuations.

The results in Q1 2018 were $1.4 million net loss with traditional losses mitigated by decent business conditions in Jan/Feb to end the quarter. Q2 2018 culminated with an exceptional May and a result of $1.8 million of net earnings. The beginning of Q3 showed discrete signs of softening markets especially in Ontario and continued headwinds in Alberta/Saskatchewan. Commodity price levels in plywood and lumber dropped at an unprecedented pace leaving those categories in distress. Overall sales in Q3 and Q4 fell below expectations resulting nonetheless in $2.0 million of net earnings in Q3 2018 and $0.2 million of net earnings in Q4 2018 versus $1.6 million in Q3 2017 and $2.2 million in Q4 2017. The Company was able to continue its gradual mandate to return to profitability in 2018. 2018 final results were $2.6 million of net earnings versus a $2.1 million net loss in 2017.

Despite challenging political conditions in North America and overseas, Goodfellow is committed to improving its net profitability in years to come.

Patrick Goodfellow
President and Chief Executive Officer
February 14, 2019

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 14, 2019. The MD&A should be read in conjunction with the consolidated financial statements and the corresponding notes for the twelve months ended November 30, 2018 and twelve months ended November 30, 2017. The MD&A provides a review of the significant developments and results of operations of the Company during the twelve months ended November 30, 2018 and twelve months ended November 30, 2017. The consolidated financial statements for the years ended November 30, 2018 and November 30, 2017 are prepared in accordance with International Financial Reporting Standards ("IFRS"). All amounts in this MD&A are in Canadian dollars unless otherwise indicated.

This MD&A contains implicit and/or explicit forecasts, as well as forward-looking statements on the objectives, strategies, financial position, operating results and activities of Goodfellow Inc. These statements are forward-looking to the extent that they are based on expectations relative to markets in which the Company exercises its activities and on various assessments and assumptions. Although we believe that the expectations reflected in the forward-looking statements contained in this document, and the assumptions on which such forward-looking statements are made, are reasonable, there can be no assurance that such expectations and assumptions will prove to be correct. Readers are cautioned not to place undue reliance on forward-looking statements included in this document, as there can be no assurance that the plans, intentions or expectations upon which the forward-looking statements are based will occur. Our actual results could differ significantly from management's expectations if recognized or unrecognized risks and uncertainties affect our results or if our assessments or assumptions are inaccurate. These risks and uncertainties include, among other things; the effects of general economic and business conditions including the cyclical nature of our business; industry competition; inflation, credit, currency and interest rate risks; environmental risk; competition from vendors; dependence on key personnel and major customers; laws and regulation; information systems, cost structure and working capital requirements; and other factors described in our public filings available at www.sedar.com. For these reasons, we cannot guarantee the results of these forward-looking statements. The MD&A gives an insight into our past performance as well as the future strategies and key performance indicators as viewed by our management team at Goodfellow Inc. The Company disclaims any obligation to update or revise these forward-looking statements, except as required by applicable law.

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

NON-IFRS FINANCIAL MEASURES

Cash flow per share and operating income before depreciation of property, plant and equipment and amortization of intangible assets (also referred to as earnings before interest, taxes, depreciation and amortization ["EBITDA"]), are financial measures not prescribed by the IFRS and are not likely to be comparable to similar measures presented by other issuers. Management considers it to be useful information to assist knowledgeable investors in evaluating the cash generating capabilities of the Company. Cash flow per share is defined as Cash flow from operations (excluding non-cash working capital, income tax paid and interest paid) of $9.7 million for the fiscal period ended November 30, 2018 divided by the total number of outstanding shares of 8,506,554.

Reconciliation of EBITDA and operating income to net income (loss) (thousands of dollars)	**For the years ended**	
	November 30 2018	November 30 2017
	$	$
Net income (loss) for the period	**2,571**	(2,094)
Provision for income taxes	**706**	(1,181)
Net financial costs	**3,476**	4,199
Operating income	**6,753**	924
Depreciation and amortization	**3,690**	4,085
EBITDA	**10,443**	5,009

BUSINESS OVERVIEW

Goodfellow Inc. is a distributor of lumber products, building materials, and hardwood flooring products. The Company carries on the business of wholesale distribution of wood and associated products and remanufacturing, distribution and brokerage of lumber. The Company sells to over 7000 customers who represent three main sectors - retail trade, industrial, and manufacturing. The Company operates 13 distribution centres, 9 processing plants in Canada, and 1 distribution centre in the USA.

OVERALL PERFORMANCE

Heading into 2018, the Company focused on reconciling its inventory levels and setting a focused priority on its core categories. The Company remains committed to strengthening its distribution footprint across Canada. Our business model continues to be aligned with organic growth through geographic market penetration, market share gains, distribution of new value-added lines and strengthening our core category niche businesses. Goodfellow is committed to being the leader in specialty forest products and offering innovative customer service solutions.

Fiscal 2018 was budgeted as a transition into historical profitability. As responsible operators, management continued in its objective of eradicating obsolete inventory. Cost control measures continued to be implemented through operational efficiencies and continued process improvements within the ERP. Through pricing discipline, margins held overall despite very volatile commodity fluctuations.

The results in Q1 2018 were $1.4 million net loss with traditional losses mitigated by decent business conditions in Jan/Feb to end the quarter. Q2 2018 culminated with an exceptional May and result of $1.8 million of net earnings. The beginning of Q3 showed discrete signs of softening markets especially in Ontario and continued headwinds in Alberta/Saskatchewan. Commodity price levels in plywood and lumber dropped at an unprecedented pace leaving those categories in distress. Overall sales in Q3 and Q4 fell below expectations resulting nonetheless in $2.0 million of net earnings for Q3 2018 and $0.2 million of net earnings in Q4 2018 versus $1.6 million in Q3 2017 and $2.2 million in Q4 2017. The Company was able to continue its gradual mandate to return to profitability in 2018. 2018 final results were $2.6 million of net earnings versus a $2.1 million net loss in 2017.

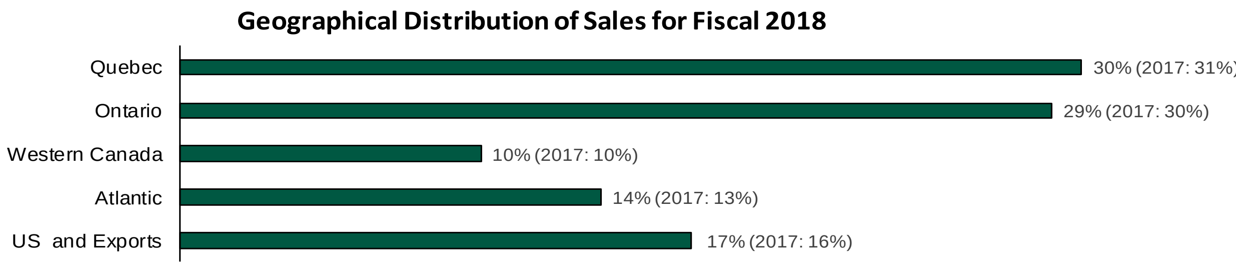
SELECTED ANNUAL INFORMATION (in thousands of dollars, except per share amounts)

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

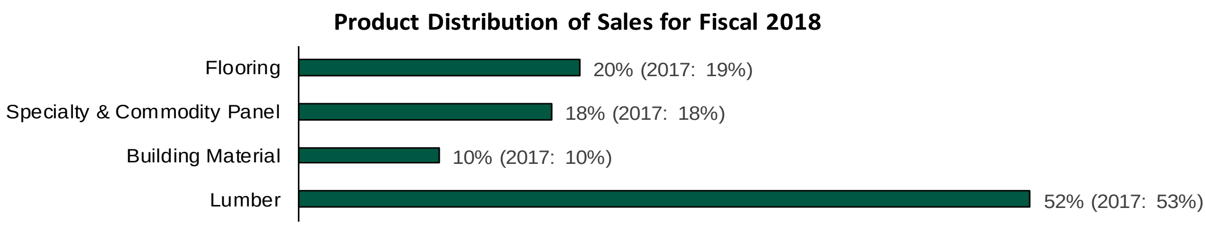
COMPARISON FOR THE YEARS ENDED NOVEMBER 30, 2018 AND 2017
(In thousands of dollars, except per share amounts)

HIGHLIGHTS FOR THE YEARS ENDED NOVEMBER 30, 2018 AND 2017	**2018**	2017	Variance
	$	$	%
Consolidated sales	**475,207**	523,659	-9,3
Earnings (loss) before income taxes	**3,277**	(3,275)	+200,1
Net earnings (loss)	**2,571**	(2,094)	+222,8
Net earnings (loss) per share, Basic and Diluted	**0.30**	(0.25)	+220,0
Cash Flow from Operations (excluding non-cash working capital items, income tax paid and interest paid)	**9,705**	2,630	+269,0
EBITDA	**10,443**	5,009	+108,5
Average Bank indebtedness	**69,569**	80,010	-13.0
Inventory average	**104,832**	105,361	-0.5

Sales in Canada during fiscal 2018 decreased 10% compared to last year mainly due to decrease in sales of pressure treated wood, panels and building materials. Sales in Quebec decreased 12% compared to last year due to decrease in sales of pressure treated wood and panels. Sales in Ontario decreased 12% compared to last year mainly due to a decline in sales of pressure treated wood and flooring products. Sales in Western Canada decreased 11% compared to last year mainly due to decreased sales of siding, building materials and hardwood products. Atlantic sales remained stable compared to last year.



