



CONSOLIDATED FINANCIAL STATEMENTS
AS AT NOVEMBER 30, 2018

2018



MANAGEMENT'S REPORT

Related to the consolidated financial statements

The consolidated financial statements of Richelieu Hardware Ltd. (the "Corporation") and other financial information included in this Annual Report are the responsibility of the Corporation's management. These consolidated financial statements have been prepared by management in accordance with IFRS and approved by the Board of Directors.

The Corporation maintains accounting and internal control systems which, in management's opinion, reasonably ensure the accuracy of the financial information and maintain proper standards of conduct in the Corporation's activities.

The Board of Directors fulfills its responsibility regarding the consolidated financial statements included in the Annual Report, primarily through its Audit Committee. This committee which meets periodically with the Corporation's managers and external auditors, has reviewed the consolidated financial statements of the Corporation and has recommended that they be approved by the Board of Directors.

The consolidated financial statements have been audited by the Corporation's external auditors, Ernst & Young LLP, Chartered Professional Accountants.

Montreal, Canada, January 24, 2019



(Signed) **Richard Lord**

President and Chief Executive Officer



(Signed) **Antoine Auclair**

Vice-President and Chief Financial Officer

INDEPENDENT AUDITORS' REPORT

To the shareholders of **Richelieu Hardware Ltd.**

We have audited the accompanying consolidated financial statements of Richelieu Hardware Ltd., which comprise the consolidated statements of financial position as at November 30, 2018 and 2017, and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditors' responsibility

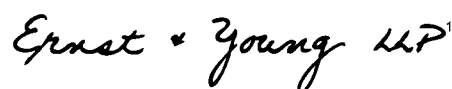
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Richelieu Hardware Ltd. as at November 30, 2018 and 2017 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.



(Signed) Ernst & Young LLP

Montreal, Canada, January 24, 2019

¹ CPA auditor, CA, public accountancy permit no. A118111

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As at November 30
[In thousands of dollars]

	Notes	2018 \$	2017 \$
ASSETS			
Current assets			
Cash and cash equivalents		7,408	29,162
Accounts receivable		138,767	134,187
Inventories		270,275	233,585
Prepaid expenses		3,394	2,253
		419,844	399,187
Non-current assets			
Property, plant and equipment	4	41,725	38,558
Intangible assets	5	29,340	29,282
Goodwill	5	71,984	68,931
Deferred taxes	9	6,226	6,709
		569,119	542,667
LIABILITIES AND EQUITY			
Current liabilities			
Accounts payable and accrued liabilities	8	88,359	91,858
Income taxes payable		119	2,919
Current portion of long-term debt	7	2,023	4,294
		90,501	99,071
Non-current liabilities			
Deferred taxes	9	3,289	3,511
Other liabilities		1,843	1,881
		95,633	104,463
Equity			
Share capital	8	41,398	39,230
Contributed surplus	8	4,122	2,358
Retained earnings		405,445	376,922
Accumulated other comprehensive income	11	19,313	15,582
Equity attributable to shareholders of the Corporation		470,278	434,092
Non-controlling interests		3,208	4,112
		473,486	438,204
		569,119	542,667

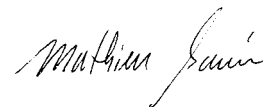
Commitments and contingencies [note 10]

See accompanying notes to the consolidated financial statements

On behalf of the Board of Directors:



(Signed) **Richard Lord**
Director



(Signed) **Mathieu Gauvin**
Director

CONSOLIDATED STATEMENTS OF EARNINGS

Years ended November 30

[In thousands of dollars, except earnings per share]

	Notes	2018 \$	2017 \$
Sales		1,004,400	942,545
Operating expenses excluding amortization	8, 12	898,409	839,571
Earnings before amortization, financial costs and income taxes		105,991	102,974
Amortization of property, plant and equipment		9,203	7,634
Amortization of intangible assets		3,997	3,820
Financial costs, net		65	(193)
		13,265	11,261
Earnings before income taxes		92,726	91,713
Income taxes	9	24,762	23,781
Net earnings		67,964	67,932
Net earnings attributable to:			
Shareholders of the Corporation		67,777	67,704
Non-controlling interests		187	228
		67,964	67,932
Net earnings per share attributable to shareholders of the Corporation			
	8		
Basic		1.18	1.17
Diluted		1.17	1.15

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Years ended November 30

[In thousands of dollars]

	Notes	2018 \$	2017 \$
Net earnings		67,964	67,932
Other comprehensive income that will be reclassified to net earnings			
Exchange differences on translation of foreign operations	11	3,731	(4,384)
Comprehensive income		71,695	63,548
Comprehensive income attributable to:			
Shareholders of the Corporation		71,508	63,320
Non-controlling interests		187	228
		71,695	63,548

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Years ended November 30
[In thousands of dollars]

