Third Quarter Report 2016

For the three and nine month periods ended September 30, 2016 and 2015

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Management's discussion and analysis (MD&A)

The following discussion and analysis of the consolidated results of operations and financial condition of PFB Corporation ("PFB" or the "Corporation") should be read in conjunction with the Corporation's unaudited condensed interim consolidated financial statements for the three and nine month periods ended September 30, 2016 and 2015 and notes thereto and in conjunction with the Corporation's annual MD&A for the year ended December 31, 2015.

PFB's unaudited condensed interim consolidated financial statements for the three and nine month periods ended September 30, 2016 and 2015 have been prepared in accordance with International Accounting Standard ("IAS") 34, *Interim Financial Reporting.*

Management is required to make certain estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses, and related disclosure of contingent assets and liabilities. Management believes that the estimates and assumptions are reasonably based on information available at the time that such estimates and assumptions were made. These estimates and assumptions have been discussed with the Audit Committee of the Board of Directors of the Corporation. Actual results may differ under different assumptions and conditions.

This MD&A has been prepared as of October 27, 2016. All figures in this MD&A are stated in thousands of Canadian dollars, except where stated otherwise.

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 future prospects and make informed investment decisions. Forward-looking information and statements included in this interim 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 October 27, 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. A more detailed assessment of the risks that could cause actual results to materially differ from current expectations can be found in the Risk Management and Assessment section of the Corporation's annual MD&A or in the Risk Factors section of the Annual Information Form for the year ended December 31, 2015.

2. Summary of quarterly financial data

	2016			2015				2014
	Qtr. 3	**Qtr. 2**	**Qtr. 1**	**Qtr. 4**	**Qtr. 3**	**Qtr. 2**	**Qtr. 1**	**Qtr. 4**
Sales	**$ 28,838**	$ 28,480	$ 19,157	$ 24,440	$ 29,849	$ 27,316	$ 17,532	$ 25,013
Gross profit	**7,434**	7,466	3,843	5,203	7,366	7,605	3,525	5,574
Gross profit margin %	**25.8**	26.2	20.1	21.3	24.7	27.8	20.1	22.3
Operating income (loss)	**3,104**	3,130	(6)	1,437	3,378	3,402	35	1,956
Net income (loss)	**1,936**	1,762	(155)	836	2,212	2,120	(80)	1,116
Earnings (loss) per share:								
Basic and diluted	**0.29**	0.26	(0.02)	0.12	0.33	0.32	(0.01)	0.17
EBITDA [1]	**4,066**	4,088	955	2,426	4,319	4,353	1,053	2,921
EBITDA per share [1]	**0.61**	0.61	0.14	0.36	0.64	0.65	0.16	0.43

3. Consolidated statements of income (unaudited)

	Three month periods ended September 30		Nine month periods ended September 30	
	2016	**2015**	**2016**	**2015**
Sales	**$ 28,838**	$ 29,849	**$ 76,475**	$ 74,697
Cost of sales	**(21,404)**	(22,483)	**(57,732)**	(56,201)
Gross profit	**7,434**	7,366	**18,743**	18,496
Selling expenses	**(2,791)**	(2,582)	**(8,000)**	(7,459)
Administrative expenses	**(1,561)**	(1,333)	**(4,476)**	(4,103)
Other gains (losses)	**22**	(73)	**(39)**	(119)
Operating income	**3,104**	3,378	**6,228**	6,815
Gain on sale of real estate	**-**	-	**-**	63
Investment income	**56**	55	**172**	161
Finance costs	**(354)**	(356)	**(1,067)**	(1,074)
Income before taxes	**2,806**	3,077	**5,333**	5,965
Income taxes expense	**(870)**	(865)	**(1,790)**	(1,713)
Net income for the period	**$ 1,936**	$ 2,212	**$ 3,543**	$ 4,252
Earnings per share - $ per share				
Basic and diluted	**$ 0.29**	$ 0.33	**$ 0.53**	$ 0.63
Funds flow from operations [1]	**4,215**	4,266	**9,503**	9,580
Funds flow from operations per share [1]	**0.63**	0.64	**1.41**	1.42

[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 tables in Sections 2 and Section 3 above, along with relevant other notes, are detailed in Section 19 of this MD&A.

The Corporation's operations follow seasonal patterns in the construction industry which influences the timing of sales and earnings in the annual reporting cycle. Sales in the first and fourth quarter of each year are typically the lowest in the annual reporting cycle.

4. Consolidated results of operations

Sales

Consolidated sales were $28,838 in the three month period September 30, 2016, a decrease of $1,011 or 3.4% from sales of $29,849 in the comparative three month period of 2015. The decrease in sales in the current quarter is a result of lower sales in the Canadian operating segment (see Section 5).

In the nine month period ended September 30, 2016, consolidated sales were $76,475, an increase of $1,778 or 2.4% from sales of $74,697 in the comparative nine month period of 2015. The increased sales reflect the seasonal pattern in the construction industry and increased sales in the USA operating segment (see Section 5).

Gross profit

Consolidated gross profit was $7,434 in the three month period ended September 30, 2016, as compared to $7,366 in the comparative three month period of 2015, an increase of $68. Gross profit margin improved slightly to 25.8% of sales in the current quarter as compared to a gross profit margin of 24.7% in Q3/15.

Consolidated gross profit was $18,743 in the nine month period ended September 30, 2016, as compared to $18,496 in comparative nine month period of 2015. Gross profit margin of 24.5% of sales in the current nine month period was lower than a gross profit margin of 24.8% reported in the comparative nine month period of 2015. A combination of decreased sales and sales of products with lower gross margins have resulted in lower gross margins from the prior quarters.

Selling and administrative expenses

Selling and administrative expenses have both increased as a result of increased incentive remuneration, marketing expenses, and a result of the Lester Prairie operations. Management continues to monitor selling and administrative costs as a percentage of sales.