Sales in the United States during fiscal 2018 decreased by 6% on a Canadian dollar basis compared to last year due to lower demand of hardwood lumber products. On a US dollar basis, US denominated sales decreased 5% compared to last year. Finally, export sales decreased 5% compared to last year due to lower demand of hardwood and flooring products.



In terms of the distribution of sales by product, flooring sales during fiscal 2018 decreased 6% compared to last year. Specialty and Commodity Panel sales decreased 10% compared to last year. Building Materials sales decreased 10% compared to last year. Finally, our core lumber business sales decreased 10% compared to last year.

Cost of Goods Sold

Cost of goods sold during fiscal 2018 was $387.3 million compared to $442.2 million last year. Cost of goods sold decreased 12.4% compared to last year. Total freight outbound cost decreased 14.3% compared to last year. Gross profits increased 8.0% compared to last year while gross margins increased from 15.6% to 18.5%.

Selling, Administrative and General Expenses

Selling, Administrative and General Expenses during fiscal 2018 were $81.2 million compared to $81.7 million last year. Selling, Administrative and General Expenses decreased 0.6% compared to last year.

Net Financial Cost

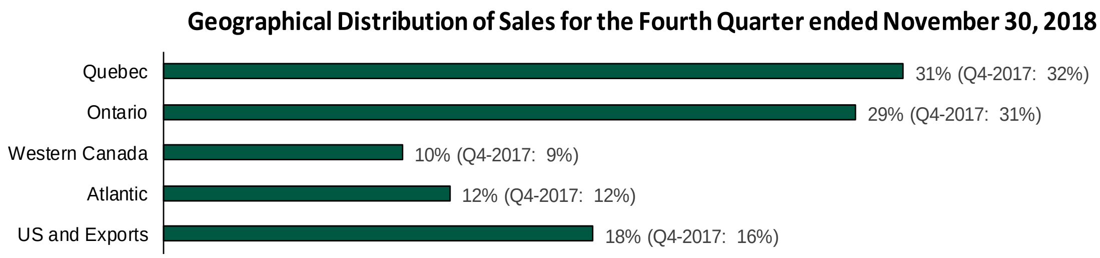
Net financial costs during fiscal 2018 were $3.5 million compared to $4.2 million a year ago. The average Canadian prime rate increased to 3.54% compared to 2.87% last year. The average US prime rate increased to 4.83% compared to 4.06% last year. Average bank indebtedness was $69.6 million compared to $80.0 million last year.

COMPARISON FOR THE THREE MONTHS ENDED NOVEMBER 30, 2018 AND 2017

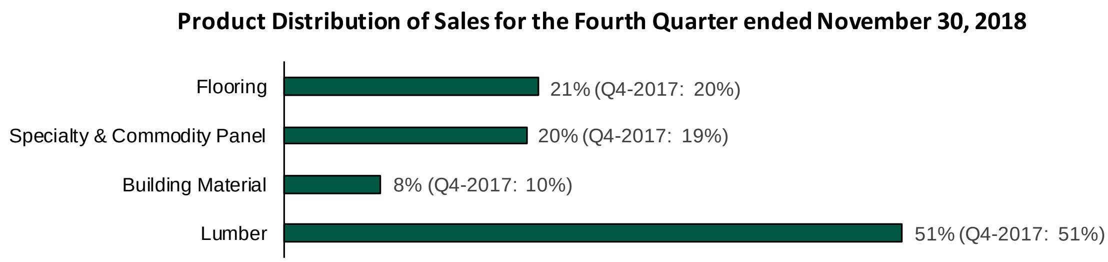
(In thousands of dollars, except per share amounts)

HIGHLIGHTS FOR THE THREE MONTHS ENDED NOVEMBER 30, 2018 AND 2017	**Q4-2018**	Q4-2017	Variance
	$	$	%
Consolidated sales	**112,742**	127,558	-11.6
(Loss) earnings before income taxes	**(22)**	2,711	-100,8
Net earnings	**197**	2,216	-91,1
Net earnings per share, Basic and Diluted	**0.02**	0.26	-92.3
Cash Flow from Operations (excluding non-cash working capital items, income tax paid and interest paid)	**1,609**	3,425	-53,0
EBITDA	**1,821**	4,957	-63,3
Average Bank indebtedness	**56,112**	60,971	-8.0
Inventory average	**99,876**	95,956	+4.1

Sales in Canada during the fourth quarter of fiscal 2018 decreased 13% compared to last year mainly due to decreased volume of pressure treated wood sales, building materials and panels. Quebec sales decreased 14% due to a decrease in demand for treated wood and panel products. Sales in Ontario decreased 18% mainly due to a decline in sales of pressure treated wood and flooring products. Western Canada sales increased 1% due to an increase in sales of flooring products and siding. Atlantic region sales decreased 8% due to a decrease in sales of timber and treated wood products.



Sales in the United States for the fourth quarter of fiscal 2018 increased 2% on a Canadian dollar basis compared to last year due to an increase of timber and flooring products. On a US dollar basis, US denominated sales decreased 3% compared to last year. Finally, export sales decreased 11% during the fourth quarter of fiscal 2018 compared to last year mainly due to a timber project sold in 2017.



In terms of the distribution of sales by product, flooring sales for the fourth quarter ended November 30, 2018 decreased 7% compared to last year. Specialty and Commodity Panel sales decreased 9% compared to last year. Building Materials sales decreased 27% compared to last year. Finally, Lumber sales decreased 12% compared to last year.

Cost of Goods Sold

Cost of goods sold for the fourth quarter of fiscal 2018 was $91.9 million compared to $104.6 million last year. Cost of goods sold decreased 12.1% compared to last year. Total freight outbound cost decreased 14.3% compared to last year. Gross profits decreased 9.2% compared to last year and gross margins increased from 18.0% to 18.5%.

Selling, Administrative and General Expenses

Selling, Administrative and General Expenses for the fourth quarter ended November 30, 2018 were $20.0 million compared to $20.4 million last year. Selling, Administrative and General Expenses decreased 2.0% compared to last year.

Net Financial Cost

Net financial costs for the fourth quarter of fiscal 2018 were $0.9 million compared to $1.1 million a year ago. The average Canadian prime rate increased to 3.80% compared to 3.20% last year. The average US prime rate increased to 5.17% compared to 4.25% a year ago. Average bank indebtedness was $56.1 million compared to $61.0 million last year.

SUMMARY OF THE LAST EIGHT MOST RECENTLY COMPLETED QUARTERS

(In thousands of dollars, except per share amounts)

	Feb-2018	**May-2018**	**Aug-2018**	**Nov-2018**
	$	**$**	**$**	**$**
Sales	96,684	133,326	132,455	112,742
Net (loss) earnings	(1,431)	1,812	1,993	197
Net (loss) earnings per share, Basic and Diluted	(0.17)	0.21	0.24	0.02

	Feb-2017	**May-2017**	**Aug-2017**	**Nov-2017**
	$	**$**	**$**	**$**
Sales	113,490	139,641	142,970	127,558
Net (loss) earnings	(5,401)	(541)	1,632	2,216
Net (loss) earnings per share, Basic and Diluted	(0.63)	(0.07)	0.19	0.26

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

STATEMENT OF FINANCIAL POSITION

Total Assets

Total assets at November 30, 2018 was $190.7 million compared to $197.2 million last year. Cash at November 30, 2018 was $2.6 million compared to $1.6 million last year. Trade and other receivables at November 30, 2018 was $50.0 million compared to $57.6 million last year. Income tax receivable was nil at November 30, 2018 compared to $1.6 million last year.

