



Interim Report

2

Three and six-month periods
ended May 31, 2018

MESSAGE TO SHAREHOLDERS

During our second quarter and first six months ended May 31, 2018, we've maintained good growth momentum and ended the period with good financial results and a sound financial position, as required to pursue our growth strategy.

Our market and innovation development initiatives, as well as the synergies created with our acquisitions, have continued to drive sales growth which settled at 8.3% for our second quarter, 4.9% from internal growth and 4.3% from acquisitions. At comparable exchange rate to 2017, the sales increase would have been 9.9%. The sales for the quarter reached \$263.4 million. For the first six months of our fiscal year, sales totaled \$485.3 million, up 10.5%, 5.0% from internal growth and 5.5% from acquisitions. At comparable exchange rate to the first six months of 2017, the sales increase would have represented 12.3%.

Continuing their momentum, our Canadian markets contributed to the growth of the quarter with a 10.1% sales increase, including 5.9% of internal growth, reflecting a growth of 11.7% for the manufacturers' markets and 3.1% for retailers and renovation superstores market. In the United States, second-quarter sales increased by 9.7% (in US\$) including 3.6% for the manufacturers' markets and 137% for retailers and renovation superstores. Our sustained market development and acquisition efforts continued to pay off, enabling us to gain market share and thus mitigate a sales decrease on the manufacturers' market side due to the termination, during the quarter, of a supply agreement with a major customer in the United States.

With comparable sales, our sales growth in the United States would have represented 18.2%.

For the three-months period ended May 31, 2018, we reported net earnings attributable to shareholders of \$18.2 million, up 3.3% or \$0.31 diluted per shares and reached \$30.9 million, or \$0.53 diluted per shares for the first six months of 2018.

Our excellent financial situation is virtually debt-free (\$0.8 million) with a working capital of \$321.5 million for a 4.8:1 ratio as of May 31, 2018, including \$10.2 million in cash. Over the course of our first semester, we repurchased 171,927 common shares in the normal course of business totaling \$5.2 million, and paid dividends of \$6.9 million, up 5.4% from those paid during the same period in 2017.

Our priorities are to optimize sales and operational synergies resulting from our acquisitions - to continue to innovate and provide outstanding service to our customers - to develop and deepen our markets - to improve operational efficiency and, in accordance with our growth strategy, to secure new acquisitions in key markets in Canada and the United States.

NEXT DIVIDEND PAYMENT

On July 5, 2018, the Board of Directors approved payment of a quarterly dividend of 6¢ per share. This dividend is payable on August 2nd, 2018, to shareholders of record as at July 19, 2018.

Management's discussion and analysis of operating results and financial position for the second quarter and first six months ended May 31, 2018

This management report relates to Richelieu Hardware Ltd.'s consolidated operating results and cash flows for the second quarter and first six months ended May 31, 2018, in comparison with the second quarter and first six months ended May 31, 2017, as well as the Corporation's financial position as at May 31, 2018, in comparison with November 30, 2017. This report should be read in conjunction with the unaudited consolidated interim financial statements and accompanying notes for the second quarter and first six months of 2018 as well as the analysis and notes to the audited consolidated financial statements appearing in our 2017 Annual Report. In this management's report, "Richelieu" or the "Corporation" designates, as the case may be, Richelieu Hardware Ltd. and its subsidiaries and divisions, or one of its subsidiaries or divisions. Supplementary information, including certificates for the interim period ended May 31, 2018, signed by the Corporation's President and Chief Executive Officer and the Vice-President and Chief Financial Officer, is available on the website of the System for Electronic Document Analysis and Retrieval ("SEDAR") at www.sedar.com.

The information contained in this management report accounts for any major event occurring prior to July 5, 2018, on which date the unaudited consolidated interim financial statements and interim management's report were approved by the Corporation's Board of Directors. Unless otherwise indicated, the financial information presented below, including amounts shown in tables, is expressed in Canadian dollars and prepared in accordance with International Financial Reporting Standards ("IFRS"). The consolidated financial statements for the second quarter and first six months ended May 31, 2018 have not been audited or reviewed by the Corporation's auditors.

NON-IFRS MEASURES

Richelieu uses earnings before interest, income taxes and amortization ("EBITDA") as we believe this measure enables management to assess the Corporation's operational performance. This measure is a widely accepted financial indicator of a corporation's ability to service and incur debt. However, EBITDA should not be considered by an investor as an alternative to operating income or the net earnings attributable to shareholders of the Corporation, as an indicator of financial performance or cash flows, or as a measure of liquidity. Since EBITDA is not a standardized measurement prescribed by IFRS, it may not be comparable to the EBITDA of other companies.

Richelieu also uses cash flows from operating activities and cash flows from operating activities per share. Cash flows from operating activities are based on net earnings plus amortization of property, plant and equipment and intangible assets, deferred tax expense (or recovery) and share-based compensation expense. These additional measures do not account for net change in non-cash working capital items to exclude seasonality effects and are used by management in its assessments of cash flows from long-term operations. Therefore, cash flows from operating activities may not be comparable to the cash flows from operating activities of other companies.

FORWARD-LOOKING STATEMENTS

Certain statements set forth in this management's report, including statements relating to the expected sufficiency of cash flows to cover contractual commitments, to maintain growth and to provide for financing and investing activities, growth outlook, Richelieu's competitive position in its industry, Richelieu's ability to weather the current economic context and access other external financing, the closing of new acquisitions, and other statements not pertaining to past events, constitute forward-looking statements. In some cases, these statements are identified by the use of terms such as "may", "could", "might", "intend" "should", "expect", "project", "plan", "believe", "estimate" or the negative form of these expressions or other comparable variants. These statements are based on the information available at the time they are written, on assumptions made by management and on the expectations of management, acting in good faith regarding future events. Assumptions are that economic conditions and exchange rates will not significantly deteriorate, the Corporation's deliveries will be sufficient to fulfill Richelieu's needs, the availability of credit will remain stable during the year and no extraordinary events will require supplementary capital expenditures.

Although management believes these assumptions and expectations to be reasonable based on the information available at the time they are given, they could prove inaccurate. Forward-looking statements are also subject, by their very nature, to known and unknown risks and uncertainties such as those related to the industry, acquisitions, labour relations, credit, key officers, supply and product liability, as well as other factors set forth in the Corporation's 2017 Annual Report (see the "Risk Factors" section on page 33 of the 2017 Annual Report available on SEDAR at www.sedar.com).

Richelieu's actual results could differ materially from those indicated or underlying these forward-looking statements. The reader is therefore recommended not to unduly rely on these forward-looking statements. Forward-looking statements do not reflect the potential impact of special items, any business combination or any other transaction that may be announced or occur subsequent to the date hereof. Richelieu undertakes no obligation to update or revise the forward-looking statements to account for new events or new circumstances, except where provided for by applicable legislation.