	Attributable to shareholders of the Corporation						
	Share capital	Contributed surplus	Retained earnings	Accumulated other comprehensive income	Total	Non-controlling interests	Total equity
	\$	\$	\$	\$	\$	\$	\$
Notes	8	8		11			
Balance as at November 30, 2016	36,050	1,417	336,835	19,966	394,268	4,043	398,311
Net earnings	—	—	67,704	—	67,704	228	67,932
Other comprehensive income	—	—	—	(4,384)	(4,384)	—	(4,384)
Comprehensive income	—	—	67,704	(4,384)	63,320	228	63,548
Shares repurchased	(303)	—	(14,460)	—	(14,763)	—	(14,763)
Stock options exercised	3,483	(703)	—	—	2,780	—	2,780
Share-based compensation expense	—	1,644	—	—	1,644	—	1,644
Dividends [note 16]	—	—	(13,157)	—	(13,157)	(190)	(13,347)
Other liabilities	—	—	—	—	—	31	31
	3,180	941	(27,617)	—	(23,496)	(159)	(23,655)
Balance as at November 30, 2017	39,230	2,358	376,922	15,582	434,092	4,112	438,204
Net earnings	—	—	67,777	—	67,777	187	67,964
Other comprehensive income	—	—	—	3,731	3,731	—	3,731
Comprehensive income	—	—	67,777	3,731	71,508	187	71,695
Shares repurchased	(675)	—	(25,856)	—	(26,531)	—	(26,531)
Stock options exercised	2,843	(534)	—	—	2,309	—	2,309
Share-based compensation expense	—	2,298	—	—	2,298	—	2,298
Dividends [note 16]	—	—	(13,824)	—	(13,824)	(311)	(14,135)
Other liabilities	—	—	—	—	—	38	38
Acquisition of non-controlling interests [note 3]	—	—	426	—	426	(818)	(392)
	2,168	1,764	(39,254)	—	(35,322)	(1,091)	(36,413)
Balance as at November 30, 2018	41,398	4,122	405,445	19,313	470,278	3,208	473,486

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended November 30
[In thousands of dollars]

	Notes	2018 \$	2017 \$
OPERATING ACTIVITIES			
Net earnings		67,964	67,932
Items not affecting cash and cash equivalent			
Amortization of property, plant and equipment	4	9,203	7,634
Amortization of intangible assets	5	3,997	3,820
Deferred taxes	9	321	(1,700)
Share-based compensation expense	8	2,971	2,265
		84,456	79,951
Net change in non-cash working capital balances		(42,184)	(23,995)
		42,272	55,956
FINANCING ACTIVITIES			
Repayment of long-term debt		(3,927)	(1,217)
Dividends paid to Shareholders of the Corporation	16	(13,824)	(13,157)
Other dividends paid		(311)	(190)
Common shares issued	8	2,309	2,780
Common shares repurchased for cancellation	8	(26,531)	(14,763)
		(42,284)	(26,547)
INVESTING ACTIVITIES			
Business acquisitions	3	(9,004)	(30,203)
Additions to property, plant and equipment and intangible assets	4, 5	(12,369)	(13,121)
		(21,373)	(43,324)
Effect of exchange rate changes on cash and cash equivalents		(369)	108
Net change in cash and cash equivalents		(21,754)	(13,807)
Cash and cash equivalents, beginning of year		29,162	42,969
Cash and cash equivalents, end of year		7,408	29,162
Supplementary information			
Income taxes paid		27,139	24,507
Interest paid (received), net		65	(193)

See accompanying notes to the consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOVEMBER 30, 2018 AND 2017 (amounts are in thousands of dollars, except per-share amounts or otherwise indicated)

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 target 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. SIGNIFICANT ACCOUNTING POLICIES

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

The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the amounts reported in the 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.

The judgments made by management in applying the accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements and the assumptions about the future and other major sources of estimation uncertainty as at the end of the reporting period that could potentially result in material adjustments to the carrying amount of assets and liabilities during the following period are the valuation of inventory impairment, including loss and obsolescence and require the use of judgment and assumptions that may affect the amounts reported in the consolidated financial statements. The underlying estimates and assumptions are reviewed regularly. Revised accounting estimates, if any, are recognized in the period in which the estimates are revised, as well as in future periods affected by the revisions. Actual results could differ from those estimates.

The Corporation's consolidated financial statements have been properly prepared within the reasonable limits of materiality, in accordance with the accounting policies summarized below:

Consolidation

The consolidated financial statements include the accounts of Richelieu Hardware Ltd. and its subsidiaries described in note 13. All significant intercompany balances and transactions have been eliminated upon consolidation.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and highly liquid investments with a term of three months or less. Cash and cash equivalents were classified in "financial assets at fair value through net earnings" and measured at fair value. Gains (losses) arising from remeasurement at each period-end are recorded in the consolidated statement of earnings.