Inventories at November 30, 2018 was $92.5 million compared to $88.9 million last year. Prepaid expenses at November 30, 2018 was $3.1 million compared to $2.8 million last year. Defined benefit plan assets was $2.7 million at November 30, 2018 compared to $2.4 million last year. Investment was $25 thousand at November 30, 2018 compared to $285 thousand last year reflecting the carrying amount of the investment in the JV. Other assets were $0.9 million at November 30, 2018 (same last year).

Property, plant, equipment and intangible assets
Property, plant and equipment at November 30, 2018 was $34.4 million compared to $36.2 million last year. Capital expenditures during fiscal 2018 amounted to $1.2 million compared to $1.3 million last year. Property, plant and equipment capitalized during fiscal 2018 included leasehold improvements, computers, rolling stock and yard equipment. Intangible assets at November 30, 2018 was $4.4 million compared to $4.9 million last year. Proceeds on disposal of capital assets during fiscal 2018 amounted to $0.1 million compared to $1.6 million last year. Depreciation of property, plant, equipment and intangible assets during fiscal 2018 was $3.7 million compared to $4.1 million last year. Historically, capital expenditures in general have been capped at depreciation levels.

Total Liabilities
Total liabilities at November 30, 2018 was $77.9 million compared to $87.8 million last year. Bank indebtedness was $42.8 million compared to $52.3 million last year. Trade and other payables at November 30, 2018 was $29.2 million compared to $29.4 million last year. Income taxes payable at November 30, 2018 was $0.4 million (nil last year). Provision at November 30, 2018 was $1.7 million compared to $1.4 million last year. Long-term debt at November 30, 2018 was $57 thousand compared to $194 thousand last year. Deferred income taxes at November 30, 2018 was $3.7 million compared to $3.6 million last year. Defined benefit plan obligations were $0.1 million at November 30, 2018 compared to $0.9 million last year.

Shareholders' Equity
Total Shareholders' Equity at November 30, 2018 was $112.9 million compared to $109.4 million last year. The Company generated a return on equity of 2.3% during fiscal 2018 compared to (1.9)% last year. Market share price closed at $6.00 per share on November 30, 2018 compared to $8.33 last year. Share book value at November 30, 2018 was $13.27 per share compared to $12.86 last year. Share capital was $9.2 million at November 30, 2018 (same as last year). No eligible dividend was declared and paid to the holders of participating shares for the year ended November 30, 2018 (nil for the year ended November 30, 2017).

LIQUIDITY AND CAPITAL RESOURCES

Financing
In December 2017, the Company renewed its credit agreement with its present lenders, two chartered Canadian banks. The credit agreement has a maximum revolving operating facility of $100 million renewable in May 2019. On November 30, 2018, the available facility was $90 million which corresponds to the low seasonality of the business. Funds advanced under these credit facilities bear interest at the prime rate plus a premium and are secured by first ranking security on the universality of the movable property of the Company. As at November 30, 2018, the Company was compliant with its financial covenants. As at November 30, 2018, under the credit agreement, the Company was using $41 million of its facility compared to $51 million as at November 30, 2017.

The Company's business follows a seasonal pattern with sales activities traditionally higher in the second and third quarter. As a result, cash flow requirements are generally higher during these periods. The current facility is considered by management to be adequate to support its current forecasted cash flow requirements. Source of funding and access to capital is disclosed in detail under LIQUIDITY AND RISK MANAGEMENT IN THE CURRENT ECONOMIC CONDITIONS.

Cash Flow
Net cash flow from operating activities for fiscal 2018 was $11.6 million compared to $39.7 million last year. Financing activities during fiscal 2018 was $(10.1) million compared to $(40.6) million last year. Investing activities during fiscal 2018 was $(1.0) million compared to $3.1 million last year (See Property, plant, equipment and intangible assets for more details).

LIQUIDITY AND RISK MANAGEMENT IN THE CURRENT ECONOMIC CONDITIONS

The Company's objectives are as follows:

1. Maintain financial flexibility in order to preserve its ability to meet financial obligations;
2. Maintain a low debt-to-capitalization ratio to preserve its capacity to pursue its organic growth strategy;
3. Maintain financial ratios within covenants requirements;
4. Provide an adequate return to its shareholders.

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

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

The Company is subject to certain covenants on its credit facilities. The covenants include a Debt-to-capitalization ratio and an Interest coverage ratio. The Company monitors the ratios on a monthly basis. The Company currently complies with all externally imposed capital requirements.
Other than the covenants required for the credit facilities, the Company is not subject to any externally imposed capital requirements. The Company believes that all its ratios are within reasonable limits, in light of the relative size of the Company and its capital management objectives.

As at November 30, 2018 and 2017, the Company achieved the following results regarding its capital management objectives:

Capital management	**As at November 30, 2018**	As at November 30, 2017
Debt-to-capitalization ratio	**26.6%**	32.8%
Interest coverage ratio	**3.0**	- *
Return on shareholders' equity	**2.3%**	(1.9)%
Current ratio	**2.0**	1.8
EBITDA (in thousands of dollars)	**$10,443**	$5,009

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

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

- Debt-to-capitalization ratio represents the funded debt over total shareholders' equity. Funded debt is bank indebtedness less cash and cash equivalents. Capitalization is funded debt plus shareholders' equity.
- Interest Coverage ratio represents EBITDA during the period for which the calculation is made over interest expenses for the same period on a consolidated basis, calculated on a rolling four-quarter basis.
- Return on shareholders' equity is the net earnings (loss) divided by shareholders' equity.
- Current ratio is total current assets divided by total current liabilities.
- EBITDA is earnings before interest, taxes, depreciation and amortization.

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 regard 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. The accounts receivable collection period has been historically longer in the second and third quarter of its fiscal year. 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, 2018, its total debt to capitalization ratio decreased to 26.6% compared to 32.8% on November 30, 2017. In December 2017, the Company renewed its credit agreement with its present lenders, two chartered Canadian banks. The credit agreement has a maximum revolving operating facility of $100 million renewable in May 2019. On November 30, 2018, the available facility was $90 million which corresponds to the low seasonality of the business. Funds advanced under these credit facilities bear interest at the prime rate plus a premium and are secured by first ranking security on the universality of the movable property of the Company. As at November 30, 2018, the Company was compliant with its financial covenants. As at November 30, 2018, under the credit agreement, the Company was using $41 million of its facility compared to $51 million as at November 30, 2017

For further information, the principal risk factors to which the Company is exposed are described in the Management's Report contained in its Annual Report for the twelve months ended November 30, 2018 as well as in the 2018 Annual Information Form available on SEDAR (www.sedar.com).

COMMITMENTS AND CONTINGENCIES

As at November 30, 2018, the minimum future rentals payable under long-term operating leases, for offices, warehouses, vehicles, yards and equipment, did not materially change and are as follows:

Contractual obligations	Payments due by period (in thousands of dollars)				
	Total	**Less than 1 year**	**1-3 Years**	**4-5 Years**	**After 5 years**
Operating leases	20,297	5,235	7,854	5,154	2,054
Purchase obligations	226	226	-	-	-
Total Contractual Obligations	**20,523**	**5,461**	**7,854**	**5,154**	**2,054**

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

RISKS AND UNCERTAINTIES

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 the twelve months ended November 30, 2018, the Company did not use foreign exchange contracts to mitigate its effect on sales and purchases. Consequently, as at November 30, 2018 there were no outstanding foreign exchange contracts.

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 by increases in the bank prime rate.

Credit Risk
The Company is exposed to credit risks from customers. As a result of having a diversified customer mix, this risk is alleviated by minimizing the amount of exposure the Company has to any one customer. Additionally, the Company has a system of credit management to mitigate the risk of losses due to insolvency or bankruptcy of its customers. It also utilizes credit insurance to reduce the potential for credit losses. 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 2016. The Company started to implement its plan during the fiscal 2016. Based on current available information, the provision as at November 30, 2018 is considered by management to be adequate to cover any projected costs that could be incurred in the future. The rehabilitation is expected to occur progressively over the next 3 years.

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 5.2% and an inflation rate of 1.7%.