GENERAL BUSINESS OVERVIEW

as at May 31, 2018

Richelieu is a leading North American importer, distributor and manufacturer of specialty hardware and related products.

Its products are targeted to an extensive customer base of kitchen and bathroom cabinet, storage and closet, home furnishing and office furniture manufacturers, residential and commercial woodworkers, as well as hardware retailers including renovation superstores. The residential and commercial renovation industry is one of the Corporation's principal source of growth.

Richelieu offers customers a broad mix of products sourced from manufacturers worldwide. The solid relationships Richelieu has built with the world's leading suppliers enable it to provide customers with the latest innovative products tailored to their business needs. The Corporation's product selection consists of over 110,000 different items targeted to a base of more than 80,000 customers served through 68 centers in North America - 34 distribution centers in Canada, 32 distribution centers in the United States and two manufacturing plants in Canada.

Main product categories include furniture, glass and building decorative and functional hardware, lighting systems, finishing and decorative products, ergonomic workstation components, kitchen and closet storage solutions, sliding door systems, decorative and functional panels, high-pressure laminates and floor protection products. This offering is completed by the Corporation's two manufacturing subsidiaries, Les Industries Cedan Inc. and Menuiserie des Pins Ltée, which manufacture a variety of veneer sheets and edge banding products as well as a broad selection of decorative mouldings and components for the window and door industry. In addition, many of the Corporation's products are manufactured according to its specifications and those of its customers.

The Corporation employs over 2,100 people at its head office and throughout its network, close to half of whom work in marketing, sales and customer service. More than 50% of the Corporation's employees are Richelieu's shareholders.

MISSION AND STRATEGY

Richelieu's mission is to create shareholder value and contribute to its customers' growth and success, while favouring a business culture focused on quality of service and results, partnership and entrepreneurship.

To sustain its growth and remain the leader in its specialty market, the Corporation continues to implement the strategy that has benefited it until now, with a focus on:

- continuing to strengthen its product selection by continuously introducing diversified products that meet its market segment needs and position it as the specialist in functional and decorative hardware for manufacturers and retailers;
- further developing its current markets in Canada and the United States with the support of a specialized sales and marketing force capable of providing customers with personalized service; and
- expending in North America through the opening of new distribution centers as well as through efficiently integrated, profitable acquisitions made at the right price, offering high growth potential and complementary to its product mix and expertise.

Richelieu's solid and efficient organization, highly diversified product selection and long-term relationships with leading suppliers worldwide, allows it to compete effectively in a fragmented market consisting mainly of a host of regional distributors offering a limited range of products.

FINANCIAL HIGHLIGHTS

(unaudited)

Periods ended May 31

(in thousands of \$, except per-share amounts, number of shares and data expressed as a %)	3 months			6 months		
	2018	2017		2018	2017	
	\$	\$	Δ (%)	\$	\$	Δ (%)
Sales	263,365	243,269	+8.3	485,345	439,178	+10.5
EBITDA ⁽¹⁾	28,080	26,648	+5.4	47,883	44,989	+6.4
EBITDA margin (%)	10.7	11.0		9.9	10.2	
Net earnings	18,235	17,646	+3.3	30,867	29,603	+4.3
Net earnings attributable to shareholders of the Corporation	18,174	17,587	+3.3	30,878	29,585	+4.4
• basic per share (\$)	0.31	0.30	+3.3	0.53	0.51	+3.9
• diluted per share (\$)	0.31	0.30	+3.3	0.53	0.50	+6.0
Net margin attributable to the shareholders of the Corporation(%)	6.9	7.2		6.4	6.7	
Cash flows from operating activities ⁽²⁾	22,357	20,893	+7.0	38,520	35,823	+7.5
• diluted per share (\$)	0.38	0.36	+5.6	0.66	0.61	+8.2
Dividends paid to the shareholders of the Corporation	3,461	3,287	+5.3	6,925	6,573	+5.4
• per share (\$)	0.0600	0.0567	+5.8	0.1200	0.1134	+5.8
Weighted average number of shares outstanding (diluted) (in thousands)	58,333	58,751		58,421	58,716	

Financial position data

As at	May 31	November 30	
	2018	2017	
	\$	\$	Δ (%)
Total assets	548,626	542,667	+1.1
Working capital	321,451	300,116	+7.1
Current ratio	4.8 : 1	4.0 : 1	
Equity attributable to shareholders of the Corporation	455,532	434,092	+4.9
Return on average equity (%)	15.8	16.3	
Book value (\$)	7.89	7.51	+5.1
Total debt	844	4,294	
Cash and cash equivalents	10,202	29,162	

(1) EBITDA is a non-IFRS measure, as indicated on page 2 of this report.

(2) Cash flows from operating activities and cash flows from operating activities per share are non-IFRS measures, as indicated on page 2 of this report.

ANALYSIS OF OPERATING RESULTS FOR THE SECOND QUARTER AND FIRST SIX MONTHS ENDED MAY 31, 2018, COMPARED TO THE SECOND QUARTER AND FIRST SIX MONTHS ENDED MAY 31, 2017

Consolidated sales						
(in thousands of \$, except exchange rate)						
Periods ended May 31	3 months			6 months		
	2018	2017	Δ (%)	2018	2017	Δ (%)
	\$	\$		\$	\$	
Canada	180,225	163,745	+10.1	324,273	289,447	+12.0
United States(CA\$)	83,140	79,524	+4.5	161,072	149,731	+7.6
(US\$)	64,707	58,985	+9.7	126,683	112,150	+13.0
Average exchange rates	1.2849	1.3482		1.2715	1.3351	
Consolidated sales	263,365	243,269	+8.3	485,345	439,178	+10.5

Second-quarter consolidated sales amounted to \$263.4 million, compared to \$243.3 million for the corresponding quarter of 2017, an increase of \$20.1 million or 8.3%, of which 4.0% from internal growth and 4.3% from acquisitions. At comparable exchange rate to the second quarter of 2017, the consolidated sales growth would have been 9.9% for the quarter ended May 31, 2018.

Richelieu achieved sales of \$222.2 million in the **manufacturers** market, compared to \$207.7 million for the second quarter of 2017, an increase of \$14.5 million. All market segments contributed to this 7.0% increase, of which 2.0% resulted from internal growth and 5.0% from acquisitions. Sales to hardware **retailers** and renovation superstores stood at \$41.2 million, up by \$5.6 million or 15.7% over the second quarter of 2017. This growth results primarily from cyclical sales and the addition of new customers, mainly in the United States.

In Canada, Richelieu recorded sales of \$180.2 million, an increase of \$16.4 million or 10.1% over the second quarter of 2017, of which 5.9% from internal growth and 4.2% from acquisitions. Sales to **manufacturers** amounted to \$147.2 million compared to \$131.8 million an increase of 11.7% of which 6.5% from internal growth and 5.2% from acquisitions. Sales to hardware **retailers** and renovation superstores grew to \$33.0 million, up by \$1.0 million or 3.1% over the corresponding quarter of 2017.

