Richelieu

Interim Report

3

Three and nine-month periods ended August 31, 2019

MESSAGE TO SHAREHOLDERS

Richelieu pursued its growth in the third quarter, mainly benefiting from the impact of the acquisitions made over the past twelve months, which contributed to a good performance in the manufacturers market in Canada and the United States. We effectively continued the integration of our recent acquisitions and our investments in maintaining and improving operational efficiency. The third quarter ended with a financial position that remained sound and solid.

For the three months ended August 31, 2019, sales totalled $269.2 million, up 3.4% over the same period last year. It should be noted that this quarter had one less business day than the third quarter of 2018. This increase reflects 5.0% growth by acquisition, which more than offset the 1.6% internal decrease. The decrease was caused by a slowdown in the manufacturers market in Canada as well as in the retailers market, notably in Canada, as mentioned in previous quarters. Furthermore, cyclical sales were also down during this quarter. EBITDA increased by 4.3% to $30.2 million, and net earnings attributable to shareholders stood at $18.6 million, or $0.33 per diluted share, up 3.1%. Adjusted diluted cash flows per share increased by 5.1% to $0.41.

For the first nine months of the year, sales climbed to $776.7 million, up 4.2% over the first nine months of 2018, with 0.4% from internal growth and 3.8% from acquisitions. EBITDA increased by 2.0%, and diluted net earnings per share attributable to shareholders remained stable at $0.84. Adjusted diluted cash flows per share rose by 1.9% to $1.06.

To maintain and improve operational efficiency, we invested $3.3 million in property, plant and equipment during the quarter. Dividends paid to shareholders totalled $3.6 million, up 4.4% over the same quarter in 2018, increasing the cumulative dividends paid in the first nine months of 2019 to $10.8 million. Since the beginning of the fiscal year, we have repurchased 393,829 common shares for $9.4 million in the normal course of business, including $4.9 million during the third quarter.

During the quarter, our operations generated $44.3 million, bringing the balance of cash and cash equivalents to $14.8 million. As at August 31, 2019, shareholders' equity stood at $500.1 million and debt, almost entirely short-term, totalled $7.0 million, for a debt-to-equity ratio of 1.4%. Working capital stood at $346.8 million for a ratio of 4.5:1.

By continuing to activate our main growth drivers, namely our innovation, acquisition, market development and customer service strategies, we expect to close this fiscal year with good results and a solid financial position.

NEXT DIVIDEND PAYMENT

On October 3, 2019, the Board of Directors approved the payment of a quarterly dividend of 6.33¢ per share. This dividend will be paid on October 31, 2019, to shareholders of record as at October 17, 2019.

Richelieu

This management's discussion and analysis report ("MD&A") relates to Richelieu Hardware Ltd.'s consolidated operating results and cash flows for the third quarter and first nine months ended August 31, 2019, compared with the third quarter and first nine months ended August 31, 2018, as well as to Richelieu Hardware Ltd.'s financial position as at August 31, 2019, compared with November 30, 2018. This MD&A should be read in conjunction with the unaudited consolidated interim financial statements and accompanying notes for the third quarter and first nine months of 2019 as well as the analysis and notes to the audited consolidated financial statements appearing in our 2018 Annual Report. In this MD&A, "Richelieu" or the "Corporation" refers to, 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 August 31, 2019, 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 MD&A accounts for any major event that occurred prior to October 3, 2019, on which date the unaudited consolidated interim financial statements and interim MD&A 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 third quarter and first nine months ended August 31, 2019, 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 performance 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 a non-IFRS financial measure and does not have a standardized meaning prescribed by IFRS, it may not be comparable to the EBITDA of other companies.

Richelieu also uses adjusted cash flows from operating activities and adjusted cash flows from operating activities per share. Adjusted 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, adjusted 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 MD&A, including statements relating to the expected adequacy 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, that supplies will be sufficient to fulfil 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 nature, to known and unknown risks and uncertainties set forth in the Corporation's 2018 Annual Report (see the "Risk Factors" section on page 34 of the 2018 Annual Report available on SEDAR at www.sedar.com).

Richelieu's actual results could differ materially from those indicated in or underlying these forward-looking statements. The reader is therefore cautioned not to place undue reliance 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 as required by law.

GENERAL BUSINESS OVERVIEW as at August 31, 2019

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 sources 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 77 centres in North America - 39 distribution centres in Canada, 36 distribution centres 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 2,200 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 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 intrapreneurship.

To sustain its growth and remain the leader in its specialty market, the Corporation continues to implement the strategy which has been beneficial to date, with a focus on:

- continuing to strengthen its product selection by continuously introducing each year 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
- pursuing its expansion in North America with the opening of new distribution centres and 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 August 31

(in thousands of $, except per-share amounts, number of shares and data expressed as a %)	**3 months**			**9 months**		
	2019	2018		**2019**	2018	
	$	$	Δ (%)	**$**	$	Δ (%)
Sales	**269,243**	260,461	+3.4	**776,661**	745,622	+4.2
EBITDA(1)	**30,177**	28,926	+4.3	**78,346**	76,809	+2.0
EBITDA margin (%)	***11.2***	*11.1*		***10.1***	*10.3*	
Net earnings	**18,769**	18,565	+1.1	**48,222**	49,432	-2.4
Net earnings attributable to shareholders of the Corporation	**18,630**	18,389	+1.3	**47,994**	49,267	-2.6
• basic per share ($)	**0.33**	0.32	+3.1	**0.84**	0.85	-1.2
• diluted per share ($)	**0.33**	0.32	+3.1	**0.84**	0.84	—
Net margin attributable to shareholders of the Corporation (%)	***6.9***	*7.1*		***6.2***	*6.6*	
Adjusted cash flows from operating activities(2)	**23,398**	22,428	+4.3	**60,964**	60,600	+0.6
• diluted per share ($)	**0.41**	0.39	+5.1	**1.06**	1.04	+1.9
Dividends paid to the shareholders of the Corporation	**3,606**	3,455	+4.4	**10,830**	10,380	+4.3
• per share ($)	**0.0633**	**0.0600**	+5.5	**0.1899**	**0.1800**	+5.5
Weighted average number of shares outstanding (diluted) (in thousands)	**57,186**	58,200		**57,278**	58,323	