Accounts receivable

Accounts receivable are classified in "loans and receivables" and carried at cost, which is equivalent to fair market value on initial recognition. Subsequent measurements are recorded at amortized cost using the effective interest method. For the Corporation, this measurement is usually equivalent to cost due to their short-term maturities.

Inventories

Inventories, which consist primarily of finished goods, are valued at the lower of average cost and net realizable value. Net realizable value is the expected selling price in the normal course of business, less estimated costs to sell. The Corporation uses judgment when estimating the effect of certain factors on the net realizable value of inventory, such as inventory obsolescence and losses. The quantity, age and condition of inventory are measured and assessed regularly during the year.

Property, plant and equipment

Property, plant and equipment are recorded at cost and amortized on a straight-line basis over their estimated useful lives. The main components have different useful lives and are amortized separately. The amortization method and useful life estimates are reviewed annually.

Buildings	20 years
Leasehold improvements	Lease terms, maximum 5 years
Machinery and equipment	5-10 years
Rolling stock	5 years
Furniture and fixtures	3-5 years
Computer equipment	3-5 years

Intangible assets

Intangible assets are acquired assets that lack physical substance and meet the specified criteria for recognition apart from property, plant and equipment. Intangible assets consist mainly of purchased or internally developed software, non-competition agreements, customer relationships, and trademarks. Software and customer relationships are amortized on a straight-line basis over their useful lives of 3 and 8-20 years, respectively, while non-competition agreements are amortized over the terms of the agreements. Trademarks have an indefinite useful life and are therefore not amortized.

Goodwill

Goodwill represents the excess of the purchase price over the fair value of net assets acquired and corresponds to the development potential of the acquired businesses, combined with the Corporation's operations and from the expected synergies and expanding of the product offering and network. Goodwill is not amortized.

Impairment of non-current assets

At the end of each reporting period, the Corporation determines whether indicators of impairment exist for its non-current assets, excluding goodwill and intangible assets with indefinite useful lives. If such indicators exist, the non-current assets are tested for impairment. When the impairment test indicates that the carrying amount of the tangible or intangible asset exceeds its recoverable amount, an impairment loss is recognized in net earnings in an amount equal to the excess.

The Corporation is required to test goodwill and intangible assets with indefinite useful lives for impairment at least once a year, whether or not indicators of impairment exist. Impairment tests are carried out on the asset itself, the cash-generating unit ["CGU"] or group of CGUs as at November 30. A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Goodwill and the supporting assets that cannot be wholly allocated to a single CGU are tested for impairment at the group of CGUs level. Impairment tests consist in a comparison between the carrying and recoverable amounts of an asset, CGU or group of CGUs. The recoverable amount is the higher of value in use and fair value less costs to sell.

Where the carrying amount exceeds the recoverable amount, an impairment loss equal to the excess is recognized in net earnings, however, the carrying amount of the assets is not reduced below the higher of their fair value less costs to sell and their value in use. Other than for goodwill, if a reversal of an impairment loss occurs, it must be recognized immediately in net earnings.

1. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

On reversal of an impairment loss, the increased recoverable amount of an asset must not exceed the carrying amount that would have been determined, net of amortization, if no impairment loss had been recognized in respect of the asset in prior years. In impairment testing of goodwill and intangible assets with indefinite useful lives, value in use is estimated using a discounted future cash flow model. The application of this method is based on different assumptions such as estimated future cash flows as described in note 5.

Other financial liabilities

Accounts payable, accrued liabilities and long-term debt are classified in "other financial liabilities" and are initially recorded at fair value. They are subsequently measured at amortized cost using the effective interest method. For the Corporation, this measurement is usually equivalent to cost. Options to purchase non-controlling interests that correspond to the definition of a financial liability are measured at fair value and presented under other liabilities.

Revenue recognition

Revenues are recognized when products are shipped to customers. They are measured at the fair value of the consideration received or receivable, net of returns and discounts granted.

Income taxes

The Corporation follows the liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are accounted for based on estimated taxes recoverable or payable that would result from the recovery or settlement of the carrying amount of assets and liabilities. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the years in which the temporary differences are expected to reverse. Changes in these balances are recognized in net earnings in the year in which they arise.

Deferred tax assets are recognized to the extent that it is probable that the Corporation will have future taxable income against which these tax assets may be offset. In determining these deferred tax assets, assumptions are considered, such as the period for tax loss carrying forwards to be completely used up and the level of future taxable income in accordance with tax planning strategies.

Leases

Leases are classified as finance leases if substantially all risks and rewards incidental to ownership are transferred to the lessee. At the moment of initial recognition, the lessee records the leased item as an asset at the lower of the fair value of the asset and the present value of the minimum lease payments. A corresponding liability to the lessor is recorded in the consolidated statement of financial position as a finance lease obligation. In subsequent periods, the asset is depreciated on the shorter of straight-line basis over the term of the lease or the estimated useful life of the asset, and interest on the obligation is expensed through net earnings. Leases are classified as operating leases if substantially all risks and rewards incidental to ownership are not transferred to the lessee. The lease payments are recognized as an expense on a straight-line basis over the lease term.