In the United States, sales totalled US\$64.7 million, compared to US \$59.0 million for the second quarter of 2017, an increase of US\$5.7 million or 9.7%, of which 4.4% from internal growth and 5.3% from acquisitions. Sales to **manufacturers** amounted to US\$58.3 million, compared to US\$56.3 million, an increase of 3.6% over the second quarter of 2017, of which 5.5% from acquisitions and, due to the termination of a supply agreement with a major customer, a decrease of 1.9% of internal growth. With comparable sales, internal growth in the manufacturers market would have been 6.8%. Sales in US\$ to hardware **retailers** and renovation superstores were up by 137% from the corresponding quarter of 2017. Consequently, at comparable sales, total growth in the US market would have been 18.2%. Total U.S. sales expressed in Canadian dollars stood at \$83.1 million, compared to \$79.5 million, an increase of 4.5%. They accounted for 31.6% of consolidated sales for the second quarter of 2018, whereas they represented 32.7% of the period's consolidated sales for the second quarter of 2017.

First-half, consolidated sales reached \$485.3 million, an increase of \$46.1 million or 10.5% over the first six months of 2017, of which 5.0% from internal growth and 5.5% from acquisitions. At comparable exchange rate to the first half of 2017, the consolidated sales growth would have been 12.3%.

Sales to **manufacturers** grew to \$405.5 million, compared to \$372.5 million for the first six months of 2017, an increase of \$33.0 million or 8.9%, of which 2.3% from internal growth and 6.6% from acquisitions. Sales to hardware **retailers** and renovation superstores grew by 19.6% or \$13.1 million to total \$79.8 million. This increase is the result of our market development efforts including significant cyclical sales in the first and second quarters compared to the corresponding quarters of 2017, mainly in the United States.

In Canada, Richelieu achieved sales of \$324.3 million, compared to \$289.5 million for the first six months of 2017, up by \$34.8 million or 12.0%, of which 5.8% from internal growth and 6.2% from acquisitions. Sales to **manufacturers** rose to \$260.9 million, up by \$30.6 million or 13.3% of which 5.5% from internal growth and 7.8% from acquisitions. Sales to hardware **retailers** and renovation superstores reached \$63.4 million, compared to \$59.2 million, up by \$4.2 million or 7.1% over the first half of 2017.

In the United States, the Corporation recorded sales of US\$126.7 million, compared to US\$112.2 million for the first six months of 2017, an increase of US\$14.5 million or 13.0%, of which 8.2% from internal growth and 4.8% from acquisitions. Sales to **manufacturers** totalled US\$113.7 million, compared to US\$106.6 million, an increase of US\$7.1 million or 6.7% over the first half of 2017, of which 1.7% from internal growth (+6.7% at comparable sales) and 5.0% from acquisitions. Sales to hardware **retailers** and renovation superstores were up by 132.1% from the corresponding period of 2017. Total U.S. sales expressed in Canadian dollars amounted to \$161.1 million, compared to \$149.7 million for the corresponding six months of 2017, an increase of 7.6%. They accounted for 33.2% of consolidated sales for the first half of 2018, whereas they represented 34.1% of the period's consolidated sales for the first six months of 2017.

Consolidated EBITDA and EBITDA margin						
(in thousands of \$, unless otherwise indicated)						
Periods ended May 31	3 months			6 months		
	2018	2017	Δ (%)	2018	2017	Δ (%)
	\$	\$		\$	\$	
Sales	263,365	243,269	+8.3	485,345	439,178	+10.5
EBITDA	28,080	26,648	+5.4	47,883	44,989	+6.4
EBITDA margin (%)	10.7	11.0		9.9	10.2	

Second-quarter earnings before income taxes, interest and amortization (EBITDA) amounted to \$28.1 million, up by \$1.4 million or 5.4% over the second quarter of 2017. **Gross margin** was down from the second quarter of 2017 influenced by the lower gross margins of recent acquisitions due to their different product mix as well as to investments in market development and direct sales initiatives in the retailers market with lower gross margins. These factors, combined with increased market development costs, the consolidation of two of our distribution centers in Western Canada, the reorganization of certain distribution centers and the cost of implementing new technologies also impacted the **EBITDA margin** downward. Consequently, the **EBITDA margin** stood at 10.7%, compared to 11.0% for the corresponding quarter of 2017.

Amortization expenses for the second quarter of 2018 amounted to \$3.2 million compared to \$2.8 million for the corresponding quarter of 2017 up by \$0.4 million, resulting mainly from the investments in tangible assets in the last half of 2017. **Income taxes expenses** amounted to \$6.6 million, up by \$0.3 million from the second quarter of 2017.

First-half, earnings before income taxes, interest and amortization (EBITDA) totalled \$47.9 million, up by \$2.9 million or 6.4% over the first six months of 2017. The **gross margin** is down from the corresponding six months period of 2017 primarily driven by lower gross margins of recent acquisitions due to their different product mix as well as a higher level of direct sales in the period with lower gross margins. These factors combined with continued investments in market development, the reorganization of some distribution centers and the cost of implementing new technologies, also affected the **EBITDA margin**, which stood at 9.9%, compared to 10.2% for the first six months of 2017.

Amortization expenses for the first half of 2018 amounted to \$6.5 million compared to \$5.4 million for the same period of 2017 up by \$1.1 million resulting mainly from the investments in tangible and intangible assets in 2017. **Income taxes expenses** amounted to \$10.5 million, up by \$0.4 million from the first half of 2017.

Consolidated net earnings attributable to shareholders (in thousands of \$, unless otherwise indicated)						
Periods ended	3 months			6 months		
	2018	2017		2018	2017	
May 31	\$	\$	Δ (%)	\$	\$	Δ (%)
EBITDA	28,080	26,648	+5.4	47,883	44,989	+6.4
Amortization of property, plant and equipment and intangible assets	3,209	2,791		6,454	5,428	
Financial cost, net	59	(57)		23	(141)	
Income taxes	6,577	6,268		10,539	10,099	
Net earnings	18,235	17,646	+3.3	30,867	29,603	+4.3
Net earnings attributable to shareholders of the Corporation	18,174	17,587	+3.3	30,878	29,585	+4.4
Net margin attributable to the shareholders of the Corporation(%)	6.9	7.2		6.4	6.7	
Non-controlling interests	61	59		(11)	18	
Net earnings	18,235	17,646	+3.3	30,867	29,603	+4.3

Second-quarter net earnings grew by 3.3%. Considering non-controlling interests, **net earnings attributable to shareholders of the Corporation** amounted to \$18.2 million, up by 3.3% over the second quarter of 2017. **Net earnings per share** rose to \$0.31 basic and diluted, compared to \$0.30 basic and diluted for the second quarter of 2017, an increase of 3.3%.