Financial position data

As at	**August 31**	November 30	
	2019	2018	
	$	$	Δ (%)
Total assets	**609,593**	569,119	+7.1
Working capital	**346,762**	329,343	+5.3
Current ratio	***4.5 : 1***	*4.6 : 1*	
Equity attributable to shareholders of the Corporation	**500,046**	470,278	+6.3
Return on average equity (%)	***13.8***	*15.0*	
Book value per share ($)	**8.81**	8.23	+7.0
Total debt	**7,006**	2,023	
Cash and cash equivalents	**14,798**	7,408	

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

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

alsANALYSIS OF OPERATING RESULTS FOR THE THIRD QUARTER AND FIRST NINE MONTHS ENDED AUGUST 31, 2019, COMPARED WITH THE THIRD QUARTER AND FIRST NINE MONTHS ENDED AUGUST 31, 2018

Consolidated sales

(in thousands of $, except exchange rates)

Periods ended August 31	3 months 2019 $	2018 $	Δ (%)	9 months 2019 $	2018 $	Δ (%)
Canada	**179,939**	178,653	+0.7	**506,661**	503,416	+0.6
United States (CA$)	**89,304**	81,808	+9.2	**270,000**	242,206	+11.5
(US$)	**67,543**	62,452	+8.2	**202,806**	188,611	+7.5
Average exchange rates	***1.3222***	*1.3100*		***1.3313***	*1.2842*	
Consolidated sales	**269,243**	260,461	+3.4	**776,661**	745,622	+4.2

Third-quarter consolidated sales amounted to $269.2 million, compared with $260.5 million for the corresponding quarter of 2018, an increase of $8.7 million or 3.4%, of which 5.0% from acquisitions and 1.6% from an internal decrease. It should be noted that this quarter had one less business day than the third quarter of 2018. At comparable exchange rates to the third quarter of 2018, consolidated sales growth would have been 3.1% for the quarter ended August 31, 2019.

Richelieu achieved sales of $233.8 million in the **manufacturers** market, compared with $221.6 million for the third quarter of 2018, an increase of $12.2 million or 5.5%, of which 5.9% resulted from acquisitions and 0.4% from an internal decrease. Sales to hardware **retailers** and renovation superstores stood at $35.4 million, down $3.5 million or 9.0% over the third quarter of 2018.

In Canada, Richelieu recorded sales of $179.9 million, an increase of $1.2 million or 0.7% over the third quarter of 2018, of which 4.7% from acquisitions and 4.0% from an internal decrease. Sales to **manufacturers** amounted to $147.9 million, compared to $143.6 million, an increase of 3.0%, of which 5.9% resulted from acquisitions and 2.9% from an internal decrease caused by a softer market across Canada most importantly in Alberta and the Atlantic provinces. Sales to hardware **retailers** and renovation superstores totalled to $32.0 million, down $3.1 million or 8.8% over the corresponding quarter of 2018. The general slowdown in the retailer market continues to have a downward impact on our sales. Furthermore, cyclical sales were also down during this quarter.

In the United States, sales totalled US$67.5 million, compared to US$62.5 million for the third quarter of 2018, up US$5 million or 8.2%, of which 2.6% resulted from internal growth and 5.6% from acquisitions. Sales to **manufacturers** amounted to US$64.9 million, compared to US$59.6 million, an increase of 8.9% over the third quarter of 2018, of which 3.1% resulted from internal growth and 5.8% from acquisitions. Sales in US$ to hardware **retailers** and renovation superstores were down 10.3% from the corresponding quarter of 2018, however, are showing growth for the first nine months of 2019. Total U.S. sales in Canadian dollars stood at $89.3 million, compared to $81.8 million year over year, an increase of 9.2%. They accounted for 33.2% of consolidated sales for the third quarter of 2019, compared to 31.4% of consolidated sales for the third quarter of 2018.

For the first nine months, consolidated sales reached $776.7 million, an increase of $31.1 million or 4.2% over the first nine months of 2018, of which 0.4% resulted from internal growth and 3.8% from acquisitions. At comparable exchange rates to the first nine months of 2018, consolidated sales growth would have been 2.9%.

Sales to **manufacturers** grew to $664.3 million, compared to $626.7 million for the first nine months of 2018, an increase of $37.6 million or 6.0%, of which 1.4% from internal growth and 4.6% from acquisitions. Sales to hardware **retailers** and renovation superstores were down 5.5% or $6.5 million to total $112.4 million.

In Canada, Richelieu recorded sales of $506.7 million, compared to $503.4 million for the first nine months of 2018, up by $3.3 million or 0.6%, of which 2.7% resulted from acquisitions and an internal decrease of 2.1%. Sales to **manufacturers** rose to $417.6 million, up by $12.9 million or 3.2%, of which 3.4% resulted from acquisitions and 0.2% from internal decrease. Sales to hardware **retailers** and renovation superstores reached $89.1 million, compared to $98.7 million, down $9.6 million or 9.7% over the first nine months of 2018. The inventory realignment of our retailer customers due to a general slowdown in this market continued to have a downward effect on our sales.

In the United States, the Corporation recorded sales of US$202.8 million, compared to US$188.6 million for the first nine months of 2018, an increase of US$14.2 million or 7.5%, of which 1.6% resulted from internal growth and 5.9% from acquisitions. Sales to **manufacturers** totalled US$185.3 million, compared to US$172.8 million, an increase of US$12.5 million or 7.2% over the first nine months of 2018, of which 0.8% resulted from internal growth and 6.4% resulted from acquisitions. As reported in previous quarters, the internal growth in the manufacturers market was affected in the first quarter of 2019 by the termination of a supply agreement with a major customer. At comparable sales levels, internal growth in the US manufacturers market would have been 3.4%. Sales to hardware **retailers** and renovation superstores were up 10.8% from the corresponding period of 2018. Total U.S. sales in Canadian dollars amounted to $270.0 million, compared to $242.2 million for the corresponding nine months of 2018, an increase of 11.5%. They accounted for 34.8% of consolidated sales for the first nine months of 2019, compared to 32.5% of the period's consolidated sales for the first nine months of 2018.

