



2015 Annual Report

PFB Corporation

Letter to shareholders

Net revenues for the year 2015 were \$99,137,000 compared with \$89,905,000 in 2014 while funds flow from operations was \$11,666,000 compared with \$6,182,000 in the prior year. Earnings per share were \$0.76 compared with \$0.14 in 2014. Common shares outstanding have remained relatively unchanged except for minor open market purchases by the Company under a Normal Course Issuer Bid when shares were available in the market at less than book value. The NCIB was renewed during 2015 for another twelve months.

Expenditures on capital items during the year were \$2,166,000 approximately the same as in the comparative year of \$2,153,000. Additionally we acquired the assets of Poly Foam Inc., located near Minneapolis, MN for a net cash consideration of \$1,822,000. The assets purchased include land, buildings and equipment of an operating EPS molding plant. The transaction closed on December 15, 2015 and integration with our operations is progressing well. Our financial position is strong with current assets of \$34,823,000, which includes cash of \$16,252,000. A more comprehensive disclosure of our operations is available in the management's discussion and analysis document in our filings.

We manufacture building insulation and insulating building products in fourteen locations in Canada and the United States that employ about 400 regular employees. We strive for industry leadership with our products and for a corporate culture of sustainable operations that we report transparently on our www.pfbsustainability.com website. Strategically, it is our focus to annually increase revenues and funds flow from our operating activities, while maintaining strong balance sheet integrity and providing a reliable stream of dividends to our shareholders.

The economic landscape during the course of 2015 changed dramatically. We view these changes as having long term effects and we have adjusted our strategic focus accordingly. Crude oil prices around the world have dropped to low levels not seen since the financial crisis that occurred in 2008. This has impacted PFB in several ways. Of benefit, is the lower raw material cost that we are experiencing as a result of the oil price decline being reflected in refined products. Somewhat offsetting that benefit is the devaluation of the Canadian currency in relation to the USA dollar, which has had an adverse effect, as all our raw materials are priced in USA dollars. These conditions have led us to pursue an expansion of our USA based operations and the focus to expand our revenue base in the United States continues.

In June, 2015, Steve Hardy, our Chief Financial Officer during the past fifteen years resigned for family reasons that required him to relocate geographically. We extend our thanks to him and our best wishes for his continued success.

In 2013 the Company sold four of its real estate properties and leased them from the purchaser, a real estate investment trust, for 20 years with rights of renewal for further 10 year periods respectively. The Company now owns six of its operating locations, two in Canada and four in the United States. Under International Financial Reporting Standards the leases are disclosed as financial lease obligations in our financial statements. The Company holds units in the REIT as an investment in restricted marketable securities and receives regular cash distributions that are included in income. In the first quarter of 2015, the Company realized \$63,000 on the sale of land to a municipality for road construction.

Management is optimistic that the year ahead will be positively affected by improving business conditions in markets in which we operate. Thank you to all our employees for their past and continuing efforts.



C. Alan Smith
President & Chief Executive Officer

PFB's Commitment to Sustainability

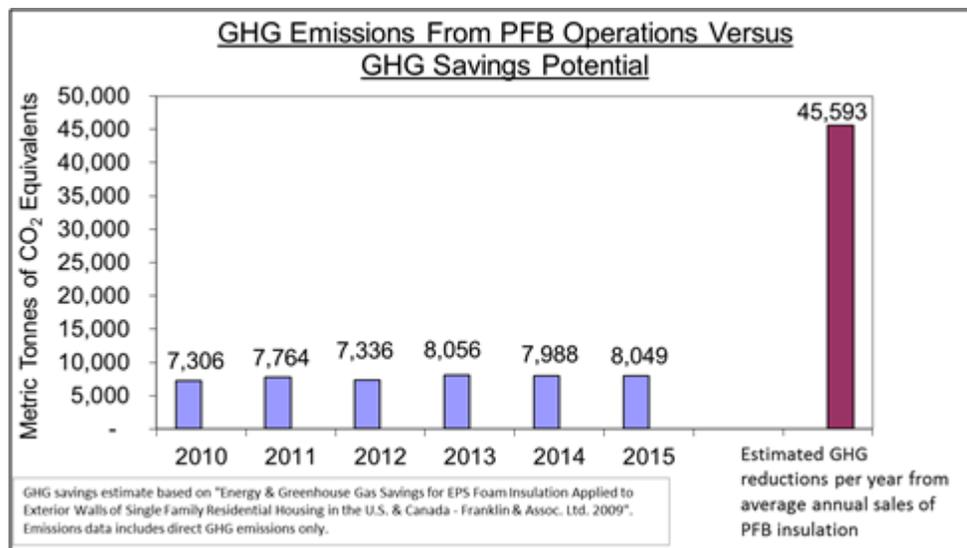
At PFB Corporation, we are concerned with the future of the planet and the effects that modern lifestyles may be having on climate change. PFB Corporation is committed to conducting its operations responsibly and mindful of the **economic**, **environmental** and **social** impacts of its operations. In 2015 PFB focused our efforts on reducing our consumption of energy, both natural gas and electricity and on our recycling efforts to reduce waste. Waste reduction will continue to be a primary objective in 2016 as we continue to expand our recycling programs and continue process improvements to reduce waste.

PFB has taken a transparent approach and reports its performance metrics in the annual report. PFB measures and reports inputs including raw materials, energy and water and our outputs; GHG, VOC's and waste. More detailed information is available on our website devoted to sustainability at the following address: www.pfbsustainability.com.

The following extracts are a brief summary of some of the key metrics that we use to track our performance.

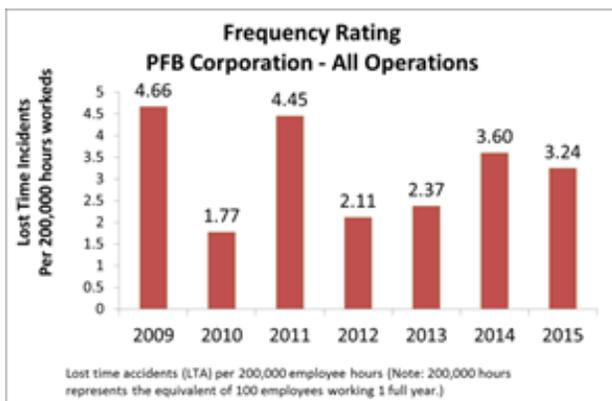
Environmental

The calculation of the data in the chart below was revised in 2015 and the corresponding data for the prior years has been revised accordingly to provide consistency in presentation.



Health and Safety

Occupational Health and Safety is of paramount importance at PFB Corporation. We have incorporated safety initiatives into everything we do. We recognize that our employees are our most valuable resource so we provide them with the training, tools and environment to maximize their performance in the safest manner possible.



PFB Corporation

Management's discussion and analysis for 2015

1. Advisory regarding forward-looking statements

Securities laws encourage public issuers to disclose forward-looking information in their management's discussion and analysis (MD&A) so that investors can get a better understanding of the company's future prospects and make informed investment decisions.

Forward-looking information and statements included in this MD&A about PFB's objectives and management's expectations, beliefs, intentions or strategies for the future are not guarantees of future performance and should not be unduly relied upon.

All forward-looking statements reflect management's current views as at March 10, 2016, with respect to future events, and they are subject to certain risks, uncertainties and assumptions that may cause the actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements.

Such risks, uncertainties and assumptions include, but are not limited to: general economic conditions; the cost and availability of capital; actions by government authorities; actions by regulatory authorities; availability of raw materials; changes in raw materials prices; currency exchange rates; interest rates; competitor activity; industry pricing pressures; seasonality of the construction industry; and weather related factors.

You will find a more detailed assessment of the risks that could cause actual results to materially differ from our current expectations in the Risk Management and Assessment section of this MD&A.

2. Other advisories regarding this MD&A

The following MD&A of the operating results and financial condition of PFB Corporation ("PFB" or the "Corporation") for the years ended December 31, 2015 and 2014 should be read in conjunction with PFB's audited consolidated financial statements and related notes which is available on SEDAR at www.sedar.com and on PFB's website at www.pfbcorp.com. Additionally, PFB maintains a website at www.pfbsustainability.com that provides our measurement and reporting of sustainable development data in accordance with the Global Reporting Initiative.

The audited consolidated financial statements of PFB, for the years ended December 31, 2015 and 2014, have been prepared in accordance with International Financial Reporting Standards ("IFRS" or "GAAP") as issued by the International Accounting Standards Board ("IASB").

This MD&A was reviewed by the Audit Committee and approved by PFB's Board of Directors on March 10, 2016. Any events occurring after that date may affect the usefulness of the information contained in this document.

The currency presented in this MD&A is Canadian dollars (\$ thousands) unless otherwise stated.

Certain prior year amounts have been reclassified to conform to current year presentation.

3. Business overview

PFB Corporation is a Canadian publicly-traded company incorporated under the Alberta Business Corporations Act. PFB's corporate office is located at 100, 2886 Sunridge Way NE, Calgary, Alberta, Canada T1Y 7H9. The principal business activity of PFB is manufacturing insulating building products made from expanded polystyrene materials and marketing those products in North America. We report our results of operations under two segments; Canada and the United States of America ("USA").

Plasti-Fab Ltd., the Corporation's Canadian wholly-owned subsidiary, operates manufacturing and sales facilities in the provinces of British Columbia, Alberta, Saskatchewan, Manitoba, and Ontario in Canada. PFB America Corporation, the Corporation's wholly-owned subsidiary in the USA, operates manufacturing and sales facilities in the states of Minnesota, Michigan, Ohio, and Idaho.

Our operations are vertically-integrated in that expandable polystyrene resin is manufactured at PFB's polymer plant located in Crossfield, Alberta, for use exclusively in our downstream expanded polystyrene ("EPS") manufacturing

operations. Expandable polystyrene resin is also sourced from other suppliers to supplement internally produced raw materials. Plasti-Fab[®] EPS Product Solutions[®] supplies EPS foam cores used to manufacture Insulspan[®] SIPS (Structural Insulating Panel Systems). The PFB Custom Homes Group provides a complete design, supply and installation capability for Point Zero[®] Homes, Precision Craft Log & Timber Homes[®] and Riverbend[®] Timber Framing structures which are typically sold with an accompanying Insulspan[®] SIPS enclosure package and Advantage ICF Systems[®] (Insulating Concrete Forming System) foundation. Complete design services are provided by M.T.N. DesignSM to compliment the product offering.

Plasti-Fab EPS Product Solutions are products manufactured using EPS as base raw materials, that are delivered to customers' in five market categories: rigid insulation board; insulating building systems; geotechnical engineered applications; buoyancy, and products for packaging and display applications.

Advantage ICF Systems[®] are insulating concrete forming systems which, by incorporating concrete and steel, are employed to build insulated foundations and walls in both residential and commercial construction markets. Insulspan SIPS are used to create a building's structural wall frame and to replace trusses on roof systems to form an energy-efficient structural envelope.

4. Financial information

4.1 Financial highlights summary – quarterly

Years ended December 31, 2015 and 2014

\$ thousands except per share amounts

	2015 Q4	2015 Q3	2015 Q2	2015 Q1	2014 Q4	2014 Q3	2014 Q2	2014 Q1
Sales	\$ 24,440	\$ 29,849	\$ 27,316	\$ 17,532	\$ 25,013	\$ 27,414	\$ 23,068	\$ 14,410
Gross profit ¹	5,203	7,366	7,605	3,525	5,574	6,069	3,943	925
Gross profit %	21.3	24.7	27.8	20.1	22.3	22.1	17.1	6.4
Operating income (loss) ¹	1,437	3,378	3,402	35	1,956	2,440	554	(2,362)
Net income (loss)	836	2,212	2,120	(80)	1,116	1,549	95	(1,843)
Earnings (loss) per share:								
Basic and diluted	0.12	0.33	0.32	(0.01)	0.17	0.23	0.01	(0.27)
EBITDA ¹	2,426	4,319	4,353	1,053	2,921	3,371	1,470	(1,447)
EBITDA per share ¹	0.36	0.64	0.65	0.16	0.43	0.50	0.22	(0.22)

¹ Non-GAAP financial measures do not have any standardized meaning prescribed by GAAP and are therefore unlikely to be comparable to similar measures presented by other issuers. Definitions of non-GAAP and additional GAAP measures used in the above table along with relevant other notes are detailed in Section 20 of this MD&A.

PFB's operations exhibit seasonal variations concurrent with those that generally influence the construction industry, including variability in weather patterns. Typically, sales revenues are lowest in the first quarter and highest in the second or third quarters of the fiscal cycle.

4.2 Selected annual financial information for years ended December 31, 2015, 2014, and 2013

\$ thousands except where indicated	2015	2014	2013
Operating results			
Consolidated results:			
Sales	\$ 99,137	\$ 89,905	\$ 84,549
Gross profit ¹	23,699	16,511	14,082
Operating income ¹	8,252	2,588	1,480
Net income	5,088	917	6,832
Funds flow from operations ¹	11,666	6,182	4,083
EBITDA ¹	12,151	6,315	12,452
Sales by operating segment:			
Canada	72,857	68,994	71,226
USA	26,280	20,911	13,323
Operating income (loss) by segment:			
Canada	8,543	2,551	2,763
USA	(179)	148	(1,849)
Per common share data			
Earnings per share – Basic	0.76	0.14	1.02
Earnings per share – Diluted	0.76	0.14	1.02
Dividend paid per share – Regular	0.24	0.24	0.24
Dividend paid per share – Special	-	-	1.00
Funds flow from operations per share ¹	1.74	0.92	0.61
EBITDA per share - Basic ¹	1.81	0.94	1.86
Book value ¹	7.25	6.35	6.30
Financial condition			
Total assets	78,844	69,247	68,895
Current assets	34,823	27,546	26,716
Current liabilities	14,192	10,600	10,082
Non-cash working capital ¹	6,225	8,783	8,914
Property, plant and equipment (net)	36,022	34,484	34,882
Intangible assets (net)	1,521	1,298	1,369
Goodwill	2,385	2,093	1,968
Finance lease obligations including current portion	14,471	14,416	14,417
Other long-term liabilities	1,897	1,931	2,272
Shareholders' equity ¹	48,668	42,621	42,377
Financial ratios			
Gross profit margin ¹	23.9%	18.4%	16.7%
Operating margin ¹	8.3%	2.9%	1.8%
Net income margin ¹	5.1%	1.0%	8.1%
Current ratio ¹	2.45x	2.60x	2.65x
Return on equity ¹	10.5%	2.2%	15.9%

¹Non-GAAP financial measures do not have any standardized meaning prescribed by GAAP and are therefore unlikely to be comparable to similar measures presented by other issuers. Definitions of non-GAAP and additional GAAP measures used in the above table along with relevant other notes are detailed in Section 20 of this MD&A.

5. Consolidated results of operations

The results of PFB's operations in the United States of America are translated into Canadian dollars on a periodic basis for inclusion in the consolidated financial statements.

Business acquisition

In line with the Company's growth strategy, effective on December 15, 2015, the Company completed the strategic acquisition of the assets of Poly Foam, Inc. Operations are located in Lester Prairie, Minnesota, west of the Twin Cities Metro area. The asset acquisition includes 135,000 square feet of manufacturing and warehousing space located on 6.5 acres and all the installed equipment necessary to conduct manufacturing operations of PFB products. The Company plans to continue the existing Poly Foam operations as well as begin manufacturing Plasti-Fab EPS insulation products at the plant for the regional building material markets. The transaction closed on December 15, 2015 for a purchase price of \$2,061, less liabilities assumed of \$239, for consideration transferred of \$1,822. For the period from date of closing until December 31, 2015, PFB recorded sales of \$147 from the operation.

Sales

Consolidated sales in 2015 increased by 10.3% or \$9,232 to \$99,137 as compared to sales of \$89,905 in 2014. Sales in Canada grew at 5.6% during the year while sales in the USA grew by 25.7%. The effect of the Canadian dollar devaluation has been to provide a strong growth element to US dollar sales on conversion into Canadian dollar terms. In US dollar terms the growth rate of sales in the USA compared with 2014 was 8.1%. This is more completely described in the reportable operating segments section herein.

Gross profit

Gross profit in 2015 was \$23,699, an increase of 43.5% or \$7,188 as compared to gross profit of \$16,511 reported in 2014. The gross profit margin in 2015 improved to 23.9% from 18.4% in 2014. Gross profit margins improved primarily as a result of decreased raw material costs and increased volume of products manufactured that provide efficiency of scale to plant operations.

Selling expenses

Consolidated selling expenses increased to \$9,750 in 2015 from \$9,000 in 2014, an increase of \$750. The expense increases were mainly advertising and marketing related in the USA operating segment.

Administrative expenses

Consolidated administrative expenses increased to \$5,604 in 2015 from expenses of \$4,855 reported in 2014, an increase of \$749. Administrative expenses include \$89 in acquisition costs related to the acquisition of Poly Foam by the USA operating segment.

Other gains and losses

In 2015, other losses in the amount of \$93 included foreign exchange losses of \$105 offset by a gain on the disposal of property, plant and equipment of \$12. In 2014, other losses in the amount of \$68 included foreign exchange losses of \$101 offset by a gain on the disposal of property, plant and equipment of \$33.

Gain on sale of real estate

PFB recorded a gain on the sale of real estate in the amount of \$63 on land sold to a municipality for road construction.

Investment income

Investment income reported in 2015 was \$224 versus \$199 in 2014. Investment income consisted of \$157 (2014 - \$157) received in distributions on restricted marketable securities, \$51 (2014 - \$29) for interest earned on bank balances, and \$16 (2014 - \$13) of interest collected from customers on past due trade receivables.

Finance costs

Finance costs in 2015 were \$1,430 as compared to \$1,438 reported in 2014, a decrease of \$8. Overall, finance costs on lease obligations, mostly for buildings, decreased from \$1,435 in 2014 to \$1,400 in 2015.

Interest on bank indebtedness in 2015 was \$Nil from \$3 in 2014. Use of the bank operating lines were limited.

Income before taxes

Income before taxes in 2015 was \$7,109 as compared to income before taxes of \$1,349 in 2014. The improvement is primarily related to an increase sales volume, decreased raw material costs and administrative cost control.

Income taxes

Income tax expense in the current year was \$2,021 as compared to income tax expense of \$432 in 2014. The effective tax rate in 2015 was 28.4% (2014 – 32.0%). The current tax expense increased from \$744 in 2014 to \$2,277 in 2015 from increased profitability but was at reduced rates due to the combined impact of non-capital losses and increased deferred tax assets in the USA segment.

Net income and earnings per share

Consolidated net income in 2015 was \$5,088 as compared to consolidated net income of \$917 in 2014. Basic and diluted earnings per share of \$0.76 in 2015 compared to basic and diluted earnings per share of \$0.14 in 2014.

The weighted average number of basic and diluted common shares outstanding in the current year was 6,716,003 shares as compared to 6,719,412 in 2014. The number of outstanding shares in 2015 was unchanged compared with 2014 when the Corporation repurchased and cancelled 8,400 shares under the Normal Course Issuer Bid.

6. Reportable operating segments

Operating segments	Description of segments
Canada	<p>Manufacturing and sales operations located in Canada for expanded polystyrene (EPS) products and structural insulating panels</p> <p><i>Brands:</i> Plasti-Fab[®] EPS Product Solutions[®]; Advantage ICF System[®]; Insulspan[®] SIPS; DuroFoam[®]</p>
United States of America (USA)	<p>Manufacturing and sales operations located in the USA for EPS products, building systems and structures, design services and installations</p> <p><i>Brands:</i> Plasti-Fab[®] EPS Product Solutions[®]; DuroSpan; Insulspan[®] SIPS; Riverbend[®] Timber Framing; Precision Craft[®] Log & Timber Homes; M.T.N. DesignSM; Total Home Solution[®]; Point ZeroTM; TimberScapeTM</p>

PFB has two reportable operating segments, Canada and the USA, and each segment mirrors PFB's accounting policies (as described in Note 2 to the audited consolidated financial statements for year ended December 31, 2015), its internal controls and its reporting systems. Segment performance predominantly focuses on the types of goods and services offered and their geographical locations of manufacturing and distribution.