Comprehensive income amounted to \$19.4 million, considering a positive adjustment of \$1.2 million on translation of the financial statements of the subsidiary in the United States, compared to \$19.3 million for the second quarter of 2017, considering a positive adjustment of \$1.7 million on translation of the financial statements of the subsidiary in the United States.

First-half, net earnings grew by 4.3%. Considering non-controlling interests, **net earnings attributable to shareholders of the Corporation** totalled \$30.9 million, up by 4.4% over the corresponding six months of 2017. **Net earnings per share** amounted to \$0.53 basic and diluted, compared to \$0.51 basic and \$0.50 diluted for the first half of 2017, an increase of 3.9% and 6.0% respectively.

Comprehensive income totalled \$31.5 million, considering a positive adjustment of \$0.6 million on translation of the financial statements of the subsidiary in the United States, compared to \$30.1 million for the first half of 2017, considering a positive adjustment of \$0.5 million on translation of the financial statements of the subsidiary in the United States.

SUMMARY OF QUARTERLY RESULTS				
(unaudited)				
(in thousands of \$, except per-share amounts)				
Quarters	1	2	3	4
2018				
o Sales	221,980	263,365		
o EBITDA	19,803	28,080		
o Net earnings attributable to shareholders of the Corporation	12,704	18,174		
basic per share	0.22	0.31		
diluted per share	0.22	0.31		
2017				
o Sales	195,909	243,269	253,190	250,177
o EBITDA	18,341	26,648	27,924	30,061
o Net earnings attributable to shareholders of the Corporation	11,998	17,587	18,135	19,984
basic per share	0.21	0.30	0.31	0.34
diluted per share	0.20	0.30	0.31	0.34
2016				
o Sales	188,909	217,413	220,155	217,996
o EBITDA	16,710	23,074	25,942	28,696
o Net earnings attributable to shareholders of the Corporation	10,861	15,408	17,331	19,214
basic per share	0.19	0.27	0.30	0.33
diluted per share	0.18	0.26	0.30	0.33

Quarterly variations in earnings - The first quarter closed at the end of February is generally the year's weakest for Richelieu in light of the smaller number of business days due to the end-of-year holiday period and a wintertime slowdown in renovation and construction work. The third quarter ending August 31 also includes a smaller number of business days due to the summer holidays, which can be reflected in the period's financial results. The second and fourth quarters respectively ending May 31 and November 30 generally represent the year's most active periods.

FINANCIAL POSITION

Analysis of principal cash flows for the second quarter and first six months ended May 31, 2018

Change in cash and cash equivalents and capital resources				
(in thousands of \$, unless otherwise indicated)				
Periods ended	3 months		6 months	
	2018	2017	2018	2017
May 31	\$	\$	\$	\$
Cash flows provided by (used for):				
Operating activities	14,414	17,181	2,975	19,718
Financing activities	(5,368)	(6,038)	(15,288)	(10,919)
Investing activities	(1,908)	(31,114)	(6,618)	(35,290)
Effect of exchange rate fluctuations	(102)	(53)	(29)	(87)
Net change in cash and cash equivalents	7,036	(20,024)	(18,960)	(26,578)
Cash and cash equivalents, beginning of period	3,166	36,415	29,162	42,969
Cash and cash equivalents end of period	10,202	16,391	10,202	16,391
	As at May 31 2018	As at November 30 2017		
	\$	\$		
Working capital	321,451	300,116		
Renewable line of credit (CA\$)	50,000	50,000		
Renewable line of credit (US\$)	6,000	6,000		

Operating activities

Second-quarter cash flows from operating activities (before net change in working capital balances) amounted to \$22.4 million or \$0.38 diluted per share, compared to \$20.9 million or \$0.36 diluted per share for the second quarter of 2017, an increase of 7.0% stemming primarily from the amortization and net earnings growth. Net change in non-cash working capital balances used cash flows of \$7.9 million, reflecting the change in inventories and accounts payable (\$4.5 million), whereas the change in accounts receivable and other items used cash flows of \$12.4 million. Consequently, operating activities provided cash flows of \$14.4 million, compared to \$17.2 million for the second quarter of 2017.

First-half, cash flows from operating activities (before net change in working capital balances) reached \$38.5 million or \$0.66 diluted per share, compared to \$35.8 million or \$0.61 diluted per share for the first six months of 2017, an increase of 7.5% stemming primarily from the amortization and net earnings growth. Net change in non-cash working capital balances used cash flows of \$35.5 million primarily representing changes in accounts receivable, inventories and accounts payable. Consequently, operating activities provided cash flows of \$3.0 million compared to \$19.7 million for the first six months of 2017.

Financing activities

Second-quarter financing activities used cash flows of \$5.4 million, compared to \$6.0 million for the second quarter of 2017. This change mainly reflects the Corporation's repurchase of common shares for cancellation for \$2.9 million during the second quarter of 2017 less the impact of the reimbursement of long-term debt over the course of the second quarter of 2018. Dividends paid to shareholders amounted to \$3.5 million, up by \$0.2 million over the corresponding quarter of 2017.

First-half, financing activities used cash flows of \$15.3 million, compared to \$10.9 million for the first half of 2017. During the first half of the year, Richelieu reimbursed \$3.8 million in long-term debt compared to \$1.0 million in the same period of 2017 and repurchased common shares for cancellation for \$5.2 million, compared to \$4.1 million in the first half of 2017. The Corporation paid dividends to shareholders of \$6.9 million, up by 5.4% over the first six months of 2017.

Investing activities

Second-quarter investing activities represented a cash outflow of \$1.9 million primarily for the purchase of new equipment to improve operational efficiency.

First-half, investing activities represented a total cash outflow of \$6.6 million, of which \$2.0 million for a business acquisitions and \$4.6 million primarily for the purchase of new equipment to improve operational efficiency.

Sources of financing

As at May 31, 2018, cash and cash equivalents amounted to \$10.2 million, compared to \$29.2 million as at November 30, 2017. This change primarily reflects the investing activities made during the first six months of 2018 compared to the corresponding period of 2017. The Corporation posted a **working capital** of \$321.5 million for a current ratio of 4.8:1, compared to \$300.1 million (4.0:1 ratio) as at November 30, 2017.

Richelieu believes it has the capital resources to fulfill its ongoing commitments and obligations and to assume the funding requirements needed for its growth and the financing and investing activities between now and the end of 2018. The Corporation benefits from an authorized line of credit of \$50 million as well as a line of credit of US\$6 million renewable annually and bearing interest respectively at prime and base rates. In addition, Richelieu considers it could obtain access to other outside financing if necessary.

Analysis of financial position as at May 31, 2018

Summary financial position		
(in thousands of \$, except exchange rate)		
As at	May 31 2018	November 30 2017
	\$	\$
Current assets	405,363	399,187
Non-current assets	143,263	143,480
Total	548,626	542,667
Current liabilities	83,912	99,071
Non-current liabilities	5,370	5,392
Equity attributable to shareholders of the Corporation	455,532	434,092
Non-controlling interests	3,812	4,112
Total	548,626	542,667
Exchange rates on translation of a subsidiary in the United States	1.295	1.289

Assets

Total assets amounted to \$548.6 million as at May 31, 2018, compared to \$542.7 million as at November 30, 2017. **Current assets** increased by 1.5% or \$6.2 million from November 30, 2017. **Non-current assets** remained stable.