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. Two major customers exceeded 10% of total Company sales in the twelve months ended November 30, 2018 (same last year). The following represents the total sales consisting primarily of various wood products of the major customer(s):

	Years ended			
(in thousands of dollars)	**November 30, 2018**		November 30, 2017	
	$	**%**	$	%
Sales to major customers that exceeded 10% of total Company's sales	**110,699**	**23.3**	110,848	21.2

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.

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.

Customer Agreements
The majority of the Company's supply and customer arrangements vary significantly in length. Most arrangements are for individual purchase orders and are satisfied upon delivery of the goods to the customer.

Some arrangements involve customers purchasing goods several months in advance of delivery. These arrangements, known as bookings, vary in length but are generally less than six months long. There can be no assurance that these customers will renew their bookings or continue to place purchase orders with the Company.

Cyclical Nature

The business of the Company is, to a significant degree, seasonal and cyclical, and fluctuates in advance of the normal building season. Inventory is built up during the second quarter in anticipation of the building seasons, and the busy selling season begins in the last half of that second quarter and extends to the end of the third quarter. Additionally, the Company is subject to the normal economic cycle, the housing cycle and to macroeconomic factors, such as interest rates. Although the Company anticipates that these seasonal and cyclical fluctuations will continue in the foreseeable future, it is seeking to reduce their impact on its operations and sales.

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.

Laws and regulation

The Company faces multiple laws and regulations. These are laws that regulate credit practice, transporting products, importing and exporting products and employment. New laws governing the Company's business could be enacted or changes to existing laws could be implemented, each of which might have a significant impact on the Company's business. Many foreign laws and regulations constrain our ability to compete efficiently on those foreign markets.

Information systems

The Company enterprise resource planning ("ERP") information management system provides information to management which is used to evaluate financial controls, reporting and sales analysis and strategies. The Company has implemented a new ERP information management system in fiscal 2016. The new ERP system should provide information to the Company's management which is expected to be used to improve financial analytics, reporting and controls. There can be no assurance that the ERP system will provide the information and benefits expected by management. Any of these risk factors could have a material adverse impact on the Business. The Company's operations also depend on the timely maintenance, upgrade and replacement of networks, equipment, IT systems and software, as well as pre-emptive expenses to mitigate the risks of failures. Any of these and other events could result in information system failures, delays and/or increase in capital expenses. The failure of information systems or a component of information systems could, depending on the nature of any such failure, adversely impact the Company's results of operations. Furthermore, the Company relies on vendors to support, maintain and periodically upgrade ERP or other systems which are essential in providing management with the appropriate information for decision making. The inability of these vendors to continue to support, maintain and/or upgrade these software programs could disrupt operations if the Company were unable to convert to alternate systems in an efficient and timely manner. Information technology system disruptions, if not anticipated and appropriately mitigated, or the failure to successfully implement new or upgraded systems, could have a material adverse effect on our Business or results of operations.

FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

Risk Management

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

Financing and Liquidity Risk

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

The following are the contractual maturities of financial liabilities as at November 30, 2018:
(in thousands of dollars)

Financial Liabilities				
	Carrying Amount	**Contractual cash flows**	**0 to 12 Months**	**12 to 36 Months**
Bank indebtedness	42,835	42,835	42,835	-
Trade and other payables	29,192	29,192	29,192	-
Long-term debt	57	57	14	43
Total financial liabilities	**72,084**	**72,084**	**72,041**	**43**

The following are the contractual maturities of financial liabilities as at November 30, 2017:

Financial Liabilities				
	Carrying Amount	Contractual cash flows	0 to 12 Months	12 to 36 Months
Bank indebtedness	52,309	52,309	52,309	-
Trade and other payables	29,409	29,409	29,409	-
Long-term debt	194	194	139	55
Total financial liabilities	81,912	81,912	81,857	55

Interest Rate Risk
The Company uses a credit facility to finance working capital requirements. The interest cost of this facility is dependent upon Canadian and US bank prime rates. The profitability of the Company could be adversely affected with increases in the bank prime rate. Management does not believe that the impact of interest rate fluctuations will be significant on its operating results. A 1% fluctuation of interest rate on the $42.8 million in bank indebtedness would impact interest expense annually by $0.4 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, 2018, the Company had the following currency exposure:

Financial assets and liabilities measured at amortized costs
(in thousands of dollars)

	USD	**GBP**	**Euro**
Cash	2,447	247	12
Trade and other receivables	8,956	196	-
Trade and other payables	(2,716)	(49)	(83)
Long-term debt	(43)	-	-
Net exposure	**8,644**	**394**	**(71)**
CAD exchange rate as at November 30, 2018	1.3292	1.6940	1.5044
Impact on net earnings based on a fluctuation of 5% on CAD	**419**	**24**	**(4)**

Credit Risk
The Company is exposed to credit risks from customers. As a result of having a diversified customer mix, this risk is alleviated by minimizing the amount of exposure the Company has to any one customer. Additionally, the Company has a system of credit management to mitigate the risk of losses due to insolvency or bankruptcy of its customers. It also utilizes credit insurance to reduce the potential for credit losses. Finally, the Company has adopted a credit policy that defines the credit conditions to be met by its customers and specific credit limit for each customer is established and regularly revised. Accounts receivable over 60 days past their due date and not impaired represents 4.0% (1.3% on November 30, 2017) of total trade and other receivables at November 30, 2018.

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

	November 30, 2018	November 30, 2017
(in thousands of dollars)	**$**	$
Balance, beginning of year	**225**	1,816
Provision	**374**	185
Bad debt write-offs	**(29)**	(1,776)
Balance, end of year	**570**	225

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

RELATED PARTY TRANSACTIONS

Related parties include the key management and other related parties as described below. Unless otherwise noted, no related party transactions contain 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, 2018, 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, 2018	November 30, 2017
(in thousands of dollars)	**$**	$
Company controlled by a member of the Board – Jarislowsky Fraser Ltd.		
- Management fee	**87**	187

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.

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 key management personnel during the years ended:

	November 30, 2018	November 30, 2017
(in thousands of dollars)	**$**	$
Salaries and other short-term benefits	**1,384**	2,750
Post-employment benefits	**7**	60
	1,391	2,810

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 rates. 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, freight accrual and inventory provisions, requires a certain level of judgment. Inventory quantities, age and condition and average 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 13 of our consolidated financial statements for further details.

v.Critical judgments in applying accounting policies:
The Company did not identify any other critical judgments 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 statements.

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, 2018.

IMPACT OF ACCOUNTING PRONOUNCEMENTS NOT YET IMPLEMENTED

IFRS 15, Revenue from Contracts with Customers
In May 2014, the IASB issued IFRS 15 Revenue from Contracts with Customers. The new standard is effective to years 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 IFRS. The Company will adopt IFRS 15 in its consolidated financial statements for the year beginning on December 1, 2018. The Company does not expect the standard to have a material impact on its consolidated financial statements.

IFRS 9, Financial Instruments
In July 2014, the IASB issued the complete IFRS 9 (IFRS 9 (2014)). The mandatory effective date of IFRS 9 is for years beginning on or after January 1, 2018 and must be applied retrospectively with some exemptions. Early adoption is permitted. Prior-period restatement is not required and is permitted only 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 at amortized cost 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 will adopt IFRS 9 (2014) in its consolidated financial statements for the year beginning on December 1, 2018. The Company does not expect the standard to have a material impact on its consolidated financial statements.

IFRS 16, Leases
On January 13, 2016 the IASB issued IFRS 16, Leases. The new standard is effective for 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 also been provided. The Company will adopt IFRS 16 in its consolidated financial statements for the year period beginning on December 1, 2019. The extent of the impact of the standard has not yet been determined.

DISCLOSURE OF OUTSTANDING SHARE DATA

At November 30, 2018, there were 8,506,554 common shares issued (same last year). The Company has authorized an unlimited number of common shares to be issued, without par value. At February 14, 2019, there were 8,506,554 common shares outstanding.

SUBSEQUENT EVENT

No subsequent events to report.

OUTLOOK

The Company stayed on a path of conservative cash flow management in 2018 in order to conserve its preferred relationship with its lenders TD/BMO. The Company's priorities remain to right size inventory, increase turns, reduce the operating loan and improve profitability. Goodfellow returned to profitability for fiscal 2018 and despite significant economic headwinds throughout its Canadian distribution network, has budgeted a historic profitable return in 2019 through market share gains and improved customer service initiatives.