The chief operating decision maker evaluates performance on the basis of operating income or loss, as reported on a periodic basis. This performance measure is considered to be the most relevant in evaluating the results of each operating segment.

6.1 Segment sales revenues and operating income

Segment sales represent sales revenues directly attributable to each segment. Inter-segment sales have been eliminated. There are varying levels of integration between each segment.

The Canadian segment primarily derives its revenues from the sale of expanded polystyrene (EPS) foam products, which it manufactures at its facilities in Canada. The USA segment primarily derives its revenues from the sale of EPS foam products, customized log and timber structures made at its facilities in the United States, along with the provision of design and installation services for its manufactured products. In 2015, the asset acquisition of Poly Foam is reported under the USA segment.

Segment operating income (loss) represents the income or loss reported by each segment excluding any allocations for corporate income or expense and foreign exchange gains or losses on an inter-segment loan.

Information regarding each reportable operating segment for years ended December 31, 2015 and 2014 is set out below:

	Segment sales revenues		Segment operating income (loss)	
	2015	2014	2015	2014
Canada	\$ 72,857	\$ 68,994	\$ 8,543	\$ 2,551
USA	26,280	20,911	(179)	148
Total for segments	\$ 99,137	\$ 89,905	8,364	2,699
Corporate – expense			(109)	(113)
Foreign exchange (loss) gain on inter-segment loan			(3)	2
Consolidated operating income			\$ 8,252	\$ 2,588

Canadian segment

Sales

Sales reported by the Canadian operating segment increased from \$68,994 in 2014 to \$72,857 in 2015, an increase of \$3,863 or 5.6%.

Operating income

Operating income generated by the Canadian segment in the current year was \$8,543, an increase of \$5,992 or 234.9% from operating income of \$2,551 in 2014. Operating margins improved over last year as overall raw material costs decreased.

USA segment

Sales

All operations in the USA contributed to a significant aggregate increase in sales in 2015 as compared to sales reported in 2014. As reported in Canadian dollars, sales in the current year were \$26,280 versus sales of \$20,911 in 2014, an increase of \$5,369 or 25.7%. These figures are stated in Canadian dollars and a continued weaker Canadian dollar throughout 2015 created a favorable currency effect when USA segment sales transacted in U.S. dollars are converted for consolidation purposes.

The average foreign exchange rates experienced by the Corporation reflected the devaluation of the Canadian currency from an average rate of \$1.10 per US\$1.00 in the 2014 comparative year to an average rate of approximately \$1.28 per US\$1.00 in the current year, an approximate currency devaluation of approximately 16%. Eliminating the effect of foreign exchange fluctuations, the sales growth rates for the year, expressed in US dollars, was 8.1% year-over-year.

In the three month period ended December 31, 2015, USA segment sales were \$8,021 and \$7,127 in the comparative three month period of 2014, an increase of 12.5%. The average foreign exchange rates experienced by the Corporation reflected the devaluation of the Canadian currency from an average rate of \$1.14 per US\$1.00 in the 2014 comparative three month period to an average rate of \$1.33 per US\$1.00 in the current three month period, a currency devaluation of approximately 17%. Eliminating the effect of foreign exchange fluctuations when expressed in USA dollars, the sales growth rate decreased 4.0% during the three month period ended December 31, 2015 compared with the 2014 comparative three month period.

Operating (loss) income

The USA segment generated an operating loss in the current year of \$179, from operating income of \$148 in 2014, a variance of \$327, on a year-over-year basis. Included in the loss are one-time transaction costs of \$89.

6.2 Segment assets and liabilities

Management measures capital employed using net segmented assets. The reconciliation of segmented assets and segmented liabilities in relation to total consolidated assets and liabilities is set out in the table below:

		As at Dec 31, 2015	As at Dec 31, 2014
Assets	Segment assets	\$ 52,362	\$ 51,413
	Assets not allocated to segments:		
	Cash and cash equivalents	16,252	8,933
	Freehold land and buildings	8,003	6,642
	Restricted marketable securities	2,192	2,227
	Corporate taxes recoverable ¹	35	32
	Total assets	<u>\$ 78,844</u>	<u>\$ 69,247</u>
Liabilities	Segment liabilities	\$ 15,703	\$ 12,210
	Liabilities not allocated to segments:		
	Finance lease obligations	14,471	14,416
	Corporate taxes payable ¹	2	-
		Total liabilities	<u>\$ 30,176</u>
Net segment assets	Canada	\$ 27,713	\$ 32,002
	USA	8,946	7,201

¹ Current and deferred taxes.

Other segment information

	2015	2014
Additions to non-current assets:		
Canada	\$ 1,822	\$ 1,957
USA	1,688	240
Total	<u>\$ 3,510</u>	<u>\$ 2,197</u>
Depreciation and amortization:		
Canada	\$ 2,539	\$ 2,570
USA	763	681
Total	<u>\$ 3,302</u>	<u>\$ 3,251</u>
Inter-segment sales	<u>\$ 4,226</u>	<u>\$ 2,029</u>

7. Results of operations - fourth quarters ended December 31, 2015 and 2014

\$ thousands except where indicated	2015	2014
Consolidated results:		
Sales	\$ 24,440	\$ 25,013
Gross profit ¹	5,203	5,574
Operating income ¹	1,437	1,956
Net income	836	1,116
Funds flow from operations ¹	2,086	2,772
Earnings per share – Basic and diluted	0.12	0.17
Weighted average number of shares outstanding – basic and diluted	6,716,003	6,717,869
Sales by operating segment:		
Canada	16,419	17,886
USA	8,021	7,127
Operating income by segment:		
Canada	1,464	1,218
USA	31	758

¹ The definitions of additional GAAP measures used in the above table along with relevant other notes are detailed in Section 20 of this MD&A.

Sales

Consolidated sales in the fourth quarter of 2015 were \$24,440, a decrease of \$573 or 2.3% as compared to sales of \$25,013 reported in the fourth quarter of 2014. Most of the decrease in fourth quarter sales came from the Canadian segment which reported an 8.2% decrease in Canadian segment sales as compared to sales in Q4/14.

Gross profit

Gross profit, expressed as a percentage of sales, weakened from 22.3% in the fourth quarter of 2014 to 21.3% in the current year quarter.

Operating income

Operating income was \$1,437 in the current quarter as compared to \$1,956 in Q4/14. For the three months ended, the USA segment operating income of \$758 in Q4/14 reduced to \$31 in the current quarter. Decreased sales and reduced margins factored into the decreased operating income in the current quarter versus Q4/14.

Net income and earnings per share

Net income in the current quarter was \$836 as compared to a net income of \$1,116 in the comparative quarter of 2014, a decrease in net income of \$280.

Basic and diluted earnings per share in the current quarter were \$0.12 as compared to basic and diluted earnings per share of \$0.17 reported for the fourth quarter of 2014.

Funds flow from operations

Funds flow from operations in the current quarter was \$2,086 as compared to funds flow from operations of \$2,772 in the comparative quarter of 2014, a decrease of \$686. The decrease in quarterly funds flow was reflective of a \$280 decrease in net income in Q4/15 compared to Q4/14.

8. Liquidity and capital resources

Sources of liquidity

PFB improved on the healthy liquidity position it had at the beginning of the current year reflecting improved funds flow from operations. Future liquidity depends on PFB being able to sustain cash flows from operating activities; additionally the Corporation maintains availability of bank credit facilities. PFB anticipates that future liquidity will be adequate to fund its ongoing business activities including anticipated changes in non-cash working capital, capital expenditures, payment of financial obligations, and payment of regular dividends over the next twelve months.

PFB's revolving credit facility in Canada and the USA were unused as at December 31, 2015.

Cash and cash equivalents

Cash and cash equivalent balances as at December 31, 2015 and 2014 were as follows:

	December 31, 2015	December 31, 2014
Cash	\$ 5,706	\$ 5,038
Short-term investments	10,025	3,503
Restricted cash	521	392
	\$ 16,252	\$ 8,933

As at December 31, 2015, PFB held net cash balances of \$16,252, a significant increase to the cash position as at December 31, 2014 of \$8,933. Within the overall cash balance, \$10,025 was invested in a premium investment account with a large Canadian chartered bank while restricted cash amounted to \$521.

Restricted cash comprises cash collected from certain customers of the USA segment that is contractually segregated from other cash and not comingled, as it is held exclusively for disbursements to suppliers and service providers specific to those individual customer contracts.

PFB's cash balances typically fluctuate throughout the year in line with the seasonality of its business.

Bank credit facilities

Canada

In May 2014, the Corporation's Canadian subsidiary changed its credit facility arrangements with a Canadian bank from having a revolving facility of \$8,000 and a non-revolving facility of \$4,300 to a single revolving facility of \$10,000.

This revolving facility is secured by a first ranking security interest in trade receivables and inventories of the Canadian subsidiary. The Corporation provides a guarantee and postponement of claim to the bank in the amount of \$10,000.

In December 2014, the bank amended the credit facility agreement to remove a Fixed Charge Coverage ratio requirement. The interest rate applicable on draws made against the facility is the Canadian bank's prime rate plus 0.5% and the facility carries a monthly standby fee when not being utilized. The credit facility was not used as at December 31, 2015.

USA

In September 2015, the Corporation's USA subsidiary obtained credit facility arrangements with a US bank for a variable rate revolving facility in the amount of \$250. The revolving facility is secured by all inventory and equipment of the USA subsidiary. The interest rate applicable on draws made against the facility is a variable rate based on an index plus 0.5%.

Under the facility, the USA subsidiary is subject to certain covenants, including financial covenants to maintain an Operating Cash Flow to Fixed Charge Coverage ratio of not less than 1.20:1 and to maintain a Total Debt to Tangible Net Worth Ratio of less than 3.00 to 1.00. The credit facility was not used as at December 31, 2015.

Change in non-cash working capital

Changes in the principal components of non-cash working capital in 2015 and 2014 are highlighted in the following table.

	2015	2014	Change
Trade receivables	\$ 7,535	\$ 8,931	\$ (1,396)
Inventories	10,069	8,894	1,175
Prepaid expenses	932	763	169
Trade and other payables	(8,903)	(7,089)	(1,814)
Deferred revenue	(3,408)	(2,716)	(692)
	\$ 6,225	\$ 8,783	\$ (2,558)

In 2015, non-cash working capital decreased by an amount of \$2,558 to \$6,225 at the end of the current year from \$8,783 in 2014.

Trade receivables decreased by \$1,396 in 2015. At December 31, 2014, trade receivables included contractual holdbacks in the amount of \$245 that were collected in March 2015. Excluding the effects of the change in holdback amounts, decreased trade receivables at the end of 2015 are reflective of increased velocity of collections, resulting in an increased cash balance compared to 2014. The value of trade receivables written off in the current year was \$375 compared with \$124 in 2014.

The carrying cost of inventories at the end of 2015 was \$10,069 as compared to \$8,894 at the end of 2014, an increase of \$1,175. The acquisition of the Poly Foam assets included inventories on December 15, 2015 in the amount of \$980.

Trade and other payables were \$1,814 higher at the end 2015 as compared to at the end of 2014. The acquisition of Poly Foam assets, included assumption of accounts payable on December 15, 2015 in the amount of \$394.

Deferred revenues increased by \$692 in 2015 resulting from an increase in advance deposits collected from customers mainly in the USA segment.

Summary of cash flows

A summary of cash flows for the years ended December 31, 2015 and 2014 are shown in the following table.

	2015	2014
Net cash flows from (used in):		
Cash from operating activities after changes in non-cash working capital	\$ 14,354	\$ 6,607
Income taxes paid	(1,272)	(1,280)
Net cash generated by operating activities	13,082	5,327
Investing activities	(3,205)	(1,940)
Financing activities	(3,398)	(3,403)
Effect of foreign exchange gain on cash held in foreign currency	840	11
Net increase (decrease) in cash and cash equivalents	\$ 7,319	\$ (5)

(a) Operating activities

In 2015, cash from operating activities after changes in non-cash working capital was \$14,354 as compared to \$6,607 in the comparative year, an increase of \$7,747. The year-over-year increase was primarily due to improved net income performance as compared to net income performance in 2014. In addition, non-cash working capital decreased by \$2,558 in the current year versus a decrease of \$131 in the prior year, a favourable net change of \$2,427. Deferred operating lease obligations of \$341, a non-cash increase of \$163, in the current year reflect the timing difference between when amounts are expensed on a straight-line basis and when amounts are contractually paid to the lessors.

Income tax payments in 2015 were \$1,272 versus \$1,280 in 2014.

(b) Investing activities

Cash in investing activities in 2015 was \$3,205 as compared to cash from investing activities of \$1,940 in 2014, an increase of \$1,265. The most significant element in the net change was the cash used to acquire the Poly Foam assets in 2015 in the amount of \$1,236.

In the current year, purchases of property, plant and equipment were \$2,166 and purchases of intangible assets were \$108 as compared to purchases of \$2,153 and intangible asset purchases of \$44 in 2014, an overall net increase of \$77. These expenditures were of a maintenance capital nature.

In 2015, proceeds from the sale of land, net of costs, amounted to \$63 which was realized in Q1/15.

(c) Financing activities

Cash used in financing activities in 2015 was \$3,398 as compared to \$3,403 in 2014. Repayment of finance lease obligations in 2015, which included buildings and vehicles leases, amounted to \$356 as compared to lease repayments of \$314 in 2014. Finance costs incurred on leases in 2015 were \$1,430 as compared to finance costs of \$1,438 incurred in 2014.

Throughout 2015 and 2014, PFB paid regular quarterly dividends of \$0.06 per common share in February, May, August, and November, resulting in dividends paid in 2015 to an amount of \$1,612 as compared to dividends paid in 2014 of \$1,613.

In 2015, PFB did not purchase any shares for cancellation under a Normal Course Issuer Bid. In 2014, PFB purchased and cancelled 8,400 shares at a cost of \$38 (see the normal course issuer bid section below for more details).

Outstanding share data

The issued and outstanding number of common shares as at March 10, 2016 was 6,716,003.

Capital structure and capital management

PFB manages its capital structure to ensure its consolidated operations continue to operate as a going concern, to optimize returns to shareholders, and to safeguard corporate assets.

PFB's capital structure as at December 31, 2015 and 2014 consisted of shareholders' equity in the amounts of \$48,668 and \$42,621, respectively.

PFB considers the amount of capital it requires in proportion to the associated risks. Adjustments may be made to PFB's capital structure in light of changes in economic conditions and the risk characteristics of the underlying assets. The capital structure can be maintained or adjusted in a variety of ways as circumstances change, including: adjusting the amount of dividends paid to shareholders; purchasing shares for cancellation (under Normal Course Issuer Bids); issuing new shares; and increasing or repaying debt financing.

PFB pursues its capital management objectives by prudently managing the capital generated through internal growth of its operations, optimizing the use of lower cost capital when required, and raising share capital when deemed appropriate, to fund significant strategic growth initiatives.

Entities within PFB's consolidated group have non-capital tax losses carried forward to be utilized against future taxable income that is expected to be generated by those entities.

Share-based options

PFB did not grant any share options in the year ended December 31, 2015 and 2014, and no share options were exercised in either year.

Dividends

In the years ended December 31, 2015 and 2014, the Corporation's Board of Directors declared regular quarterly dividends of \$0.06 (2014 – \$0.06) per common share which were paid in the months of February, May, August and November of each year.

Aggregate dividends paid in the year ended December 31, 2015, amounted to \$1,612 (2014 - \$1,613).

Dividends paid by PFB qualify as eligible dividends and satisfy the enhanced gross-up and dividend tax credit change enacted under Canadian tax law.

Normal course issuer bid

In September 2015, PFB obtained approval from the Toronto Stock Exchange to renew its Normal Course Issuer Bid (the "Bid") for a 12-month period, which commenced on September 11, 2015, and ends no later than September 10, 2016. The renewal allows PFB to purchase, up to a maximum of 50,000 of its common shares representing 0.74% of PFB's 6,716,003 issued and outstanding common shares as at September 9, 2015, subject to daily maximum purchases of 1,000

common shares. PFB will purchase from time-to-time its common shares at market prices by means of open markets of the Toronto Stock Exchange as well as through alternate trading systems in Canada upon which the common shares are traded.

In the year ended, December 31, 2015, the Corporation did not purchase any of its common shares for cancellation under a Normal Course Issuer Bid. It is the policy of management to purchase shares when it enhances the book value of the Corporation's shares.

In the year ended, December 31, 2014, the Corporation purchased for cancellation 8,400 of its common shares under the current Bid for an aggregate price of \$38, of which \$12 was charged to retained earnings as a premium on redemption of the common shares.

Comprehensive income

Comprehensive income consists of net income or loss, together with certain other economic gains and losses which, collectively, are described as "other comprehensive income" and those items are excluded from the consolidated statements of income.

A summary of comprehensive income for the three and twelve month periods ended December 31, 2015 and 2014 is as follows:

	Three month periods ended December 31		Twelve month periods ended December 31	
	2015	2014	2015	2014
Net income (loss) for the period	\$ 836	\$ 1,116	\$ 5,088	\$ 917
Other comprehensive income	477	438	2,571	978
Comprehensive income for the period	\$ 1,313	\$ 1,554	\$ 7,659	\$ 1,895

In the third quarter of 2015, comprehensive income was \$1,313 as compared to a comprehensive income of \$1,554 in the comparative quarter of 2014. Other comprehensive income of \$477 (Q4/14 – income of \$438) in the current quarter consisted of income of \$608 (Q4/14 – income of \$479) attributed to foreign currency translation when consolidating PFB's USA operations, a loss of \$26 (Q4/14 – gain of \$4) representing unrealized losses on restricted marketable securities, net of tax, and a loss of \$105 (Q4/14 – loss of \$45) from pension plan valuation changes.

Included in accumulated comprehensive income at December 31, 2015, were foreign currency translation adjustments totaling \$3,785, marketable securities adjustments of \$(255), net of tax, and \$(31) of defined benefit valuation changes, net of tax, for total accumulated other comprehensive income of \$3,499. The \$2,702 increase in foreign currency translation adjustments from December 31, 2014 of \$1,083, to \$3,785, reflects the continued weakness of the Canadian dollar throughout 2015 when retranslating from US dollars into Canadian dollars the USA segment. The marketable securities, in the form of units of a Canadian REIT, represent \$255 of accumulated unrealized losses since March 2013 as part of a sale leaseback arrangement. The \$105 loss in pension plan valuation changes from December 31, 2014 of \$74, to \$(31), reflects valuation changes.

9. Contractual obligations and commitments

In the normal course of business, PFB is obligated to make future contractual payments. As at December 31, 2015, PFB's contractual obligations and commitments are as outlined in the following table:

Contractual obligations (Payment due periods)	Total	Within 1 year	2-3 years	4-5 years	Over 5 years
Finance lease obligations	\$ 31,347	\$ 1,803	\$ 3,387	\$ 3,384	\$ 22,773
Operating leases	16,239	1,587	2,655	1,892	10,105
Commitments for PP&E and intangible assets	2,250	2,250	-	-	-
Total contractual obligations	\$ 49,836	\$ 5,640	\$ 6,042	\$ 5,276	\$ 32,878

Finance lease obligations are with respect to buildings in Canada used for manufacturing operations (see below), automobiles used by employees, and materials handling equipment. Operating leases are with respect to leases for land, certain facilities used in PFB's operations, and general items of office equipment.

From time-to-time, under the terms of certain sales contracts, PFB's subsidiaries may be required to provide performance bonds as security. Performance bonds are considered normal practice for suppliers and contractors participating in larger construction projects, usually of a public nature. In the USA, government agencies in certain states have requirements for bonds to be posted when certain types of licensing applications are made in those states.

As at December 31, 2015, the USA, performance bonds in the amount of \$608 were pledged to various government agencies.