Operating income

Operating income of $3,104 in the current quarter compared to operating income of $3,378 reported in Q3/15, an unfavorable variance of $274.

In the nine month period ended September 30, 2016, operating income of $6,228 compared to operating income of $6,815 reported in the comparative nine month period of 2015, a decrease of $587. Increased selling, general and administrative expenses, contributed to decreased operating income.

Income before taxes

In the current quarter, income before taxes of $2,806 was reported as compared to income before taxes of $3,077 in Q3/15. In the nine month period ended September 30, 2016, income before taxes of $5,333 was reported as compared to income before taxes of $5,965 reported in the comparative nine month period of 2015. Increased selling, general and administrative expenses in the current nine months, and a one-time gain on the sale of real estate in the prior comparative period, contributed to decreased income before taxes.

Income taxes

Income tax expense in the current period was $870 as compared to income tax expense of $865 in Q3/15. The effective income tax rate of 33.6%, applied for the nine month period is inclusive of prior period adjustments, and is reasonably representative of the blended tax rate expected for 2016.

Net income

Net income of $1,936 in the current quarter compares to net income of $2,212 reported in the comparative quarter of 2015. In the nine month period ended September 30, 2016, net income was $3,543 compared to net income of $4,252 in the comparative nine month period of 2015. Increased selling, general and administrative expenses, contributed to decreased net income.

Earnings per share

Basic earnings per share in the current quarter were $0.29 as compared to earnings per share of $0.33 reported in Q3/15. In the nine month period ended September 30, 2016, earnings per share of $0.53 compares to net income per share of $0.63 reported in the comparative nine month period of 2015.

5. Reportable operating segments

The Corporation has two reportable operating segments:

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

Each operating segment mirrors the Corporation's accounting policies (as described in note 2 to the audited consolidated financial statements for the years ended December 31, 2015 and 2014) and its internal controls and 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.

5.1 Segment revenues and income

Segment sales represent sales revenues directly attributable to each segment after inter-segment sales have been eliminated (see supplemental disclosures in the other segment information table). There are varying levels of integration between each segment.

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

Information regarding each reportable operating segment for the three and nine month periods ended September 30, 2016 and 2015, is set out below:

Three month periods ended September 30	**Sales revenues**		**Operating income**	
	2016	**2015**	**2016**	**2015**
Canada	**$ 18,955**	$ 21,505	**$ 2,265**	$ 2,874
USA	**9,883**	8,344	**885**	484
Totals for segments	**$ 28,838**	$ 29,849	**3,150**	3,358
Corporate – (expense) income, net			**(48)**	16
Foreign exchange gain on inter-segment loan			**2**	4
Consolidated operating income			**$ 3,104**	$ 3,378

Nine month periods ended September 30	**Sales revenues**		**Operating income (loss)**	
	2016	**2015**	**2016**	**2015**
Canada	**$ 49,942**	$ 56,438	**$ 4,460**	$ 7,079
USA	**26,533**	18,259	**1,910**	(210)
Totals for segments	**$ 76,475**	$ 74,697	**6,370**	6,869
Corporate – expense, net			**(130)**	(50)
Foreign exchange loss on inter-segment loan			**(12)**	(4)
Consolidated operating income			**$ 6,228**	$ 6,815

(a) Canada

Sales
Sales generated by the Canadian segment decreased from $21,505 in Q3/15 to $18,955 in the current quarter, a decrease of 11.9% or $2,550, which contributed to year-to-date sales decreasing by $6,496 or 11.5% over the corresponding nine month period of 2015 to $49,942. Continued weakness in the oil producing regions of the Canadian segment contributed to the decreased sales.

Operating income (loss)
The Canadian segment reported operating income of $2,265 in the current quarter, a decrease of $609 as compared to operating income of $2,874 reported in Q3/15.

In the nine month period ended September 30, 2016, the Canadian segment reported operating income of $4,460 as compared to operating income of $7,079 in the comparative nine month period of 2015, a negative variance of $2,619. Results in the three and nine month periods continue to reflect the economic conditions in the Canadian oil producing regions.

(b) USA

Sales

Sales in the USA segment increased from $8,344 in Q3/15 to $9,883 in the current quarter, an increase of $1,539 or 18.4%. The average foreign exchange rates experienced by the Corporation reflected the slight appreciation of the Canadian currency from an average rate of $1.31 per US$1.00 in the 2015 comparative quarter to an average rate of approximately $1.30 per US$1.00 in the current quarter. Eliminating the effect of foreign exchange fluctuations, the sales growth rates for the periods, expressed in USA dollars, were 18.8% in the current quarter. In US dollars, sales in the USA segment increased from $6,377 in Q3/15 to $7,573 in the current quarter, an increase of $1,196 or 18.8%.

Sales in the USA segment increased from $18,259 in the nine month period of 2015 to $26,533 in the current 2016 nine month period, an increase of $8,274 or 45.3%. The average foreign exchange rates experienced by the Corporation reflected the devaluation of the Canadian currency from an average rate of $1.26 per US$1.00 in the 2015 comparative nine month period to an average rate of approximately $1.32 per US$1.00 in the current nine month period, an approximate currency devaluation of about 5%. Eliminating the effect of foreign exchange fluctuations, the sales growth rates for the periods expressed in USA dollars were 40.3% for the nine month period, ended September 30, 2016. In US dollars, in the nine month period ended September 30, 2016, USA segment sales were $20,194 and $14,393 in the comparative nine month period of 2015, an increase of $5,801 or 40.3%.

Operating income (loss)

The USA segment reported operating income of $885 in the current quarter as compared to operating income of $484 in the comparative quarter of 2015. This represents an improvement of $401. In the nine month period ended September 30, 2016, the USA segment reported operating income of $1,910 as compared to an operating loss of $210 in the comparative nine month period of 2015, an improvement of $2,120.