Cash position		
(in thousands of \$)		
As at	May 31 2018	November 30 2017
	\$	\$
Current portion of long-term debt	844	4,294
Long-term debt	—	—
Total debt	844	4,294
Cash and cash equivalents	10,202	29,162

The Corporation continues to benefit from a healthy and solid financial position. As at May 31, 2018, **total debt** was \$0.8 million entirely from short-term debt representing balances payable on acquisitions and financing contract for equipment.

Equity attributable to shareholders of the Corporation totalled \$455.5 million as at May 31, 2018, compared to \$434.1 million as at November 30, 2017, an increase of \$21.4 million stemming primarily from a growth of \$18.9 million in retained earnings which amounted to \$395.8 million, and of \$1.9 million in share capital and contributed surplus, whereas accumulated other comprehensive income increased by \$0.6 million. As at May 31, 2018, **the book value per share** was \$7.89, up by 5.1% over November 30, 2017.

As at May 31, 2018, at the close of markets, the Corporation's **share capital** consisted of 57,706,150 common shares (57,795,603 shares as at November 30, 2017). During the first half of 2018, the Corporation issued 82,474 common shares at an average exercise price of \$10.92 (333,225 in 2017 at an average exercise price of \$8.34) upon the exercise of stock options under its stock option plan. Furthermore, during the first half of 2018, the Corporation repurchased 171,927 common shares for cancellation for a cash consideration of \$5.2 million, compared to 458,088 common share repurchase for an amount of \$14.8 million during the year of 2017. As at May 31, 2018, 1,900,862 stock options were outstanding (1,637,361 as at November 30, 2017).

CONTRACTUAL COMMITMENTS

There were no major changes in Richelieu's contractual commitments outside the normal course of business, compared to those set forth on page 32 of the Corporation's 2017 Annual Report, available on SEDAR at www.sedar.com. For 2018 and the foreseeable future, the Corporation expects cash flows from operating activities and other sources of financing to meet its ongoing contractual commitments.

FINANCIAL INSTRUMENTS

Richelieu periodically enters into forward exchange contracts to fully or partially hedge the effects of foreign currency fluctuations related to foreign-currency denominated payables or to hedge forecasted purchase transactions. The Corporation has a policy of not entering into derivatives for speculative or negotiation purposes and to enter into these contracts only with major financial institutions.

Richelieu also uses equity swaps to reduce the effect of fluctuations in its share price on net earnings in connection with its deferred share unit plan.

INTERNAL CONTROL OVER FINANCIAL REPORTING

As indicated in the 2017 Annual Report, available on SEDAR at www.sedar.com, management has designed and evaluated internal controls over financial reporting (ICFR) and disclosure controls and procedures (DC&P) to provide reasonable assurance that the Corporation's financial reporting is reliable and that its publicly-disclosed financial statements are prepared in accordance with IFRS. The President and Chief Executive Officer and the Vice-President and Chief Financial Officer have assessed, within the meaning of *National Instrument 52-109 - Certification of Disclosure in Issuers' Annual and Interim Filings*, the design and the effectiveness of internal controls over financial reporting as at November 30, 2017. In light of this assessment, they concluded that the design and the effectiveness of internal controls over financial reporting (ICFR and DC&P) were effective. During the quarter ended May 31, 2018, management ensured that there were no material changes in the Corporation's procedures that were reasonably likely to have a material impact on its internal control over financial reporting. No such changes were identified.

Due to their intrinsic limits, internal controls over financial reporting only provide reasonable assurance and may not prevent or detect misstatements. In addition, projections of an assessment of effectiveness in future periods carry the risk that controls will become inappropriate as a result of changes in conditions or if the degree of conformity with standards and methods should deteriorate.

SIGNIFICANT ACCOUNTING POLICIES

The Corporation's interim consolidated financial statements for the quarter ended May 31, 2018, have been prepared by management in accordance with IFRS. Note 2 accompanying the interim consolidated financial statements for the quarter ended May 31, 2018, presents the accounting policies recently released and applicable in the future.

The interim consolidated financial statements were prepared in accordance with the accounting methods that the Corporation adopted for the establishment of its consolidated financial statements as at November 30, 2017, and for the year ended on that date and require management to make estimates and assumptions that affect the amounts reported in the interim consolidated financial statements and appearing in the accompanying notes, which could be modified. The estimates are based on management's knowledge of current events, on the measures the Corporation could take in the future and on other factors deemed relevant and reasonable.

Risk factors are described in the "Risk Factors" section on page 33 of Richelieu's 2017 Annual Report, available on SEDAR at www.sedar.com.

SUPPLEMENTARY INFORMATION

Further information about Richelieu, including its latest Annual Information Form, is available on SEDAR at www.sedar.com.

President and Chief Executive
Officer



Richard Lord

Vice-President and Chief
Financial Officer



Antoine Auclair

July 5, 2018

Interim Consolidated Financial Statements

Richelieu Hardware Ltd.

For the three and six-month periods ended May 31, 2018

[Unaudited]

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

[In thousands of dollars]

[Unaudited]

	Notes	As at May 31, 2018 \$	As at November 30, 2017 \$
ASSETS			
Current assets			
Cash and cash equivalents		10,202	29,162
Accounts receivable		145,541	134,187
Income taxes receivable		1,664	—
Inventories		243,414	233,585
Prepaid expenses		4,542	2,253
		405,363	399,187
Non-current assets			
Property, plant and equipment		38,738	38,558
Intangible assets		28,152	29,282
Goodwill		69,350	68,931
Deferred taxes		7,023	6,709
		548,626	542,667
LIABILITIES AND EQUITY			
Current liabilities			
Accounts payable and accrued liabilities		83,068	91,858
Income taxes payable		—	2,919
Current portion of long-term debt		844	4,294
		83,912	99,071
Non-current liabilities			
Deferred taxes		3,511	3,511
Other liabilities		1,859	1,881
		89,282	104,463
Equity			
Share capital	4	40,224	39,230
Contributed surplus		3,313	2,358
Retained earnings		395,797	376,922
Accumulated other comprehensive income	5	16,198	15,582
Equity attributable to shareholders of the Corporation		455,532	434,092
Non-controlling interests		3,812	4,112
		459,344	438,204
		548,626	542,667

See accompanying notes to the interim consolidated financial statements.