Consolidated EBITDA and EBITDA margin

(in thousands of $, unless otherwise indicated)

Periods ended August 31	3 months 2019 $	2018 $	Δ (%)	9 months 2019 $	2018 $	Δ (%)
Sales	**269,243**	260,461	+3.4	**776,661**	745,622	+4.2
EBITDA	**30,177**	28,926	+4.3	**78,346**	76,809	+2.0
EBITDA margin (%)	***11.2***	*11.1*		***10.1***	*10.3*	

Third-quarter earnings before income taxes, interest and amortization (EBITDA) amounted to $30.2 million, up $1.3 million or 4.3% over the third quarter of 2018. **Gross margin** and **EBITDA margin** improved slightly from the third quarter of 2018. **EBITDA margin** stood at 11.2%, compared to 11.1% for the corresponding quarter of 2018.

Amortization expense for the third quarter of 2019 amounted to $4.1 million, up $0.8 million compared to the corresponding quarter of 2018. **Income tax expense** amounted to $7.1 million, up $0.1 million from the third quarter of 2018. **Financial costs** amounted to $0.2 million.

For the first nine months, earnings before income taxes, interest and amortization (EBITDA) totalled $78.3 million, up $1.5 million or 2.0% over the first nine months of 2018.

The **gross margin** remained stable with the corresponding nine-month period of 2018. As for the **EBITDA margin,** it stood at 10.1%, compared to 10.3% for the first nine months of 2018 affected by the slowdown in sales in the hardware retailers market, the market development costs incurred to increase our offering and our presence in the retailers market in the United States, including the costs resulting from the increase in inventories.

Amortization expense for the first nine months of 2019 amounted to $11.4 million, up $1.6 million, compared to the same period of 2018, resulting from the investments in tangible and intangible assets made in the current fiscal year. **Income tax expense** amounted to $18.1 million, up $0.5 million from the first nine months of 2018. **Financial costs** on bank overdraft amounted to $0.7 million for the first nine months of 2019.

Consolidated net earnings attributable to shareholders

(in thousands of $, unless otherwise indicated)

	3 months			9 months		
Periods ended	**2019**	2018		**2019**	2018	
August 31	**$**	$	Δ (%)	**$**	$	Δ (%)
EBITDA	**30,177**	28,926	+4.3	**78,346**	76,809	+2.0
Amortization of property, plant and equipment and intangible assets	**4,072**	3,296		**11,361**	9,750	
Financial costs, net	**233**	45		**713**	68	
Income taxes	**7,103**	7,020		**18,050**	17,559	
Net earnings	**18,769**	18,565	+1.1	**48,222**	49,432	-2.4
Net earnings attributable to shareholders of the Corporation	**18,630**	18,389	+1.3	**47,994**	49,267	-2.6
Net margin attributable to the shareholders of the Corporation (%)	***6.9***	*7.1*		***6.2***	*6.6*	
Non-controlling interests	**139**	176		**228**	165	
Net earnings	**18,769**	18,565	+1.1	**48,222**	49,432	-2.4

Third-quarter net earnings grew 1.1%. Considering non-controlling interests, **net earnings attributable to shareholders of the Corporation** amounted to $18.6 million, up 1.3% over the third quarter of 2018. **Net earnings per share** rose to $0.33 basic and diluted, compared to $0.32 basic and diluted for the third quarter of 2018, an increase of 3.1%.

Comprehensive income amounted to $16.3 million, considering a negative adjustment of $2.4 million on translation of the financial statements of the United States subsidiary, compared to $19.5 million for the third quarter of 2018, considering a positive adjustment of $0.9 million on translation of the financial statements of the United States subsidiary.

For the first nine months, net earnings decreased 2.4%. Considering non-controlling interests, **net earnings attributable to shareholders of the Corporation** totalled $48.0 million, down 2.6% over the corresponding nine months of 2018. **Net earnings per share** amounted to $0.84 basic and diluted, compared to $0.85 basic and $0.84 diluted for the first nine months of 2018.

Comprehensive income totalled $48.2 million, considering a negative adjustment of $0.1 million on translation of the financial statements of the United States subsidiary, compared to $51.0 million for the first nine months of 2018, considering a positive adjustment of $1.5 million on translation of the financial statements of the United States subsidiary.

SUMMARY OF QUARTERLY RESULTS

(unaudited)

(in thousands of $, except per-share amounts)

Quarters	**1**	**2**	**3**	**4**
2019				
o Sales	**226,236**	**281,182**	**269,243**	
o EBITDA	**17,434**	**30,735**	**30,177**	
o Net earnings attributable to shareholders of the Corporation	**10,083**	**19,281**	**18,630**	
• basic per share ($)	**0.18**	**0.34**	**0.33**	
• diluted per share ($)	**0.18**	**0.34**	**0.33**	
2018				
o Sales	221,893	263,268	260,461	258,778
o EBITDA	19,803	28,080	28,926	29,182
o Net earnings attributable to shareholders of the Corporation	12,704	18,174	18,389	18,510
• basic per share ($)	0.22	0.31	0.32	0.32
• diluted per share ($)	0.22	0.31	0.32	0.32
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

Quarterly variations in earnings - The first quarter ending February 28 or 29, is generally the year's weakest for Richelieu in light of the fewer 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 fewer business days due to the summer holidays, which can be reflected in the period's financial results. The second and fourth quarters ending May 31 and November 30, respectively, generally represent the fiscal year's most active periods.