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, 2018 concluded that the Company's disclosure controls and procedures and internal control over financial reporting were effective. 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.

As of November 30, 2017, we reported that a material weakness remained in the area of inventory controls, resulting principally from the implementation of an ERP system on December 1, 2015. In 2017, Management undertook 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. Significant changes in internal controls were commenced as follows:

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

However, as of November 30, 2017 the material weakness remained because the controls put in place to remediate the deficiency had not operated for a sufficient length of time to properly evaluate their effectiveness. During 2018 we tested the controls put in place. We are now satisfied that the controls have operated for a sufficient length of time to conclude that the material weakness is remediated.

Other than as described above, there has been no change in the Company's internal control over financial reporting that occurred during the three months and twelve months ended November 30, 2018 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Delson, February 14, 2019

Patrick Goodfellow
President and Chief Executive Officer

Charles Brisebois, CPA, CMA
Chief Financial Officer

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS AND OTHER FINANCIAL INFORMATION

The accompanying consolidated financial statements, which have been prepared in accordance with International Financial Reporting Standards, and the other financial information provided in the Annual Report, which is consistent with the financial statements, 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 independent auditors to discuss internal control over financial reporting process, significant accounting policies, other financial matters and the results of the examination by the independent auditors.

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

Patrick Goodfellow
President and Chief Executive Officer

Charles Brisebois, CPA, CMA
Chief Financial Officer

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, 2018 and November 30, 2017, the consolidated statements of comprehensive income, change 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, 2018 and November 30, 2017, 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 14, 2019
Montreal, Canada

*CPA Auditor, CA public accountancy permit no. A122264

GOODFELLOW INC.
Consolidated Statements of Comprehensive Income
For the years ended November 30, 2018 and 2017
(in thousands of dollars, except per share amounts)

	Years ended	
	November 30 2018	November 30 2017
	$	$
Sales	**475,207**	523,659
Expenses		
Cost of goods sold (Note 4)	**387,311**	442,243
Selling, administrative and general expenses (Note 4)	**81,161**	81,686
Gain on disposal of property, plant and equipment	**(18)**	(1,194)
Net financial costs (Note 5)	**3,476**	4,199
	471,930	526,934
Earnings (loss) before income taxes	**3,277**	(3,275)
Income taxes (Note 15)	**706**	(1,181)
Net earnings (loss)	**2,571**	(2,094)
Items that will not subsequently be reclassified to net earnings (loss)		
Remeasurement of defined benefit plan obligation, net of taxes of $318 ($127 in 2017) (Note 16)	**858**	341
Total comprehensive income (loss)	**3,429**	(1,753)
Net earnings (loss) per share - Basic and diluted (Note 14)	**0.30**	(0.25)

The notes 1 to 22 are an integral part of these consolidated financial statements.

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

	As at November 30 2018	As at November 30 2017
	$	$
Assets		
Current Assets		
Cash	**2,578**	1,622
Trade and other receivables (Note 6)	**50,008**	57,607
Income taxes receivable	**-**	1,589
Inventories (Note 7)	**92,544**	88,860
Prepaid expenses	**3,143**	2,835
Total Current Assets	**148,273**	152,513
Non-Current Assets		
Property, plant and equipment (Note 8)	**34,356**	36,198
Intangible assets (Note 9)	**4,444**	4,942
Defined benefit plan asset (Note 16)	**2,704**	2,413
Investment in a joint venture (Note 10)	**25**	285
Other assets	**916**	882
Total Non-Current Assets	**42,445**	44,720
Total Assets	**190,718**	197,233
Liabilities		
Current Liabilities		
Bank indebtedness (Note 11)	**42,835**	52,309
Trade and other payables (Note 12)	**29,192**	29,409
Income taxes payable	**409**	-
Provision (Note 13)	**336**	938
Current portion of long-term debt (Note 11)	**14**	139
Total Current Liabilities	**72,786**	82,795
Non-Current Liabilities		
Provision (Note 13)	**1,317**	446
Long-term debt (Note 11)	**43**	55
Deferred income taxes (Note 15)	**3,652**	3,582
Defined benefit plan obligation (Note 16)	**57**	921
Total Non-Current Liabilities	**5,069**	5,004
Total Liabilities	**77,855**	87,799
Shareholders' Equity		
Share capital (Note 14)	**9,152**	9,152
Retained earnings	**103,711**	100,282
	112,863	109,434
Total Liabilities and Shareholders' Equity	**190,718**	197,233

Commitments and contingent liabilities (Note 21)

Approved by the Board

Claude Garcia, Director

G. Douglas Goodfellow, Director

GOODFELLOW INC.
Consolidated Statements of Cash Flows
For the years ended November 30, 2018 and 2017
(in thousands of dollars)

	Years ended	
	November 30 2018	November 30 2017
	$	$
Operating Activities		
Net earnings (loss)	**2,571**	(2,094)
Adjustments for:		
Depreciation	**3,690**	4,085
Accretion expense on provision	**50**	50
Increase (decrease) in provision	**219**	(104)
Income taxes	**706**	(1,181)
Gain on disposal of property, plant and equipment	**(18)**	(1,194)
Interest expense	**2,502**	2,821
Funding in deficit of pension plan expense	**20**	165
Share of the profits of a joint venture (Note 10)	**-**	(202)
Other assets	**(35)**	(210)
Share-based compensation	**-**	494
	9,705	2,630
Changes in non-cash working capital items (Note 17)	**3,391**	33,296
Interest paid	**(2,535)**	(2,614)
Income taxes recovered	**1,045**	6,349
	1,901	37,031
Net Cash Flows from Operating Activities	**11,606**	39,661
Financing Activities		
Net decrease in bank loans	**(4,000)**	(4,000)
Net decrease in banker's acceptances	**(6,000)**	(36,500)
Increase in long-term debt	**-**	68
Reimbursement of long-term debt	**(137)**	(136)
	(10,137)	(40,568)
Investing Activities		
Acquisition of property, plant and equipment	**(1,159)**	(1,329)
Increase in intangible assets	**(212)**	(446)
Proceeds on disposal of property, plant and equipment	**72**	1,585
Dividends from joint venture	**260**	320
Dissolution of the joint venture	**-**	3,000
	(1,039)	3,130
Net cash inflow	**430**	2,223
Cash position, beginning of year	**313**	(1,910)
Cash position, end of year	**743**	313
Cash position is comprised of:		
Cash	**2,578**	1,622
Bank overdraft (Note 11)	**(1,835)**	(1,309)
	743	313

GOODFELLOW INC.
Consolidated Statements of Change in Shareholders' Equity
For the years ended November 30, 2018 and 2017
(in thousands of dollars)

	Share Capital	**Retained Earnings**	**Total**
	$	$	$
Balance as at November 30, 2016	9,152	101,541	110,693
Net loss	-	(2,094)	(2,094)
Other comprehensive income	-	341	341
Total comprehensive loss	-	(1,753)	(1,753)
Transactions within equity			
Share-based compensation	-	494	494
Balance as at November 30, 2017	9,152	100,282	109,434
Net earnings	**-**	**2,571**	**2,571**
Other comprehensive income	**-**	**858**	**858**
Total comprehensive income	**-**	**3,429**	**3,429**
Balance as at November 30, 2018	**9,152**	**103,711**	**112,863**

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 years ended November 30, 2018 and 2017 include 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"). Certain comparative figures have been reclassified to conform to the current year's presentation.

The financial statements were authorized for issue by the Board of Directors on February 14, 2019.

b) *Basis of measurement*
These consolidated financial statements have been prepared on the historical cost basis except for the following material items:
- Environmental provision is recorded at present value of the expected expenditure to be paid.
- Defined benefit plan assets and liabilities are measured at the present value of the defined benefit obligation less the fair value of the plan assets.

c) *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.

d) *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 involves making assumptions about discount rates, the expected rate of compensation increase, the retirement age of employees, and mortality rates. 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, 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.

2. Basis of preparation (*Continued*)

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 13 for further details.

v. *Critical judgments in applying accounting policies:*
The Company did not identify any critical judgments 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.

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. Control exists when the Company has the existing rights that give it the current ability to direct the activities that significantly affect the entities' returns. The financial statements of subsidiaries are prepared with the same reporting period of the Company. The accounting policies of subsidiaries are aligned with the policies of the Company. 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 of 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. Leasehold improvements are amortized using the straight-line method over the terms of the leases. Other capital assets are amortized using the declining balance method with 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;

3. Significant Accounting Policies (*Continued*)

- 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.