On behalf of the Board of Directors :



Richard Lord
Director



Mathieu Gauvin
Director

CONSOLIDATED STATEMENTS OF EARNINGS

For the three and six-month periods ended May 31 [In thousands of dollars, except earnings per share]
[Unaudited]

	Notes	For the three months ended May 31,		For the six months ended May 31,	
		2018	2017	2018	2017
		\$	\$	\$	\$
Sales		263,365	243,269	485,345	439,178
Operating expenses excluding amortization	6	235,285	216,621	437,462	394,189
Earnings before amortization, financial costs and income taxes		28,080	26,648	47,883	44,989
Amortization of property, plant and equipment		2,251	1,869	4,478	3,685
Amortization of intangible assets		958	922	1,976	1,743
Financial costs, net		59	(57)	23	(141)
		3,268	2,734	6,477	5,287
Earnings before income taxes		24,812	23,914	41,406	39,702
Income taxes		6,577	6,268	10,539	10,099
Net earnings		18,235	17,646	30,867	29,603
Net earnings attributable to:					
Shareholders of the Corporation		18,174	17,587	30,878	29,585
Non-controlling interests		61	59	(11)	18
		18,235	17,646	30,867	29,603
Net earnings per share attributable to shareholders of the Corporation					
Basic		0.31	0.30	0.53	0.51
Diluted		0.31	0.30	0.53	0.50

See accompanying notes to the interim consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the three and six-month periods ended May 31 [In thousands of dollars]
[Unaudited]

	Notes	For the three months ended May 31,		For the six months ended May 31,	
		2018	2017	2018	2017
		\$	\$	\$	\$
Net earnings		18,235	17,646	30,867	29,603
Other comprehensive income that will be reclassified to net earnings					
Exchange differences on translation of foreign operations	5	1,161	1,674	616	452
Comprehensive income		19,396	19,320	31,483	30,055
Comprehensive income attributable to:					
Shareholders of the Corporation		19,335	19,261	31,494	30,037
Non-controlling interests		61	59	(11)	18
		19,396	19,320	31,483	30,055

See accompanying notes to the interim consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the six-month periods ended May 31 [In thousands of dollars]
[Unaudited]

	Attributable to shareholders of the Corporation				Total	Non-controlling interests	Total equity
	Share capital	Contributed surplus	Retained earnings	Accumulated other comprehensive income			
	\$	\$	\$	\$	\$	\$	\$
Notes	4			5			
Balance as at November 30, 2016	36,050	1,417	336,835	19,966	394,268	4,043	398,311
Net earnings	—	—	29,585	—	29,585	18	29,603
Other comprehensive income	—	—	—	452	452	—	452
Comprehensive income	—	—	29,585	452	30,037	18	30,055
Shares repurchased	(93)	—	(4,034)	—	(4,127)	—	(4,127)
Stock options exercised	1,165	(242)	—	—	923	—	923
Share-based compensation expense	—	899	—	—	899	—	899
Dividends [note 9]	—	—	(6,573)	—	(6,573)	(190)	(6,763)
Other liabilities	—	—	—	—	—	21	21
	1,072	657	(10,607)	—	(8,878)	(169)	(9,047)
Balance as at May 31, 2017	37,122	2,074	355,813	20,418	415,427	3,892	419,319
Balance as at November 30, 2017	39,230	2,358	376,922	15,582	434,092	4,112	438,204
Net earnings	—	—	30,878	—	30,878	(11)	30,867
Other comprehensive income	—	—	—	616	616	—	616
Comprehensive income	—	—	30,878	616	31,494	(11)	31,483
Shares repurchased	(118)	—	(5,078)	—	(5,196)	—	(5,196)
Stock options exercised	1,112	(211)	—	—	901	—	901
Share-based compensation expense	—	1,166	—	—	1,166	—	1,166
Dividends [note 9]	—	—	(6,925)	—	(6,925)	(311)	(7,236)
Other liabilities	—	—	—	—	—	22	22
	994	955	(12,003)	—	(10,054)	(289)	(10,343)
Balance as at May 31, 2018	40,224	3,313	395,797	16,198	455,532	3,812	459,344

See accompanying notes to the interim consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the three and six-month periods ended May 31 [In thousands of dollars]
[Unaudited]

	Notes	For the three months ended May 31,		For the six months ended May 31,	
		2018	2017	2018	2017
		\$	\$	\$	\$
OPERATING ACTIVITIES					
Net earnings		18,235	17,646	30,867	29,603
Items not affecting cash					
Amortization of property, plant and equipment		2,251	1,869	4,478	3,685
Amortization of intangible assets		958	922	1,976	1,743
Deferred taxes		—	(204)	(315)	(401)
Share-based compensation expense	4	913	660	1,514	1,193
		22,357	20,893	38,520	35,823
Net change in non-cash working capital balances		(7,943)	(3,712)	(35,545)	(16,105)
		14,414	17,181	2,975	19,718
FINANCING ACTIVITIES					
Repayment of long-term debt		(1,709)	(267)	(3,757)	(952)
Dividends paid to shareholders of the Corporation	9	(3,461)	(3,287)	(6,925)	(6,573)
Other dividends paid		—	—	(311)	(190)
Common shares issued		464	392	901	923
Common shares repurchased for cancellation		(662)	(2,876)	(5,196)	(4,127)
		(5,368)	(6,038)	(15,288)	(10,919)
INVESTING ACTIVITIES					
Business acquisitions	3	0	(29,000)	(2,041)	(29,000)
Additions to property, plant and equipment and intangible assets		(1,908)	(2,114)	(4,577)	(6,290)
		(1,908)	(31,114)	(6,618)	(35,290)
Effect of exchange rate changes on cash and cash equivalents		(102)	(53)	(29)	(87)
Net change in cash and cash equivalents		7,036	(20,024)	(18,960)	(26,578)
Cash and cash equivalents, beginning of period		3,166	36,415	29,162	42,969
Cash and cash equivalents, end of period		10,202	16,391	10,202	16,391
Supplementary information					
Income taxes paid		6,763	5,194	15,409	11,707
Interest paid (received), net		59	(57)	23	(141)

See accompanying notes to the interim consolidated financial statements.

NATURE OF BUSINESS

Richelieu Hardware Ltd. [the "Corporation"] is incorporated under the laws of Quebec, Canada. The Corporation is a distributor, importer, and manufacturer of specialty hardware and complementary products. Its products are targeted to an extensive customer base of kitchen and bathroom cabinet, storage and closet, home furnishing and office furniture manufacturers, residential and commercial woodworkers and hardware retailers including renovation superstores. The Corporation's head office is located at 7900 Henri-Bourassa Blvd. West, Montreal, Quebec, Canada, H4S 1V4.

1. PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

The Corporation's interim consolidated financial statements, presented in Canadian dollars, have been prepared by management in accordance with International Financial Reporting Standards ["IFRS"], more specifically with IAS 34, *Interim Financial Reporting*.