FINANCIAL POSITION

Analysis of principal cash flows for the third quarter and first nine months ended August 31, 2019

Change in cash and cash equivalents and capital resources

(in thousands of $, unless otherwise indicated)

Periods ended August 31	3 months 2019 $	3 months 2018 $	9 months 2019 $	9 months 2018 $
Cash flows provided by (used for):				
Operating activities	**44,296**	13,787	**55,542**	16,762
Financing activities	**(8,520)**	(12,171)	**(19,921)**	(27,459)
Investing activities	**(3,340)**	(3,563)	**(28,415)**	(10,181)
Effect of exchange rate changes on cash and cash equivalents	**115**	(135)	**184**	(164)
Net change in cash and cash equivalents and bank overdraft	**32,551**	(2,082)	**7,390**	(21,042)
Cash and cash equivalents (bank overdraft), beginning of period	**(17,753)**	10,202	**7,408**	29,162
Cash and cash equivalents end of period	**14,798**	8,120	**14,798**	8,120

	As at August 31, 2019 $	As at November 30, 2018 $
Working capital	**346,762**	329,343
Renewable line of credit (CA$)	**65,000**	50,000
Renewable line of credit (US$)	**6,000**	6,000

Operating activities

Third-quarter cash flows from operating activities (before net change in working capital balances) amounted to $23.4 million or $0.41 per share diluted, compared to $22.4 million or $0.39 per share diluted for the third quarter of 2018, an increase of 4.3% resulting primarily from the variation in net earnings and depreciation. Net change in non-cash working capital balances represented a cash inflow of $20.9 million, reflecting the change in accounts receivable and inventory ($19.8 million), whereas the change in other items represented cash inflows of $1.1 million. Consequently, operating activities provided cash flows of $44.3 million, compared to $13.8 million in the third quarter of 2018.

For the first nine months, cash flows from operating activities (before net change in working capital balances) reached $61.0 million or $1.06 per share diluted, compared to $60.6 million or $1.04 per share diluted for the first nine months of 2018, an increase of 0.6%. Net change in non-cash working capital balances used cash flows of $5.4 million primarily representing changes in inventories. Consequently, operating activities provided cash flows of $55.5 million, compared to $16.8 million for the first nine months of 2018.

Financing activities

Third quarter financing activities used cash flows of $8.5 million, compared to $12.2 million in the third quarter of 2018. This change mainly reflects the repurchase of common shares for $4.9 million during the third quarter of 2019 compared to 8.9 million in the corresponding quarter of 2018. Dividends paid to shareholders amounted to $3.6 million, an increase of 4.4% over the corresponding quarter of 2018.

For the first nine months, financing activities used cash flows of $19.9 million, compared to $27.5 million in the first nine months of 2018. During the first nine months of the year, Richelieu repurchased common shares for cancellation for $9.4 million, compared to $14.1 million in the first nine months of 2018. The Corporation paid dividends to shareholders of $10.8 million, up 4.3% over the first nine months of 2018. In addition, Richelieu had repaid $3.9 million in long-term debt in the same period of 2018.

Investing activities

Third quarter investing activities represented a cash outflow of $3.3 million primarily for the purchase of new equipment to improve operational efficiency.

For the first nine months, investing activities represented a total cash outflow of $28.4 million, comprising $20.8 million for the four business acquisitions made during the current period and $7.6 million primarily for the purchase of new equipment to improve operational efficiency.

Sources of financing

As at August 31, 2019, cash and cash equivalents amounted to $14.8 million, compared with cash of $7.4 million as at November 30, 2018. The Corporation posted **working capital** of $346.8 million for a current ratio of 4.5:1, compared to $329.3 million (4.6:1 ratio) as at November 30, 2018.

Richelieu believes it has the capital resources to fulfill its ongoing commitments and obligations and to assume the funding requirements needed for its growth, financing, and investing activities between now and the end of fiscal 2019. The Corporation has an authorized line of credit of $65 million as well as a line of credit of US$6 million renewable annually and bearing interest at prime and base rates respectively. In addition, Richelieu considers it could obtain access to other outside financing, if necessary.

Analysis of financial position as at August 31, 2019

Summary financial position

(in thousands of $, except exchange rates)

As at	August 31, 2019 $	November 30, 2018 $
Current assets	**445,304**	419,844
Non-current assets	**164,289**	149,275
Total	**609,593**	569,119
Current liabilities	**98,542**	90,501
Non-current liabilities	**7,722**	5,132
Equity attributable to shareholders of the Corporation	**500,046**	470,278
Non-controlling interests	**3,283**	3,208
Total	**609,593**	569,119
Exchange rates on translation of a subsidiary in the United States	***1.330***	*1.330*

Assets

Total assets amounted to $609.6 million as at August 31, 2019, compared to $569.1 million as at November 30, 2018. **Current assets** increased by 6.1% or $25.5 million from November 30, 2018. **Non-current assets** rose 10.1%. These increases result mainly from business acquisitions made during the current fiscal year.

Cash position (in thousands of $) As at	**August 31 2019 $**	November 30 2018 $
Current portion of long-term debt	**6,965**	2,023
Long-term debt	**41**	—
Total debt	**7,006**	2,023
Cash and cash equivalents	**14,798**	*7,408*

The Corporation continues to benefit from a healthy and solid financial position. As at August 31, 2019**, total debt** was $7.0 million, mostly short-term, representing mainly balances payable on acquisitions.

Equity attributable to shareholders of the Corporation totalled $500.0 million as at August 31, 2019, compared to $470.3 million as at November 30, 2018, an increase of $29.8 million stemming primarily from growth of $28.1 million in retained earnings which amounted to $433.5 million, and $1.8 million in share capital and contributed surplus, whereas accumulated other comprehensive income was down $0.1 million. As at August 31, 2019, **book value per share** was $8.81, up 7.0% over November 30, 2018.

As at August 31, 2019, at market close, the Corporation's **share capital** consisted of 56,787,605 common shares (57,114,234 shares as at November 30, 2018). During the first nine months of 2019, the Corporation issued 67,200 common shares at an average exercise price of $10.09 (284,774 in fiscal 2018 at an average exercise price of $8.11) upon the exercise of stock options under its stock option plan. Furthermore, during the first nine months of 2019, the Corporation repurchased 393,829 common shares for cancellation for a cash consideration of $9.4 million. As at August 31, 2019, 1,823,525 stock options were outstanding (1,669,475 as at November 30, 2018).

CONTRACTUAL COMMITMENTS

There were no major changes in Richelieu's contractual commitments outside the normal course of business, compared with those set forth on page 32 of the Corporation's 2018 Annual Report, available on SEDAR at www.sedar.com. For 2019 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 trading 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 2018 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, 2018. 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 August 31, 2019, 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 August 31, 2019, have been prepared by management in accordance with IFRS. Note 2 accompanying the interim consolidated financial statements for the quarter ended August 31, 2019, presents the accounting policies recently released and applicable in the future.