Foreign currency translation

Monetary assets and liabilities of the Corporation are translated at the exchange rate in effect at the end of the reporting period and the other items in the statements of financial position and earnings are translated at the exchange rates in effect at the date of transaction. Foreign exchange gains and losses are recognized in net earnings in the year in which they arise.

The assets and liabilities of the U.S. subsidiary are translated into Canadian dollars at the exchange rate in effect at the end of the reporting period. Revenues and expenses are translated at the rate in effect at the date of transaction. Foreign exchange gains and losses are recognized in the consolidated statements of comprehensive income.

Derivative financial instruments

The Corporation periodically enters into foreign exchange forward contracts with financial institutions to partially hedge the effects of fluctuations in foreign exchange rates related to foreign currency liabilities, as well as to hedge anticipated purchase transactions.

The Corporation enters into equity swaps to reduce its exposure on net earnings related to the fluctuations in the Corporation's share price relating to its deferred share unit plan.

The Corporation does not use derivatives for speculative purposes. The Corporation uses hedge accounting only when IFRS documentation criteria are met. Derivative financial instruments designated as cash flow hedges are measured at fair value, which is the instruments' approximate settlement value at market rates. Gains and losses on remeasurement at each year-end are recorded in comprehensive income. If the instrument is not designated and documented as a hedge, changes in fair value are recognized in the statement of consolidated earnings for the year. Assets or liabilities related to financial instruments are included in Accounts receivable or Accounts payable and accrued liabilities in the consolidated statements of financial position.

Fair value measurements hierarchy

Fair value measurements of assets and liabilities recognized at fair value in the consolidated statements of financial position or whose fair value is presented in the notes to the consolidated financial statements are categorized in accordance with the following hierarchy:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices);
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Share-based payment

The Corporation offers a stock option plan to its directors, officers and key employees. The subscription price of each share issuable under the plan is equal to the weighted average market price of the shares five (5) business days prior to the day the option was granted and must be paid in full at the time the option is exercised. Options vest at a rate of 25% per year starting one year after grant date and expire on the tenth anniversary of the grant date. The Corporation recognizes stock-based compensation and other share-based payments in net earnings using the fair value method for stock options granted with a corresponding increase recorded in contributed surplus. The Black & Scholes model is used to determine the grant date fair value of stock options. The application of this method is based on different assumptions such as risk-free interest rate, expected life, volatility and dividend yield as described in note 8.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOVEMBER 30, 2018 AND 2017 (amounts are in thousands of dollars, except per-share amounts or otherwise indicated)

1. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Deferred share unit plan

The Corporation offers a deferred share unit ["DSU"] plan to its directors who can elect to receive part or all of their compensation in DSUs. The value of DSUs is redeemable for cash only when a director ceases to be a member of the Board. The number of DSUs granted to a director equals the compensation amount to be converted in DSUs divided by the average closing price of the shares on the Toronto Stock Exchange for the five (5) business days immediately preceding the date of the payment. The DSU liability is measured at fair value at each closing date on the basis of the number of outstanding share units and the market price of the Company's common shares is included in *Accounts payable and accrued liabilities*. The Corporation has entered into equity swaps to reduce its exposure on net earnings related to the fluctuations of the Corporation's share price. The net effect of the equity swaps mostly offsets the impact of the change in the Corporation's share price and is included in the *Operating expenses excluding amortization*.

Net earnings per share

Net earnings per share are calculated based on the weighted average number of common shares outstanding during the year. Diluted earnings per share are calculated using the treasury stock method and take into account all the elements that have a dilutive effect.

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 the Corporation's fiscal year beginning on December 1, 2018. The Corporation has completed its assessment of IFRS 9 and concluded that it will not have a significant impact on the consolidated financial statements

IFRS 15, Revenue from Contracts with Customers

IFRS 15, *Revenue from Contracts with Customers*, replaces IAS 18, *Revenue*, IAS11, *Construction Contracts* and related interpretations. Under IFRS15 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 is effective for the Corporation's fiscal year beginning on December 1, 2018. The Corporation has completed its assessment of IFRS 15 and concluded that it will not have a significant impact on the consolidated financial statements.

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 1, 2019, thus for the Corporation's fiscal year beginning on December 1, 2019. 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 September 4, 2018, the Corporation purchased the principal net assets of Chair City Supply, Inc. a distributor operating four (4) distribution centers, three (3) in North Carolina and one (1) in Tennessee. Chair City Supply distributes a diverse range of specialty products targeted to an extensive customer base of furniture manufacturers.