10. Financial instruments and financial risks

Fair value of financial instruments

PFB's financial assets and liabilities that are recorded at fair value on a recurring basis have been classified into one of three categories based upon the following fair value hierarchy:

Level 1: Fair value is based on unadjusted quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities.

Level 2: Fair value is based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full term of the asset or liability.

Level 3: Fair value is based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement.

A summary of the categories and fair values of financial instruments held by PFB as at December 31, 2015 and 2014, are stated in the following table. The carrying costs of each financial instrument for each year in the consolidated balance sheets are equal to their fair values.

Financial instrument	Category	Measurement	Hierarchy	2015 Fair Value	2014 Fair Value
Cash and cash equivalents	FVTPL	Fair value	Level 1	\$ 16,252	\$ 8,933
Restricted marketable securities	Available for sale	Fair value	Level 1	2,192	2,227
Trade receivables	Loans and receivables	Amortized cost	N.A.	7,535	8,931
Trade and other payables	Other financial liabilities	Amortized cost	N.A.	(8,903)	(7,089)
Finance lease obligations	Other financial liabilities	Amortized cost	N.A.	(14,471)	(14,416)
Deferred operating lease obligations	Other financial liabilities	Amortized cost	Level 2	(341)	(178)

Credit risk

Credit risk is defined as the risk that PFB's counterparties in a transaction fail to meet or discharge their obligation to PFB.

PFB's exposure to credit risk is associated with trade receivables and the potential risk that any customer is unable to pay amounts when due. Allowances for doubtful accounts and bad debts are estimated and maintained as at the balance sheet date. The amounts reported for trade receivables on the balance sheet are net of allowances for doubtful accounts and the net carrying value represents PFB's maximum exposure to credit risk.

PFB's subsidiaries provide trade credit to their customers in the normal course of business and PFB's credit policy is universally adopted across all its businesses. The policy requires the credit history of each new customer to be closely examined before credit is granted, which may involve performing solvency tests if a particular account is expected to become significant. It is not normal practice to require customers' to provide collateral or security as a condition of approving trade credit. The diversity of PFB's customer base and product offering combine to minimize overall exposures to credit risks.

Customers ordering highly-customized manufactured products are required to make advance payments at various predefined stages of a sales contract. All payments received in advance of invoicing are reported as deferred revenue under

the current liability section of the balance sheet. Final contract balances are typically required to be paid in full before products are shipped.

Management diligently reviews past due trade receivables balances on a weekly basis to monitor potential credit risks. Accounts are considered for impairment on a case-by-case basis when they are past due or when objective evidence is received that a customer may default. A number of factors are considered in determining the likelihood of impairment. All bad debt write-offs and changes in the doubtful trade receivables reserve are expensed or credited, as applicable, to selling expenses in the consolidated statement of income.

PFB believes that credit risk associated with its trade receivables is limited for the following reasons:

- Trade receivables balances are spread amongst a broad customer base which is dispersed across a wide geographic range
- The aging profile of trade receivables balances are systematically monitored by management
- Larger customers are offered a discount off invoice value if full payment is received by an agreed date in the month following the month of sale
- Payments for highly-customized orders are received in advance of products being shipped

Potential credit risk associated with contractual holdback amounts pertaining to certain large projects is considered to be low as the customers involved are required to provide bonding to the owners of the projects. The credit risk on cash balances is limited because the counterparties are large commercial banks in Canada and the United States.

Payments of interest collected from customers on past due trade receivables balances is included as part of investment income in the consolidated statement of income.

Foreign currency risk

Currency risk is defined as the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

PFB operates in both Canada and the United States of America and is exposed to foreign exchange risks arising from changes in foreign exchange rates between the two countries. At the present time, PFB has a net exposure to the United States dollar, as the prices of most raw materials used in its businesses are denominated in U.S. dollars. Raw material supplies denominated in U.S. dollars are usually paid within thirty days or less of receiving actual deliveries, which is consistent with industry practices.

Periodically, management may commit to entering into foreign exchange contracts to attempt to protect earnings against relatively short-term fluctuations in exchange rates. In such cases, management attempts to make informed judgements in entering such transactions but there is a possibility that markets may not respond in ways predicted. To the extent that PFB does not fully hedge its foreign currency exposure and exchange rate risk, or PFB's subsidiaries are not able to or do not raise their selling prices accordingly when exchange rates are moving in an unfavorable direction, the profitability of the business could be adversely affected. PFB does not enter into currency driven derivative financial instruments for speculative purposes. PFB did not hold any foreign exchange contracts as at December 31, 2015.

Historically, PFB has mainly financed its USA operations from internal resources with demand loans denominated in Canadian dollars on which the USA operations is exposed to currency risk. As the exchange rate between the Canadian and U.S. dollars fluctuated, unrealized gains and losses arising on the loans were recorded in the consolidated statement of income in accordance with IFRS. In 2013 PFB refinanced its USA subsidiary by making equity investments instead of purchasing debt instruments from it. Loan balances are minor and short-term in nature with the desired effect to eliminate significant foreign currency volatility from the consolidated statement of income.

Interest rate risk

Interest rate risk is defined as the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

As at December 31, 2015, the Corporation had no long-term debt and the Corporation's Canadian subsidiary had access to a revolving credit facility with a Canadian bank. The revolving credit facility has a limit of \$10,000 based on marginable trade receivables and inventories and the revolving credit facility was unused. The Corporation's USA subsidiary had access to a revolving credit facility with a US bank. The revolving credit facility has a limit of \$250, based on all inventory and equipment. The revolving credit facility was unused at December 31, 2015.

Liquidity risk

Liquidity risk is defined as the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

The Corporation's liquidity risk is that it is not able to settle liabilities when due or that it can do so only at an abnormally high cost. Accordingly, one of management's primary goals is to maintain an optimum level of liquidity by actively managing assets, liabilities and cash flows generated by operations. The Corporation's future strategies can be financed through a combination of cash flows generated by operations, borrowing under existing credit facilities, and the issuance of equity. Management prepares regular budgets and cash flow forecasts to help predict future changes in liquidity.

11. Off-balance sheet arrangements

PFB does not believe it has any off balance sheet arrangements that have, or are reasonably likely to have, a current or future material effect on its financial performance or financial condition.

As part of the Poly Foam business combination, PFB is collecting accounts receivable balances from the closing and remitting the cash collected to the vendor. The Corporation does not believe the situation constitutes an off-balance sheet arrangement.

12. Related party transactions

All related party transactions are constituted in the ordinary course of business and they have been measured at the agreed exchange amounts which approximate fair value. All transactions with related parties have been approved by PFB's Board of Directors.

Balances and transactions between PFB and its subsidiaries, which are related parties of PFB, have been eliminated on consolidation.

In years 2015 and 2014, PFB had transactions with the following related parties which are summarized in the table:

Related party	Nature of transaction	2015	2014	Increase (decrease)
Aeonian Capital Corporation	Management services	\$ 350	\$ 350	\$ -
Totals		\$ 350	\$ 350	\$ -

Aeonian Capital Corporation ("Aeonian"), and its affiliates, owned 2,967,668 (2014 - 2,967,668) common shares of PFB representing 44.2% (2014 - 44.2%) of the 6,716,003 issued and outstanding shares as at December 31, 2015. Aeonian is controlled by C. Alan Smith, President, Chief Executive Officer, and Chairman of PFB. The Corporation is charged fees by Aeonian for management services including those provided by Mr. Smith. The fees are reported under administrative expenses in the consolidated statement of income. As at December 31, 2015 and 2014, all fees applicable to each year had been paid in full.

13. Subsequent events

Declaration of regular quarterly dividend

On January 29, 2016, the Board of Directors declared a regular quarterly dividend of \$0.06 per common share which was paid on February 26, 2016, to shareholders of record at the close of business on February 12, 2016.

14. Outlook

The influence of world crude oil prices on the economies of North America are the largest driver in the outlook for the Corporation. Since the dramatic fall in crude oil prices began in Q4, 2014 our input costs in the manufacture of our key raw material have reduced providing the opportunity for our business to return to normalized gross margin levels. This was our experience throughout 2015. At the same time, a weakening Canadian dollar exchange rate versus the U.S. dollar has partly counteracted the benefits of reducing costs. It is not known what the duration of this crude oil price drop will be but it is unlikely that it can fall much further from present levels. Additionally the lower oil prices have the potential effect of adverse economic consequences of slowing construction demand and therefore demand for our products in some of our regional markets. In general, the oil effect has overall been positive for the general economy that we operate in and in our continuing cost structure. The devaluation of the Canadian currency has restricted the ability of competitors to import their products into Canada, a positive outcome for PFB.

The first quarter each year is the most difficult seasonally from a financial results perspective and we continue to focus on implementing cost improvement initiatives in our operations. We operate in a highly competitive Canadian market for EPS products where impulsive competitor actions can create challenging conditions for all participants. We expect to experience more of this during the year ahead in some regional markets that might experience the effects of lower oil prices on regional economies.

We continue to aggressively pursue operations in the United States and we remain cautiously optimistic that the positive momentum will continue. Interest in our national brand products manufactured in the USA has remained strong. The acquisition of the Poly Foam facility near Minneapolis, MN in 2015 provides a new regional base to complement our facility in Lebanon, Ohio, and our other USA based operations. Any growth in the USA housing market would have positive effects on our custom homes business.

PFB's balance sheet remains strong and liquid.

15. Disclosure controls and procedures (DC&P)

Subject to the limitation described in the next paragraphs, PFB's DC&P have been designed to provide reasonable assurance that all material information relating to PFB and its operations is identified and communicated to the Chief Executive Officer (CEO) and the Manager of Financial Reporting & Compliance as it becomes known so that appropriate decisions can be made regarding public disclosures, as required under the continuous disclosure requirements of securities legislation.

An evaluation of the effectiveness of PFB's DC&P was conducted as of December 31, 2015, under the supervision of the CEO and the Manager of Financial Reporting & Compliance. Based on this evaluation, the CEO and the Manager of Financial Reporting & Compliance have concluded that PFB's DC&P, as defined in National Instrument 52-109, *Certification of Disclosure in Issuers' Annual and Interim Filings*, have been designed to provide reasonable assurance that material information relating to PFB, including its consolidated subsidiaries, is made known to them by others in those entities, and to provide reasonable assurance that accurate and complete disclosures in annual and interim filings is completed within the time periods specified.

Limitation scope of design

The Company has limited the scope of its DC&P and ICFR to exclude controls, policies and procedures of the Poly Foam operations acquired not more than 365 days before the last day of the period covered by the annual filing. The company elected to exclude it from the scope of certification as allowed by NI 52-109. The Company intends to perform such testing within one year of acquisition.

Notwithstanding the foregoing, no absolute assurances can be made that Corporation's controls over disclosure will detect or prevent all failures of individuals within the organization to disclose material information otherwise required to be set forth in reports or news releases issued by the Corporation.

16. Internal controls over financial reporting

Management is responsible for establishing and maintaining adequate internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial reports for external reporting purposes in accordance with GAAP.

All control systems contain inherent limitations, no matter how well designed and operated. As a result, management acknowledges that PFB's internal controls over financial reporting will not prevent or detect all misstatements due to error or fraud. In addition, management's evaluation of controls can provide only reasonable, not absolute, assurance that all control issues that may result in material misstatements, if any, have been detected.

The CEO and Manager of Financial Reporting and Compliance, subject to the scope limitation above, assessed the effectiveness of PFB's internal controls over financial reporting as at December 31, 2015, using the internal control framework issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013. The assessment concluded that they were effective and that no material weaknesses in PFB's internal controls over financial reporting had been identified.

17. Risk management and assessment

PFB is subject to risks and uncertainties inherent in the operation of its business. Management defines risk as the possibility that an event might happen in the future that could negatively affect the financial condition and/or results of operations of the Corporation. The following section describes specific and general risks that could affect PFB. The Audit Committee and the Board of Directors play an important role in developing risk management programs and reviewing and monitoring them on a quarterly basis. As it is difficult to predict whether any risk will happen or its related consequences, the actual effect of any risk on PFB's business could be materially different from anticipated.

The following descriptions of general and specific risks do not include all possible risks, as there may be other risks existing of which the Corporation is currently unaware.

17.1 Raw material price and supply

The price of raw materials, specifically, styrene monomer, expandable polystyrene resin, polypropylene copolymers, oriented strand board, and raw timbers combined represent a significant portion of manufacturing costs in PFB's businesses. Historically, there have been considerable cyclical and other causes of volatility in the price of these materials which is outside the control of PFB. There are no futures markets for these materials available to PFB, which limits the ability to lock in prices for fixed periods of time.

PFB may, from time-to-time, build inventories of both raw materials and finished goods which can lead to the assumption of risk due to an inability to match carrying costs to selling prices under certain fixed price sales contracts. Conversely, from time to time, PFB may be short of inventory that has been contracted to be delivered under fixed price sales contracts that can lead to the assumption of risk also due to an inability to match costs to selling prices.

Management continues to explore opportunities to minimize the impact that price swings in purchasing raw materials has on PFB's earnings. The changing dynamics in the petrochemical industry, primarily driven by world oil prices and other global events, and changing dynamics affecting other industries, are difficult to predict. Such changes may create the potential for raw material supply disruptions or shortages which would be detrimental to PFB's operations.

17.2 Economic and market conditions

PFB's business is affected by prevailing general and regional economic conditions, consumer confidence and spending, and both the demand for and prices of its EPS products and insulating building systems in those geographic areas in which it operates. Weaker economic conditions, the impact of changing mortgage rates and other interest rates potentially affecting the construction industry, and the possibility of slowdowns in residential and/or commercial construction activity, typically evidenced by the change in the number of building permits issued, may translate into lower demand for PFB's products. Such effects may also adversely affect the financial condition and credit risk of PFB's customers, including their ability to obtain credit to finance their businesses, which could create uncertainty over the collectability of trade receivables.

17.3 Competition

As a market leader in its industry, PFB faces intense and growing competition from other manufacturers of all sizes located in both Canada and the United States, new entrants into the markets we serve, along with manufacturers of substitute products which compete with EPS. Competition can affect PFB's pricing strategies and lower its sales revenues and net income. Competition can also affect PFB's ability to retain existing customers and attract new ones. A competitive business climate increases the resolve to provide exceptional customer service, quality products, and the need to be price competitive. Management continues to identify ways to grow revenues, manage expenses and increase productivity. This requires anticipating and responding quickly to the constant changes in its businesses and markets.

17.4 Currency

PFB has a net exposure to the U.S. dollar which makes it vulnerable to fluctuations in the foreign exchange rate between the Canadian dollar and the U.S. dollar. The timing of foreign exchange rate fluctuations between the Canadian dollar and the U.S. dollar can have a significant effect on PFB's operating results, the effect and magnitude of which depends on the product mix of sales and raw material purchases.

From time-to-time, management may commit to utilizing derivative financial instruments in the normal course of business as a means of management of its foreign currency exposure. Management attempts to make informed judgements in such transactions but there is the possibility that markets may respond in ways not predicted. To the extent that PFB does not fully hedge its foreign currency exposure and exchange rate risk, or PFB's subsidiaries are not able or do not raise their selling prices accordingly when exchange rates are moving in an unfavorable direction, the profitability of the business could be adversely affected.

17.5 Acquisitions

PFB's growth strategy includes making strategic acquisitions when possible. There is no assurance that it will find suitable companies to acquire or that it will have the financial resources needed to complete any acquisition. There could also be challenges integrating the operations of any acquired company with existing operations.

17.6 Financing and liquidity

In developing business operations to their full potential, significant capital and operating expenditures may be required on an ongoing basis. PFB has historically generated sufficient cash flow from its operations to fund its capital expenditure requirements, repay financing obligations, and maintain regular dividend payments. Future development of new products and the growth of PFB's business through internal expansion or by acquisitions may depend on access to external financing. PFB's cash position and existing credit facilities are considered adequate to meet its current and medium-term needs. There is no guarantee that financing for future expansion of PFB's operations will be available on acceptable terms, if required.

17.7 Reputation

Negative publicity regarding PFB's business practices, regardless of whether true or false, could adversely affect PFB's reputation which, in turn, could affect its operations, customers, and share value. PFB manages reputational risk by placing the utmost importance on corporate governance and full and fair disclosure. Good corporate governance practice emanates from an effective board of directors. PFB's board of directors and its board committees have been shaped to competently perform the role of overseeing the appropriate management of PFB's affairs with the objective of maximizing the long-term value of PFB. A detailed summary outlining PFB's corporate governance practices can be found in the most recent Management Information Circular.

17.8 Trade credit

PFB's subsidiaries provide trade credit to their customers in the normal course of business. PFB's credit policy is universally adopted across its businesses. The policy requires the credit history of each new customer to be closely examined before credit is granted, which may include performing solvency tests if a particular account is expected to become significant. Management diligently reviews past due trade receivables on a weekly basis, which helps minimize credit risk. The diversity of PFB's activities and customer base also helps minimize the credit risk to which it may be exposed.

17.9 Environmental considerations

Environmental issues are gaining in importance for PFB's stakeholders. PFB is committed to responsibly managing the direct and indirect impact it has on the environment. PFB believes that it is in substantial compliance with applicable environmental laws in jurisdictions where it has operations. PFB takes custody of hazardous materials when the goods physically arrive at its facilities. All construction materials must adhere to fire safety requirements during their manufacture, transportation and storage. HBCD is a brominated flame retardant used in EPS resin by manufacturers to ensure insulation products meet strict building code fire performance requirements when used as a component in building assemblies. Environment Canada and Health Canada have published a Screening Assessment Report on HBCD. The report concluded that HBCD is not entering the environment in a quantity or under conditions that constitute or may constitute a risk in Canada to human life or health but that HBCD meets the criteria to be labeled as toxic to the environment. PFB will continue to work with Environment Canada and other industry partners to develop a risk management strategy for HBCD.

17.10 Information technology

PFB makes extensive use of information technology in conducting its businesses. This involves web-based connections, access to secure, centrally located servers and databases, and maintaining both existing and implementing new business software applications. The security and safeguarding of information technology assets and protocols will continue to be increasingly important to PFB. PFB minimizes its exposure to I.T. risks by continuously reviewing its access and application controls, performing disaster recovery testing, locating its backbone I.T. assets in an industry-leading secure location, and hiring and training specialist employees with respect to the protection and use of I.T. assets and related intellectual property. Failure in the completeness, accuracy, availability or security of PFB's information systems or a breach of data security could adversely affect its operations and financial results. Correspondingly, computer viruses, cyber-attacks, security breaches, unforeseen natural disasters and related events or disruptions could result in information systems failures that may adversely affect PFB's operations and financial results.

17.11 Seasonality and climatic factors affecting the construction industry

Due to the seasonal nature of the construction industry, PFB's actual reported sales exhibit variations when viewed on a quarter-by-quarter basis. Typically, sales are weakest in the first quarter of the year and strongest in the second or third quarters. Sales in any quarter can be significantly influenced by weather events, particularly the timing of when winter begins and ends, and the severity thereof.

17.12 Plant and facilities

PFB operates a number of manufacturing facilities across North America, most of which operate at or near capacity for significant portions of the year. Any disruption to operations at any plant and facility arising from natural or man-made causes such as fire, flood, labour disputes, interferences with access or egress, or other events, could have a material impact on PFB and its business operations.

17.13 Employee future benefits

A defined benefit pension plan (the "Plan") exists for certain Ontario-based employees who are members of the United Steel, Paper and Forestry, Rubber, Manufacturing, Energy, Allied industrial and Service Workers International union. The latest accounting valuation of the Plan calculated in accordance with IAS 19 was completed as at December 31, 2015, and it identified that the Plan had a decreased net liability arising from defined benefit obligations of \$180 compared to \$56 at the end of the comparative year. Throughout 2015 and 2014, PFB made both normal service and special payment contributions to the Plan. The actual rate of return on plan assets and changes in interest rates and other variables could result in changes in PFB's funding requirements for the Plan. The Plan assets are not immune to market fluctuations and, as a result, PFB may be required to make additional cash contributions in future.