Adopted during the period

IFRS 9, *Financial Instruments*

Effective the first quarter of 2019, the Corporation adopted IFRS 9, *Financial Instruments*. IFRS 9 supersedes the guidance in IAS 39 *Financial Instruments: Recognition and Measurement*. The Corporation has adopted IFRS 9 retrospectively in accordance with the transitional provisions thereof.

Classification and Measurement IFRS 9 introduces new requirements for the classification and measurement of financial assets. The adoption of IFRS 9 resulted in a reclassification of loans and receivables to financial assets measured at amortized cost. However, this resulted in no material impact on the measurement of financial assets and financial liabilities.

Impairment IFRS 9 provides a new impairment model for financial assets based on expected credit losses, which replaces IAS 39's incurred loss model. The expected credit loss model applies to financial assets measured at amortized cost. The Corporation applies the simplified approach to recognize expected credit losses.

The adoption of this standard had no significant impact on the Corporation's interim consolidated financial statements for the period.

IFRS 15, *Revenue from Contracts with Customers*

Effective the first quarter of 2019, the Corporation adopted IFRS 15, *Revenue from Contracts with Customers*. Adoption of IFRS 15 supersedes the guidance in IAS 18, *Revenue*, IAS 11, *Construction Contracts* and related interpretations. The Corporation has adopted IFRS 15 retrospectively in accordance with the transitional provisions thereof.

IFRS 15 is based on a single model five-step principle to be applied when recognizing revenue from contracts with customers. Under this standard, revenue is recognized when the control of the goods or services is transferred to the customer. The Corporation's revenues comprise goods sold that are recognized at a specific point in time. Merchandise sales reported in the Consolidated Statements of Earnings and the Consolidated Statements of Comprehensive Income are recognized by the Corporation when control of goods is transferred to the customer which is the moment when the performance obligations are fulfilled as per the terms of contracts. This occurs generally when the customer has taken delivery of the goods.

The adoption of this standard had no significant impact on the Corporation's interim consolidated financial statements for the period, and no amount has been reclassified or restated.

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, 2018, and for the year then ended, taking into account the accounting methods adopted during the period, and require management to make estimates and assumptions that affect the amounts reported in the interim consolidated financial statements and disclosed 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 34 of Richelieu's 2018 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.

Richard Lord	**Antoine Auclair**
President and Chief Executive Officer	Vice-President and Chief Financial Officer

October 3, 2019

Interim Consolidated Financial Statements

Richelieu Hardware Ltd.

For the three and nine-month periods ended August 31, 2019

[Unaudited]

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

[In thousands of dollars]
[Unaudited]

	Notes	**As at August 31, 2019**	As at November 30, 2018
		$	$
ASSETS			
Current assets			
Cash and cash equivalents		**14,798**	7,408
Accounts receivable		**141,998**	138,767
Income taxes receivable		**1,617**	—
Inventories		**280,693**	270,275
Prepaid expenses		**6,198**	3,394
		445,304	419,844
Non-current assets			
Property, plant and equipment		**41,263**	41,725
Intangible assets		**36,632**	29,340
Goodwill		**80,170**	71,984
Deferred taxes		**6,224**	6,226
		609,593	569,119
LIABILITIES AND EQUITY			
Current liabilities			
Accounts payable and accrued liabilities		**91,577**	88,359
Income taxes payable		**—**	119
Current portion of long-term debt		**6,965**	2,023
		98,542	90,501
Non-current liabilities			
Long-term debt		**41**	—
Deferred taxes		**5,878**	3,289
Other liabilities		**1,803**	1,843
		106,264	95,633
Equity			
Share capital	4	**41,942**	41,398
Contributed surplus		**5,348**	4,122
Retained earnings		**433,512**	405,445
Accumulated other comprehensive income	5	**19,244**	19,313
Equity attributable to shareholders of the Corporation		**500,046**	470,278
Non-controlling interests		**3,283**	3,208
		503,329	473,486
		609,593	569,119

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 nine-month periods ended August 31 [In thousands of dollars, except earnings per share]
[Unaudited]

		For the three months ended August 31,		For the nine months ended August 31,	
		2019	2018	**2019**	2018
	Notes	**$**	$	**$**	$
Sales		**269,243**	260,461	**776,661**	745,622
Operating expenses excluding amortization	6	**239,066**	231,535	**698,315**	668,813
Earnings before amortization, financial costs and income taxes		**30,177**	28,926	**78,346**	76,809
Amortization of property, plant and equipment		**2,632**	2,303	**7,629**	6,781
Amortization of intangible assets		**1,440**	993	**3,732**	2,969
Financial costs, net		**233**	45	**713**	68
		4,305	3,341	**12,074**	9,818
Earnings before income taxes		**25,872**	25,585	**66,272**	66,991
Income taxes		**7,103**	7,020	**18,050**	17,559
Net earnings		**18,769**	18,565	**48,222**	49,432
Net earnings attributable to:					
Shareholders of the Corporation		**18,630**	18,389	**47,994**	49,267
Non-controlling interests		**139**	176	**228**	165
		18,769	18,565	**48,222**	49,432
Net earnings per share attributable to shareholders of the Corporation					
Basic		**0.33**	0.32	**0.84**	0.85
Diluted		**0.33**	0.32	**0.84**	0.84

See accompanying notes to the interim consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

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

		For the three months ended August 31,		For the nine months ended August 31,	
		2019	2018	**2019**	2018
	Notes	**$**	$	**$**	$
Net earnings		**18,769**	18,565	**48,222**	49,432
Other comprehensive income that will be reclassified to net earnings					
Exchange differences on translation of foreign operations	5	**(2,435)**	904	**(69)**	1,520
Comprehensive income		**16,334**	19,469	**48,153**	50,952
Comprehensive income attributable to:					
Shareholders of the Corporation		**16,195**	19,293	**47,925**	50,787
Non-controlling interests		**139**	176	**228**	165
		16,334	19,469	**48,153**	50,952

See accompanying notes to the interim consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the nine-month periods ended August 31 [In thousands of dollars]
[Unaudited]