Computer software is subject to the declining balance method at a rate of 20%. Our Enterprise resource planning 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.

3. Significant Accounting Policies (*Continued*)

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 Company has transferred to the buyer the significant risks and rewards of ownership of the goods;
ii. the Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
iii. the amount of revenue can be measured reliably;
iv. it is probable that the economic benefits associated with the transaction will flow to the Company; and
v. the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Revenue is recognized from the sale of goods when a customer purchases and takes delivery of the merchandise. Sales are recorded net of estimated volume rebates, term discount and sales returns, which is based on historical experience, current trends and other known factors.

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's net liability in respect of defined benefits is calculated separately for each plan by estimating the amount of future benefits that plan members have earned in the current and prior periods, discounting that amount and deducting the fair value of any plan assets.

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 rates. 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 costs arising from plan amendments are recognized in net earnings in the period that they arise.
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.

Pension expense consists of the following:

i. the cost of pension benefits provided in exchange for plan members' services rendered in the period;
ii. net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the net defined benefit obligation at the beginning of the annual period to the net defined benefit liability (asset), taking into account any changes in the net defined benefit liability (asset) during the period as a result of contributions and benefit payments;
iii. past service costs; and
iv. gains or losses on settlements or curtailments.

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.

3. Significant Accounting Policies (*Continued*)

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.

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 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, banker's acceptances, bank overdraft and trade and other payables are classified as other financial liabilities.

3. Significant Accounting Policies (*Continued*)

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.

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.

3. Significant Accounting Policies (*Continued*)

v) Interests in equity-accounted investees

The Company's 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

In May 2014, the IASB issued IFRS 15 Revenue from Contracts with Customers. The new standard is effective to years 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 IFRS. The Company will adopt IFRS 15 in its consolidated financial statements for the year beginning on December 1, 2018. The Company does not expect the standard to have a material impact on its consolidated financial statements.

ii) IFRS 9, Financial Instruments

In July 2014, the IASB issued the complete IFRS 9 (IFRS 9 (2014)). The mandatory effective date of IFRS 9 is for years beginning on or after January 1, 2018 and must be applied retrospectively with some exemptions. Early adoption is permitted. Prior-period restatement is not required and is permitted only 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 at amortized cost 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 will adopt IFRS 9 (2014) in its consolidated financial statements for the year beginning on December 1, 2018. The Company does not expect the standard to have a material impact on its consolidated financial statements.

iii) IFRS 16, Leases

On January 13, 2016 the IASB issued IFRS 16, Leases. The new standard is effective for years 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 also been provided. The Company will adopt IFRS 16 in its consolidated financial statements for the year period beginning on December 1, 2019. The extent of the impact of the standard has not yet been determined.

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

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

	November 30, 2018	November 30, 2017
	$	$
Employee benefits expense	**51,829**	52,815
Obsolescence adjustment included in cost of goods sold	**(432)**	(1,573)
Depreciation included in cost of goods sold	**1,067**	1,329
Depreciation included in selling, administrative and general expenses	**2,623**	2,756
Operating lease expense	**4,909**	4,804
Foreign exchange losses (gains)	**23**	(444)

5. Net financial costs

	November 30, 2018	November 30, 2017
	$	$
Interest expense	**2,502**	2,821
Accretion expense on provision (Note 13)	**50**	50
Other financial costs	**999**	1,350
Financial cost	**3,551**	4,221
Financial income	**(75)**	(22)
Net financial cost	**3,476**	4,199

6. Trade and other receivables

	November 30, 2018	November 30, 2017
	$	$
Trade receivables	**50,253**	57,073
Allowance for doubtful accounts	**(570)**	(225)
	49,683	56,848
Other receivables	**325**	759
	50,008	57,607

7. Inventories

	November 30, 2018	November 30, 2017
	$	$
Raw materials	**6,756**	7,521
Work in process	**9,093**	7,427
Finished goods	**78,554**	76,203
	94,403	91,151
Provision for obsolescence	**(1,859)**	(2,291)
	92,544	88,860

For the year ended November 30, 2018, $370.7 million (2017 - $422.9 million) of inventory were expensed as cost of goods sold.

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

8. Property, plant and equipment

	Carrying amount November 30, 2017	**Additions**	**Reclassification**	**Dispositions**	**Depreciation**	**Carrying amount November 30, 2018**
	$	**$**	**$**	**$**	**$**	**$**
Land	**6,263**	**-**	**-**	**-**	**-**	**6,263**
Buildings	**15,842**	**250**	**-**	**-**	**(839)**	**15,253**
Yard improvements	**6,069**	**-**	**-**	**-**	**(486)**	**5,583**
Leasehold improvements	**1,267**	**474**	**-**	**-**	**(249)**	**1,492**
Furniture and fixtures	**157**	**5**	**-**	**-**	**(32)**	**130**
Equipment	**4,636**	**275**	**-**	**(9)**	**(897)**	**4,005**
Computer equipment	**1,334**	**52**	**-**	**(1)**	**(275)**	**1,110**
Rolling Stock	**630**	**136**	**-**	**(44)**	**(202)**	**520**
	36,198	**1,192**	**-**	**(54)**	**(2,980)**	**34,356**

	November 30, 2018		
	Cost	**Accumulated depreciation**	**Carrying Amount**
	$	**$**	**$**
Land	**6,263**	**-**	**6,263**
Buildings	**34,932**	**19,679**	**15,253**
Yard improvements	**11,342**	**5,759**	**5,583**
Leasehold improvements	**3,661**	**2,169**	**1,492**
Furniture and fixtures	**1,155**	**1,025**	**130**
Equipment	**26,632**	**22,627**	**4,005**
Computer equipment	**4,636**	**3,526**	**1,110**
Rolling Stock	**6,283**	**5,763**	**520**
	94,904	**60,548**	**34,356**

	Carrying amount November 30, 2016	Additions	Reclassification	Dispositions	Depreciation	Carrying amount November 30, 2017
	$	$	$	$	$	$
Land	6,359	-	-	(96)	-	6,263
Buildings	16,706	192	-	(130)	(926)	15,842
Yard improvements	6,597	-	-	-	(528)	6,069
Leasehold improvements	1,264	356	-	(41)	(312)	1,267
Furniture and fixtures	248	65	(113)	-	(43)	157
Equipment	5,470	141	113	(15)	(1,073)	4,636
Computer equipment	1,616	48	-	(1)	(329)	1,334
Rolling Stock	433	393	-	(14)	(182)	630
	38,693	1,195	-	(297)	(3,393)	36,198

	November 30, 2017		
	Cost	Accumulated depreciation	Carrying Amount
	$	$	$
Land	6,263	-	6,263
Buildings	34,681	18,839	15,842
Yard improvements	11,342	5,273	6,069
Leasehold improvements	3,187	1,920	1,267
Furniture and fixtures	1,150	993	157
Equipment	26,380	21,744	4,636
Computer equipment	4,586	3,252	1,334
Rolling Stock	6,297	5,667	630
	93,886	57,688	36,198

Leased equipment

The Company leases computer equipment and lift trucks under finance leases. The leased equipment secures the lease obligation (Note 11). As at November 30, 2018, the net carrying amount of leased equipment was $57 thousand ($194 thousand in 2017).

There has been no impairments or recoveries recorded during the fiscal years ended November 30, 2018 and 2017.

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

9. Intangible assets

	Carrying amount November 30, 2017	**Additions**	**Dispositions**	**Depreciation**	**Carrying amount November 30, 2018**
	$	**$**	**$**	**$**	**$**
Software and technologies	**4,615**	**212**	**-**	**(604)**	**4,223**
Customer relationship	**327**	**-**	**-**	**(106)**	**221**
	4,942	**212**	**-**	**(710)**	**4,444**

	November 30, 2018		
	Cost	**Accumulated depreciation**	**Carrying Amount**
	$	**$**	**$**
Software and technologies	**6,333**	**2,110**	**4,223**
Customer relationship	**530**	**309**	**221**
	6,863	**2,419**	**4,444**

	Carrying amount November 30, 2016	Additions	Dispositions	Depreciation	Carrying amount November 30, 2017
	$	$	$	$	$
Software and technologies	4,995	299	(93)	(586)	4,615
Customer relationship	433	-	-	(106)	327
	5,428	299	(93)	(692)	4,942

	November 30, 2017		
	Cost	Accumulated depreciation	Carrying Amount
	$	$	$
Software and technologies	6,121	1,506	4,615
Customer relationship	530	203	327
	6,651	1,709	4,942

10. Investment in a joint venture

In fiscal 2016, the Company and Groupe Lebel Inc. entered into a joint venture (“JV”) through the creation of Traitement Lebel Goodfellow Inc. The Company had invested $3.0 million in the joint venture in the form of inventory of raw material in return of 40% of the shares of the joint venture. The joint venture ceased operations on May 31st, 2017. The better part of the liquidation was done in fiscal 2017 and the Company received back its initial investment of $3.0 million and $320 thousand of dividends as part of the dissolution in 2017. The carrying amount of the investment in the JV at November 30, 2017 was $285 thousand. In fiscal 2018, the Company received a $260 thousand dividend and the carrying amount of the investment in the JV at November 30, 2018 is $25 thousand.