PFB operates group 401K plans for all qualifying employees located in Minnesota, Michigan, Ohio and Idaho, USA, in which qualifying employees may elect to defer current wages for retirement. PFB has the option to match employee contributions to the plans. The assets of the plan are held separately from those of PFB by a trust company which is governed by a custodial agreement (ERISA). PFB also utilizes the services of registered investment brokers and third party administrators in the fulfillment of its actuarial and fiduciary responsibilities with respect to the plans.

17.14 Human resources

PFB's success depends on the abilities, experience, engagement, and succession of its management teams. The loss of key employees through either attrition or retirement could adversely impact the Company's future business and financial results. PFB attempts to mitigate these risks by offering competitive compensation and benefits packages, training, succession planning, and providing a positive cultural environment.

17.15 Off-Balance Sheet Arrangements and Operating Leases

The Corporation does not believe it has any off balance sheet arrangements that have, or are reasonably likely to have, a current or future material effect on its financial condition, results of operations, or liquidity.

17.16 Internal and Disclosure Controls

Ineffective internal controls over financial reporting or inadequate disclosure controls could result in an increased risk of a material misstatement in financial reporting and public disclosures. In accordance with guidelines adopted for publicly-traded companies in Canada, PFB assesses the effectiveness of its internal and disclosure controls using a top-down, risk-based approach in which both qualitative and quantitative measures are considered. An internal control system, no matter how well conceived and operated, can provide only reasonable, but not absolute,

assurance to management and the Board of Directors regarding the achievement of results. PFB's current systems of internal and disclosure controls places reliance on key personnel across the Company to perform a variety of control functions which include performing reviews, analysis, reconciliations and monitoring. The undetected failure of individuals performing such functions or implementing controls as designed could adversely impact PFB's financial results.

17.17 Volatility of Market Share Price

The market price of PFB's common shares may be volatile and could be subject to fluctuations in response to quarterly variations in financial results or other events or factors. Consequently, broad market fluctuations or the failure of PFB's financial results to meet expectations in a particular reporting period may adversely affect the market price of its common shares.

18. Critical accounting judgements and estimates

In the application of PFB's accounting policies, as described in Note 2 to the consolidated financial statements for the years ended December 31, 2015 and 2014, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities. The estimates and associated assumptions are based on a combination of historical experience, available knowledge of current conditions, and other factors that are considered to be reasonable and relevant under the circumstances. Actual costs and outcomes may significantly differ from these estimates and assumptions.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimate is revised if the revision affects only that year or in the year of the revision and future years if the revision affects both current and future years.

The following are the key assumptions concerning the future and other key sources of estimating uncertainty at the end of the reporting year, that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year.

18.1 Cash-generating unit ("CGU")

Determination of which assets constitutes a CGU is subject to management judgements. Also, the asset composition of a CGU can directly impact the recoverability of assets included therein. The recoverable amount of a CGU is assessed at the CGU level and is the higher of the CGU's fair value less costs of disposal and its value in use. A CGU may be impaired when its carrying amount exceeds its recoverable amount. Key assumptions used for the value in use calculations are set out in Note 14 of the audited consolidated financial statements for the year ended December 31, 2015.

18.2 Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating unit(s) to which goodwill has been allocated. The value in use calculation requires management to estimate the future cash flows expected to arise from the cash-generating unit and determining a suitable discount rate in order to calculate present value.

In the years ended December 31, 2015 and 2014, no impairment of goodwill was recognized. Notwithstanding, reasonable changes in one or more of the variable assumptions or the discount rate used to estimate the present value of future cash flows could have a bearing on the valuation outcomes and conclusions.

18.3 Impairment of tangible and intangible assets

Determining whether tangible and intangible assets are impaired requires an estimation of the value-in-use of the CGUs to which they have been allocated. The value-in-use calculation requires management to estimate the future cash flows expected to arise from the CGU and a suitable discount rate to be determined in order to calculate present value.

In the years ended December 31, 2015 and 2014, no impairment of intangible and intangible assets was recognized. Notwithstanding, reasonable changes in one or more of the variable assumptions or the discount rate used to estimate the present value of future cash flows could have a bearing on the valuation outcomes and conclusions.

18.4 Valuation of inventories

Management reviews the carrying amount of finished goods inventories at the end of each reporting year and the recorded amount is adjusted to the lower of cost or net realizable value. As part of the review, management is required to make certain assumptions when determining expected realizable amounts.

An inventory reserve is maintained for slow-moving raw materials and work-in-progress inventories. The value of slow-moving inventories is based on management's assessment of market conditions for its products as determined by historical usage and estimated future demand. Any write downs in value may be reversed if the circumstances which caused them no longer exist.

18.5 Allowance for doubtful accounts

Management reviews the aging profile of trade receivables on a customer-by-customer basis at least at the end of each reporting year and an allowance for doubtful accounts reserve is maintained. The value of the allowance for doubtful accounts reserve typically tracks the seasonality trend of trade receivables. Specific reserves may be created for individual customers in exceptional circumstances. Bad debts are written off against the reserve.

18.6 Income taxes

PFB is subject to income taxes in both Canada and the USA. When preparing current and future tax expense at the end of each reporting year, management is required to make certain estimates and assumptions regarding the timing of when temporary differences will reverse and tax rates that will be in force at that time. Unknown future events and circumstances, such as changes in tax rates and laws, may materially affect the assumptions and estimates made from one year to the next and thereby affect the consolidated financial statements.

18.7 Measurement of retirement benefits

Post-employment benefits are accounted for on an actuarial basis. PFB engages the services of an independent actuary to perform valuations of PFB's defined benefits plan and the actuary provides a certified opinion thereon. For inclusion in the valuation, management is required to make certain assumptions including an appropriate discount rate and the estimated return of plan assets. The estimates are reviewed for reasonableness by the actuary. Due to the nature of the assumptions made and used in the valuations, there is the potential for fluctuations of a material nature in the value of the defined benefits in future years.

18.8 Property, plant and equipment

PFB estimates the useful life of property plant and equipment that it owns or is held under a finance lease. The actual useful life of assets and components of assets could vary significantly from the estimated useful lives used in determining periodic depreciation expense. Additionally the amortization of financial lease obligations associated with leasing these assets can be based on parameters that are notional and not precisely measured. The effect of employing these estimates does not necessarily match cash flows from operations with costs recorded as expense. Management reviews the useful lives of the assets at least annually to ensure that expected and actual lives are as closely aligned as is practical.

18.9 Finance leases

Management uses judgment in determining whether a lease should be accounted for as a finance lease. In doing so, management considers the lease terms and, in some cases, those terms may not always conclusively support the classification as a finance lease.

19. Application of new and revised International Financial Reporting Standards (IFRSs)

19.1 New and revised IFRSs affecting amounts reported and/or disclosures in the consolidated financial statements

The Corporation has applied a number of new and revised IFRSs issued by the International Accounting Standards Board (IASB) that are mandatorily effective for an accounting year that begins on or after January 1, 2015.

- **Annual Improvements to IFRSs 2010-2012 & 2011-2013 Cycle**

The IASB issued its Annual Improvements Cycles for years 2010-2012 and years 2011-2013 during 2014.

- **Amendment to IAS 19 *Employee Benefits***

IAS 19 was amended to clarify how contributions from employees or third parties should be apportioned to the period of employee service. A practical expedient permits contributions to be recognized as a reduction in the service costs if the contributions are independent of the years of service.

The Corporation has determined that the above amendments, mandatorily applied effective July 1, 2014, had no material impact on the disclosures or on amounts recognized for an annual periods that begin on or after January 1, 2015.

19.2 New and revised accounting standards and interpretations, but not yet effective

The International Accounting Standards Board (“IASB”) and International Financial Reporting Interpretations Committee (“IFRIC”) have issued the following standards and amendments that have not been applied in preparing these consolidated financial statements as their effective dates fall within annual periods beginning subsequent to the current reporting period.

Proposed Standard	Description	Previous Standard(s)	Effective Date
IFRS 15 – <i>Revenue from Contracts with Customers</i>	A single standard on revenue recognition that contains a single model that applies to contracts with customer and two approaches to recognizing revenue; at a point in time or over a period of time.	IAS 11 - <i>Construction Contracts</i> ; IAS 18 - <i>Revenue</i> ; IFRIC 13 - <i>Customer Loyalty Programmes</i> ; IFRIC 15 - <i>Agreements for the Construction of Real Estate</i> ; IFRIC 18 - <i>Transfers of Assets from Customers</i> ; SIC-31 - <i>Revenue - Barter Transactions Involving Advertising Services</i>	Annual periods beginning on or after January 1, 2018, with early adoption permitted.
IFRS 9 – <i>Financial Instruments</i>	A single financial instrument accounting standard addressing: classification and measurement (Phase I), impairment (Phase II) and hedge accounting (Phase III).	IAS 39; IAS 32; IFRS 7 – <i>Financial Instruments: Recognition and Measurement; Presentation; Disclosures</i>	Annual periods beginning on or after January 1, 2018, with early adoption permitted.
IFRS 16 – <i>Leases</i>	A new standard on lease accounting that results in substantially all lessee leases being recognized on the statement of financial position.	IAS 17 - <i>Leases</i>	Annual periods beginning on or after January 1, 2019, with early adoption permitted.
IFRS 14 – <i>Regulatory Deferral Accounts</i>	Amendments applicable to first-time adopters of IFRS with rate-regulated activities.	IFRS 14 – <i>Regulatory Deferral Accounts</i>	Annual periods beginning on or after January 1, 2016.
IFRS 4 – <i>Insurance Contracts</i>	In June 2014, the IASB issued a revised exposure draft proposing a comprehensive measurement approach for all types of insurance contracts.	IFRS 4 – <i>Insurance Contracts</i>	Final standard expected late 2016 with an effective date not expected before 2020.

Amendment Date	Description	Amended Standard(s)	Effective Date
January 29, 2016	Disclosure Initiative – certain amendments to disclose changes in liabilities arising from financing activities.	IAS 7 – <i>Statement of Cash Flows</i>	Annual periods beginning on or after January 1, 2017.
January 16, 2016	Amendments to clarify the recognition of deferred tax assets for unrealized losses.	IAS 12 – <i>Income Taxes</i>	Annual periods beginning on or after January 1, 2017.
December 18, 2014	Disclosure Initiative - certain amendments to facilitate improved financial statement disclosures.	IAS 1 - <i>Presentation of Financial Statements</i>	Annual periods beginning on or after January 1, 2016.
December 18, 2014	Amendments to address issues in applying the consolidation exception for investment entities.	IFRS 10 – <i>Consolidated Financial Statements</i> ; IFRS 12 – <i>Disclosure of Interest in Other Entities</i> ; IAS 28 – <i>Investments in Associates and Joint Ventures</i>	Annual periods beginning on or after January 1, 2016.
September 25, 2014	Annual Improvement to IFRSs 2012-2014 Cycle	IFRS 5 - <i>Non-current Assets Held for Sale and Discontinued Operations</i> ; IFRS 7 - <i>Financial Instruments: Disclosures</i> ; IAS 19 - <i>Employee Benefits</i> ; IFRS 34 - <i>Interim Financial Reporting</i>	Annual periods beginning on or after January 1, 2016.
September 11, 2014	Amendments to address a conflict between IAS 28 and IFRS 10 in a transaction involving an associate or joint venture.	IAS 10 – <i>Consolidated Financial Statements</i> ; IAS 28 – <i>Investments in Associates and Joint Ventures</i>	Deferred indefinitely.
August 18, 2014	Amendments to reinstate the equity method as an accounting option for investments in subsidiaries, joint ventures and associates in an entity's separate financial statements.	IAS 27 – <i>Equity Method in Separate Financial Statements</i>	Annual periods beginning on or after January 1, 2016.
June 30, 2014	Amendments to include bearer plants within the scope of IAS 16 rather than IAS 41.	IAS 16 – <i>Property, Plant and Equipment</i> ; IAS 41 – <i>Agriculture</i>	Annual periods beginning on or after January 1, 2016.
May 12, 2014	Clarification that revenue-based methods to calculate depreciation of an asset are not appropriate, except in two limited circumstances.	IAS 16 – <i>Property, Plant and Equipment</i> ; IAS 38 – <i>Intangible Assets</i>	Annual periods beginning on or after January 1, 2016.
May 6, 2014	Amendments to add new guidance to IFRS 11 on accounting for the acquisition of an interest in a joint operation.	IFRS 11 – <i>Joint Arrangements: Accounting for Acquisition of Interest in Joint Operations</i>	Annual periods beginning on or after January 1, 2016.

20. Non-GAAP and additional GAAP measures

PFB uses measurements primarily based on IFRS as issued by the International Accounting Standards Board and also additional non-GAAP measurements.

The additional non-GAAP measures used by PFB are considered to be useful as complimentary measures in assessing PFB's financial performance, liquidity and financial position. Non-GAAP measurements do not have a standardized meaning prescribed by IFRS and, as such, are unlikely to be comparable in definition to similar measures presented by other companies.

The definitions of non-GAAP and additional GAAP measurements used in this MD&A can be found in the section below.

Measure	Definition
Funds flow from operations	Net cash flows generated by operating activities before changes in non-cash working capital, changes in deferred operating lease obligations, unrealized foreign exchange gain or loss relating to non-cash working capital, and income taxes paid or recovered.
EBITDA	Represents earnings before interest, taxes, depreciation and amortization. EBITDA is an absolute measure of our operating performance and provides an indication of the results generated by our business activities prior to how the activities are financed, how assets are depreciated and amortized, or how results are taxed.
Funds flow from operations per share	Funds flow from operations divided by the weighted average number of shares issued and outstanding for the year.
EBITDA per share	EBITDA divided by the basic weighted average number of shares outstanding in the period.
Gross profit	Gross profit represents sales less cost of sales.
Operating income	Operating income shows us how we have performed before the effects of certain non-operating expenses, financing decisions and taxes.
Non-cash working capital	A financial measure to monitor how much capital we have committed to the day-to-day operations of our business. Non-cash working capital represents current assets (excluding cash or cash equivalents, and income taxes recoverable) less current liabilities (excluding income taxes payable and current portions of finance lease obligations).
Book value	Shareholders' equity divided by the actual number of common shares outstanding as at December 31 each year.
Shareholders' equity	Share capital, retained earnings and accumulated other comprehensive income.
Gross profit margin	Gross profit divided by sales, expressed as a percentage.
Operating margin	Gross profit less selling expenses, administrative expenses and other gains (losses) divided by sales.
Net income margin	Net income divided by sales.
Current ratio	Current assets divided by current liabilities.
Return on equity	A financial measure used to assist in analyzing shareholder value. Net income for the year divided by opening shareholders' equity.

The following table shows the reconciliation of net income to EBITDA and related per share amounts for the years ended December 31:

	2015	2014	2013
Net income	\$ 5,088	\$ 917	\$ 6,832
Add back (deduct):			
Income taxes	2,021	432	857
Finance costs	1,430	1,438	1,209
Investment income	(224)	(199)	(201)
Depreciation	3,648	3,511	3,495
Amortization	188	216	260
EBITDA	\$ 12,151	\$ 6,315	\$ 12,452
EBITDA per share	\$ 1.81	\$ 0.94	\$ 1.86

The following table shows the reconciliation of quarterly net income to quarterly EBITDA and related per share amounts for each of the quarters in 2015 and 2014:

	2015 Q4	2015 Q3	2015 Q2	2015 Q1	2014 Q4	2014 Q3	2014 Q2	2014 Q1
Net income (loss) (As per financial statements)	\$ 836	\$ 2,212	\$ 2,120	\$ (80)	\$ 1,116	\$ 1,549	\$ 95	\$ (1,843)
Add back (deduct):								
Income taxes	308	865	971	(123)	532	576	141	(817)
Finance costs	356	356	358	360	359	359	362	358
Investment income	(63)	(55)	(47)	(59)	(51)	(44)	(44)	(60)
Depreciation	951	902	898	897	898	882	868	863
Amortization	38	39	53	58	67	49	48	52
EBITDA	2,426	4,319	4,353	1,053	2,921	3,371	1,470	(1,447)
EBITDA per share	0.36	0.64	0.65	0.16	0.43	0.50	0.22	(0.22)



C. Alan Smith

Chairman, President and
Chief Executive Officer

March 10, 2016

Management's Report

The accompanying consolidated financial statements of PFB Corporation and all information included therein is the responsibility of the management of the Corporation and has been reviewed and approved by the Board of Directors upon recommendation by the Audit Committee.

Management has prepared the consolidated financial statements based on the information available and in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board. The consolidated financial statements and other financial information have been prepared using the accounting policies described in Note 2 to the consolidated financial statements and reflect management's best estimates and judgments based on available information. Financial information presented throughout this report is consistent with data presented in the consolidated financial statements.

PFB Corporation maintains systems of internal controls in order to provide reasonable assurance that the consolidated financial statements are accurate and complete in all material respects. These systems include established policies and procedures, the selection and training of qualified personnel, and an organization structure providing for appropriate delegation of authority and segregation of responsibilities.

The Board of Directors discharges its duties related to the consolidated financial statements by reviewing and approving financial information prepared by management and through the activities of its Audit Committee. The Audit Committee, made up of four unrelated and independent directors, meets with management and its responsibilities include reviewing the consolidated financial statements. The Audit Committee also meets with the Corporation's independent auditors to discuss the audit approach, and the results of their audit examination prior to recommending approval of the consolidated financial statements to the Board of Directors.

The shareholders' auditor, Deloitte LLP, Chartered Professional Accountants, Chartered Accountants have audited the consolidated financial statements as at and for the years ended December 31, 2015 and 2014, in accordance with Canadian Generally Accepted Auditing Standards. Their independent report outlines the scope of their examination and opinion on the consolidated financial statements and is presented herein.



C. Alan Smith
Chairman, President
and Chief Executive Officer

March 10, 2016

Calgary, Alberta



Mirko Papuga
Manager, Financial Reporting and
Compliance

March 10, 2016

Calgary, Alberta



INDEPENDENT AUDITOR'S REPORT

To the Shareholders of PFB Corporation

We have audited the accompanying consolidated financial statements of PFB Corporation, which comprise the consolidated balance sheets as at December 31, 2015 and December 31, 2014, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of 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.

Auditor's 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 auditor's 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 auditor considers 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 PFB Corporation as at December 31, 2015 and December 31, 2014, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

DELOITTE LLP

Chartered Professional Accountants, Chartered Accountants
March 10, 2016
Calgary, Alberta

Consolidated Balance Sheets

As at December 31, 2015 and 2014

Thousands of Canadian dollars



	Note	December 31, 2015	December 31, 2014
ASSETS			
Current assets			
Cash and cash equivalents	9	\$ 16,252	\$ 8,933
Trade receivables	10	7,535	8,931
Inventories	11	10,069	8,894
Income taxes recoverable	7	35	25
Prepaid expenses		932	763
Total current assets		34,823	27,546
Non-current assets			
Restricted marketable securities	19, 21	2,192	2,227
Property, plant and equipment	12	36,022	34,484
Intangible assets	13	1,521	1,298
Goodwill	14	2,385	2,093
Deferred income tax assets	7	1,901	1,599
Total non-current assets		44,021	41,701
Total assets		\$ 78,844	\$ 69,247
LIABILITIES			
Current liabilities			
Trade and other payables		\$ 8,903	\$ 7,089
Deferred revenue	16	3,408	2,716
Income taxes payable	7	1,497	474
Finance lease obligations	19	384	321
Total current liabilities		14,192	10,600
Non-current liabilities			
Finance lease obligations	19	14,087	14,095
Deferred operating lease obligations	18	341	178
Accrued defined benefit pension plan	15	180	56
Deferred income tax liabilities	7	1,376	1,697
Total non-current liabilities		15,984	16,026
Total liabilities		30,176	26,626
SHAREHOLDERS' EQUITY			
Common shares	20	20,947	20,947
Accumulated other comprehensive income		3,499	928
Retained earnings		24,222	20,746
Shareholders' equity		48,668	42,621
Total liabilities and shareholders' equity		\$ 78,844	\$ 69,247

Commitments and contingencies (Note 25), and operating leases (Note 24).