	Attributable to shareholders of the Corporation						
	Share capital	**Contributed surplus**	**Retained earnings**	**Accumulated other comprehensive income (loss)**	**Total**	**Non-controlling interests**	**Total equity**
	$	$	$	$	$	$	$
Notes	4			5			
Balance as at November 30, 2017	39,230	2,358	376,922	15,582	434,092	4,112	438,204
Net earnings	—	—	49,267	—	49,267	165	49,432
Other comprehensive income	—	—	—	1,520	1,520	—	1,520
Comprehensive income	—	—	49,267	1,520	50,787	165	50,952
Shares repurchased	(337)	—	(13,780)	—	(14,117)	—	(14,117)
Stock options exercised	1,525	(288)	—	—	1,237	—	1,237
Share-based compensation expense	—	1,733	—	—	1,733	—	1,733
Dividends *[note 9]*	—	—	(10,380)	—	(10,380)	(311)	(10,691)
Other liabilities	—	—	—	—	—	35	35
	1,188	1,445	(24,160)	—	(21,527)	(276)	(21,803)
Balance as at August 31, 2018	40,418	3,803	402,029	17,102	463,352	4,001	467,353
Balance as at November 30, 2018	**41,398**	**4,122**	**405,445**	**19,313**	**470,278**	**3,208**	**473,486**
Net earnings	**—**	**—**	**47,994**	**—**	**47,994**	**228**	**48,222**
Other comprehensive income (loss)	**—**	**—**		**(69)**	**(69)**	**—**	**(69)**
Comprehensive income	**—**	**—**	**47,994**	**(69)**	**47,925**	**228**	**48,153**
Shares repurchased	**(289)**	**—**	**(9,097)**	**—**	**(9,386)**	**—**	**(9,386)**
Stock options exercised	**833**	**(155)**	**—**	**—**	**678**	**—**	**678**
Share-based compensation expense	**—**	**1,381**	**—**	**—**	**1,381**	**—**	**1,381**
Dividends *[note 9]*	**—**	**—**	**(10,830)**	**—**	**(10,830)**	**(193)**	**(11,023)**
Other liabilities	**—**	**—**	**—**	**—**	**—**	**40**	**40**
	544	**1,226**	**(19,927)**	**—**	**(18,157)**	**(153)**	**(18,310)**
Balance as at August 31, 2019	**41,942**	**5,348**	**433,512**	**19,244**	**500,046**	**3,283**	**503,329**

See accompanying notes to the interim consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

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

	Notes	For the three months ended August 31,		For the nine months ended August 31,	
		2019	2018	**2019**	2018
		$	$	**$**	$
OPERATING ACTIVITIES					
Net earnings		**18,769**	18,565	**48,222**	49,432
Items not affecting cash					
Amortization of property, plant and equipment		**2,632**	2,303	**7,629**	6,781
Amortization of intangible assets		**1,440**	993	**3,732**	2,969
Deferred taxes		**—**	—	**—**	(315)
Share-based compensation expense	4	**557**	567	**1,381**	1,733
		23,398	22,577	**60,964**	60,600
Net change in non-cash working capital balances		**20,898**	(8,641)	**(5,422)**	(43,838)
		44,296	13,787	**55,542**	16,762
FINANCING ACTIVITIES					
Repayment of long-term debt		**(190)**	(131)	**(190)**	(3,888)
Dividends paid to shareholders of the Corporation	9	**(3,606)**	(3,455)	**(10,830)**	(10,380)
Other dividends paid		**—**	—	**(193)**	(311)
Common shares issued		**150**	336	**678**	1,237
Common shares repurchased for cancellation		**(4,874)**	(8,921)	**(9,386)**	(14,117)
		(8,520)	(12,171)	**(19,921)**	(27,459)
INVESTING ACTIVITIES					
Business acquisitions	3	**—**	—	**(20,788)**	(2,041)
Additions to property, plant and equipment and intangible assets		**(3,340)**	(3,563)	**(7,627)**	(8,140)
		(3,340)	(3,563)	**(28,415)**	(10,181)
Effect of exchange rate changes on cash and cash equivalents		**115**	(135)	**184**	(164)
Net change in cash and cash equivalents and bank overdraft		**32,551**	(2,082)	**7,390**	(21,042)
Cash and cash equivalents (overdraft), beginning of period		**(17,753)**	10,202	**7,408**	29,162
Cash and cash equivalents, end of period		**14,798**	8,120	**14,798**	8,120
Supplementary information					
Income taxes paid		**5,292**	5,551	**19,782**	20,960
Interest paid, net		**233**	45	**713**	68

See accompanying notes to the interim consolidated financial statements.

NATURE OF BUSINESS

Richelieu Hardware Ltd. [the "Corporation"] is incorporated under the laws of the Province 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, 2018, and for the year then ended except for the accounting methods adopted during the period, and which require 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 2018 fiscal year.

2. CHANGES IN ACCOUNTING METHODS

Adopted

IFRS 9, *Financial Instruments*

Effective the first quarter of fiscal 2019, the Corporation adopted IFRS 9, *Financial Instruments*. IFRS 9 supersedes the guidance in IAS 39 *Financial Instruments: Recognition and Measurement*. The Corporation has adopted IFRS 9 retrospectively in accordance with the transitional provisions thereof.

Classification and Measurement IFRS 9 introduces new requirements for the classification and measurement of financial assets. The adoption of IFRS 9 resulted in a reclassification of loans and receivables to financial assets measured at amortized cost. However, this resulted in no material impact on the measurement of financial assets and financial liabilities.

Impairment IFRS 9 provides a new impairment model for financial assets based on expected credit losses, which replaces IAS 39's incurred loss model. The expected credit loss model applies to financial assets measured at amortized cost. The Corporation applies the simplified approach to recognize expected credit losses.

In accordance with the transitional provisions in IFRS 9, the Corporation has applied IFRS 9 hedge accounting prospectively from the date of the initial application.

The adoption of this standard had no significant impact on the Corporation's interim consolidated financial statements for the period.