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

Those acquisitions generated sales of \$8.0 million since their acquisition. If those acquisitions had been acquired on December 1, 2017, management believes that the sales included in the consolidated statement of earnings would have been approximately \$23 million.

2017

On August 1, 2017, the Corporation purchased the principal net assets of Tamarack Distributors Inc., a specialty product distributor 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.

Summary of acquisitions

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

	2018	2017
	\$	\$
Current assets assumed	5,759	15,810
Non-current assets assumed	6,077	20,491
Current liabilities assumed	11,836	36,301
Non-current liabilities assumed	(1,612)	(2,297)
Net assets acquired	10,224	34,004
Considerations		
Cash, net of cash acquired	8,612	30,203
Considerations payable [note 7]	1,612	3,801
	10,224	34,004

Goodwill deductible for tax purposes with regard to those acquisitions amounted to \$2,646 [\$9,525 in 2017].

On November 1, 2018, the Corporation acquired an additional 5% interest in the voting shares of Menuiserie des Pins Ltée, increasing its ownership interest to 80%, for a cash consideration of \$392.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOVEMBER 30, 2018 AND 2017 (amounts are in thousands of dollars, except per-share amounts or otherwise indicated)

4. PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings	Leasehold improvements	Machinery and equipment	Rolling stock	Furniture and fixtures	Computer equipment	Total
	\$	\$	\$	\$	\$	\$	\$	\$
Cost	3,652	27,591	6,515	32,752	10,838	17,641	12,695	111,684
Accumulated amortization	—	(16,888)	(4,937)	(23,831)	(7,306)	(15,244)	(10,220)	(78,426)
Net carrying amount as at November 30, 2016	3,652	10,703	1,578	8,921	3,532	2,397	2,475	33,258
Acquisitions	—	510	524	6,017	2,409	1,799	1,423	12,682
Acquisitions through business acquisitions <i>[note 3]</i>	—	—	—	72	250	10	25	357
Amortization	—	(1,392)	(494)	(1,825)	(1,602)	(1,256)	(1,065)	(7,634)
Effect of changes in foreign exchange rates	—	—	(20)	(26)	(30)	(21)	(8)	(105)
Net carrying amount as at November 30, 2017	3,652	9,821	1,588	13,159	4,559	2,929	2,850	38,558
Cost	3,652	28,101	6,945	38,574	13,246	19,266	14,094	123,878
Accumulated amortization	—	(18,280)	(5,357)	(25,415)	(8,687)	(16,337)	(11,244)	(85,320)
Net carrying amount as at November 30, 2017	3,652	9,821	1,588	13,159	4,559	2,929	2,850	38,558
Acquisitions	—	1,484	1,006	3,555	2,455	1,528	1,286	11,314
Acquisitions through business acquisitions <i>[note 3]</i>	—	—	—	143	708	19	—	870
Amortization	—	(1,377)	(578)	(2,533)	(1,935)	(1,563)	(1,217)	(9,203)
Effect of changes in foreign exchange rates	—	—	19	47	90	22	8	186
Net carrying amount as at November 30, 2018	3,652	9,928	2,035	14,371	5,877	2,935	2,927	41,725
Cost	3,652	29,584	8,012	42,380	16,022	20,971	15,380	136,001
Accumulated amortization	—	(19,656)	(5,977)	(28,009)	(10,145)	(18,036)	(12,453)	(94,276)
Net carrying amount as at November 30, 2018	3,652	9,928	2,035	14,371	5,877	2,935	2,927	41,725

5. INTANGIBLE ASSETS AND GOODWILL

	Software	Non-competition agreements	Customer relationships	Trademarks	Total	Goodwill
	\$	\$	\$	\$	\$	\$
Cost	6,686	3,353	35,274	5,238	50,551	62,256
Accumulated amortization	(6,066)	(2,627)	(18,977)	—	(27,670)	—
Net carrying amount as at November 30, 2016	620	726	16,297	5,238	22,881	62,256
Acquisitions	439	—	—	—	439	—
Acquisitions through business acquisitions <i>[note 3]</i>	—	1,125	8,314	1,170	10,609	9,525
Write-off	—	—	—	(243)	(243)	(2,334)
Amortization	(486)	(788)	(2,546)	—	(3,820)	—
Effect of changes in foreign exchange rates	(1)	(15)	(450)	(118)	(584)	(516)
Net carrying amount as at November 30, 2017	572	1,048	21,615	6,047	29,282	68,931
Cost	7,124	4,394	42,600	6,047	60,165	68,931
Accumulated amortization	(6,552)	(3,346)	(20,985)	—	(30,883)	—
Net carrying amount as at November 30, 2017	572	1,048	21,615	6,047	29,282	68,931
Acquisitions	1,055	—	—	—	1,055	—
Acquisitions through business acquisitions <i>[note 3]</i>	—	351	2,209	—	2,560	2,646
Amortization	(443)	(579)	(2,975)	—	(3,997)	—
Effect of changes in foreign exchange rates	3	10	345	82	440	407
Net carrying amount as at November 30, 2018	1,187	830	21,194	6,129	29,340	71,984
Cost	8,119	4,680	45,637	6,129	64,565	71,984
Accumulated amortization	(6,932)	(3,850)	(24,443)	—	(35,225)	—
Net carrying amount as at November 30, 2018	1,187	830	21,194	6,129	29,340	71,984