5.2 Segment assets and liabilities

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

	As at Sep 30, 2016	**As at Dec 31, 2015**
Assets		
Segmented assets	**$ 55,992**	$ 52,362
Assets not allocated to segments:		
Cash and cash equivalents	**13,966**	16,252
Freehold land and buildings	**7,251**	8,003
Restricted marketable securities	**2,763**	2,192
Corporate – income taxes recoverable	**13**	35
Total assets	**$ 79,985**	$ 78,844
Liabilities		
Segmented liabilities	**$ 15,108**	$ 15,703
Liabilities not allocated to segments:		
Finance lease obligations	**14,263**	14,471
Corporate – deferred income tax liability	**170**	2
Total liabilities	**$ 29,541**	$ 30,176
Net segmented assets		
Canada	**$ 33,830**	$ 27,713
USA	**7,054**	8,946

5.3 Other segment information

	Three month periods ended September 30		Nine month periods ended September 30	
	2016	**2015**	**2016**	**2015**
Additions to non-current assets:				
Canada	**$ 275**	$ 574	**$ 2,283**	$ 1,216
USA	**70**	103	**283**	436
Total	**$ 345**	$ 677	**$ 2,566**	$ 1,652
Depreciation and amortization:				
Canada	**$ 635**	$ 614	**$ 1,893**	$ 1,911
USA	**184**	192	**557**	542
Total	**$ 819**	$ 806	**$ 2,450**	$ 2,453
Inter-segment sales	**$ 1,723**	$ 1,211	**$ 4,039**	$ 3,050

6. Liquidity

Sources of liquidity

The Corporation expects its current cash balances, future cash flows generated by operations, and unused credit facilities will be sufficient to fund its ongoing business requirements over the next twelve months, including: working capital; contractual obligations; and payment of regular dividends.

Cash

Cash and cash equivalent balances as at September 30, 2016 and December 31, 2015 were as follows:

	September 30, 2016	December 31, 2015
Cash held with banks	**$ 9,177**	$ 5,706
Short-term investments	**4,557**	10,025
Restricted cash	**232**	521
	$ 13,966	$ 16,252

PFB's cash balances typically fluctuate with the seasonality of its business. The increase in cash in the nine month period ended September 30, 2016, was primarily attributed to increased sales from the USA segment (translated into Canadian dollars), managing non-cash working capital requirements and restricted cash collected from the USA segment.

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

Bank credit facilities

There were no changes to the Corporation's bank credit facilities during the current quarter. The Company maintains a ten million dollar working capital facility with a Canadian chartered bank and an additional minor working capital facility with a US bank.

Summary of cash flows

A summary of cash flows for the three and nine month periods ended September 30, 2016 and 2015 are shown in the following table:

	Three month periods ended September 30		Nine month periods ended September 30	
	2016	**2015**	**2016**	**2015**
Net cash flows from (used in):				
Operating activities	**$ 4,707**	$ 5,685	**$ 3,126**	$ 7,648
Investing activities	**(270)**	(612)	**(2,273)**	(1,410)
Financing activities	**(915)**	(849)	**(2,705)**	(2,539)
Effect of foreign exchange on cash held in foreign currency – (loss) gain	**(98)**	196	**(434)**	425
Net increase (decrease) in cash and cash equivalents	**$ 3,424**	$ 4,420	**$ (2,286)**	$ 4,124
Cash and cash equivalents – beginning of period	**10,542**	8,637	**16,252**	8,933
Cash and cash equivalents – end of period	**$ 13,966**	$ 13,057	**$ 13,966**	$ 13,057

(a) Operating activities

Net cash from operating activities was $4,707 in the current quarter as compared to $5,685 in the comparative quarter of 2015, a decrease of $978. In the nine month period ended September 30, 2016, net cash from operating activities was $3,126 versus net cash from operating activities of $7,648 in the comparative nine month period of 2015, an unfavorable variance of $4,522. Decreased net income contributed to the decreased cash from operating activities.

(b) Investing activities

Net cash used in investing activities was $270 in the current quarter as compared to net cash used in investing activities of $612 in Q3/15. In the nine month period ended September 30, 2016, net cash used in investing activities was $2,273 versus net cash used in investing activities of $1,410 in the comparative nine month period of 2015. Investing activities for the nine month period include capital expenditures of $2,566 for tangible and intangible assets, which were $914 higher than capital expenditures for the same nine month period in 2015 of $1,652.

(c) Financing activities

Net cash used in financing activities in the current quarter was $915 as compared to net cash used in financing activities of $849 in the comparative quarter of 2015.

In the nine month period ended September 30, 2016, net cash flows used in financing activities were $2,705 versus $2,539 in the comparative nine month period of 2015.

The changes in non-cash working capital amounts which occurred in the nine month period ended September 30, 2016 are shown in the following table:

	Sep 30, 2016	Dec 31, 2015	Change
Trade receivables	**$ 11,387**	$ 7,535	$ 3,852
Inventories	**10,489**	10,069	420
Prepaid expenses	**965**	932	33
Trade and other payables	**(8,700)**	(8,903)	203
Deferred revenue	**(4,685)**	(3,408)	(1,277)
	$ 9,456	$ 6,225	$ 3,231

Non-cash working capital increased in the nine month period ended September 30, 2016 by $3,231 to $9,456.

The increased trade receivables balance from December 31, 2015, is broadly aligned with the seasonality of the sales cycle.

Inventory levels have increased since the beginning of the year to $10,489, which is normal in the operating cycle, and are comparable to Q3/15 inventory levels of $10,685. Inventory of raw materials at Q3/16 of $4,747 are less than at Q3/15 of $5,475, as a result of lower raw material on hand in 2016.

The decrease in trade and other payables of $203 since the beginning of the year is reflective of seasonal decreases in operating activities and the timing of when receipts and payments for raw materials occur. Trade and other payables are broadly aligned with normal operating activities.

Deferred revenue has increased in the current nine month period by an aggregate amount of $1,277, reflective of customer deposits received from additional order backlog and design work in the USA segment.