In fiscal 2018, the Company had no related party transactions with the joint venture. In fiscal 2017, the Company had the following transactions: $26.8 million of purchase of goods, $0.2 million of lease rental income and $0.2 million of miscellaneous charges. These transactions were 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 no outstanding receivable balance with Traitement Lebel Goodfellow Inc. as at November 30, 2018 ($0.2 million in 2017).

11. Bank indebtedness and long-term debt

a) Bank indebtedness

	November 30, 2018	November 30, 2017
	$	$
Bank Loans	**3,000**	7,000
Banker’s Acceptances	**38,000**	44,000
Bank overdraft	**1,835**	1,309
	42,835	52,309

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

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

In December 2017, the Company renewed its credit agreement with its present lenders, two chartered Canadian banks. The credit agreement has a maximum revolving operating facility of $100 million renewable in May 2019. On November 30, 2018, the available facility was $90 million which corresponds to the low seasonality of the business. Funds advanced under these credit facilities bear interest at the prime rate plus a premium and are secured by first ranking security on the universality of the movable property of the Company. As at November 30, 2018, the Company was compliant with its financial covenants. As at November 30, 2018, under the credit agreement, the Company was using $41 million of its facility compared to $51 million as at November 30, 2017.

b) Long-term debt

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

12. Trade and other payables

	November 30, 2018	November 30, 2017
	$	$
Trade payables and accruals	**22,789**	22,333
Payroll related liabilities	**6,093**	5,658
Sales taxes payables	**310**	1,418
	29,192	29,409

13. 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, 2018 is considered by management to be adequate to cover any projected costs that could be incurred in the future. The rehabilitation is expected to occur progressively over the next 3 years.

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 5.2% and an inflation rate of 1.7%.

The change in environmental provision is as follows:

	November 30, 2018	November 30, 2017
	$	$
Balance, beginning of year	**1,384**	1,438
Changes due to:		
Revision of future expected expenditures	**239**	(64)
Accretion expense	**50**	50
Expenditures incurred	**(20)**	(40)
Balance, end of year	**1,653**	1,384
Current portion	**336**	938
Long-term portion	**1,317**	446

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.

14. Share Capital

a) Authorized

An unlimited number of common shares, without par value

	November 30, 2018	November 30, 2017
Number of shares outstanding at the beginning and at the end of the year	**8,506,554**	8,506,554

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

14. Share Capital *(Continued)*

b) Share-based payments

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

c) Share option plan

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

No options were granted or exercised and there were no outstanding options in the current and prior fiscal year. As at November 30, 2018, 220 000 common shares are reserved for the granting of options.

d) Earnings (loss) and dividend per share

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

	November 30, 2018	November 30, 2017
	$	$
Net earnings (loss), basic and diluted	**2,571**	(2,094)
Weighted average number of shares, basic and diluted	**8,506,554**	8,506,554

No eligible dividend was declared and paid to the holders of participating shares for the year ended November 30, 2018 (nil for the year ended November 30, 2017).

15. Income Taxes

The income tax expenses is as follows:

	November 30, 2018	November 30, 2017
	$	$
Current tax expenses	**953**	(1,340)
Deferred tax expenses	**(247)**	159
	706	(1,181)

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

	November 30, 2018	November 30, 2017
	$	$
Earnings (loss) before income taxes	**3,277**	(3,275)
Statutory income tax rate (%)	**27.0**	27.1
Income taxes based on above rates	**885**	(886)
Adjusted for:		
Permanent differences	**(84)**	(269)
Difference in expected rate of reversal versus current rate	**(112)**	125
Other	**17**	(151)
	706	(1,181)

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

15. Income Taxes (Continued)

Temporary differences that give rise to deferred income tax assets and liabilities are as follows:

	November 30, 2018	November 30, 2017
	$	$
Deferred income tax (liabilities) assets:		
Deferred pension asset	**(710)**	(400)
Provisions and other	**956**	1,178
Property, plant and equipment	**(3,843)**	(4,273)
Intangible assets	**(55)**	(87)
Net deferred tax liability	**(3,652)**	(3,582)

On an annual basis, the Company assesses if it is probable its deferred income tax assets will be realized based on its taxable income projections. As at November 30, 2018, it is probable that the Company will realize its deferred income tax assets from the generation of future taxable income.

16. 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 plans 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, 2018 was $1.4 million (2017 - $1.3 million).

B. Defined Benefit Plans

The measurement date for the plan assets and obligations is November 30. 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 as of December 31, 2018.

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

	November 30, 2018	November 30, 2017
	$	$
Defined benefit obligation		
Balance, beginning of year	**52,832**	51,867
Interest cost	**1,806**	1,888
Benefits paid	**(2,437)**	(3,065)
Actuarial (gain) loss		
Effect of experience adjustments and Changes in demographic Assumptions	**-**	313
Changes in financial assumptions	**(2,832)**	1,829
Balance, end of year	**49,369**	52,832

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

16. Post-employment benefits *(Continued)*

	November 30, 2018	November 30, 2017
	$	$
Plan assets		
Fair value, beginning of year	**54,324**	53,056
Interest income	**1,857**	1,928
Employer contributions	**81**	55
Benefits paid	**(2,437)**	(3,065)
Administrative expenses paid from plan assets	**(153)**	(261)
Return on plan assets in excess of interest income	**(1,656)**	2,611
Fair value, end of year	**52,016**	54,324
Net asset	**2,647**	1,492

The actual return on plan assets was $48 thousand in 2018 and $4.3 million in 2017.

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

	November 30, 2018	November 30, 2017
	$	$
Defined benefits obligation		
- funded	**13,630**	14,362
- partly funded	**35,739**	38,470
Fair value of plan assets		
- funded	**16,334**	16,775
- partly funded	**35,682**	37,549
Funded status - surplus		
- funded	**2,704**	2,413
- partly funded	**(57)**	(921)

The significant actuarial weighted average assumptions used are as follows:

	November 30, 2018	November 30, 2017
	%	%
Defined benefit obligation:		
Discount rate	**3.90**	3.50
Rate of compensation increase	**3.00**	3.00
Net benefit plan expense:		
Discount rate	**4.15**	3.75
Rate of compensation increase	**3.00**	3.00

Net benefit plan expense:

	November 30, 2018	November 30, 2017
	$	$
Interest cost	**1,806**	1,888
Interest income	**(1,857)**	(1,928)
Administrative expenses	**153**	261
Net benefit plan expense	**102**	221

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

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

16. Post-employment benefits *(Continued)*

The plan assets by asset category are as follows:

	November 30, 2018	November 30, 2017
	%	%
Equity security:		
Canadian stocks	**21**	21
US stocks	**19**	18
International stocks	**19**	20
Debt securities:		
Universal type	**41**	40
Treasury	**-**	1

All investments are quoted on an active market.

History of deficit and of experience gains and losses:

	November 30, 2018	November 30, 2017
	$	$
Benefit obligation	**49,369**	52,832
Fair value of plan assets	**52,016**	54,324
Surplus	**2,647**	1,492
Experience loss on plan liabilities*		
- Amount	**-**	-
- Percentage	**0.0%**	0.0%

** 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:

- Sensitivity analysis

  Sensitivity to the discount rate:

	Down of 0.25%	**Assumption used**	**Up by 0.25%**
Defined benefit obligation	$51,109	$49,369	$47,723
Discount rate	3.65%	3.90%	4.15%

  Sensitivity to the life expectancy:

	Up to one year	**Assumption used**
Defined benefit obligation	$50,702	$49,369
Mortality rates (CPM2014Priv – MI2017)		
Life expectancy of man of 65 years	23.0 years	22.0 years
Life expectancy of woman of 65 years	25.5 years	24.5 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 2018, consisting of cash contributed by the Company to its funded pension plans, was $0.1 million ($0.1 million in 2017). Based on the latest filed actuarial valuation for funding purposes as at December 31, 2015, the Company expects to contribute nil in 2019.