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOVEMBER 30, 2018 AND 2017 (amounts are in thousands of dollars, except per-share amounts or otherwise indicated)

5) IMMOBILISATIONS INCORPORELLES ET GOODWILL (cont'd)

For impairment test purposes, the carrying amounts of goodwill and intangible assets have been allocated to CGUs or groups of CGUs. The carrying amounts of goodwill for the three groups of CGUs that are significant in comparison with the total carrying amount of goodwill are \$56 million and \$13.9 million, while \$2.1 million is allocated across CGUs with carrying amounts of goodwill that are not significant in comparison with the total carrying amount of goodwill. The carrying amounts of intangible assets with indefinite useful lives are allocated across multiple CGUs or groups of CGUs and the amount allocated is not individually significant in comparison with the total carrying amount. The recoverable value of the CGUs or groups of CGUs was determined on the basis of their value in use, which was calculated using forecasted cash flows before taxes over a period of five years, discount rates before taxes of 12.6% and a terminal value calculated at a rate of 2%. Main assumptions are based on historical data. No reasonably possible change to the main assumptions used for the impairment tests would result in a carrying amount higher than the recoverable amount.

6. BANK INDEBTEDNESS

The Corporation has lines of credit with a Canadian banking institution with respective authorized amount of \$50 million in Canadian dollars and \$6 million in US dollars, bearing interest at the bank's prime and base rates, which were respectively 3.95% and 5.75% as at November 30, 2018 [3.20% and 5% in 2017]. Those lines of credit are renewable annually. As at November 30, 2018 and 2017, both were undrawn.

7. LONG-TERM DEBT

	2018	2017
	\$	\$
Not-interest bearing business acquisition considerations payable, including US\$ 1,281 [US \$309 in 2017]	2,023	3,810
Non-interest bearing financing contract, repayable in equal installments	—	484
	2,023	4,294
Current portion of long-term debt	2,023	4,294
Long-term debt	—	—

8. 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	285	2,843
Repurchased	(966)	(675)
Outstanding, November 30, 2018	57,115	41,398

During 2018, the Corporation issued 284,774 common shares [333,225 in 2017] at a weighted average exercise price of \$8.11 per share [\$8.34 in 2017] pursuant to the exercise of stock options under the stock option plan. The weighted average share price on the market at the date of exercise was \$28.02 [\$29.72 in 2017]. In addition, during 2018, the Corporation, through a normal course issuer bid, repurchased 966,143 common shares for cancellation in consideration for \$26,531 [458,088 common shares in consideration for \$14,763 in 2017], which resulted in a premium on the redemption in the amount for \$25,856 recorded in retained earnings [premium of \$14,460 in 2017].

Stock option plan

Changes in stock options are summarized as follows:

<i>(in thousands)</i>	Number of options	Weighted average share price
		\$
Outstanding, November 30, 2016	1,650	13.58
Granted	330	25.71
Exercised	(333)	8.34
Cancelled	(9)	22.93
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

The table below summarizes information regarding the stock options outstanding as at November 30, 2018:

	Options outstanding				Exercisable options	
	Range in exercise price	Number of options	Weighted average remaining period	Weighted average exercise price	Number of options	Weighted average exercise price
	(in thousands)	(years)	(in dollars)	(in thousands)	(in dollars)	
5.56 - 8.56	40	0.27	5.94	40	5.94	
8.57 - 13.57	286	3.69	11.45	286	11.45	
13.58 - 20.58	376	5.73	17.22	323	16.96	
20.59 - 32.77	968	8.24	27.10	236	23.42	
	1,670	6.71	21.69	885	16.40	

During 2018, the Corporation granted 357,000 options [329,500 in 2017] with an average exercise price of \$32.77 per share [\$25.71 in 2017] and an average fair value of \$7.39 per option [\$5.93 in 2017] as determined using the Black & Scholes option pricing model using an expected dividend yield of 0.8% [0.9% in 2017], a volatility of 20% [20% in 2017], a risk-free interest rate of 2.25% [1.86% in 2017] and an expected life of 7 years [7 years in 2017] and 40,112 options were cancelled [9,000 in 2017]. The compensation expense related to stock options amounted to \$2,298 [\$1,644 in 2017] and is recognized under *Operating expenses excluding amortization*.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOVEMBER 30, 2018 AND 2017 (amounts are in thousands of dollars, except per-share amounts or otherwise indicated)

8. SHARE CAPITAL (cont'd)

Deferred share unit plan

The financial liability resulting from the DSU plan of \$6,426 [\$7,914 in 2017] is presented under the Accounts payable and accrued liabilities. As at November 30, 2018, the fair value of the equity swaps amounted to a liability of \$524 [an asset of \$157 as at November 30, 2017] and is presented under Accounts payable. The Corporation categorized the fair value measurement in Level 2, as it is derived from observable market data. The compensation expense for the DSUs in 2018, amounted to \$673 [\$621 in 2017] and is recognized under *Operating expenses excluding amortization*.