The accompanying notes are an integral part of these consolidated financial statements.

Approved by the Board of Directors

C. Alan Smith
Director

Gordon G. Tallman
Director

Consolidated Statements of Income

For the years ended December 31, 2015 and 2014

Thousands of Canadian dollars, except per share amounts



	Note	2015	2014
Sales		\$ 99,137	\$ 89,905
Cost of sales		(75,438)	(73,394)
Gross profit		23,699	16,511
Selling expenses		(9,750)	(9,000)
Administrative expenses		(5,604)	(4,855)
Other losses	6	(93)	(68)
Operating income		8,252	2,588
Gain on sale of real estate		63	-
Investment income		224	199
Finance costs		(1,430)	(1,438)
Income before taxes		7,109	1,349
Income tax expense	7	(2,021)	(432)
Net income for the year		\$ 5,088	\$ 917
Earnings per share - \$ per share			
Basic & diluted	8	\$ 0.76	\$ 0.14
Weighted average number of common shares outstanding			
Weighted average number of common shares outstanding – Basic & diluted	8	6,716,003	6,719,412

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Comprehensive Income

For the years ended December 31, 2015 and 2014

Thousands of Canadian dollars



	Note	2015	2014
Net income for the year		\$ 5,088	\$ 917
Other comprehensive income (loss):			
Items that may subsequently be reclassified to income:			
Foreign currency translation adjustments			
Exchange differences on translating foreign operations (net of tax \$nil)		2,702	1,147
Restricted available for sale financial assets			
Unrealized loss on available for sale financial assets, net of tax	19, 21	(26)	(124)
		2,676	1,023
Items that will not be subsequently reclassified to income:			
Defined benefit pension plan valuation change			
Unrealized loss on valuation change, net of tax		(105)	(45)
		(105)	(45)
Other comprehensive income for the year			
		2,571	978
Comprehensive income for the year		\$ 7,659	\$ 1,895

All comprehensive income in each year is attributable to the shareholders of the Corporation.

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Changes in Equity

As at December 31, 2015 and 2014

Thousands of Canadian dollars, except number of shares



	<u>Common shares</u>		<u>Accumulated other comprehensive income</u>					<u>Total</u>
	<u>Note</u>	<u>No. of Shares</u>	<u>Share capital</u>	<u>Foreign currency translation adjustments</u>	<u>Unrealized loss on sale assets, net of taxes</u>	<u>Defined benefit pension plan valuation change, net of taxes</u>	<u>Retained earnings</u>	
Balance at January 1, 2014		6,724,403	\$ 20,973	\$ (64)	\$ (105)	\$ 119	\$ 21,454	\$ 42,377
Net income for the year							917	917
Other comprehensive income (loss) for the year, net of tax				1,147	(124)	(45)	-	978
Total comprehensive income (loss) for the year				1,147	(124)	(45)	917	1,895
Payment of dividends	20			-	-	-	(1,613)	(1,613)
Shares repurchased pursuant to normal course issuer bid	20	(8,400)	(26)	-	-	-	(12)	(38)
Balance at December 31, 2014		6,716,003	20,947	1,083	(229)	74	20,746	42,621
Net income for the year							5,088	5,088
Other comprehensive income (loss) for the year, net of tax				2,702	(26)	(105)	-	2,571
Total comprehensive income (loss) for the year				2,702	(26)	(105)	5,088	7,659
Payment of dividends	20			-	-	-	(1,612)	(1,612)
Balance at December 31, 2015		6,716,003	\$ 20,947	\$ 3,785	\$ (255)	\$ (31)	\$ 24,222	\$ 48,668

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Cash Flows

For the years ended December 31, 2015 and 2014

Thousands of Canadian dollars



	Note	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income for the year		\$ 5,088	\$ 917
Adjustments for:			
Depreciation expense	12	3,648	3,511
Amortization expense	13	188	216
Gain on disposal of property, plant and equipment	6, 12	(12)	(33)
Gain on sale of real estate		(63)	-
Defined benefit pension plan		(21)	(80)
Finance costs		1,430	1,438
Investment income		(224)	(199)
Income tax expense	7	2,021	432
Unrealized foreign exchange gain	6	(389)	(20)
Funds flow from operations		11,666	6,182
Changes in non-cash working capital	26	2,558	131
Unrealized foreign exchange relating to non-cash working capital		(33)	116
Changes in deferred operating lease obligations	18	163	178
Cash from operating activities		14,354	6,607
Income taxes paid		(1,272)	(1,280)
Net cash from operating activities		13,082	5,327
CASH FLOWS USED IN INVESTING ACTIVITIES			
Purchase of property, plant and equipment	12	(2,166)	(2,153)
Purchase of intangible assets	13	(108)	(44)
Business combination	23	(1,236)	-
Proceeds from disposal of property, plant and equipment		18	58
Proceeds from sale of real estate		63	-
Interest received		67	42
Distributions received from marketable securities		157	157
Net cash used in investing activities		(3,205)	(1,940)
CASH FLOWS USED IN FINANCING ACTIVITIES			
Repayment of finance lease obligations		(356)	(314)
Finance costs paid		(1,430)	(1,438)
Dividends paid to shareholders	20	(1,612)	(1,613)
Payment for buy-back of common shares	20	-	(38)
Net cash used in financing activities		(3,398)	(3,403)
Unrealized foreign exchange gain on cash and cash equivalents held in foreign currencies		840	11
Net increase (decrease) in cash and cash equivalents		7,319	(5)
Cash and cash equivalents at the beginning of the year		8,933	8,938
Cash and cash equivalents at the end of the year	9	\$ 16,252	\$ 8,933

The accompanying notes are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2015 and 2014

Thousands of Canadian dollars



1. General information

PFB Corporation (“PFB” or the “Corporation”) is a Canadian public company incorporated under the Alberta Business Corporations Act and has its head office in Calgary, Alberta, Canada. The Corporation’s corporate office is located at 100, 2886 Sunridge Way NE, Calgary, Alberta, Canada T1Y 7H9. The Corporation’s shares are publicly traded on the Toronto Stock Exchange (“TSX”) under the symbol PFB. The principal business activity of the Corporation is manufacturing insulating building products made from expanded polystyrene materials and marketing these products in North America.

The Corporation’s wholly-owned subsidiaries operate manufacturing facilities and sales operations in the provinces of British Columbia, Alberta, Saskatchewan, Manitoba and Ontario in Canada, and in the States of Minnesota, Michigan, Idaho and Ohio, USA.

2. Significant accounting policies

2.1 Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as set out in the Chartered Professional Accountant (“CPA”) Canada Handbook – Accounting.

2.2 Basis of preparation

The consolidated financial statements were prepared on a historical cost basis except for certain financial instruments and contingencies which are valued at fair value through profit or loss. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

Certain comparative figures have been reclassified to conform to the presentation adopted in the current year.

The accounting policies set out below have been applied consistently in the preparation of the consolidated financial statements for all years presented.

Sales of the Corporation’s products are driven by consumer and industrial demand for insulation and building products. The timing of customers’ construction projects can be influenced by a number of factors including the prevailing economic climate and weather. Seasonality of construction results in demand for the Corporation’s products to be typically stronger in the second and third quarters and less strong in the first and fourth quarters of its fiscal cycle.

2.3 Basis of consolidation

Subsidiaries are all entities over which the Corporation has control. The Corporation controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The consolidated financial statements incorporate the accounts of the Corporation and its subsidiaries (entities controlled by the Corporation). All subsidiaries are wholly-owned by the Corporation (Note 28).

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

2.4 Business combinations

In accordance with IFRS 3 – Business Combinations (“IFRS 3”), the acquisition of an asset or group of assets is recorded as a business combination if the assets acquired and liabilities assumed constitute a business. A business is defined as an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing a return in the form of dividends, lower costs or other economic benefits.

The Corporation uses the acquisition method of accounting for business combinations. The consideration transferred in a business combination is measured at fair value for the assets transferred, liabilities incurred and the equity interest issued by the Corporation in exchange for control of the acquiree. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. At the acquisition date, identifiable assets acquired and liabilities assumed are recognized at their fair value at the acquisition date.

Acquisition-related costs are recognized in profit or loss as incurred.

The excess of the total consideration transferred and the acquisition date fair value of any previous equity interest in the acquiree (if any) over the fair value of the Corporation’s share of identifiable net assets acquired is recorded as

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goodwill. If this amount is less than the fair value of the net assets of the acquiree, such as in the case of a bargain purchase, the difference is recognized immediately in profit or loss as a bargain purchase gain.

When the consideration transferred by the Corporation in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and is included as part of the consideration transferred. Measurement year adjustments are adjustments that arise from additional information obtained during the ‘measurement year’ (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement year adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not re-measured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with International Accounting Standard (“IAS”) IAS 39 – *Financial Instruments: Recognition and measurement*, or IAS 37 - *Provisions, Contingent Liabilities and Contingent Assets*, as appropriate, with the corresponding gain or loss being recognized in profit or loss.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Corporation reports provisional amounts for the items for which the accounting is incomplete. The provisional amounts are adjusted during the measurement year (see above), or additional assets or liabilities are recognized, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognized at that date.

2.5 Revenue Recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated amounts attributable to customer returns, customer rebates and other similar allowances.

2.5.1 Goods manufactured

Revenue from the sale of manufactured goods is recognized when the goods are delivered and titles have passed, at which time all of the following conditions are satisfied:

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

2.5.2 Rendering of services

Revenue from a contract to provide services is recognized by reference to the stage of completion of the contract which is determined as follows:

- Design fees are recognized when the performance obligations of each design contract with a customer are fulfilled;
- Advisory fees are recognized when the performance obligations of each advisory contract with a customer are fulfilled; and
- Installation revenues are recognized when the performance obligations of each installation contract with a customer are fulfilled.

2.5.3 Construction contracts

Revenues and costs for construction contracts, which include full design build services and the Total Home Solution[®] offering, are recognized upon achievement of discrete performance obligations of each individual contract which are determined at the inception of the contract.

When the outcome of a construction contract cannot be determined reliably, contract revenue is recognized to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognized as expenses in the year in which they are incurred.

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When it is probable that total costs will exceed contract revenue, the expected loss is recognized as an expense immediately.

Amounts received before work is performed are included in the consolidated balance sheet as deferred revenue. Amounts billed for work performed but not yet paid by the customer are included in the consolidated balance sheet under trade receivables.

2.5.4 Investment income

Dividend income from investments is recognized when the Corporation's right to receive payment has been established (provided that it is probable that the economic benefits will flow to the Corporation and the amount of income can be measured reliably).

Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Corporation and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

2.6 Cash and cash equivalents

Cash and cash equivalents consist of cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of 90 days or less, restricted cash and bank overdrafts. Cash equivalents are designated at fair value through profit or loss (Note 21).

Restricted cash comprises cash collected from certain customers of the USA segment which is contractually segregated from other cash as it is held solely for disbursements to suppliers and service providers specific to those customer's contracts.

2.7 Inventories

Inventories, which comprise raw materials and supplies, work-in-progress and finished products, are stated at the lower of cost and net realizable value. Costs of inventories are predominantly determined using the weighted average cost method and includes the cost of purchase, the cost of conversion (labour and overhead) and other costs required to bring the inventories to their present location and condition. Some customized work-in-progress and finished product inventories are held at actual cost using the First-in, First-out ("FIFO") method and are segregated by customer job number. Inventories which have costs determined using the FIFO method represent a small portion of the Corporation's inventories on hand at any point in time and such inventories turn frequently. Net realizable value represents the estimated selling price for inventories, less all estimated costs of completion and costs necessary to make the sale. The cost of work-in-process and finished product inventories includes the cost of materials, the cost of direct labour, and a systematic allocation of manufacturing overheads based on a normal range of capacity for each production facility.

Inventories are written down to net realizable value when the cost of inventories is estimated to be unrecoverable due to obsolescence, damage or declining selling prices. When circumstances that previously caused inventories to be written down below cost no longer exist or when there is clear evidence of an increase in selling prices, the amount of write-down previously recorded is reversed.

2.8 Property, plant and equipment ("PP&E")

PP&E are carried at cost less accumulated depreciation and any impairment losses. The cost includes expenditures directly attributable to the acquisition of the property, plant and equipment. Assets acquired under finance leases are recognized at an amount equal to fair value or, if lower, the present value of the minimum lease payments, less accumulated depreciation and any impairment losses. Gains and losses, determined as the difference between net sales proceeds and the carrying amount of the asset, arising on the disposal of individual assets are recognized in earnings in the year of disposal.

PP&E in the course of construction for production are carried at cost, less any recognized impairment loss. Such properties are classified to the appropriate categories of PP&E when completed and ready for intended use.

Depreciation commences when the assets are available for use and is recognized on a straight-line basis to depreciate the capitalized cost of assets to their estimated residual values over their estimated useful lives. When significant parts of an asset have different expected useful lives, they are accounted for as separate components of the asset and

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depreciated over their estimated useful lives and depreciation method. Freehold land is not depreciated. Assets held under finance leases are depreciated over the shorter of the lease term and their expected useful lives.

<u>Asset class:</u>	<u>Useful life:</u>
Freehold land	Unlimited useful life, not depreciated
Buildings	15 to 40 years
Plant and equipment	3 to 20 years
Assets under finance lease	Lesser of the expected useful life and the term of the lease
Assets under construction	Depreciation commences when the asset is constructed and placed in use

An item of PP&E is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognizing an item of PP&E is measured as the difference between the net sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

PP&E is reviewed quarterly to determine whether there is any indication of impairment. Depreciation methods, useful lives, and residual values are reviewed at least annually and adjusted as appropriate.

2.9 Leasing

Leases are classified as finance leases whenever the terms of the leases transfer substantially all of the risks and rewards of ownership to the Corporation. All other leases are recorded as operating leases.

Assets held under a finance lease are initially recognized as assets of the Corporation at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated balance sheets as current and long-term finance lease obligations.

Lease payments are apportioned between finance expenses and a reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognized immediately in profit and loss.

Operating lease payments are recognized in the consolidated statement of income as an expense on a straight-line basis over the lease term. Lease incentives received and predetermined fixed escalations of the minimum rent are recognized as an integral part of the total lease expense, over the term of the lease. The Corporation leases properties with rental incentives and predetermined fixed escalations of the minimum rent (Note 18).

2.10 Intangible assets

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortization and any accumulated impairment losses. Amortization is recognized on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each reporting year and the effect of any changes in estimates is accounted for on a prospective basis. A summary of estimated useful life by asset class is as follows:

<u>Class:</u>	<u>Useful life:</u>
Patents	17 years
Product development costs	3 years
Software	3 to 5 years
Registered trade names	Indefinite life – not amortized
Order backlog	Lives of individual contracts (max. 3 years)

Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses and the carrying amounts are tested for impairment at least annually or whenever there is an indication that an asset may be impaired. In the case of impairment, the recoverable amount of an asset is estimated in order to determine the extent of the impairment loss, if any (Note 2.12).

Intangible assets acquired in a business combination and recognized separately from goodwill are initially recognized at their fair value at the acquisition date, which is considered to be the asset's deemed cost. Subsequent to their initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortization and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

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An intangible asset is derecognized on disposal or when no future economic benefits are expected from use. Any gain or loss arising from de-recognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in profit or loss when the asset is derecognized.

2.11 Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any. Goodwill is not amortized.

For the purposes of impairment testing, goodwill is allocated to each of the Corporation's cash-generating units ("CGU") that are expected to benefit from the synergies of the combination.

A CGU to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the CGU is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit, pro-rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognized directly in the consolidated statement of income. An impairment loss recognized for goodwill is not reversed in subsequent years.

2.12 Impairment of tangible and intangible assets other than goodwill

At the end of each reporting year, the Corporation reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Corporation estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

The recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. The process of determining cash flows requires management to make estimates and assumptions which include forecasted future sales, earnings, capital investment, and discount rates.

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

2.13 Foreign currency translation

The Corporation's primary economic environment in which it operates its businesses is Canada. The consolidated financial statements are presented in Canadian dollars, which is the Corporation's functional and presentation currency.

At the end of each reporting year, monetary items denominated in foreign currencies are retranslated at exchange rates prevailing at that date. Gains and losses arising from this retranslation are included in profit or loss in the year in which they arise. Non-monetary assets and liabilities that are measured at their historical cost in a foreign currency are not retranslated.

The Corporation's subsidiaries located in the United States have a functional currency of U.S. dollars. The assets and liabilities of the Corporation's foreign operations are translated into Canadian dollars using exchange rates prevailing at the end of each reporting year. Income and expense items are translated at the average exchange rates applicable to the years when recorded. Equity balance sheet amounts denominated in U.S. dollars are translated using historical

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exchange rates. Exchange differences arising, if any, are recognized in other comprehensive income and accumulated in equity.

Goodwill and fair value adjustments on identifiable assets and liabilities assumed through acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the end of each reporting year. Exchange differences arising are recognized in other comprehensive income.

2.14 Provisions

Provisions are recognized when the Corporation has a present legal or constructive obligation as a result of a past event, it is probable that the Corporation will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting year, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

The Corporation's provisions are not significant and are included in trade and other payables.

2.15 Financial instruments

Financial assets and financial liabilities are recognized initially at fair value when the Corporation or a subsidiary of the Corporation becomes a party to the contractual provisions of the instrument (Note 21).

Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial asset or financial liabilities, as appropriate, on initial recognition. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

2.16 Financial assets

The Corporation's financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' ("FVTPL"); and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

2.16.1 Financial assets at FVTPL

A financial asset, other than a financial asset held for trading, may be designated as at FVTPL upon initial recognition.

Financial assets at FVTPL are stated at fair value, with any gains and losses arising on re-measurement recognized in profit or loss.

Available-for-sale financial assets are non-derivatives comprised of restricted marketable securities. Available-for-sale financial assets are recognized initially at fair value plus transaction costs and subsequently carried at fair value. Gains or losses arising from changes in fair value are recognized in other comprehensive income (loss) ("OCI"). Distributions from available-for-sale instruments are recognized in earnings when the Company's right to receive payment is established.

2.16.2 Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Corporation's loans and receivables include trade receivables and are measured at amortized cost using the effective interest method, less any impairment.

2.16.3 Impairment of financial assets

The Corporation assesses its financial assets, other than any classified at FVTPL, for indicators of impairment at the end of each reporting year. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

Objective evidence of impairment could include:

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- significant financial difficulty of the issuer or counterparty;
- breach of contract;
- it becoming probable that the borrower will enter bankruptcy or financial reorganization; or
- the disappearance of an active market for financial assets because of financial difficulties.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence for a portfolio of receivables could include the Corporation's past experience in collecting payments or an increase in the number of delayed payments in the portfolio past the average credit terms allowed, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent years.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectable, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

For financial assets measured at amortized cost, if, in a subsequent year, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognized, the previously recognized impairment is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

2.17 Financial liabilities

The Corporation's financial liabilities are classified as 'other financial liabilities' and include any borrowings and trade and other payables. Other financial liabilities are subsequently measured at amortized cost using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant year. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability.

2.18 Taxation

Income tax expense represents the sum of the tax currently payable, deferred tax and prior year adjustments.

2.18.1 Current tax

The tax currently payable is based on taxable income for the year. Taxable income differs from 'income before tax' as reported in the consolidated statements of income because of items of income and expense that are taxable or deductible in other years and items that are never taxable or deductible. The Corporation's current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting year.

2.18.2 Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable income. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither

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the taxable income nor the accounting income. In addition, deferred tax liabilities are not recognized if the temporary difference arises from the initial recognition of goodwill.

The carrying amount of deferred tax assets is reviewed at the end of each reporting year and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred tax assets to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the year in which the liability is settled or the asset is realized, based on tax rates that have been enacted or substantively enacted by the end of the reporting year. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Corporation expects, at the end of the reporting year, to recover or settle the carrying amount of its assets and liabilities.