7. Capital resources

Capital structure

The Corporation's capital structure as at September 30, 2016 and December 31, 2015, consisted of shareholder's equity in the amounts of $50,443 and $48,668, respectively.

Share capital

The Corporation has one class of publicly traded voting common shares. A summary of the Corporation's share capital position as at September 30, 2016 and December 31, 2015, is set forth in the following table:

	September 30, 2016 (Nine Months)		December 31, 2015 (Twelve Months)	
	Number of Common Shares	**Amount**	**Number of Common Shares**	**Amount**
Balance, beginning of period	**6,716,003**	**$ 20,947**	6,716,003	$ 20,947
Repurchased pursuant to normal course issuer bid	**-**	**-**	-	-
Balance, end of period	**6,716,003**	**$ 20,947**	6,716,003	$ 20,947

Share-based options

The Corporation does not have any outstanding share-based options.

Dividends

In the first quarter of 2016, the Corporation's board of directors declared a regular quarterly dividend of $0.06 (2015 - $0.06) per common share which was paid in the month of February in each year, respectively. The dividend payment in February 2016 amounted to $403 (2015 - $403).

In the second quarter of 2016, the Corporation's board of directors declared a regular quarterly dividend of $0.07 (2015 - $0.06) per common share which was paid in the month of May in each year, respectively. The dividend payment in May 2016 amounted to $470 (2015 - $403).

In the third quarter of 2016, the Corporation's board of directors declared a regular quarterly dividend of $0.07 (2015 - $0.06) per common share which was paid in the month of August in each year, respectively. The dividend payment in August 2016 amounted to $470 (2015 - $403).

Dividends paid by the Corporation 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, 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 ended on September 10, 2016.

The Normal Course Issuer Bid lapsed on September 10, 2016, without renewal and without any share repurchases over the 12-month period ending September 10, 2016.

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 nine month periods ended September 30, 2016 and 2015 is as follows:

	Three month periods ended September 30		Nine month periods ended September 30	
	2016	**2015**	**2016**	**2015**
Net income for the period	**$ 1,936**	$ 2,212	**$ 3,543**	$ 4,252
Other comprehensive income (loss)	**387**	917	**(425)**	2,094
Comprehensive income for the period	**$ 2,323**	$ 3,129	**$ 3,118**	$ 6,346

In the third quarter of 2016, comprehensive income was $2,323 as compared to a comprehensive income of $3,129 in the comparative quarter of 2015. Other comprehensive income of $387 in the current quarter consisted income of $256 (Q3/15 – income of $1,016) attributed to foreign currency translation when consolidating PFB's USA operations, and income of $131 (Q3/15 – loss of $99) representing unrealized gains on restricted marketable securities, net of tax.

Included in accumulated comprehensive income at September 30, 2016, were foreign currency translation adjustments totaling $2,944, marketable securities adjustments of $161, net of tax, and $(31) of defined benefit valuation changes, net of tax, for total accumulated other comprehensive income of $3,074.

Long-term debt

The Corporation had no long-term debt as at September 30, 2016.

8. Commitments and contractual obligations

8.1 Leases and commitments for PP&E and intangible assets

PFB's contractual obligations and commitments as at September 30, 2016 and December 31, 2015, 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**
As at September 30, 2016					
Finance lease obligations	**$ 30,084**	**$ 1,730**	**$ 3,462**	**$ 3,345**	**$ 21,547**
Operating lease obligations	**15,490**	**1,595**	**2,473**	**2,038**	**9,384**
Commitments for PP&E and intangible assets	**605**	**605**	**-**	**-**	**-**
Total contractual obligations	**$ 46,179**	**$ 3,930**	**$ 5,935**	**$ 5,383**	**$ 30,931**
As at December 31, 2015					
Finance lease obligations	$ 31,347	$ 1,803	$ 3,387	$ 3,384	$ 22,773
Operating lease obligations	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 in the above table represent the aggregate outstanding principal amounts and related finance costs.

8.2 Performance bonds

As at September 30, 2016, the Canadian segment did not have any performance bonds outstanding (December 31, 2015 - $ none). In the USA, performance bonds in the amount of $675 were pledged to various government agencies as at September 30, 2016 (December 31, 2015 - $608).

9. Financial instruments

The Corporation holds marketable securities in the form of units of a Canadian REIT which is the landlord of certain buildings being leased. The units are restricted as they have been pledged as security for minimum rent obligations for a period of ten years during which time they will be held in an escrow account. The units have been classified as long-term restricted marketable securities on the condensed consolidated balance sheet as at September 30, 2016. The units are marked-to-market based on the quoted price of the units at the end of each accounting period with unrealized gains or losses recorded in other comprehensive income, net of tax.

The Canadian REIT currently pays monthly distributions on the units and the distributions flow to the Corporation as they are paid. The distributions have been included in investment income in the consolidated statement of income.

10. Current Outlook

Revenue growth on a regional basis is dramatically diverse. Overall consolidated revenue growth is being challenged by the continuing recession in the oil producing regions of Canada where revenues in the current third quarter are reduced by approximately 30% from the comparative 2015 period. However, elsewhere in Canada revenues are 7% higher than in the comparative third quarter period. For the nine months ended September 30th, 2016 revenues in the oil producing regions of Canada are reduced by approximately 30% compared with the comparative 2015 nine month period, while in the rest of Canada revenues are 8% higher than in the comparative nine month period of 2015.

Revenue growth in the United States reporting segment, as expressed in US dollar sales figures, continues to reflect improvements across all operating units and during the third quarter increased by 19% and for the nine months increased by 40% when compared to the 2015 respective periods. This increase includes the Lester Prairie, Minnesota plant, acquired at the end of 2015, which is performing satisfactorily and the integration of its operations with the Company is proceeding as expected. Gross margins earned by USA operations, overall, are improving from historical levels. For additional details refer to Section 5 - Reportable Operating Segments.