Number of DSUs	2018	2017
Outstanding, beginning of year	233,823	216,944
Granted	18,203	16,879
Outstanding, end of year	252,026	233,823

Share purchase plan

Compensation expense related to the share purchase plan amounted to \$764 for 2018 [\$697 in 2017] and is recognized under *Operating expenses excluding amortization*.

Net earnings per share

Basic net earnings per share and diluted net earnings per share were calculated based on the following number of shares:

	2018	2017
Weighted average number of shares outstanding - Basic	57,597	57,956
Dilutive effect under stock option plan	467	703
Weighted average number of shares outstanding - Diluted	58,064	58,659

The computation of diluted net earnings per share includes all outstanding stock options as at November 30, 2018.

9. INCOME TAXES

The main components of the income tax expense were as follows:

	2018	2017
	\$	\$
Current	24,441	25,481
Deferred:		
Related to temporary differences	722	(147)
Deferred tax expense related to changes in tax rates	1,833	—
Deferred tax assets not previously recognized	(2,234)	(1,553)
	24,762	23,781

The effective income tax rate differs from the combined statutory rates for the following reasons:

	2018	2017
	\$	\$
Combined statutory rates	26.68%	26.68%
Income taxes at combined statutory rates	24,740	24,469
Increase (decrease) resulting from:		
Impact of statutory rates changes for the subsidiary outside Canada	(23)	402
Share-based compensation	612	352
Non-deductible expenses	116	143
Deferred tax assets not previously recognized	(2,234)	(1,553)
Changes related to tax laws and tax rates	1,833	—
Other	(282)	(32)
	24,762	23,781

Deferred taxes reflect the net tax impact of temporary differences between the value of assets and liabilities for accounting and tax purposes. The major components of deferred tax assets and liabilities of the Corporation were as follows:

	2018	2017
	\$	\$
Deferred taxes		
Translation of foreign exchange currencies, reserve recognized for tax purposes only upon disbursement and other tax attributes	6,763	6,301
Excess of the tax value of Property, plant and equipment over their net carrying value	924	1,296
Excess of the net carrying value of intangible assets and goodwill over their tax value	(4,750)	(4,399)
Net amount	2,937	3,198

The net deferred taxes included the following as at November 30 :

	2018	2017
	\$	\$
Deferred tax assets	6,226	6,709
Deferred tax liabilities	(3,289)	(3,511)
	2,937	3,198

Changes in deferred taxes for the years ended November 30 are detailed as follows:

	2018	2017
	\$	\$
Balance at the beginning of the year, net	3,198	1,609
In net earnings	(321)	1,700
Other	60	(111)
Balance at the end of the year, net	2,937	3,198

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOVEMBER 30, 2018 AND 2017 (amounts are in thousands of dollars, except per-share amounts or otherwise indicated)

10. COMMITMENTS AND CONTINGENCIES

[a] Leases

The Corporation has commitments under operating leases for warehouse and office premises expiring on various dates up to 2028. The future minimum payments, excluding incidental costs for which the Corporation is responsible, are as follows:

	\$
Less than a year	12,678
Between 1 and 5 years	30,980
More than 5 years	14,184
	<u>57,842</u>

[b] Foreign exchange forward contracts

As at November 30, 2018, the Corporation held the following foreign exchange forward contracts having maturity dates in December 2018 and January 2019.

Type	Currency	Average exchange rate
Purchase	€4,700	1.51

[c] Claims

In the normal course of business, various proceedings and claims are instituted against the Corporation. Management believes that any forthcoming settlement in respect of these claims will not have a material effect on the Corporation's financial position or consolidated net earnings.