Deferred income tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Corporation has a legally enforceable right to offset and intends to settle its current tax assets and liabilities on a net basis.

2.18.3 Current and deferred tax for the year

Current, deferred and prior period tax adjustments are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current, deferred and prior year tax adjustments are also recognized in other comprehensive income or directly in equity, respectively.

2.19 Employee retirement benefit plan

The Corporation has a defined benefit plan (the “Plan”) providing pension benefits to certain eligible employees who are members of a union which is their certified bargaining agent. The Plan is registered with the Financial Services Commission of Ontario and with the Canada Revenue Agency and is funded in accordance with applicable legislation. Commencing April 1, 2012, the defined benefit plan was closed to all new hires.

The cost of providing benefits under the Plan is determined using the projected unit credit method prorated based on service, with actuarial valuations being carried out at the end of each annual reporting period. Re-measurement, comprising actuarial gains and losses, the effect of the changes to the asset ceiling, and the return on plan assets (excluding interest), is reflected immediately in the consolidated balance sheet with a charge or credit recognized in other comprehensive income in the year in which they occur. Re-measurement recognized in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss. Past service cost is recognized in profit or loss in the period of a plan amendment. Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset. Defined benefit costs are categorized as follows:

- Service cost (including current and past service cost, as well as gains and losses on curtailments and settlements);
- Net interest expense or income; and
- Re-measurement.

The Corporation presents service costs in the consolidated statements of income in the line item cost of sales.

The retirement benefit obligation recognized in the consolidated balance sheets represents the actual deficit or surplus in the Corporation’s defined benefit plan.

2.20 Earnings per share

Basic earnings per share is determined by dividing profit attributable to common shareholders of the Corporation by the weighted average number of common shares outstanding during the year.

The Corporation uses the treasury stock method of calculating diluted earnings per common share. The treasury stock method is used to compute the dilutive effect of stock options, warrants and similar instruments. Under this method, the exercise of stock options is assumed to have occurred at the beginning of the year and the related common shares are assumed issued at that time. The proceeds from exercise are assumed to have purchased common shares of the Corporation for cancellation at the average market value price during the year. The incremental shares (the difference between the number of shares assumed issued and the number of shares assumed purchased) are included in the denominator of the diluted earnings per common share calculation. Diluted earnings per common share exclude all potential dilutive common shares where the effect is anti-dilutive.

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3. Critical accounting judgments and estimates

In the application of the Corporation's accounting policies, as described in Note 2, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities. The estimates and associated assumptions are based on a combination of historical experience, available knowledge of current conditions, and other factors that are considered to be reasonable and relevant under the circumstances. Actual costs and outcomes may significantly differ from these estimates and assumptions.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimate is revised if the revision affects only that year or in the year of the revision and future years if the revision affects both current and future years.

The following are the key assumptions concerning the future and other key sources of estimating uncertainty at the end of the reporting year, that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year.

3.1 Cash-generating unit ("CGU")

Determination of which assets constitute a CGU is subject to management judgments. Also, the asset composition of a CGU can directly impact the recoverability of assets included therein. The recoverable amount of a CGU is assessed at the CGU level and is the higher of the CGU's fair value less costs of disposal and its value in use. A CGU may be impaired when its carrying amount exceeds its recoverable amount. Key assumptions used for the value in use calculations are set out in Note 14.

3.2 Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the CGUs to which goodwill has been allocated. The value in use calculation requires management to estimate the future cash flows expected to arise from the CGU and determine a suitable discount rate in order to calculate present value.

3.3 Impairment of tangible and intangible assets

Determining whether tangible and intangible assets are impaired requires an estimation of the value-in-use of the CGUs to which they have been allocated. The value in use calculation requires management to estimate the future cash flows expected to arise from the CGU and a suitable discount rate to be determined in order to calculate present value.

3.4 Valuation of inventories

Management reviews the carrying amount of finished goods inventories at the end of each reporting year and the recorded amount is adjusted to the lower of cost or net realizable value. As part of the review, management is required to make certain assumptions when determining expected realizable amounts.

An inventory reserve is maintained for slow-moving raw materials and work-in-progress inventories. The value of slow-moving inventories is based on management's assessment of market conditions for its products as determined by historical usage and estimated future demand. Any write downs in value may be reversed if the circumstances which caused them no longer exist.

3.5 Allowance for doubtful accounts

Management reviews the aging profile of trade receivables on a customer-by-customer basis at least at the end of each reporting year and an allowance for doubtful accounts reserve is maintained. The value of the allowance for doubtful accounts reserve typically tracks the seasonality trend of trade receivables. Specific reserves may be created for individual customers in exceptional circumstances. Bad debts are written off against the reserve.

3.6 Income taxes

The Corporation is subject to income taxes in both Canada and the USA. When preparing current and deferred tax expense at the end of each reporting year, management is required to make certain estimates and assumptions regarding the timing of when temporary differences will reverse and tax rates that will be in force at that time. Unknown future events and circumstances, such as changes in tax rates and laws, may materially affect the assumptions and estimates made from one year to the next and thereby affect the consolidated financial statements.

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3.7 Measurement of retirement benefits

Post-employment benefits are accounted for on an actuarial basis. The Corporation engages the services of an independent actuary to perform valuations of the Corporation's defined benefits plan and the actuary provides a certified opinion thereon. For inclusion in the valuation, management is required to make certain assumptions including an appropriate discount rate and the estimated return of plan assets. The estimates are reviewed for reasonableness by the actuary. Due to the nature of the assumptions made and used in the valuations, there is the potential for fluctuations of a material nature in the value of the defined benefits in future years.

3.8 Property plant and equipment

The Corporation estimates the useful life of property, plant and equipment that it owns or is held under a finance lease. The actual useful life of assets and components of assets could vary significantly from the estimated useful lives used in determining periodic depreciation expense. Management reviews the useful lives of the assets at least annually to ensure that expected and actual lives are closely aligned.

3.9 Valuations performed during a business combination

The Corporation makes judgments, estimates and assumptions that affect the quantitative and qualitative valuation of business combinations. These may include: estimates of future cash flows and working capital requirements; potential acquisition synergies; costs to complete the transaction; the value of contingent consideration; strategic direction; management effectiveness, and operating efficiencies. Fair value of assets acquired and liabilities assumed in a business combination is estimated based on information available at the date of acquisition and involves considerable judgment in determining the fair values assigned to acquired intangible assets, land, property, plant and equipment, and other assets, and the liabilities assumed on acquisition. Unknown future events and changes in assumptions and estimates may impact future cash flows and materially impact the valuation of each business combination.

3.10 Finance leases

Management uses judgment in determining whether a lease should be accounted for as a finance lease. In doing so, management considers the lease terms and, in some cases, those terms may not always conclusively support the classification as a finance lease.

4. Application of new and revised International Financial Reporting Standards ("IFRSs")

4.1 New and revised IFRSs affecting amounts reported and/or disclosures in the consolidated financial statements

The Corporation has applied a number of new and revised IFRSs issued by the International Accounting Standards Board ("IASB") that are mandatorily effective for an accounting year that begins on or after January 1, 2015.

- **Annual Improvements to IFRSs 2010-2012 & 2011-2013 Cycle**

The IASB issued its Annual Improvements Cycles for years 2010-2012 and years 2011-2013 during 2014.

- **Amendment to IAS 19 *Employee Benefits***

IAS 19 was amended to clarify how contributions from employees or third parties should be apportioned to the period of employee service. A practical expedient permits contributions to be recognized as a reduction in the service costs if the contributions are independent of the years of service.

The Corporation has determined that the above amendments, mandatorily applied effective July 1, 2014, had no material impact on the disclosures or on amounts recognized for an annual periods that begin on or after January 1, 2015.

4.2 New and revised accounting standards and interpretations, but not yet effective

The IASB and International Financial Reporting Interpretations Committee ("IFRIC") have issued the following standards and amendments that have not been applied in preparing these consolidated financial statements as their effective dates fall within annual periods beginning subsequent to the current reporting period.

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Proposed Standard	Description	Previous Standard(s)	Effective Date
IFRS 15 – <i>Revenue from Contracts with Customers</i>	A single standard on revenue recognition that contains a single model that applies to contracts with customer and two approaches to recognizing revenue; at a point in time or over a period of time.	IAS 11 - <i>Construction Contracts</i> ; IAS 18 - <i>Revenue</i> ; IFRIC 13 - <i>Customer Loyalty Programmes</i> ; IFRIC 15 - <i>Agreements for the Construction of Real Estate</i> ; IFRIC 18 - <i>Transfers of Assets from Customers</i> ; SIC-31 - <i>Revenue - Barter Transactions Involving Advertising Services</i>	Annual periods beginning on or after January 1, 2018, with early adoption permitted.
IFRS 9 – <i>Financial Instruments</i>	A single financial instrument accounting standard addressing: classification and measurement (Phase I), impairment (Phase II) and hedge accounting (Phase III).	IAS 39; IAS 32; IFRS 7 – <i>Financial Instruments: Recognition and Measurement; Presentation; Disclosures</i>	Annual periods beginning on or after January 1, 2018, with early adoption permitted.
IFRS 16 – <i>Leases</i>	A new standard on lease accounting that results in substantially all lessee leases being recognized on the statement of financial position.	IAS 17 - <i>Leases</i>	Annual periods beginning on or after January 1, 2019, with early adoption permitted.
IFRS 14 – <i>Regulatory Deferral Accounts</i>	Amendments applicable to first-time adopters of IFRS with rate-regulated activities.	IFRS 14 – <i>Regulatory Deferral Accounts</i>	Annual periods beginning on or after January 1, 2016.
IFRS 4 – <i>Insurance Contracts</i>	In June 2014, the IASB issued a revised exposure draft proposing a comprehensive measurement approach for all types of insurance contracts.	IFRS 4 – <i>Insurance Contracts</i>	Final standard expected late 2016 with an effective date not expected before 2020.

Amendment Date	Description	Amended Standard(s)	Effective Date
January 29, 2016	Disclosure Initiative – certain amendments to disclose changes in liabilities arising from financing activities.	IAS 7 – <i>Statement of Cash Flows</i>	Annual periods beginning on or after January 1, 2017.
January 16, 2016	Amendments to clarify the recognition of deferred tax assets for unrealized losses.	IAS 12 – <i>Income Taxes</i>	Annual periods beginning on or after January 1, 2017.
December 18, 2014	Disclosure Initiative - certain amendments to facilitate improved financial statement disclosures.	IAS 1 - <i>Presentation of Financial Statements</i>	Annual periods beginning on or after January 1, 2016.
December 18, 2014	Amendments to address issues in applying the consolidation exception for investment entities.	IFRS 10 – <i>Consolidated Financial Statements</i> ; IFRS 12 – <i>Disclosure of Interest in Other Entities</i> ; IAS 28 – <i>Investments in Associates and Joint Ventures</i>	Annual periods beginning on or after January 1, 2016.

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September 25, 2014	Annual Improvement to IFRSs 2012-2014 Cycle	IFRS 5 - <i>Non-current Assets Held for Sale and Discontinued Operations</i> ; IFRS 7 - <i>Financial Instruments: Disclosures</i> ; IAS 19 - <i>Employee Benefits</i> ; IFRS 34 - <i>Interim Financial Reporting</i>	Annual periods beginning on or after January 1, 2016.
September 11, 2014	Amendments to address a conflict between IAS 28 and IFRS 10 in a transaction involving an associate or joint venture.	IAS 10 – <i>Consolidated Financial Statements</i> ; IAS 28 – <i>Investments in Associates and Joint Ventures</i>	Deferred indefinitely.
August 18, 2014	Amendments to reinstate the equity method as an accounting option for investments in subsidiaries, joint ventures and associates in an entity's separate financial statements.	IAS 27 – <i>Equity Method in Separate Financial Statements</i>	Annual periods beginning on or after January 1, 2016.
June 30, 2014	Amendments to include bearer plants within the scope of IAS 16 rather than IAS 41.	IAS 16 – <i>Property, Plant and Equipment</i> ; IAS 41 – <i>Agriculture</i>	Annual periods beginning on or after January 1, 2016.
May 12, 2014	Clarification that revenue-based methods to calculate depreciation of an asset are not appropriate, except in two limited circumstances.	IAS 16 – <i>Property, Plant and Equipment</i> ; IAS 38 – <i>Intangible Assets</i>	Annual periods beginning on or after January 1, 2016.
May 6, 2014	Amendments to add new guidance to IFRS 11 on accounting for the acquisition of an interest in a joint operation.	IFRS 11 – <i>Joint Arrangements: Accounting for Acquisition of Interest in Joint Operations</i>	Annual periods beginning on or after January 1, 2016.

Management has not yet evaluated the impact of these new standards on the Corporation's consolidated financial statement measurements and disclosures. The Corporation does not anticipate early adoption.

5. Segment information

The Corporation has two reportable operating segments, Canada and the USA, and each segment applies the same accounting policies (Note 2), internal controls and reporting systems. Segment performance predominantly focuses on the types of goods and services provided and their geographical locations of manufacturing and distribution.

The chief operating decision maker evaluates performance on the basis of operating income or loss, as reported on a periodic basis. This performance measure is considered to be the most relevant in evaluating the results of each operating segment.

5.1 Segment sales revenues and income

Segment sales represent sales revenues directly attributable to each segment. Inter-segment sales have been eliminated. There are varying levels of integration between each segment.

The Canadian segment primarily derives its revenues from the sale of expanded polystyrene ("EPS") foam products, which it manufactures at its facilities in Canada. The USA segment primarily derives its revenues from the sale of EPS foam products, customized log and timber structures made at its facilities in the United States, along with providing design and installation services for its manufactured products.

Segment operating income (loss) represents the income or loss as reported by each segment excluding any allocations for corporate income or expenses and foreign exchange gains or losses arising on an inter-segment loan.

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Information regarding each reportable operating segment for the years ended December 31, 2015 and 2014 is set out below:

	Sales revenues		Operating income (loss)	
	2015	2014	2015	2014
Canada	\$ 72,857	\$ 68,994	\$ 8,543	\$ 2,551
USA	26,280	20,911	(179)	148
Total for segments	\$ 99,137	\$ 89,905	8,364	2,699
Corporate – expense			(109)	(113)
Foreign exchange (loss) gain on inter-segment loan			(3)	2
Consolidated operating income			\$ 8,252	\$ 2,588

5.2 Segment assets and liabilities

Management measures capital employed using net segmented assets. The reconciliation of segmented assets and segmented liabilities in relation to total consolidated assets and liabilities as at December 31 is set out in the table below:

	2015	2014
Assets		
Segment assets	\$ 52,362	\$ 51,413
Assets not allocated to segments:		
Cash and cash equivalents	16,252	8,933
Freehold land and buildings	8,003	6,642
Restricted marketable securities	2,192	2,227
Corporate taxes recoverable ¹	35	32
Total assets	\$ 78,844	\$ 69,247
Liabilities		
Segment liabilities	\$ 15,703	\$ 12,210
Liabilities not allocated to segments:		
Finance lease obligations	14,471	14,416
Corporate taxes payable ¹	2	-
Total liabilities	\$ 30,176	\$ 26,626
Net segment assets		
Canada	\$ 27,713	\$ 32,002
USA	8,946	7,201

¹ Current and deferred taxes.

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5.3 Other segment information

	2015	2014
Additions to non-current assets:		
Canada	\$ 1,822	\$ 1,957
USA	1,688	240
Total	<u>\$ 3,510</u>	<u>\$ 2,197</u>
Depreciation and amortization:		
Canada	\$ 2,539	\$ 2,570
USA	763	681
Total	<u>\$ 3,302</u>	<u>\$ 3,251</u>
Inter-segment sales	<u>\$ 4,226</u>	<u>\$ 2,029</u>

6. Other losses

	2015	2014
Unrealized foreign exchange gains	\$ 389	\$ 20
Realized foreign exchange losses	(494)	(121)
Gain on disposals of property, plant and equipment	12	33
	<u>\$ (93)</u>	<u>\$ (68)</u>

7. Income taxes

7.1 Income taxes recognized in the year

	2015	2014
Current tax expense	\$ 2,277	\$ 744
Deferred tax recovery	(256)	(312)
Income tax expense	<u>\$ 2,021</u>	<u>\$ 432</u>

In the year ended December 31, 2015, deferred income tax recovery of \$49 (2014 - \$57 deferred income tax recovery) was recognized directly in other comprehensive income.

The income tax expense can be reconciled to the accounting income as follows:

	2015	2014
Income before taxes	\$ 7,109	\$ 1,349
Income tax expense calculated at 26.4% (2014 – 25.4%)	\$ 1,877	\$ 343
Effect of different tax rates of subsidiaries operating in other jurisdictions	-	46
Enacted rate increase	122	-
Non-taxable portion of capital gain	(8)	-
Expenses not deductible in determining taxable income	35	32
Other	(5)	11
Income tax expense	<u>\$ 2,021</u>	<u>\$ 432</u>

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The statutory tax rate in the table above is the combined Canadian federal and blended provincial income tax rate of 26.4% (2014– 25.4%).

7.2 Current tax assets and liabilities

	As at Dec 31, 2015	As at Dec 31, 2014
Current tax assets		
Income taxes recoverable	\$ 35	\$ 25
Current tax liabilities		
Income taxes payable	1,497	474

7.3 Deferred tax balances

The Corporation is subject to tax in multiple jurisdictions and deferred tax assets and liabilities arising in different jurisdictions cannot be netted against each other. The analysis of deferred tax assets and liabilities presented in the consolidated balance sheets is as follows:

	As at Dec 31, 2015	As at Dec 31, 2014
Deferred tax assets		
Non-capital tax losses carried forward	\$ 2,394	\$ 1,970
Reserves	137	452
Other	36	56
Intangible assets	(98)	(77)
Land	-	(103)
Property, plant and equipment	(568)	(699)
	\$ 1,901	\$ 1,599
Deferred tax liabilities		
Property, plant and equipment	\$ (2,018)	\$ (1,895)
Land	(111)	-
Intangible assets	(34)	(32)
Reserves	43	50
Deferred operating lease obligation	93	45
Other	293	(38)
Lease items	358	173
	\$ (1,376)	\$ (1,697)

Non-capital tax losses carried forward expire in years 2031 through 2035.

Notes to the Consolidated Financial Statements

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8. Earnings per share

The following table sets forth the reconciliation of basic and diluted earnings per share:

	2015	2014
Net income for the year	\$ 5,088	\$ 917
Weighted average number of common shares outstanding – basic & diluted	6,716,003	6,719,412
Earnings per share:		
Basic & diluted	\$ 0.76	\$ 0.14

9. Cash and cash equivalents

	As at Dec 31, 2015	As at Dec 31, 2014
Cash held with banks	\$ 5,706	\$ 5,038
Short-term investments	10,025	3,503
Restricted cash	521	392
	\$ 16,252	\$ 8,933

Interest income earned on bank balances and short-term investments is reported as investment income in the consolidated statements of income.

Restricted cash comprises cash collected from certain customers of the USA segment which is contractually segregated from other cash as it is held exclusively for disbursements to suppliers and service providers specific to those individual customer contracts.

10. Trade receivables

Eligible trade receivables held by the Corporation's subsidiaries in Canada have been pledged as security with a bank in support of a revolving credit facility. The revolving credit facility was unused as at December 31, 2015.

10.1 Current trade receivables

Aging profile	As at Dec 31, 2015	As at Dec 31, 2014
Current and past due for less than 30 days	\$ 7,301	\$ 8,562
Past due for between 31 and 90 days	286	109
Past due for 91 days or longer	398	897
Total gross current trade receivables	7,985	9,568
Allowance for doubtful accounts	(450)	(637)
Current trade receivables, net	\$ 7,535	\$ 8,931

The average trade credit allowed on the sale of goods is between 45 and 60 days from the date of shipment. For sales of customized products and services, deposits and/or payment installments are typically incorporated into contract terms to mitigate the potential for default. Deposits and installments received on individual accounts which exceed the value of goods and/or services invoiced are recorded as deferred revenue on the consolidated balance sheets.