IFRS 15, *Revenue from Contracts with Customers*

Effective the first quarter of 2019, the Corporation adopted IFRS 15, *Revenue from Contracts with Customers*. IFRS 15 supersedes the guidance in IAS 18, *Revenue*, IAS 11, *Construction Contracts* and related interpretations. The Corporation has adopted IFRS 15 retrospectively in accordance with the transitional provisions thereof.

IFRS 15 is based on a single model five-step principle to be applied when recognizing revenue from contracts with customers. Under this standard, revenue is recognized when the control of the goods or services is transferred to the customer. The Corporation's revenues comprise goods sold that are recognized at a specific point in time. Merchandise sales reported in the Consolidated Statements of Earnings and the Consolidated Statements of Comprehensive Income are recognized by the Corporation when control of goods is transferred to the customer, which is the moment when the performance obligations are fulfilled as per the terms of contracts. This occurs generally when the customer has taken delivery of the goods.

The adoption of this standard had no significant impact on the Corporation's interim consolidated financial statements for the period, and no amount has been reclassified or restated.

Standards issued but not yet effective

IFRS 16, *Leases*

IFRS 16, *Leases* replaces IAS 17, *Leases* and related interpretations. The new standard allows the recognition of most leases on balance sheet by 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 is effective for periods beginning on or after January 1, 2019, thus for fiscal year beginning on December 1, 2019, for the Corporation. Earlier adoption is permitted if IFRS 15, *Revenue from Contracts with Customers* has also been applied. The Corporation is currently assessing the impact of the new standard on its consolidated financial statements. Based on preliminary assessment, the adoption of IFRS 16 will have a material impact on the Corporation consolidated statements of financial position.

As the Corporation has commitments under operating leases for warehouse and office premises, it expects that the adoption of IFRS 16 will result in the recognition, in the consolidated statements of financial position, of a right-of-use asset and a liability for the present value of future lease payments, a reduction in rent expense, and increases in financial costs and in amortization expense of property, plant and equipment.

3. BUSINESS ACQUISITIONS

2019

Effective as of January 1, 2019, the Corporation acquired all outstanding common shares of Lion Industries Inc., a speciality hardware distributor serving a clientele of door and window manufacturers in Western Canada, operating a distribution centre in Calgary, Alberta.

Effective as of February 4, 2019, the Corporation acquired all outstanding common shares of Blackstone Building Products Inc., a speciality hardware distributor serving a clientele of door and window manufacturers in Ontario, operating a distribution centre in Concord, Ontario.

Effective as of February 4, 2019, the Corporation acquired all outstanding common shares of Truform Building Products Inc., a speciality hardware distributor serving a clientele of door and window manufacturers, operating distribution centres in Concord, Ontario and Calgary, Alberta.

Effective as of May 1, 2019, the Corporation acquired all outstanding common shares of Euro Architectural Components Inc., a distributor operating two distribution centres (Toronto, Ontario and Montreal, Quebec) in the stair and railing components, stainless steel and architectural and glass hardware markets.

These acquisitions have generated sales of $14.0 million since their completion. Had these acquisitions been made on December 1, 2018, management believes that the sales included in the consolidated statement of earnings would have been approximately $23 million.

2018

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

Effective as of September 4, 2018, the Corporation acquired the principal net assets of Chair City Supply, Inc. a distributor operating four distribution centres, three in North Carolina and one in Tennessee. Chair City Supply distributes a diverse range of specialty products targeted to an extensive customer base of furniture manufacturers.

Summary of acquisitions

The preliminary purchase price allocations, as at the transaction dates, are summarized as follows:

	2019
	$
Current assets acquired	**11,633**
Intangible assets	**10,308**
Goodwill	**8,186**
	30,384
Current liabilities assumed	**(1,373)**
Non-current liabilities assumed	**(2,589)**
Net assets acquired	**26,422**
Consideration	
Cash, net of cash acquired	**20,788**
Consideration payable	**5,634**
	26,422

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:

(in thousands)	Number of shares	$
Outstanding, November 30, 2017	57,796	39,230
Issued	285	2,843
Repurchased	(966)	(675)
Outstanding, November 30, 2018	**57,115**	**41,398**
Issued	**67**	**833**
Repurchased	**(394)**	**(289)**
Outstanding, August 31, 2019	**56,788**	**41,942**

During the nine-month period ended August 31, 2019, the Corporation issued 67,200 common shares [FY2018 - 284,774] at an average exercise price of $10.09 per share [2018 - $8.11] pursuant to the exercise of options under the share option plan. In addition, during the nine-month period ended August 31, 2019, the Corporation repurchased 393,829 common shares for cancellation for a consideration of $9,386, which resulted in a premium on redemption in the amount of $9,097, recorded as a reduction of retained earnings [FY2018 - 966,143 common shares for a consideration of $26,531 which resulted in a premium on redemption in the amount of $25,856].

Stock option plan

Changes in stock options are summarized as follows:

(in thousands)	Number of stock options	Weighted average exercise price $
Outstanding, November 30, 2017	1,638	17.04
Granted	357	32.77
Exercised	(285)	8.11
Cancelled	(40)	27.00
Outstanding, November 30, 2018	**1,670**	**21.69**
Granted	**232**	**25.27**
Exercised	**(67)**	**10.09**
Cancelled	**(11)**	**27.68**
Outstanding, August 31, 2019	**1,824**	**22.53**

Stock options granted during the nine-month period ended August 31, 2019, have an average fair value of $4.54 per option [2018 - $7.39] as determined using the Black & Scholes option pricing model with an expected dividend yield of 1.1% [2018 - 0.8%], an expected volatility of 20% [2018 - 20%], a risk-free interest rate of 1.96% [2018 - 2.25%] and an expected life of 7 years [2018 - 7 years]. For the three and nine-month periods ended August 31, 2019, the compensation expense related to stock options amounted to $557 and $1,381 [2018 - $567 and $1,733] and is recognized under *Operating expenses excluding amortization*. As at August 31, 2019, prices of stock options outstanding varied between $7.79 and $32.77 [prices of stock options outstanding as at November 30, 2018, varied between $5.57 and $32.77].