It is expected that the economies of the oil producing regions of Canada will continue to be negatively impacted for the balance of this year. Currently, our orders on hand and the pace of quoting and new order intake remain firm. In addition, order books in the USA operations continue to demonstrate significant year-over-year growth.

The volatility of the Canadian currency during the third quarter remained relatively stable compared with volatility experienced in comparative prior periods. The Corporation acquires most of its raw materials priced in US dollars and benefits from the natural hedge that generating cash in the USA segment provides. The Corporation does not engage in foreign exchange hedging operations.

Following the course of crude oil price declines in the fourth quarter of 2014, input costs of our main raw material decreased. Raw material costs have traded in a narrow range subsequently, but began trending upwards during the first quarter of 2016. Throughout the second and third quarters, raw material pricing of chemical inputs has traded in a narrow range but wood inputs have continued to advance. Overall materials costs, as a component of cost of sales, have reduced from comparative levels. Gross margins as a percentage of sales fluctuate seasonally and are generally at the lowest levels during the first and fourth quarters. Our manufacturing operations remain focused on delivering operational efficiencies over the course of the year to build on the successful outcomes being achieved. Minor equipment upgrades have been completed in several plants and lower, normal rates of capital spending are planned for the balance of the year.

PFB's balance sheet remains strong with good liquidity and our focus is to maintain financial strength.

11. Off-balance sheet arrangements

The Corporation does not believe it has any off-balance sheet arrangements (other than what has been reported in this MD&A) that have, or are reasonably likely to have, a current or future material effect on the Corporation's financial condition, results of operations, or liquidity.

12. Disclosure controls and procedures (DC&P)

The Corporation's disclosure controls and procedures 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 Chief Financial Officer (CFO), 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 the Corporation's DC&P was conducted as of September 30, 2016, under the supervision of the CEO and CFO. Based on this evaluation, the CEO and CFO have concluded that the Corporation'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 the Corporation, 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 internal controls and procedures (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 the 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.

13. Internal controls over financial reporting (ICFR)

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 the Corporation'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.

As at September 30, 2016, the CEO and CFO, assessed the effectiveness of the Corporation's internal control over financial reporting and concluded that it was effective and that no material weaknesses in the Corporation's internal control over financial reporting had been identified.

14. Critical accounting policies and estimates

The Corporation prepares its financial statements in accordance with IFRS, which requires assumptions and estimates to be made. The assumptions and estimates require certain judgments to be made which are based on historical experience, current trends, and all information deemed relevant at the time financial statements are prepared.

The Corporation's annual audited consolidated financial statements for the year ended December 31, 2015 and its 2015 annual MD&A outlined the accounting policies and estimates that are critical to the understanding of the Corporation's results of operations and its businesses.

15. Subsequent event

On October 27, 2016, the Corporation's board of directors declared a regular quarterly dividend of $0.07 per common share. The dividend will be paid on November 25, 2016, to shareholders of record at the close of business on November 10, 2016.

16. Related party transactions

There have been no material changes in related party transactions in the three and nine month periods ended September 30, 2016.

17. Risk management and assessment

Detailed descriptions of the Corporation's risk management and assessment can be found in the Corporation's annual MD&A for 2015. There have been no material changes in the uncertainties and material risk factors facing the Corporation since December 31, 2015.

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

New and revised IFRSs effective for annual periods starting on January 1, 2016:

The following amendments to certain accounting standards were effective for annual periods beginning on or after January 1, 2016 and have been adopted by the Corporation, as applicable:

- **Amendments to IAS 1 *Presentation of Financial Statements***
  The amendments clarify guidance on materiality and aggregation, use of subtotals, aggregation and disaggregation of financial statement line items, the order of the notes to the financial statements and disclosure of significant accounting policies.

- **Amendments to IFRS 7 *Financial Instrument: Disclosures***
  The amendments clarify whether a servicing contract is continuing involvement in a transferred asset for the purpose of determining the disclosures required and the applicability of the amendments to IFRS 7 on offsetting disclosures to condensed interim financial statements.
- **Amendments to IAS 34 *Interim Financial Reporting***
  The amendments clarify the requirement relating to information required by IAS 34 that is presented elsewhere within the interim financial report but outside the interim financial statements.

- **Amendments to IFRS 14 *Regulatory Deferral Accounts***
  The amendments are applicable to first-time adopters of IFRS with rate-regulated activities.

- **Amendments to IFRS 10 *Consolidated Financial Statements*; IFRS 12 *Disclosure of Interest in Other Entities*; IAS 28 *Investments in Associates and Joint Ventures***
  The amendments address issues in applying the consolidation exception for investment entities.

- **Amendments to IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*; IFRS 7 *Financial Instruments: Disclosures*; IAS 19 *Employee Benefits*; IFRS 34 *Interim Financial Reporting***
  The minor amendments are related to the Annual Improvement to IFRSs 2012-2014 Cycle.

- **Amendments to IAS 27 *Equity Method in Separate Financial Statements***
  The amendments reinstate the equity method as an accounting option for investments in subsidiaries, joint ventures and associates in an entity's separate financial statements.

- **Amendments to IAS 16 *Property, Plant and Equipment*; IAS 41 *Agriculture***
  The amendments clarify to include bearer plants within the scope of IAS 16 rather than IAS 41.

- **Amendments to IAS 16 *Property, Plant and Equipment*; IAS 38 *Intangible Assets***
  The amendments clarify that revenue-based methods to calculate depreciation of an asset are not appropriate, except in two limited circumstances.

- **Amendments to IFRS 11 *Joint Arrangements: Accounting for Acquisition of Interest in Joint Operations***
  The amendments clarify to add new guidance to IFRS 11 on accounting for the acquisition of an interest in a joint operation.

The Corporation has determined that the amendments had no material impact on the disclosures or on amounts recognized in the interim condensed consolidated financial statements.

New and revised IFRSs issued in 2016 but not yet effective

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  In January 2016, the IASB issued IFRS 16 *Leases*, effective for the annual period beginning on or after January 1, 2019. The new standard on lease accounting will result in substantially all lessee leases being recognized on the statement of financial position.