The Corporation has recognized an allowance for doubtful trade receivables on accounts that are past due by more than 60 days based on estimated irrecoverable amounts determined by reference to past experiences. As at December 31, 2015 and 2014, the allowance for doubtful accounts reserve includes amounts to cover continuing exposure with several long-standing customers in the USA which have trade receivables included in the past due for 91 days or longer category.

Notes to the Consolidated Financial Statements

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In determining the recoverability of a trade receivable, the Corporation considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the end of the reporting year. The concentration of credit risk is limited due to the fact that the customer base is large and diversified.

10.2 Change in allowance for doubtful accounts

A reconciliation of the beginning and ending carrying amounts of the Corporation's allowance for doubtful accounts is as follows:

	2015	2014
Balance at beginning of year	\$ (637)	\$ (567)
Additional amounts provided for during the year	(188)	(194)
Trade receivables written off during the year	375	124
Balance at end of year	\$ (450)	\$ (637)

11. Inventories

	As at Dec 31, 2015	As at Dec 31, 2014
Raw materials	\$ 4,834	\$ 4,978
Work in progress	2,580	2,256
Finished goods	2,655	1,660
	\$ 10,069	\$ 8,894

Eligible inventories held by each of the Corporation's Canadian and USA subsidiaries have been pledged as security with a bank in support of revolving credit facilities. The revolving credit facilities were unused as at December 31, 2015.

The cost of inventories recognized as an expense in cost of sales in the year ended December 31, 2015, was \$61,051 (2014 - \$59,201). Included in the cost of inventories recognized as an expense were write-downs from full cost to net realizable value in the amount of \$476 (2014 - \$812). There were no reversals of any write-downs in either 2015 or 2014.

Inventories include \$980 acquired through a business combination (Note 23.2).

12. Property, plant and equipment

In the tables below, assets under finance leases include buildings, automobiles and materials handling equipment. As at December 31, 2015, automobiles and materials handling equipment had a carrying amount of \$619 (2014 - \$445) and buildings had a carrying value of \$12,584 (2014 - \$13,313) for a total amount of assets under finance lease of \$13,203 (2014 - \$13,758). Automobile leases include provisions whereby the automobiles can be purchased for their residual value whereas the individual building leases have no such rights to purchase at any residual value.

Assets under construction as at December 31, 2015 are expected to be available for use in 2016.

Property, plant and equipment include \$1,154 acquired through a business combination (Note 23.2).

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Cost	Freehold land	Buildings	Plant and equipment	Assets under finance leases	Assets under construction	Total
Balance at January 1, 2014	\$ 2,118	\$ 8,957	\$ 35,794	\$ 15,492	\$ 174	\$ 62,535
Additions	-	164	3	310	1,986	2,463
Disposal of PP&E assets	-	(28)	(453)	(210)	-	(691)
Transfer between asset groups	-	910	866	(26)	(1,750)	-
Effect of foreign currency exchange differences	79	489	447	16	-	1,031
Balance at December 31, 2014	2,197	10,492	36,657	15,582	410	65,338
Additions	-	-	6	364	2,160	2,530
Business combinations	822	184	148	-	-	1,154
Disposal of PP&E assets	-	-	(120)	(30)	-	(150)
Transfers between asset groups	-	447	1,498	-	(1,945)	-
Effect of foreign currency exchange differences	189	1,145	1,064	54	45	2,497
Balance at December 31, 2015	\$ 3,208	\$ 12,268	\$ 39,253	\$ 15,970	\$ 670	\$ 71,369
Accumulated Depreciation						
Balance at January 1, 2014	\$ -	\$ 4,144	\$ 22,402	\$ 1,107	\$ -	\$ 27,653
Depreciation expense	-	577	2,002	932	-	3,511
Disposal of PP&E assets	-	(28)	(445)	(193)	-	(666)
Transfers between asset groups	-	78	(52)	(26)	-	-
Effect of foreign currency exchange differences	-	140	212	4	-	356
Balance at December 31, 2014	-	4,911	24,119	1,824	-	30,854
Depreciation expense	-	670	2,026	952	-	3,648
Disposal of PP&E assets	-	-	(120)	(24)	-	(144)
Transfers between asset groups	-	-	-	-	-	-
Effect of foreign currency exchange differences	-	402	572	15	-	989
Balance at December 31, 2015	\$ -	\$ 5,983	\$ 26,597	\$ 2,767	\$ -	\$ 35,347
Net book values						
2014	\$ 2,197	\$ 5,581	\$ 12,538	\$ 13,758	\$ 410	\$ 34,484
2015	3,208	6,285	12,656	13,203	670	36,022

Depreciation commences when assets are available for use. Depreciation expense for the year ended December 31, 2015 in the amount of \$3,220 (2014 - \$3,110) is included in cost of sales, with an amount of \$286 (2014 - \$252) included in selling expenses, and an amount of \$142 (2014 - \$149) included in administrative expenses.

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13. Intangible assets

Cost	Patents	Product development costs	Software	Registered trade names	Order backlog	Non-compete agreement	Total
Balance at January 1, 2014	\$ 70	\$ 908	\$ 2,354	\$ 1,002	\$ 158	\$ 30	\$ 4,522
Additions	-	-	44	-	-	-	44
Transfer between asset groups	-	-	(71)	-	-	-	(71)
Effect of foreign currency exchange	-	22	34	91	14	3	164
Balance at December 31, 2014	70	930	2,361	1,093	172	33	4,659
Additions	-	-	108	-	-	-	108
Business combinations	-	-	-	82	-	-	82
Disposal of intangible assets	-	-	(23)	-	-	-	(23)
Effect of foreign currency exchange	-	50	79	212	33	6	380
Balance at December 31, 2015	\$ 70	\$ 980	\$ 2,525	\$ 1,387	\$ 205	\$ 39	\$ 5,206
Accumulated Amortization							
Balance at January 1, 2014	\$ 38	\$ 908	\$ 2,035	\$ -	\$ 142	\$ 30	\$ 3,153
Amortization expense	5	-	194	-	17	-	216
Transfer between asset groups	-	-	(71)	-	-	-	(71)
Effect of foreign currency exchange	-	22	25	-	13	3	63
Balance at December 31, 2014	43	930	2,183	-	172	33	3,361
Amortization expense	5	-	183	-	-	-	188
Disposal of intangible assets	-	-	(23)	-	-	-	(23)
Effect of foreign currency exchange	-	50	70	-	33	6	159
Balance at December 31, 2015	\$ 48	\$ 980	\$ 2,413	\$ -	\$ 205	\$ 39	\$ 3,685
Net book values							
2014	\$ 27	\$ -	\$ 178	\$ 1,093	\$ -	\$ -	\$ 1,298
2015	22	-	112	1,387	-	-	1,521

Amortization expense for the year ended December 31, 2015 in the amount of \$8 (2014 - \$23) is included in cost of goods sold, an amount of \$80 (2014 - \$74) is included in selling expenses, and an amount of \$100 (2014 - \$119) is included in administrative expenses.

Intangible assets include \$82 acquired through a business combination (Note 23.2).

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14. Goodwill

14.1 Cost

	2015	2014
Balance at beginning of year	\$ 2,093	\$ 1,968
Effect of foreign currency exchange differences	292	125
Balance at end of year	\$ 2,385	\$ 2,093

For the purpose of impairment testing, goodwill is allocated to CGUs (Note 14.2). As at the testing date selected, the Corporation determined that the value in use of each cash-generating unit exceeded their carrying amounts and therefore no provision for impairment was provided. In order to determine whether impairment is incurred, the Corporation estimates the recoverable amount of each CGU. Recoverable amounts are determined on the basis of value in use calculations. Classification of CGUs and value in use in 2015 was determined the same way as in 2014.

14.2 Allocation of goodwill to cash-generating units

The carrying amount of goodwill has been allocated for impairment testing purposes to the following cash-generating units:

	As at Dec 31, 2015	As at Dec 31, 2014
Canada	\$ 580	\$ 580
USA	1,805	1,513
	\$ 2,385	\$ 2,093

The recoverable amounts of the cash-generating units are determined by performing value in use calculations which use cash flow projections based on a one-year financial budget approved by the directors plus future financial projections covering an additional four-year period. The cash flow projections for the four year period following the budget year are prepared in a manner consistent with past experience and reflect management's expectation of the medium term operating performance of the CGUs and the markets in which they operate. The valuation model also takes into account working capital requirements and capital investments required to support the sales revenue projections, and terminal values.

The Corporation used a discount rate of 12.0% (11.0% in 2014). The discount rate was determined based on an estimate of the Corporation's weighted average cost of capital.

The key assumptions used for value in use calculations in 2015 and 2014 were as follows:

Year	Cash generating unit	Compound annual growth rate (5 Years)	Long-term growth rate	Discount rate
2015	Canada	3.2 %	2.0 %	12.0 %
	USA	11.7 %	2.0 %	12.0 %
2014	Canada	3.5 %	2.0 %	11.0 %
	USA	10.8 %	2.0 %	11.0 %

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15. Retirement benefits plans

15.1 Group registered retirement savings plan

The Corporation operates a group registered retirement savings plan for all qualifying employees in Canada. The assets of each individual in the plan are held separately from those of the Corporation in investment instruments under the control of a large Canadian insurer. An individual employee's assets held in the plan are self-administered by the employee. The Corporation's obligation with respect to the group registered retirement savings plans is to administer employee contributions via the payroll and to part-match contributions made by employees based on an established policy.

15.2 Group 401K plan

The Corporation operates group 401K plans for all qualifying employees located in Michigan, Minnesota, Ohio and Idaho, USA, in which qualifying employees may elect to defer current wages for retirement. The Corporation has the option to match employee contributions to the plans.

The assets of the plans are held separately from those of the Corporation by a trust company and governed by a custodial agreement under the Employee Retirement Income Security Act ("ERISA"). The Corporation also utilizes the services of registered investment brokers and third party administrators in the fulfillment of its actuarial and fiduciary responsibilities with respect to the plans.

15.3 Defined benefit pension plan

The Corporation operates a funded defined benefit pension plan for qualifying Ontario-based employees who are members of the United Steel, Paper and Forestry, Rubber, Manufacturing, Energy, Allied Industrial and Service Workers International Union. Under the plan, retiring employees receive on a monthly basis a fixed benefit amount multiplied by the number of years of eligible service. No other post-retirement benefits are provided to these employees except for a minimal amount of life insurance coverage.

The most recent actuarial valuation of plan assets and the present value of defined benefit obligation were determined as at March 31, 2014 and the accounting valuations were subsequently updated to December 31, 2015, by the independent actuary. The next valuation report is required as at March 31, 2017.

The table below outlines the amounts included in the consolidated balance sheets arising from the Corporation's obligation in respect of its defined benefit plan:

	As at Dec 31, 2015	As at Dec 31, 2014
Present value of the funded defined benefit obligation	\$ 1,718	\$ 1,653
Fair value of plan assets	(1,538)	(1,597)
Net liability arising from defined benefit obligation	\$ 180	\$ 56

The principal assumptions used for the purpose of the actuarial accounting valuations were as follows:

	2015	2014
Discount rate (end of fiscal year)	4.00 %	4.00 %
Expected return on plan assets	4.00 %	4.00 %

Amounts recognized as an expense in respect of the defined benefit plan were as follows:

	2015	2014
Current service costs	\$ 43	\$ 36
Administration costs	48	29
Interest costs	67	69
Interest income	(65)	(67)
	\$ 93	\$ 67

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The expense for the years is included in cost of sales in the consolidated statements of comprehensive income.

Movements in the present value of the defined benefit obligation were as follows:

	2015	2014
Opening defined benefit obligation	\$ 1,653	\$ 1,435
Current service costs	43	36
Interest cost on obligation	67	69
Benefit payments	(45)	(45)
Actuarial loss (gain)	-	158
Closing defined benefit obligation	\$ 1,718	\$ 1,653

Movements in the present value of the plan assets were as follows:

	2015	2014
Opening fair value of plan assets	\$ 1,597	\$ 1,360
Actual return on plan assets	(80)	164
Employer contributions	114	147
Administration costs	(48)	(29)
Benefit payments	(45)	(45)
Closing fair value of plan assets	\$ 1,538	\$ 1,597

The major categories of plan assets are as follows:

	Distribution of plan assets	
	As at Dec 31, 2015	As at Dec 31, 2014
Equity instruments	95 %	90 %
Fixed income securities	3 %	8 %
Cash and cash equivalents	2 %	2 %
Total	100 %	100 %

To the best of management's knowledge, none of the plan assets are invested in the Corporation's shares.

The Corporation expects to make contributions of \$116 (2014 - \$140) to the defined benefit plan in the 2016 financial year.

16. Deferred revenue

As at December 31, 2015, the Corporation held deposits collected from customers in the amount of \$3,408 (December 31, 2014 - \$2,716) for work to be performed at a future date. The Corporation typically expects all customer deposit amounts to be recognized as revenue within 12 months of their collection.

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17. Borrowings

17.1 Operating credit facilities

Canada

In May 2014, the Corporation's Canadian subsidiary changed its credit facility arrangements with a Canadian bank from having a revolving facility of \$8,000 and a non-revolving facility of \$4,300 to a single revolving facility of \$10,000.

The revolving facility is secured by a first ranking security interest in trade receivables and inventories of the Canadian subsidiary. Under the facility, the Canadian subsidiary was subject to certain covenants, one of which was a financial covenant to maintain a Fixed Charge Coverage ratio of not less than 1.25:1. In December 2014, the bank amended the credit facility agreement to remove the Fixed Charge Coverage ratio requirement. The parent guarantee is unchanged from the previous agreement.

The Corporation continues to provide a guarantee and postponement of claim to the bank in the amount of \$10,000. The interest rate applicable on draws made against the facility is the Canadian bank's prime rate plus 0.5% and the facility carries a monthly standby fee when not being utilized. The credit facility was not used as at December 31, 2015.

USA

In September 2015, the Corporation's USA subsidiary obtained credit facility arrangements with a US bank for a variable rate revolving facility in the amount of \$250. The new revolving facility is secured by all inventory and equipment of the USA subsidiary. The interest rate applicable on draws made against the facility is a variable rate based on an index plus 0.5%.

Under the facility, the USA subsidiary is subject to certain covenants, one of which is a financial covenant to maintain an Operating Cash Flow to Fixed Charge Coverage ratio of not less than 1.20:1. The second covenant is to maintain a Total Debt to Tangible Net Worth Ratio of less than 3.00 to 1.00. The credit facility was not used as at December 31, 2015.

17.2 Long-term debt

As at December 31, 2015, the Corporation had no long-term debt.

18. Deferred operating lease obligations

The Corporation's Canadian subsidiary is a party to certain real estate operating lease agreements, which are used by its operations. Rent expenses under those agreements are recognized in the consolidated statements of income on a straight-line basis over the term of each lease. The straight-line method creates timing differences between actual rent amounts paid to the owners of the properties and the amounts recorded as an expense. These differences arise as a result of future contractual rent escalations being recognized sooner than they are required to be paid.

As at December 31, 2015, a deferred operating lease obligation arising from renegotiating an operating lease agreement was recorded in the amount of \$341 as a long-term liability on the consolidated balance sheet (2014 - \$178).

19. Finance lease obligations

Finance leases exist for automobiles, equipment and buildings. Lease obligations for automobiles and equipment are secured by the lessors' title to the automobiles and equipment.

In March 2013, the Corporation entered into carefree triple net lease agreements as part of a sale leaseback arrangement with a Canadian REIT for four Canadian properties, each having a lease term of twenty years. Monthly rent expenses are fixed over the first five years of each term with predetermined rent increases after years five, ten and fifteen of the twenty-year terms. A renewal option exists for a second term of ten years with market rates for rent to be determined at the time of renewal. Under the terms of the lease agreements, the Corporation is responsible for the operating costs of the leased premises including all major repairs necessary to maintain the properties in a state of good order and condition.

As part of the sale leaseback transaction, a proportion of the consideration received was in units of the Canadian REIT which were pledged as security for the minimum rent obligations for the building leases over the first ten years of the lease term. The Canadian REIT units are held in an escrow account and marked-to-market at the end of each reporting period.

Notes to the Consolidated Financial Statements

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The units had a fair value of \$2,192 (2014 - \$2,227) as at December 31, 2015 (see Note 21). The Canadian REIT currently pays monthly distributions on the units and distributions flow to the Corporation when paid and are included as investment income in the consolidated statements of income.

The Corporation's finance lease obligations as at December 31, 2015 and 2014 are stated in the following table:

	Minimum lease payments	
	Dec 31, 2015	Dec 31, 2014
Not later than one year	\$ 1,803	\$ 1,743
Later than one year and not later than five years	6,771	6,506
Later than five years	22,773	24,428
Total minimum lease payments	31,347	32,677
Less: amounts representing finance costs	16,876	18,261
Present value of minimum lease payments	\$ 14,471	\$ 14,416

Finance lease obligations are included in the consolidated balance sheets as follows:

	Dec 31, 2015	Dec 31, 2014
Current	\$ 384	\$ 321
Long-term	14,087	14,095
Total	\$ 14,471	\$ 14,416

20. Issued capital

20.1 Authorized

The Corporation's authorized share capital represents:

- An unlimited number of voting common shares without nominal or par value which carry one vote per share and carry a right to dividends.
- An unlimited number of preferred shares without nominal or par value, issuable in series at the discretion of the directors of the Corporation of which none are outstanding.

20.2 Share-based payments

The Corporation has a stock option plan under which the maximum number of shares issuable is equal to 10% of the number of issued and outstanding common shares. A stock option allows the grantee of the option to acquire common shares of the Corporation, at the strike price established at the time of grant. Options may be exercised at any time from the vesting date to the date of expiry which is the fifth anniversary of the effective date of grant. The strike price of each stock option is determined as the weighted average market price of the Corporation's common shares established two business days preceding the effective date of grant.

Each employee share option converts into one ordinary share of the Company upon exercising. No amounts are paid or payable by the recipient on initial receipt of the option. The options carry neither rights to dividends nor voting rights.

No share options were granted in the year ended December 31, 2015, and there were no options outstanding under the Corporation's share option plan as at December 31, 2015 and 2014.

20.3 Normal Course Issuer Bid

In September 2015, the Corporation obtained approval from the Toronto Stock Exchange to renew its Normal Course Issuer Bid (the "Bid") program for a 12-month period which commenced on September 11, 2015 and ends no later than September 10, 2016. The renewal allows the Corporation to purchase up to a maximum of 50,000 of its common shares, representing 0.74% of the Corporation's 6,716,003 issued and outstanding common shares as at September 9, 2015, subject to a daily maximum purchase of 1,000 common shares. The Corporation will purchase from time-to-

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time its common shares at market prices by means of open markets of the Toronto Stock Exchange as well as through alternate trading systems in Canada upon which the common shares are traded.

In the year ended December 31, 2015, the Corporation did not purchase any of its common shares for cancellation under a Normal Course Issuer Bid.

In the year ended December 31, 2014, the Corporation purchased for cancellation 8,400 of its common shares under the current Bid for an aggregate price of \$38, of which \$12 was charged to retained earnings as a premium on redemption of the common shares.

20.4 Dividends

In the years ended December 31, 2015 and 2014, the Corporation's Board of Directors declared regular quarterly dividends of \$0.06 (2014 – \$0.06) per common share which were paid in the months of February, May, August and November of each year.

Aggregate dividends paid in the year ended December 31, 2015, amounted to \$1,612 (2014 - \$1,613).

21. Financial instruments

21.1 Capital management

The Corporation manages its capital structure to ensure that the Corporation and its subsidiaries will be able to continue as going concerns, maximizing the return to shareholders through the optimization of the debt and equity, and to safeguard corporate assets.