- Duration

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

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

17. Additional Cash Flow Information

Changes in Non-Cash Working Capital Items

	November 30, 2018	November 30, 2017
	$	$
Trade and other receivables	**7,599**	6,148
Inventories	**(3,684)**	26,531
Prepaid expenses	**(254)**	1,537
Trade and other payables	**(270)**	(920)
	3,391	33,296

Non-cash transaction
The Company purchased property, plant, equipment and intangible assets for which an amount of $71 thousand was unpaid as at November 30, 2018 ($38 thousand as at November 30, 2017).

18. 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 83% (84% in 2017) of total sales, the sales to clients located in the United States represent approximately 10% (same last year) of total sales, and the sales to clients located in other markets represent approximately 7% (6% in 2017) of total sales. All significant property, plant and equipment are located in Canada.

19. 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, 2018:

Financial Liabilities				
	Carrying Amount	**Contractual cash flows**	**0 to 12 Months**	**12 to 36 Months**
Bank indebtedness	42,835	42,835	42,835	-
Trade and other payables	29,192	29,192	29,192	-
Long-term debt	57	57	14	43
Total financial liabilities	**72,084**	**72,084**	**72,041**	**43**

The following are the contractual maturities of financial liabilities as at November 30, 2017:

Financial Liabilities				
	Carrying Amount	Contractual cash flows	0 to 12 Months	12 to 36 Months
Bank indebtedness	52,309	52,309	52,309	-
Trade and other payables	29,409	29,409	29,409	-
Long-term debt	194	194	139	55
Total financial liabilities	81,912	81,912	81,857	55

Interest Rate Risk
The Company uses a credit facility to finance working capital requirements. The interest cost of this facility is dependent upon Canadian and US bank prime rates as well as the Company's funded debt to capitalization ratio. The profitability of the Company could be adversely affected with increases in the bank prime rate. Management does not believe that the impact of interest rate fluctuations will be significant on its operating results. A 1% fluctuation of interest rate on the $42.8 million in bank indebtedness would impact interest expense annually by $0.4 million.

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

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

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, 2018, the Company had the following currency exposure on:

Financial assets and liabilities measured at amortized costs

	USD	**GBP**	**Euro**
Cash	2,447	247	12
Trade and other receivables	8,956	196	-
Trade and other payables	(2,716)	(49)	(83)
Long-term debt	(43)	-	-
Net exposure	**8,644**	**394**	**(71)**
CAD exchange rate as at November 30, 2018	1.3292	1.6940	1.5044
Impact on net earnings based on a fluctuation of 5% on CAD	**419**	**24**	**(4)**

Credit Risk
The Company is exposed to credit risks from customers. As a result of having a diversified customer mix, this risk is alleviated by minimizing the amount of exposure the Company has to any one customer. Additionally, the Company has a system of credit management to mitigate the risk of losses due to insolvency or bankruptcy of its customers. It also utilizes credit insurance to reduce the potential for credit losses. Finally, the Company has adopted a credit policy that defines the credit conditions to be met by its customers and specific credit limit for each customer is established and regularly revised. Accounts receivable over 60 days past their due date and not impaired represents 4.0% (1.3% on November 30, 2017) of total trade and other receivables at November 30, 2018.

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

	November 30, 2018	November 30, 2017
	$	$
Balance, beginning of year	**225**	1,816
Provision	**374**	185
Bad debt write-offs	**(29)**	(1,776)
Balance, end of year	**570**	225

Two major customers exceed 10% of total Company sales in the twelve months ended November 30, 2018 (same last year). The following represents the total sales consisting primarily of various wood products of the major customer(s):

	Years ended			
	November 30, 2018		November 30, 2017	
	$	**%**	$	%
Sales to major customer(s) that exceeded 10% of total Company's sales	**110,699**	**23.3**	110,848	21.2

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

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

20. 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; and
4. Provide an adequate return to its shareholders.

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

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

The Company is subject to certain covenants on its credit facilities. The covenants include a Debt-to-capitalization ratio and an Interest coverage ratio. The Company monitors the ratios on a monthly basis. The Company current complies with all externally imposed capital requirements. Other than the covenants required for the credit facilities, the Company is not subject to any externally imposed capital requirements. The Company believes that all its ratios are within reasonable limits, in light of the relative size of the Company and its capital management objectives.

As at November 30, 2018 and 2017, the Company achieved the following results regarding its capital management objectives:

Capital management	**As at November 30, 2018**	As at November 30, 2017
Debt-to-capitalization ratio	**26.6%**	32.8%
Interest coverage ratio	**3.0**	-*
Return on shareholders' equity	**2.3%**	(1.9)%
Current ratio	**2.0**	1.8
EBITDA	**$10,443**	$5,009

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

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

- Debt-to-capitalization ratio represents the funded debt over total shareholders' equity. Funded debt is bank indebtedness less cash and cash equivalents. Capitalization is funded debt plus shareholders' equity.
- Interest Coverage ratio represents the EBITDA during the period for which the calculation is made over interest expenses for the same period on a consolidated basis, calculated on a rolling four-quarter basis.
- Return on shareholders' equity is the net earnings (loss) divided by shareholders' equity.
- Current ratio is total current assets divided by total current liabilities.
- EBITDA is earnings before interest, taxes, depreciation and amortization.

21. Commitments and Contingent liabilities

Commitments
As at November 30, 2018, the minimum future rentals payable under long-term operating leases, for offices, warehouses, vehicles, yards, and equipment are as follows:

	$
Less than 1 year	5,461
More than 1 year, but less than 5 years	13,008
More than 5 years	2,054
	20,523

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

21. Commitments and Contingent liabilities *(Continued)*

Contingent liabilities

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

22. Related party transactions

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

Other related party transactions

	November 30, 2018	November 30, 2017
	$	$
Company controlled by a member of the Board – Jarislowsky Fraser Ltd.		
- Management fee	**87**	187

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.

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, 2018	November 30, 2017
	$	$
Salaries and other short-term benefits	**1,384**	2,750
Post-employment benefits	**7**	60
	1,391	2,810

CORPORATE INFORMATION

BOARD OF DIRECTORS

Claude Garcia */**
Chairman of the Board
.

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

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

Normand Morin */**
Chairman of the Audit Committee

David A. Goodfellow
Director

Alain Côté */**
Director
Partner, Deloitte LLP

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

OFFICERS

Patrick Goodfellow
President & Chief Executive Officer

Charles Brisebois
Chief Financial Officer

G. Douglas Goodfellow
Secretary of the Board

Mary Lohmus
Executive Vice President,
Ontario & Western Canada

David Warren
Vice President,
Atlantic

Luc Dignard
Vice President,
Sales, Quebec

Jeff Morrison
Vice President,
National accounts

OTHER INFORMATION

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

Sollicitors
Bernier Beaudry
Quebec, Quebec

Auditors
KPMG LLP
Montreal, Quebec

Transfer Agent
Computershare Investor Services Inc.
Montreal, Quebec

Stock Exchange
Toronto
Trading Symbol: GDL

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

NOTES:

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NOTES:

DIVISIONS

CANBAR
B.P. 460 - 9184 Twiss Road
Campbellville ON L0P 1B0
Tel. : 905 854-5800
1 800 263-6269
Fax : 905 854-6104

OLIVER LUMBER
B.P. 460 - 9184 Twiss Road
Campbellville ON L0P 1B0
Tel. : 416 233-1227
1 800 268-2471
Fax : 416 233-0015

QUALITY HARDWOODS LTD.
PO Box 40 - 196 Cres. Latour
Powassan ON P0H 1Z0
Tel. : 705 724-2424
Fax : 705 724-6053

OUR BRANCHES

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

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

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

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

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

TORONTO / CAMPBELLVILLE
P.O. Box 460 9184 Twiss Road
Campbellville ON L0P 1B0
Tel. : 905 854-5800
1 800 263-6269
Fax : 905 854-6104

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

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

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

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

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

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Fax : 604 940-9641

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