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- **Amendments to IFRS 4 *Insurance Contracts***
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Management has not yet fully evaluated the impact of these new standards on the Corporation's consolidated financial statement measurements and disclosures.

Management continues to evaluate the implications of IFRS 15 *Revenue from Contracts with Customers.*

The Corporation does not anticipate early adoption.

19. Non-GAAP and additional GAAP measures

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

The non-GAAP measures used by PFB are considered to be useful as complimentary measures in assessing PFB's financial performance. 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 are stated 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.
Gross profit margin	Gross profit divided by sales expressed as a percentage.

The following table shows the reconciliation of quarterly net income (loss) to quarterly EBITDA and related per share amounts for the current quarter and previous seven quarters:

	2016 Q3	2016 Q2	2016 Q1	2015 Q4	2015 Q3	2015 Q2	2015 Q1	2014 Q4
Net income (loss) (As per financial statements)	**$ 1,936**	$ 1,762	$ (155)	$ 836	$ 2,212	$ 2,120	$ (80)	$ 1,116
Add back (deduct):								
Income taxes	**870**	1,063	(143)	308	865	971	(123)	532
Finance costs	**354**	355	358	356	356	358	360	359
Investment income	**(56)**	(50)	(66)	(63)	(55)	(47)	(59)	(51)
Depreciation	**939**	935	942	951	902	898	897	898
Amortization	**23**	23	19	38	39	53	58	67
EBITDA	**4,066**	4,088	955	2,426	4,319	4,353	1,053	2,921
EBITDA per share	**0.61**	0.61	0.14	0.36	0.64	0.65	0.16	0.43

Condensed Consolidated Financial Statements (Unaudited)

Notice of non-auditor review of condensed consolidated financial statements for the three and nine month periods ended September 30, 2016 and 2015

The accompanying unaudited condensed consolidated financial statements of PFB Corporation for the three and nine month periods ended September 30, 2016 and 2015 are the responsibility of the Corporation's management.

The Corporation's independent auditor, Deloitte LLP, has not performed a review of these condensed consolidated financial statements.

Dated: October 27, 2016

Condensed Interim Consolidated Statements of Income

For the three and nine month periods ended September 30, 2016 and 2015

Thousands of Canadian dollars, except per share amounts

	Note	Three month periods ended September 30		Nine month periods ended September 30	
		2016	**2015**	**2016**	**2015**
Sales		**$ 28,838**	$ 29,849	**$ 76,475**	$ 74,697
Cost of sales	6	**(21,404)**	(22,483)	**(57,732)**	(56,201)
Gross profit		**7,434**	7,366	**18,743**	18,496
Selling expenses		**(2,791)**	(2,582)	**(8,000)**	(7,459)
Administrative expenses		**(1,561)**	(1,333)	**(4,476)**	(4,103)
Other gains (losses)		**22**	(73)	**(39)**	(119)
Operating income		**3,104**	3,378	**6,228**	6,815
Gain on sale of real estate		**-**	-	**-**	63
Investment income		**56**	55	**172**	161
Finance costs		**(354)**	(356)	**(1,067)**	(1,074)
Income before taxes		**2,806**	3,077	**5,333**	5,965
Income taxes expense		**(870)**	(865)	**(1,790)**	(1,713)
Net income for the period		**$ 1,936**	$ 2,212	**$ 3,543**	$ 4,252
Earnings per share - $ per share					
Basic and diluted		**$ 0.29**	$ 0.33	**$ 0.53**	$ 0.63
Weighted average number of common shares outstanding					
Basic and diluted		**6,716,003**	6,716,003	**6,716,003**	6,716,003

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

Consolidated Statements of Comprehensive Income

For the three and nine month periods ended September 30, 2016 and 2015

Thousands of Canadian dollars

	Note	Three month periods ended September 30 2016	2015	Nine month periods ended September 30 2016	2015
Net income for the period		**$ 1,936**	$ 2,212	**$ 3,543**	$ 4,252
Other comprehensive income:					
Items that may subsequently be reclassified to income:					
Foreign currency translation adjustments:					
Exchange differences on translating foreign operations		**256**	1,016	**(841)**	2,094
Restricted available for sale financial assets:	10				
Unrealized gain (loss) on available for sale financial assets, net of tax		**131**	(99)	**416**	**-**
Other comprehensive income (loss) for the period		**387**	917	**(425)**	2,094
Comprehensive income for the period		**$ 2,323**	$ 3,129	**$ 3,118**	$ 6,346

All comprehensive income for the periods is attributable to the shareholders of the Corporation.

Condensed Interim Consolidated Balance Sheets

As at September 30, 2016 and 2015, and December 31, 2015

Thousands of Canadian dollars

	Note	September 30, 2016	September 30, 2015	December 31, 2015
ASSETS				
Current assets				
Cash and cash equivalents		**$ 13,966**	**$ 13,057**	$ 16,252
Trade receivables	10	**11,387**	**11,711**	7,535
Inventories	6	**10,489**	**10,685**	10,069
Income taxes recoverable		**396**	**9**	35
Prepaid expenses		**965**	**739**	932
Total current assets		**37,203**	**36,201**	34,823
Non-current assets				
Marketable securities - restricted	10	**2,763**	**2,227**	2,192
Property, plant and equipment	7	**35,236**	**34,556**	36,022
Intangible assets		**1,474**	**1,430**	1,521
Goodwill		**2,291**	**2,321**	2,385
Deferred income tax assets		**1,018**	**1,867**	1,901
Total non-current assets		**42,782**	**42,401**	44,021
Total assets		**$ 79,985**	**$ 78,602**	$ 78,844
LIABILITIES				
Current Liabilities				
Trade and other payables	10	**$ 8,700**	**$ 8,901**	$ 8,903
Deferred revenue		**4,685**	**4,497**	3,408
Income taxes payable		**-**	**1,365**	1,497
Finance lease obligations	8, 10	**319**	**323**	384
Total current liabilities		**13,704**	**15,086**	14,192
Non-current liabilities				
Finance lease obligations	8, 10	**13,944**	**13,911**	14,087
Deferred operating lease obligations	10	**458**	**319**	341
Accrued defined benefit pension plan		**180**	**56**	180
Deferred income tax liabilities		**1,256**	**1,472**	1,376
Total non-current liabilities		**15,838**	**15,758**	15,984
Total liabilities		**29,542**	**30,844**	30,176
SHAREHOLDERS' EQUITY				
Common shares		**20,947**	**20,947**	20,947
Accumulated other comprehensive income		**3,074**	**3,022**	3,499
Retained earnings		**26,422**	**23,789**	24,222
Shareholders' equity		**50,443**	**47,758**	48,668
Total liabilities and shareholders' equity		**$ 79,985**	**$ 78,602**	$ 78,844