Deferred Share Unit Plan (DSU)

The financial liability resulting from the DSU plan of $6,890 [November 30, 2018 - $6,426] is recognized under the *Accounts payable and accrued liabilities*. As at August 31, 2019, the fair value of the swaps amounted to an asset of $215 [November 30, 2018 - a liability of $524] and is recognized under *Accounts receivable*. The Corporation classified the fair value measurement in Level 2, as it is derived from observable market data. Compensation expense for the DSUs during the three and nine-month periods ended August 31, 2019 amounted to $165 and $508 [2018 - $149 and $497] and is recognized under *Operating expenses excluding amortization*.

Share Purchase Plan

Compensation expense related to the share purchase plan amounted to $187 and $548 for the three and nine-month periods ended August 31, 2019 [2018 - $208 and $567] and is recognized under *Operating expenses excluding amortization*.

Net earnings per share

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

	For the three months ended August 31,		For the nine months ended August 31,	
(in thousands)	**2019**	2018	**2019**	2018
Weighted average number of shares outstanding - Basic	**56,912**	57,609	**57,032**	57,700
Dilutive effect under stock option plan	**274**	591	**246**	623
Weighted average number of shares outstanding - Diluted	**57,186**	58,200	**57,278**	58,323

The computation of diluted net earnings per share excludes the weighted average of 879,875 outstanding options with an exercise price exceeding the average market share price for the period because of their anti-dilutive effect (2018 – 357,000).

5. ACCUMULATED OTHER COMPREHENSIVE INCOME

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

	For the three months ended August 31,		For the nine months ended August 31,	
	2019	2018	**2019**	2018
	$	$	**$**	$
Balance at the beginning of the period	**21,679**	16,198	**19,313**	15,582
Exchange differences on translation of foreign operations	**(2,435)**	904	**(69)**	1,520
Balance at the end of the period	**19,244**	17,102	**19,244**	17,102

6. FINANCIAL INSTRUMENTS AND OTHER INFORMATION

Fair value

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

As at August 31, 2019, the fair value of the foreign exchange forward contracts amounted to a liability of $71 [November 30, 2018 - a liability of $1] representing the amount the Corporation would have paid on the settlement of these contracts at spot rates. The Corporation classified 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. Credit risk refers to the possibility that customers will be unable to assume their liabilities toward the Corporation. The average collection period for accounts receivable, as at August 31, 2019, 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 increased by $618 and $1,931 [2018 - $607 and $1,878] during the three and nine-month periods ended August 31, 2019, for a total of $8,733 as at August 31, 2019 [November 30, 2018 - $6,802].

Market Risk

The Corporation's foreign currency exposure arises from purchases and sales transacted mainly in US dollars and in euros. Operating expenses included, for the three and nine-month periods ended August 31, 2019, an exchange gain of $7 and a gain of $889 [2018 - an exchange gain of $1,085 and a gain of $2,031].

The Corporation's policy is to maintain the purchase costs and selling prices of its commercial activities by mitigating its exposure through the use of derivative financial instruments. To protect its operations from exposure to exchange rate fluctuations, foreign exchange forward contracts are used. Significant 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 operating results by reducing exposure to exchange rate fluctuations. The Corporation's policy does not allow speculative trades.

As at August 31, 2019, 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 $517 [August 31, 2018 - $865] and would have increased consolidated comprehensive income by $7,304 [August 31, 2018 - $6,098]. Exchange rate sensitivity is calculated by aggregating the net foreign exchange rate exposure of the Corporation's financial instruments as at August 31, 2019.

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, as required. During the previous years, the Corporation financed its growth, its acquisitions, and its payout to shareholders using cash generated by operating activities.

Operating expenses excluding amortization

	For the three months ended August 31,		For the nine months ended August 31,	
	2019	2018	**2019**	2018
	$	$	**$**	$
Inventory expenses resulting from distribution, importing and manufacturing activities	**195,647**	189,679	**567,609**	544,953
Salaries and related charges	**37,916**	36,806	**108,666**	102,996
Other charges	**5,503**	5,050	**22,040**	20,864
	239,066	231,535	**698,315**	668,813

For the three and nine-month periods ended August 31, 2019, an expense of $985 and $2,867 [2018 - $951 and $2,719] for inventory obsolescence is included in Inventory expense resulting from distribution, importing and manufacturing activities.

7. CAPITAL MANAGEMENT

The Corporation's objectives are:

- Maintain a low debt ratio to preserve the 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 August 31, 2019, the Corporation had achieved the following results regarding its capital management objectives:

- Debt/equity ratio: 1.4% [November 30, 2018 - 0.4%] [Long-Term Debt/Equity]
- Return on average shareholders' equity of 13.8% over the last 12 months [Year ended November 30, 2018 - 15.0%]

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

8. GEOGRAPHIC INFORMATION

During the three and nine-month periods ended August 31, 2019, nearly 65% of sales were made in Canada [2018 - 68%]. The Corporation's sales in foreign countries, almost all in the United States, amounted to $89,304 and $270,000 [2018 - $81,808 and $242,206] in Canadian dollars, and $67,543 and $202,806 [2018 - $62,452 and $188,611] in US dollars.

As at August 31, 2019, of the total amount of property, plant and equipment, $6,945 [November 30, 2018 - $7,031] was located in the United States. In addition, intangible assets located in the United States amounted to $13,323 [November 30, 2018 - $14,713] and goodwill to $13,896 [November 30, 2018 - $13,870] in Canadian dollars and to $10,021 [November 30, 2018 - $11,062] and goodwill to $10,452 [November 30, 2018 - $10,428] in US dollars.

9. DIVIDENDS PAID TO SHAREHOLDERS OF THE CORPORATION

For the three and nine-month periods ended August 31, 2019, the Corporation paid a quarterly dividend of 6.33¢ per share to common shareholders [2018 - quarterly dividend of 6.00¢ per share] for a total amount of $3,606 and $10,830 [2018 - $3,455 and $10,380].

10. APPROVAL OF FINANCIAL STATEMENTS

The interim consolidated financial statements for the three and nine-month periods ended August 31, 2019 (including the comparative figures) were approved for issue by the Board of Directors on October 3, 2019.

11. COMPARATIVE FIGURES

Certain figures disclosed for the three and nine-month periods ended August 31, 2018, have been reclassified to conform to the presentation adopted in the three and nine-month periods ended August 31, 2019.