11. ACCUMULATED OTHER COMPREHENSIVE INCOME

The accumulated other comprehensive income, including the following items and their variances, were as follows:

	2018	2017
	\$	\$
Balance at the beginning of the period	15,582	19,966
Exchange differences on translation of foreign operations	3,731	(4,384)
Balance at the end of the period	<u>19,313</u>	<u>15,582</u>

12. 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 November 30, 2018, the fair value of the foreign exchange forward contracts amounted to a liability of \$1 [an asset of \$83 as at November 30, 2017] representing the amount the Corporation would collect on 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 in a lesser proportion in the United States. The credit risk refers to the possibility that customers will be unable to assume their liabilities towards the Corporation. The average days outstanding of accounts receivable, as at November 30, 2018 and 2017 are deemed 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 for the years ended November 30 is as follows:

	2018	2017
	\$	\$
Balance, beginning of year	6,486	6,323
Allowance for doubtful accounts	1,726	1,352
Write-offs	(1,498)	(1,254)
Exchange rate variations and others	88	65
Balance, end of year	<u>6,802</u>	<u>6,486</u>

The balance of accounts receivable of the Corporation that are overdue for more than 60 days, but which were not provided for, totalled \$1,894 [\$1,331 in 2017]. As at November 30, 2018 and 2017, no customer accounted for more than 10% of the total accounts receivable.

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 year ended November 30, 2018, an exchange gain of \$2,478 [gain of \$888 in 2017].

The Corporation's policy is to maintain the purchase prices and selling prices of its commercial activities by mitigating its exposure through 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 November 30, 2018, a decrease of 5% of 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 \$763 [would have had no significant impact on consolidated net earnings as at November 30, 2017] and would have increased the consolidated comprehensive income by \$6,597 [\$5,968 as at November 30, 2017]. The exchange rate sensitivity is calculated by aggregation of the net foreign exchange rate exposure of the Corporation's financial instruments as at November 30, 2018.

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 mainly the cash generated by the operating activities.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOVEMBER 30, 2018 AND 2017 (amounts are in thousands of dollars, except per-share amounts or otherwise indicated)

12. FINANCIAL INSTRUMENTS AND OTHER INFORMATION (cont'd)

Operating expenses excluding amortization

	2018	2017
		\$
Inventories from the distribution, imports and manufacturing activities recognized as an expense	732,490	682,189
Salaries and related charges	134,998	128,113
Other charges	30,921	29,269
	898,409	839,571

An expense of \$2,994 [\$2,000 in 2017] for inventory obsolescence was included in Inventories from the distribution, imports and manufacturing activities.

13. RELATED PARTY INFORMATION

Scope of consolidation

Names	Country of incorporation	Equity interest	Voting rights
		%	%
Richelieu America Ltd.	United States	100	100
Richelieu Finances Ltée ⁽¹⁾	Canada	100	100
Les industries Cedan Inc.	Canada	100	100
Distributions 20/20 Inc.	Canada	100	100
Provincial Woodproducts Ltd.	Canada	85	85
Menuiserie des Pins Ltée [note 3]	Canada	80	80

⁽¹⁾ Richelieu Finances Ltée is the owner of 100% of Richelieu Hardware Canada Ltd.

Executive officers' compensation

	2018	2017
		\$
Short-term employee benefits	3,319	3,521
Other long-term benefits	717	622
Share-based compensations	593	590
	4,629	4,733

Accounts payable and accrued liabilities included a retirement allowance amounting to \$2,740 [\$2,520 as at November 30, 2017] payable to an executive officer.

14. GEOGRAPHIC INFORMATION

During the year ended November 30, 2018, nearly 68% of sales had been made in Canada [67% in 2017]. The Corporation's sales to foreign countries, almost entirely directed to the United States, amounted to \$326,086 [\$307,869 in 2017] in Canadian dollars and to \$252,738 [\$236,504 in 2017] in US dollars.

As at November 30, 2018, out of the total amount in property, plant and equipment, \$7,031 [\$3,830 in 2017] is located in the United States. In addition, intangible assets located in the United States amounted to \$14,713 [\$13,302 in 2017] and goodwill to \$13,870 [\$10,818 in 2017] in Canadian dollars and to \$11,062 [\$10,321 in 2017] and goodwill to \$10,428 [\$8,394 in 2017] in US dollars.

15. 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; and
- Provide an adequate shareholders return.

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. For the year ended November 30, 2018 the Corporation achieved the following results regarding its capital management objectives:

- Debt/equity ratio: 0.4% [1.0% in 2017] [Long-term debt/Equity]
- Return on average shareholder's equity of 15.0% over the last 12 months [16.3% as at November 30, 2017]

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

16. DIVIDENDS PAID TO SHAREHOLDERS OF THE CORPORATION

For the year ended November 30, 2018, the Corporation paid a quarterly dividend of \$0.06 per share to common shareholders [quarterly dividend of \$0.0567 per share in 2017] for a total amount of \$13,824 [\$13,157 in 2017]. On January 24, 2019, the Board of Directors approved the payment of a quarterly dividend of \$0.0633 per common share for the first quarter of 2019.

17. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements for the year ended November 30, 2018 (including the comparative figures) were approved for issue by the Board of Directors on January 24, 2019.

18. COMPARATIVE FIGURES

Some figures disclosed for the year ended November 30, 2017, have been reclassified to conform to the presentation adopted in the year ended November 30, 2018.