The interim consolidated financial statements were prepared in accordance with the accounting policies that the Corporation applied when preparing the annual consolidated financial statements as at November 30, 2017, and for the year ended at this date, and requires management to make estimates and assumptions that affect the amounts reported in the interim consolidated financial statements and accompanying notes. These estimates are based on management's best knowledge of current events and actions that the Corporation may undertake in the future and other factors deemed relevant and reasonable. In management's opinion, these interim consolidated financial statements reflect all the adjustments required for a fair presentation. These adjustments consist only of normal recurring adjustments. Operating results for the interim periods are not necessarily indicative of the results that may be expected for the full year as the operating level of the Corporation is subject to seasonal fluctuations. These interim consolidated financial statements should be read in conjunction with the audited annual consolidated financial statements and the accompanying notes included in the Corporation's annual report for the fiscal year 2017.

2. CHANGES IN ACCOUNTING METHODS

Recently issued

IFRS 9, *Financial Instruments*

IFRS 9, *Financial instruments* replaces IAS 39 *Financial instruments : Recognition and Measurement* and includes a single approach to determine whether a financial asset is measured at amortized cost or fair value, a new hedge accounting model to enable financial statement users to better understand an entity's risk exposure and its risk management activities, and a new impairment model for financial assets based on expected credit losses. IFRS 9 is effective for fiscal year beginning on or after January 1st, 2018, thus for fiscal year beginning on December 1st, 2018 for the Corporation. The Corporation has made a preliminary assessment the adoption of this new standard will have on its consolidated financial statements and does not anticipate any significant impact.

IFRS 15, *Revenue from Contracts with Customers*

IFRS 15 *Revenue from Contracts with Customers* replaces IAS 18 *Revenue*, IAS 11, *Construction Contracts* and related interpretations. Under IFRS 15 standard, revenue is recognized at the point in time when control of the goods or services transfers to the customer rather than when the significant risks and rewards are transferred. The new standard also requires additional disclosures through notes to financial statements. IFRS 15 will be applied to fiscal year beginning on or after January 1st, 2018, thus for fiscal year beginning on December 1st, 2018 for the Corporation. The Corporation has made a preliminary assessment the adoption of this new standard will have on its consolidated financial statements and does not anticipate any significant impact.

IFRS 16, *Leases*

IFRS 16 *Leases* replaces IAS 17 *Leases* and related interpretations. The new standard brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. Lessor accounting, however, remains largely unchanged and the distinction between operating and finance leases is retained. IFRS 16 supersedes IAS 17 *Leases* and related interpretations and is effective for periods beginning on or after January 1st, 2019, thus for fiscal year beginning on December 1st, 2019 for the Corporation. Earlier adoption is permitted if IFRS 15 *Revenue from Contracts with Customers* has also been applied.

The Corporation being committed under operating leases for warehouse and office premises, it expects that the adoption of IFRS 16 will result in the recognition, in the consolidated statement of financial position, of a related asset and a liability and, in the consolidated statement of earnings, of a reduction in rent expense and an increase in financial costs and amortization of property, plant and equipment. The Company is currently evaluating the impact of the new standard on its consolidated financial statements.

3. BUSINESS ACQUISITIONS

2018

On February 26, 2018, the Corporation purchased the principal net assets of Cabinet & Top Supply Inc., a distributor of specialized products located in Fort Myers, Florida.

2017

On August 1st, 2017, the Corporation purchased the principal net assets of Tamarack Distributors Inc., a distributor of specialized products located in Cincinnati, Ohio.

On April 18, 2017, the Corporation purchased the principal net assets of Weston Premium Woods Inc., a distributor of materials, decorative products and hardwoods located in Brampton, Ontario.

4. SHARE CAPITAL

Authorized

Unlimited number of:

Common shares, participating, entitling the holder to one vote per share.

Non-voting first and second ranking preferred shares issuable in series, the characteristics of which are to be determined by the Board of Directors.

Changes in common shares are summarized as follows:

<i>(in thousands)</i>	Number of shares	\$
Outstanding, November 30, 2016	57,921	36,050
Issued	333	3,483
Repurchased	(458)	(303)
Outstanding, November 30, 2017	57,796	39,230
Issued	82	1,112
Repurchased	(172)	(118)
Outstanding, May 31, 2018	57,706	40,224

During the six-month period ended May 31, 2018, the Corporation issued 82,474 common shares [FY2017 - 333,225] at an average exercise price of \$10.92 per share [2017 - \$8.34] pursuant to the exercise of options under the share option plan. In addition, during the six-month period ended May 31, 2018, the Corporation repurchased 171,927 common shares for cancellation in consideration of \$5,196, which resulted in a premium on the redemption in the amount of \$5,078, recorded in reduction of retained earnings [FY2017 - 458,088 common shares in consideration of \$14,763 which resulted in a premium on the redemption in the amount of \$14,460].

Notes to interim consolidated financial statements (unaudited)

May 31, 2018 and 2017 (Amounts are in thousands of dollars, except per-share amounts or otherwise indicated)

Stock option plan

Changes in stock options are summarized as follows:

	Number of stock options	Weighted average share price
(in thousands)		\$
Outstanding, November 30, 2015	1,650	13.58
Granted	330	25.71
Exercised	(333)	8.34
Cancelled	(9)	22.93
Outstanding, November 30, 2016	1,638	17.04
Granted	357	32.77
Exercised	(82)	10.92
Cancelled	(11)	23.20
Outstanding, May 31, 2018	1,902	20.22

Stock options granted during the six-month period ended May 31, 2018, have an average fair value of \$7.39 per option [2017 - \$5.93] as determined using the Black & Scholes option pricing model using an expected dividend yield of 0.8% [2017 - 0.9%], a volatility of 20% [2017 - 20%], a risk-free interest rate of 2.25% [2017 - 1.86%] and an expected life of 7 years [2017 - 7 years]. For the three and six-month periods ended May 31, 2018, the compensation expense related to stock options amounted to \$735 and \$1,166 [2017 - \$487 and \$899] and is recognized under *Operating expenses excluding amortization*. As at May 31, 2018, stock options outstanding had exercise price varying from \$5.57 to \$32.77 [stock options outstanding as at November 30, 2017, had an exercise price varying from \$5.57 to \$26.29].

Deferred Share Unit Plan

The financial liability resulting from the DSU plan of \$7,263 [November 30, 2017 - \$7,914] is presented under the *Accounts payable and accrued liabilities*. As at May 31, 2018, the fair value of the equity swaps amounted to an asset of \$145 [November 30, 2017 - amounted to an asset of \$157] and is presented under *Accounts receivable*. The Corporation categorized the fair value measurement in Level 2, as it is derived from observable market data. The compensation expense for the DSUs during the three and six-month periods ended May 31, 2018, amounted to \$178 and \$348 [2017 - \$173 and \$294] and is recognized under *Operating expenses excluding amortization*.

Share Purchase Plan

Compensation expense related to the share purchase plan amounted to \$171 and \$359 for the three and six-month periods ended May 31, 2018 [2017 - \$151 and \$312] and is recognized under *Operating expenses excluding amortization*.