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

Condensed Interim Consolidated Balance Sheets

As at September 30, 2016 and 2015, and December 31, 2015

Thousands of Canadian dollars

		Common shares		Accumulated other comprehensive income				
	Note	No. of Shares	Share capital	Foreign currency translation adjustments, net of taxes	Unrealized gain (loss) on available for sale assets, net of taxes	Defined benefit pension plan valuation change, net of taxes	Retained earnings	Total
Balances at January 1, 2015		**6,716,003**	**$ 20,947**	**$ 1,083**	**$ (229)**	**$ 74**	**$ 20,746**	**$ 42,621**
Net income for the period		-	-	-	-	-	4,252	4,252
Other comprehensive income for the period, net of tax		-	-	2,094	-	-	-	2,094
Total comprehensive income for the period		-	-	2,094	-	-	4,252	6,346
Payment of dividends	9	-	-	-	-	-	(1,209)	(1,209)
Balances at September 30, 2015		**6,716,003**	**20,947**	**3,177**	**(229)**	**74**	**23,789**	**47,758**
Net income for the period		-	-	-	-	-	836	836
Other comprehensive income for the period, net of tax		-	-	608	(26)	(105)	-	477
Total comprehensive income (loss) for the period		-	-	608	(26)	(105)	836	1,313
Payment of dividends	9	-	-	-	-	-	(403)	(403)
Balances at December 31, 2015		**6,716,003**	**20,947**	**3,785**	**(255)**	**(31)**	**24,222**	**48,668**
Net income for the period		-	-	-	-	-	3,543	3,543
Other comprehensive (loss) income for the period, net of tax		-	-	(841)	416	-	-	(425)
Total comprehensive (loss) income for the period		-	-	(841)	416	-	3,543	3,118
Payment of dividends	9	-	-	-	-	-	(1,343)	(1,343)
Balances at September 30, 2016		**6,716,003**	**$ 20,947**	**$ 2,944**	**$ 161**	**$ (31)**	**$ 26,422**	**$ 50,443**

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

Condensed Interim Consolidated Balance Sheets

As at September 30, 2016 and 2015, and December 31, 2015

Thousands of Canadian dollars

	Note	Three month periods ended September 30 2016	2015	Nine month periods ended September 30 2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES					
Net income for the period		**$ 1,936**	$ 2,212	**$ 3,543**	$ 4,252
Adjustments for:					
Depreciation expense	7	**939**	902	**2,816**	2,697
Amortization expense		**23**	39	**65**	150
Gain on disposal of property, plant and equipment		**(1)**	(4)	**(70)**	(12)
Gain on sale of real estate		**-**	-	**-**	(63)
Finance costs		**354**	356	**1,067**	1,074
Investment income		**(56)**	(55)	**(172)**	(161)
Income tax expense		**870**	865	**1,790**	1,713
Unrealized foreign exchange loss (gain)		**150**	(49)	**464**	(70)
Funds flow from operations		**4,215**	4,266	**9,503**	9,580
Changes in non-cash working capital	12	**1,249**	1,619	**(3,231)**	(954)
Changes in deferred operating lease obligations		**21**	21	**116**	142
Unrealized foreign exchange loss (gain) relating to non-cash working capital		**1**	(13)	**(101)**	(65)
Cash from operating activities		**5,486**	5,893	**6,287**	8,703
Income taxes paid		**(779)**	(208)	**(3,161)**	(1,055)
Net cash from operating activities		**4,707**	5,685	**3,126**	7,648
CASH FLOWS USED IN INVESTING ACTIVITIES					
Purchase of property, plant and equipment	7,12	**(308)**	(677)	**(2,476)**	(1,545)
Purchase of intangible assets		**(37)**	-	**(90)**	(107)
Proceeds from disposal of property, plant and equipment		**19**	10	**121**	18
Proceeds from sale of real estate		**-**	-	**-**	63
Interest received		**17**	16	**55**	44
Distributions received from marketable securities		**39**	39	**117**	117
Net cash used in investing activities		**(270)**	(612)	**(2,273)**	(1,410)
CASH FLOWS USED IN FINANCING ACTIVITIES					
Repayment of finance lease obligations		**(91)**	(90)	**(295)**	(256)
Finance costs paid		**(354)**	(356)	**(1,067)**	(1,074)
Dividends paid to shareholders	9	**(470)**	(403)	**(1,343)**	(1,209)
Net cash used in financing activities		**(915)**	(849)	**(2,705)**	(2,539)
Effects of exchange rate changes on the balance of cash held in foreign currencies – (loss) gain		**(98)**	196	**(434)**	425
Net increase (decrease) in cash and cash equivalents		**3,424**	4,420	**(2,286)**	4,124
Cash and cash equivalents at the beginning of the period		**10,542**	8,637	**16,252**	8,933
Cash and cash equivalents at the end of the period		**$ 13,966**	$ 13,057	**$ 13,966**	$ 13,057

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

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 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. Statement of compliance

These interim condensed consolidated financial statements for the three and nine month periods ended September 30, 2016 and 2015, have been prepared in accordance with International Accounting Standard (IAS) 34, *Interim Financial Reporting*. Accordingly, certain information and footnote disclosure normally included in annual financial statements prepared in accordance with International Financial Reporting Standards (IFRS) have been omitted. These interim condensed consolidated financial statements should be read in conjunction with the Corporation's audited consolidated financial statements for the years ended December 31, 2015 and 2014.