The Corporation's capital structure as at December 31, 2015 and 2014 consisted of shareholders' equity in the amounts of \$48,668 and \$42,621, respectively.

The Corporation considers the amount of capital it requires in proportion to the associated risks. Adjustments may be made to the Corporation's capital structure in light of changes in economic conditions and the risk characteristics of the underlying assets. The capital structure can be maintained or adjusted in a variety of ways as circumstances may change, including: adjusting the amount of dividends paid to shareholders; purchasing shares for cancellation (under Normal Course Issuer Bids); issuing new shares; and increasing or repaying any debt financing.

The Corporation pursues its capital management objectives by prudently managing the capital generated through internal growth of its operations, optimizing the use of lower cost capital when required, and raising share capital when deemed appropriate, to fund significant strategic growth initiatives.

21.2 Categories of financial instruments

The Corporation, through its financial assets and liabilities, is exposed to a variety of risks that may affect the fair value of its financial instruments with each carrying varying degrees of significance which could affect the Corporation's ability to achieve its strategic objectives of growing its operations and increasing shareholder returns.

The following fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value of financial instruments classified as FVTPL. The three levels of the fair value hierarchy are described below:

- Level 1: Fair value based on unadjusted quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities.
- Level 2: Fair value based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full term of the asset or liability.
- Level 3: Fair value based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement.

The estimated fair value of each class of financial instruments, the methods and assumptions that were used to determine it are as follows:

- The carrying amount of cash and cash equivalents, trade receivables, and trade and other payables approximate fair value due to the short-term maturity of those instruments.

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- Marketable securities – restricted, consist of units of a publicly-traded Canadian REIT which are marked-to-market based on the quoted price of the units on the Toronto Stock Exchange at the end of each reporting period.
- The fair value of the obligations related to buildings and equipment under finance leases is comparable to their carrying amount given that rent is generally at market value.
- Deferred operating lease obligations consist of contracts that specify certain lease incentives and reflect timing differences between amounts expensed on a straight-line basis and when amounts are contractually paid to the lessors. The liability approximates the undiscounted, fair value of lease incentives reversing in the future.

A summary of the categories, measurement basis, hierarchy, carrying values and fair values of financial instruments held by the Corporation are stated in the following table:

Financial instrument	Category	Measurement	Hierarchy	December 31, 2015		December 31, 2014	
				Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	FVTPL	Fair value	Level 1	\$ 16,252	\$ 16,252	\$ 8,933	\$ 8,933
Restricted marketable securities	Available for sale	Fair value	Level 1	2,192	2,192	2,227	2,227
Trade receivables	Loans and receivables	Amortized cost	N/A	7,535	7,535	8,931	8,931
Trade and other payables ¹	Other financial liabilities	Amortized cost	N/A	(8,903)	(8,903)	(7,089)	(7,089)
Finance lease obligations	Other financial liabilities	Amortized cost	N/A	(14,471)	(14,471)	(14,416)	(14,416)
Deferred operating lease obligations	Other financial liabilities	Amortized cost	Level 2	(341)	(341)	(178)	(178)

¹ Trade and other payables include \$394 assumed through business combinations (Note 23.2).

During the year ending December 31, 2015, there were no transfers between Level 1 and Level 2 fair value measurements.

21.3 Credit risk

Credit risk is defined as the risk that the Corporation's counterparty in a transaction fails to meet or discharge their obligation to the Corporation.

The Corporation's exposure to credit risk is associated with trade receivables and the potential risk that any customer is unable to pay amounts due. Allowances for doubtful accounts and bad debts are estimated as at the balance sheet date. The amounts reported for trade receivables on the balance sheet are net of allowances for doubtful accounts and the net carrying value represents the Corporation's maximum exposure to credit risk.

The Corporation's subsidiaries provide trade credit to their customers in the normal course of business and the Corporation's credit policy is universally adopted across all businesses. The policy requires the credit history of each new customer to be closely examined before credit is granted, which may involve performing solvency tests if a particular account is expected to become significant. It is not normal practice to require customers to provide collateral or security as a condition of approving trade credit. The diversity of the Corporation's customer base and product offering combine to minimize overall exposures to credit risks.

Customers ordering highly-customized manufactured products are required to make advance payments at various predefined stages of a sales contract. All payments received in advance of invoicing are reported as deferred revenue in the current liability section of the balance sheet. Final contract balances are typically required to be paid in full before products are shipped.

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Management diligently reviews past due trade receivables balances on a weekly basis to monitor potential credit risks. Accounts are considered for impairment on a case-by-case basis when they are past due or when objective evidence is received that a customer may default. A number of factors are considered in determining the likelihood of impairment. All bad debt write-offs and changes in the doubtful trade receivables reserve are expensed or credited, as applicable, to selling expenses in the consolidated statement of income.

PFB believes that credit risk associated with its trade receivables is limited for the following reasons:

- Trade receivables balances are spread amongst a broad customer base which is dispersed across a wide geographic range;
- The aging profile of trade receivables balances is systematically monitored by management;
- Larger customers are offered a discount off invoice for prompt payment which is strictly enforced; and
- Payments for highly-customized orders are received in advance of products being shipped.

Potential credit risk associated with contractual holdback amounts pertaining to certain large projects is considered to be low as the customers involved are required to provide bonding to the owners of the projects. The credit risk on cash balances is limited because the counterparties are large commercial banks in Canada and the United States.

Payment of interest by customers arising on past due trade receivables balances is included in investment income in the consolidated statements of income.

21.4 Foreign currency risk

Currency risk is defined as the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Corporation operates in both Canada and the United States of America and is exposed to foreign exchange risks arising from changes in foreign exchange rates between the two countries. At the present time, the Corporation has a net exposure to the U.S. dollar, as the prices for most raw materials used in its operations are denominated in that currency. Raw material supplies denominated in U.S. dollars are usually required to be paid within thirty days or less of receiving actual deliveries, which is consistent with industry practices.

Periodically, management may commit to entering into foreign exchange contracts to attempt to protect earnings against relatively short-term fluctuations in exchange rates. In such cases, management attempts to make informed judgments in entering such transactions but there is a possibility that markets may not respond in ways predicted. To the extent that the Corporation does not fully hedge its foreign currency exposure and exchange rate risk, or the Corporation's subsidiaries are not able to or do not raise their selling prices accordingly when exchange rates are moving in an unfavourable direction, the profitability of the business could be adversely affected. The Corporation did not hold any foreign exchange contracts as at December 31, 2015.

The following tables detail the Corporation's exposure to foreign currency risk as at December 31, 2015 and 2014, including a sensitivity analysis to changes in foreign exchange rates:

	December 31, 2015			December 31, 2014		
	USD	Change in currency	Effect on after tax income (loss)	USD	Change in currency	Effect on after tax income (loss)
Net monetary assets	\$ 3,792	5.0%	\$ 129	\$ 3,292	5.0%	\$ 114
Net monetary liabilities	(2,620)	5.0%	(89)	(1,808)	5.0%	(63)

21.5 Interest rate risk

Interest rate risk is defined as the risk that the fair value or future cash flows of a financial instrument will fluctuate because of change in market interest rates.

As at December 31, 2015, the Corporation had no long-term debt. The Corporation's Canadian subsidiary had access to a revolving credit facility with a Canadian bank. The revolving credit facility had a limit of \$10,000, based on marginable trade receivables and inventories. The revolving credit facility was unused (December 31, 2014 - \$10,000 unused). The Corporation's USA subsidiary had access to a revolving credit facility with a US bank. The revolving credit facility had a limit of \$250, based on all inventory and equipment. The revolving credit facility was unused.

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21.6 Liquidity risk

Liquidity risk is defined as the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

The Corporation's liquidity risk is that it is not able to settle liabilities when due or that it can do so only at an abnormally high cost. Accordingly, one of management's primary goals is to maintain an optimum level of liquidity by actively managing assets, liabilities and cash flows generated by operations. The Corporation's future strategies can be financed through a combination of cash flows generated by operations, borrowing under existing credit facilities, and the issuance of equity. Management prepares regular budgets and cash flow forecasts to help predict future changes in liquidity.

The Corporation has financial liabilities with the following maturities:

		Current less than 12 months	Due within 12 to 24 months	Due within 25 to 36 months	Due within 37 to 48 months	Due after 48 months
As at December 31, 2015	Total					
Trade and other payables	\$ 8,903	\$ 8,903	\$ -	\$ -	\$ -	\$ -
Finance lease obligations	31,347	1,803	1,662	1,725	1,678	24,479
Total	\$ 40,250	\$ 10,706	\$ 1,662	\$ 1,725	\$ 1,678	\$ 24,479
As at December 31, 2014						
Trade and other payables	\$ 7,089	\$ 7,089	\$ -	\$ -	\$ -	\$ -
Finance lease obligations	32,677	1,743	1,677	1,542	1,628	26,087
Total	\$ 39,766	\$ 8,832	\$ 1,677	\$ 1,542	\$ 1,628	\$ 26,087

22. Related party transactions

All related party transactions are constituted in the ordinary course of business and they have been measured at the agreed to exchange amounts which approximate fair value. All transactions with related parties have been approved by the Board of Directors.

Balances and transactions between the Corporation and its subsidiaries, which are related parties of the Corporation, have been eliminated on consolidation and are not disclosed in this note (see Note 5.3). Details of transactions between the Corporation and other related parties are disclosed below.

22.1 Trading transactions

Related party transactions are constituted in the ordinary business and they have been measured at the agreed to exchange amounts which closely approximate fair value.

In the years ended December 31, 2015 and 2014, the Corporation had the following trading transactions with related parties:

	Nature of transactions	2015	2014
Aeonian Capital Corporation	Management services	\$ 350	\$ 350
		\$ 350	\$ 350

Aeonian Capital Corporation ("Aeonian"), and its affiliates, owned 2,967,668 (2014 - 2,967,668) common shares of the Corporation representing 44.2% (2014 - 44.2%) of the 6,716,003 issued and outstanding shares as at December 31, 2015. Aeonian is controlled by C. Alan Smith, President, Chief Executive Officer, and Chairman of PFB. The Corporation is charged fees by Aeonian for management services including those provided by Mr. Smith. The fees are reported under administrative expenses in the consolidated statement of income.

No related party balances were outstanding at the end of the reporting periods.

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Thousands of Canadian dollars



22.2 Compensation of key management personnel

The remuneration of directors and other members of key management personnel for the year ended were as follows:

	2015	2014
Short-term benefits ¹	\$ 764	\$ 875
Post-employments benefits	-	-
Other long-term benefits	-	-
Share-based payments	-	-
Termination benefits	-	-
	\$ 764	\$ 875

¹ Short-term benefits includes the following: salaries and associated employer-related costs for payroll and health benefits; bonuses; management and directors fees (as applicable).

The remuneration of directors and the key executives is recommended to the Board of Directors by the Human Resources and Compensation Committee and having regard to the performance of individuals and market trends.

23. Business combination

The Corporation acquired substantially all of the assets of Poly Foam, Inc., an EPS business, located near Minneapolis, MN, USA on December 15, 2015. The transaction meets the definition of a business combination under IFRS 3, and was accounted for using the acquisition method.

23.1 Business operation acquired

Name of acquired business operation	Principal activities	Effective date of acquisition	Proportion of voting equity interest acquired	Consideration transferred
Poly Foam assets	EPS and other foam products	December 15, 2015	N/A	\$ 1,822

The date of acquisition of December 15, 2015, is the date that the Corporation transferred consideration for the assets of Poly Foam Inc.

Historically, Poly Foam operations have experienced similar seasonality patterns to that of the Corporation's existing businesses. In the period December 15, 2015 to December 31, 2015, since the date of acquisition, the Poly Foam business operations generated sales of \$147, which are included in the consolidated statements of income in the current reporting year.

It is impracticable for the Company to provide an estimate of the pro-forma sales and income before tax, had the acquisition occurred on January 1, 2015, as the business operation was privately held and the financial information was not prepared in accordance with IFRS. Accordingly, it is impractical to provide the required pro forma disclosures on post-acquisition sales and income before taxes for these assets as the Company has not yet prepared such detailed financial information as it continues the integration of personnel and equipment.

Acquisition costs in the amount of approximately \$89 have been expensed in administrative expenses in the year ended December 31, 2015.

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23.2 Consideration transferred for assets acquired and liabilities assumed

The purchase price paid by the Company at closing was \$2,061 (\$1,500 US). Payment was effected through a cash transfer of \$1,822 (\$1,326 US) and assumed liability of \$239 (\$174 US). The Company financed the acquisition from cash in working capital.

The assets acquired included property, plant, equipment, inventory and intangible assets. The working capital adjustment included an inventory adjustment of \$155 and accounts payable assumed in the amount of \$394, resulting in a net assumed liability of \$239. Accounts payable and accrued liabilities acquired have a fair value of \$394 that equal their gross contractual value and expected cash outflow at the acquisition date. Intangible assets include licenses to certain registered trademarks and third party product quality certifications.

The Corporation recognized major classes of assets acquired and liabilities assumed at the acquisition date based on estimated fair values. The estimate of the fair value of the acquired intangible assets, land, property, plant and equipment, and other assets, and the liabilities assumed at the date of acquisition, as well as the useful lives of the acquired assets, is based on assumptions made by management (Note 3). The following table summarizes the fair value of the consideration transferred and the final purchase price allocation based on estimated fair values of the major classes of assets acquired and liabilities assumed at the acquisition date. The transaction was effected in USA dollars and has been converted to Canadian dollars:

	December 15, 2015	
	US \$	Canadian \$
	Total	
Consideration effectively transferred:		
Purchase price	\$ 1,500	\$ 2,061
Working capital adjustments	(174)	(239)
Net cash outflow on acquisition	\$ 1,326	\$ 1,822
Recognized amounts of identifiable assets acquired and liabilities assumed:		
Assets		
Property, plant and equipment	\$ 840	\$ 1,154
Inventory	713	980
Intangible assets	60	82
	1,613	2,216
Liabilities		
Trade payables assumed	(287)	(394)
	(287)	(394)
Fair value of net identifiable net assets acquired	\$ 1,326	\$ 1,822

23.3 Cash transactions within the consolidated statements of cash flows

Cash flows used in investing activities	2015
Property, plant and equipment	\$ 1,154
Intangible assets	82
	\$ 1,236

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24. Operating lease arrangements

Operating leases generally have varying terms of between 12 months and 20 years, with options to renew in some cases. Several leases either have rent incentives or rent escalation clauses. There are no contingent rents or sublease payments applicable to any operating lease.

The Corporation's future minimum payments under non-cancellable, operating lease arrangements for lands, buildings and equipment, as at December 31, 2015 and December 31, 2014 are as stated in the table below:

	2015	2014
Not later than one year	\$ 1,587	\$ 1,471
Later than one year and not later than five years	4,547	4,751
Later than five years	10,105	11,027
	\$ 16,239	\$ 17,249

25. Commitments and contingencies

25.1 Performance bonds

From time to time, under the terms of certain sales contracts, the Corporation's subsidiaries may be required to provide a performance bond as security. Performance bonds are considered normal practice for suppliers and contractors participating in larger construction projects, usually of a public nature. In the USA, government agencies in certain states have requirements for bonds to be posted when certain types of licensing applications are made in any of those states.

As at December 31, 2015, the Canadian segment did not have any performance bonds outstanding (December 31, 2014 - \$1,600). In the USA, performance bonds in the amount of \$608 (December 31, 2014 - \$614) were pledged to various government agencies as at December 31, 2015.

25.2 Expenditures for property, plant and equipment and intangible assets

Under the terms of the carefree triple net property leases with a Canadian REIT, the Corporation's subsidiary, Plasti-Fab Ltd., is responsible for all major repairs necessary to maintain the leased properties in a state of good order and condition over the duration of the leases. As at December 31, 2015, no definitive schedule of major repairs has been determined.

The Corporation had the following commitments for property, plant and equipment and intangible assets as at December 31, 2015 and 2014:

	As at Dec 31, 2015	As at Dec 31, 2014
Property, plant and equipment	\$ 2,228	\$ 591
Intangible assets	22	21
	\$ 2,250	\$ 612

25.3 Contingent liabilities

In the normal course of its operations, the Corporation and/or its subsidiaries may occasionally become involved in various claims. While the final outcome with respect to any claims pending cannot be predicted with certainty, it is the opinion of management that their resolution will not have a material adverse effect on the consolidated financial position, consolidated results of operations or cash flows.

25.4 Environment

The Corporation's subsidiaries are subject to various laws, regulations, and government policies relating to health and safety, production operations, storage and transportation of goods, disposal and environmental emissions of various substances and materials, and to the protection of the environment in general. It is the opinion of management that the Corporation and its subsidiaries are in compliance with such laws, regulations and government policies in all material respects.

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Thousands of Canadian dollars



26. Supplementary cash flow information

26.1 Changes in non-cash working capital

Increase (decrease) in:	2015	2014
Trade receivables	\$ 1,396	\$ (146)
Inventories ¹	(1,175)	(573)
Prepaid expenses	(169)	(91)
Trade and other payables ²	1,814	77
Deferred revenue	692	864
	\$ 2,558	\$ 131

¹ Inventory includes \$980 acquired through a business combination (Note 23.2).

² Trade and other payables include \$394 assumed through a business combination (Note 23.2).

26.2 Non-cash transactions excluded from the consolidated statement of cash flows

	2015	2014
Property, plant and equipment acquired with finance lease obligations	\$ (364)	\$ (310)

27. Subsequent events

27.1 Declaration of regular quarterly dividend

On January 29, 2016, the Board of Directors declared a regular quarterly dividend of \$0.06 per common share payable on February 26, 2016, to shareholders of record at the close of business on February 12, 2016.

28. Subsidiaries

Subsidiary	Principal activities	Place of incorporation and operation	Proportion of ownership interest and voting power held by the Corporation	
			December 31, 2015	December 31, 2014
Canada				
Plasti-Fab Ltd.	Manufacturing	Alberta, Canada	100%	100%
USA				
PFB America Corporation	Holding company	Delaware, USA	100%	100%
PFB Custom Homes Group, LLC	Design and construction services	Delaware, USA	100%	100%
PFB Manufacturing, LLC	Manufacturing	Delaware, USA	100%	100%
PFB America Real Estate, LLC	Real estate holdings	Delaware, USA	100%	100%

29. Approval of financial statements

The financial statements were approved by the Board of Directors and authorized for issue on March 10, 2016.

DIRECTORS

Frank B. Baker
Director

Bruce M. Carruthers
Chief Operating Officer
PFB Corporation

Donald J. Douglas
Chairman Emeritus
United Communities Inc.

Edward H. Kernaghan
Executive Vice President
Kernaghan & Partners Ltd.

John K. Read
President
Picante Capital Corp.

C. Alan Smith
President
Aeonian Capital Corporation

William H. Smith, Q.C.
Principal, William H. Smith Professional Corp.

Gordon G. Tallman
Corporate Director

OFFICERS

C. Alan Smith
Chairman, President and
Chief Executive Officer

Bruce M. Carruthers
Chief Operating Officer

William H. Smith, Q.C.
Corporate Secretary

OPERATIONS

Head Office
Calgary, Alberta

Plasti-Fab Ltd.
EPS Moulding Operations:
Delta, British Columbia
Crossfield, Alberta
Edmonton, Alberta
Saskatoon, Saskatchewan
Winnipeg, Manitoba
Kitchener, Ontario
Ajax, Ontario

Insulspan SIPS Division:
Delta, British Columbia

PFB America Corporation
PFB Custom Homes Group, LLC
Meridian, Idaho
Blissfield, Michigan
PFB Manufacturing, LLC
Lebanon, Ohio
Blissfield, Michigan
Lester Prairie, Minnesota
PFB America Real Estate, LLC

WEBSITES

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www.pointzerohomes.com	

BANKERS

Royal Bank of Canada

TRANSFER AGENT AND REGISTRAR

Alliance Trust Company

AUDITORS

Deloitte LLP

STOCK EXCHANGE LISTING

The Toronto Stock Exchange

STOCK SYMBOL

PFB

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