Net earnings per share

Net earnings per share, basic and diluted, were calculated based on the following number of shares:

	For the three months ended May 31,		For the six months ended May 31,	
(in thousands)	2018	2017	2018	2017
Weighted average number of shares outstanding - Basic	57,708	57,923	57,746	57,928
Dilutive effect under stock option plan	625	828	675	788
Weighted average number of shares outstanding - Diluted	58,333	58,751	58,421	58,716

5. ACCUMULATED OTHER COMPREHENSIVE INCOME

Accumulated other comprehensive income, including the following items and their variances, was as follows:

	For the three months ended May 31,		For the six months ended May 31,	
	2018	2017	2018	2017
	\$	\$	\$	\$
Balance at the beginning of the period	15,037	18,744	15,582	19,966
Exchange differences on translation of foreign operations	1,161	1,674	616	452
Balance at the end of the period	16,198	20,418	16,198	20,418

6. FINANCIAL INSTRUMENTS AND OTHER INFORMATION

Fair value

The carrying value of long-term debt approximates their fair value because of the short maturity on balances of sale payable. The Corporation categorized the fair value measurement in Level 2, as it is derived from observable market data.

As at May 31, 2018, the fair value of the foreign exchange forward contracts amounted to a liability of \$134 [a liability of \$83 as at November 30, 2017] representing the amount the Corporation would pay on the settlement of these contracts at spot rates. The Corporation categorized the fair value measurement in Level 2, as it is derived from observable market data.

Credit Risk

The Corporation sells its products to numerous customers in Canada, and to a lesser extent in the United States. The credit risk refers to the possibility that customers will be unable to assume their liabilities toward the Corporation. The average days outstanding for accounts receivable, as at May 31, 2018, is acceptable given the industry in which the Corporation operates.

The Corporation performs ongoing credit evaluation of customers and generally does not require collateral. The allowance for doubtful accounts has increased by \$576 and \$1,271 [2017 - \$658 and \$1,252] during the three and six-month periods ended May 31, 2018, for a total of \$7,757 as at May 31, 2018 [November 30, 2017 - \$6,486].

Market Risk

The Corporation's foreign currency exposure arises from purchases and sales transacted mainly in US dollars and euros. Operating expenses included, for the three and six-month periods ended May 31, 2018, an exchange gain of \$738 and a gain of \$946 [2017 - an exchange gain of \$231 and of \$757].

The Corporation's policy is to maintain its purchase price and selling prices of its commercial activities by mitigating its exposure by use of derivative financial instruments. To protect its operations from exposure to exchange rate fluctuations, foreign exchange contracts are used. Major exchange risks are covered by a centralized cash flow management. Exchange rate risks are managed in accordance with the Corporation's policy on exchange risk management. The goal of this policy is to protect the Corporation's profits by reducing the exposure to exchange rate fluctuations. The Corporation's policy does not allow speculative trades.

As at May 31, 2018, a decrease of 5% in the Canadian dollar against the US dollar and the euro on translation of monetary assets and liabilities, all other variables remaining the same, would have increased consolidated net earnings by \$865 [\$323 as at May 31, 2017] and would have increased consolidated comprehensive income by \$6,098 [\$6,086 as at May 31, 2017]. The exchange rate sensitivity is calculated by aggregation of the net foreign exchange rate exposure of the Corporation's financial instruments as at May 31, 2018.

Notes to interim consolidated financial statements (unaudited)

May 31, 2018 and 2017 (Amounts are in thousands of dollars, except per-share amounts or otherwise indicated)

Liquidity Risk

The Corporation manages its risk of not being able to settle its financial liabilities when required by taking into account its operational needs and by using different financing tools, if required. During the previous years, the Corporation has financed its growth, its acquisitions, and its payout to shareholders by using the cash generated by the operating activities.

Operating expenses excluding amortization

	For the three months ended May 31,		For the six months ended May 31,	
	2018	2017	2018	2017
	\$	\$	\$	\$
Inventories expenses from the distribution, imports and manufacturing activities	194,442	177,686	360,846	321,246
Salaries and related charges	35,306	33,037	66,190	62,586
Other charges	5,537	5,898	10,426	10,357
	235,285	216,621	437,462	394,189

For the three and six-month periods ended May 31, 2018, an expense of \$957 and \$1,768 [2017 - \$896 and \$1,642] for inventory obsolescence is included in Inventories from the distribution, imports and manufacturing activities.

7. CAPITAL MANAGEMENT

The Corporation's objectives are:

- Maintain a low debt ratio to preserve its capacity to pursue its growth both internally and through acquisitions;
- Provide an adequate return to shareholders.

The Corporation manages and makes adjustments to its capital structure in light of changes in economic conditions and the risk characteristics of underlying assets. To maintain or adjust its capital structure, the Corporation may adjust the amount of dividends paid to shareholders, return capital to shareholders or issue new shares. As at May 31, 2018, the Corporation achieved the following results regarding its capital management objectives:

- Debt/equity ratio: 0.2% [1.0% as at November 30, 2017] [Long-term debt/Equity]
- Return on average shareholders' equity of 15.8% over the last 12 months [16.3% for the year ended November 30, 2017]

The Corporation's capital management objectives remained unchanged from the previous fiscal year.

8. GEOGRAPHIC INFORMATION

During the three and six-month periods ended May 31, 2018, near 67% of sales had been made in Canada [2017 - 66%]. The Corporation's sales to foreign countries, almost entirely directed to the United States, amounted to \$83,140 and \$161,072 [2017 - \$79,524 and \$149,731] in Canadian dollars and to \$64,707 and \$126,683 [2017 - \$58,985 and \$112,150] in US dollars.

As at May 31, 2018, out of the total amount of property, plant and equipment, \$4,806 [November 30, 2017 - \$3,830] are located in the United States. In addition, intangible assets located in the United States amounted to \$12,985 [November 30, 2017 - \$13,302] and goodwill to \$11,236 [November 30, 2017 - \$10,818] in Canadian dollars and to \$10,029 [November 30, 2017 - \$10,321] and goodwill to \$8,678 [November 30, 2017 - \$8,394] in US dollars.

9. DIVIDENDS PAID TO SHAREHOLDERS OF THE CORPORATION

For the three and six-month periods ended May 31, 2018, the Corporation paid a quarterly dividend of 6.00¢ per share to common shareholders [2017 - quarterly dividend of 5.67¢ per share] for a total amount of \$3,461 and \$6,925 [2017 - \$3,287 and \$6,573].

10. APPROVAL OF FINANCIAL STATEMENTS

The interim consolidated financial statements for the three and six-month periods ended May 31, 2018 (including the comparative figures) were approved for issue by the Board of Directors on July 5, 2018.

11. COMPARATIVE FIGURES

Some figures disclosed for the three and six-month periods ended May 31, 2017, have been reclassified to conform to the presentation adopted in the three and six-month periods ended May 31, 2018.