These interim condensed consolidated financial statements were approved and authorized for issue by the board of directors of the Corporation at a meeting held on October 27, 2016.

3. Significant accounting policies

3.1 Presentation

These interim condensed consolidated financial statements have been prepared in accordance with the significant accounting policies set out in the Corporation's audited consolidated financial statements for the years ended December 31, 2015 and 2014.

The Corporation's business is subject to seasonal variations and uncertainties. Sales of the Corporation's products are driven by consumer and industrial demand for insulation and building products. The timing of our customers' construction projects can be influenced by a number of factors including the prevailing economic climate and weather. Seasonality in the construction industry results in demand for the Corporation's products being stronger in the second and third quarters and less strong in the first and fourth quarters of its fiscal cycle. Accordingly, the results of operations for these reporting periods are not necessarily indicative of the results of operations over a full year cycle.

3.2 Consolidation

The interim condensed 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.

All intra-group transactions, balances, income and expenses have been eliminated in full upon consolidation.

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

The following amendments to certain accounting standards were effective for annual periods beginning on or after January 1, 2016 and have been adopted by the Corporation, as applicable:

- **Amendments to IAS 1 *Presentation of Financial Statements***
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The Corporation has determined that the amendments had no material impact on the disclosures or on amounts recognized in the interim condensed consolidated financial statements.

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Management has not yet fully evaluated the impact of these new standards on the Corporation's consolidated financial statement measurements and disclosures.

Management continues to evaluate the implications of IFRS 15 *Revenue from Contracts with Customers.*

The Corporation does not anticipate early adoption.

4. Critical accounting estimates and judgments

The preparation of financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported carrying amounts of assets and liabilities and the results of operations.

Estimates and underlying assumptions are reviewed on an ongoing basis. Actual results could differ from those estimates.

There were no significant changes in how accounting estimates or judgments have been determined in the interim periods presented.

5. Segment information

The Corporation has two reportable operating segments, Canada and the USA, and each segment applies the same accounting policies, 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 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 or 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.

Thousands of Canadian dollars, except per share amounts

Information regarding each reportable operating segment for three and nine month periods ended September 30, 2016 and 2015 are set out below:

Three month periods ended September 30	**Sales revenues**		**Operating income**	
	2016	**2015**	**2016**	**2015**
Canada	**$ 18,955**	$ 21,505	**$ 2,265**	$ 2,874
USA	**9,883**	8,344	**885**	484
Totals for segments	**$ 28,838**	$ 29,849	**3,150**	3,358
Corporate – (expense) income, net			**(48)**	16
Foreign exchange gain on inter-segment loan			**2**	4
Consolidated operating income			**$ 3,104**	$ 3,378

Nine month periods ended September 30	**Sales revenues**		**Operating income (loss)**	
	2016	**2015**	**2016**	**2015**
Canada	**$ 49,942**	$ 56,438	**$ 4,460**	$ 7,079
USA	**26,533**	18,259	**1,910**	(210)
Totals for segments	**$ 76,475**	$ 74,697	**6,370**	6,869
Corporate – expense, net			**(130)**	(50)
Foreign exchange loss on inter-segment loan			**(12)**	(4)
Consolidated operating income			**$ 6,228**	$ 6,815

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 is set out in the table below:

	As at Sept 30, 2016	**As at Dec 31, 2015**
Assets		
Segmented assets	**$ 55,992**	$ 52,362
Assets not allocated to segments:		
Cash and cash equivalents	**13,966**	16,252
Freehold land and buildings	**7,251**	8,003
Restricted marketable securities	**2,763**	2,192
Corporate – income taxes recoverable	**13**	35
Total assets	**$ 79,985**	$ 78,844
Liabilities		
Segmented liabilities	**$ 15,108**	$ 15,703
Liabilities not allocated to segments:		
Finance lease obligations	**14,263**	14,471
Corporate – deferred income tax liability	**170**	2
Total liabilities	**$ 29,541**	$ 30,176
Net segmented assets		
Canada	**$ 33,830**	$ 27,713
USA	**7,054**	8,946

Thousands of Canadian dollars, except per share amounts

5.3 Other segment information

	Three month periods ended September 30		Nine month periods ended September 30	
	2016	**2015**	**2016**	**2015**
Additions to non-current assets:				
Canada	**$ 275**	$ 574	**$ 2,283**	$ 1,216
USA	**70**	103	**283**	436
Total	**$ 345**	$ 677	**$ 2,566**	$ 1,652
Depreciation and amortization:				
Canada	**$ 635**	$ 614	**$ 1,893**	$ 1,911
USA	**184**	192	**557**	542
Total	**$ 819**	$ 806	**$ 2,450**	$ 2,453
Inter-segment sales	**$ 1,723**	$ 1,211	**$ 4,039**	$ 3,050

6. Inventories

	As at Sept 30, 2016	**As at Dec 31, 2015**
Raw materials	**$ 4,747**	$ 4,834
Work in progress	**3,031**	2,580
Finished goods	**2,711**	2,655
	$ 10,489	$ 10,069

The cost of inventories recognized as an expense in cost of sales during the three and nine month periods ended September 30, 2016 was $19,013 and $51,562 (2015 - $20,048 and $50,090), respectively.

The cost of inventories recognized as an expense during the three and nine month periods ended September 30, 2016, includes $7 and $238, respectively, (2015 - $105 and $378) in respect of write-downs of inventory to net realizable value.

There were no reversals of any cost to net realizable value write-downs in the three and nine month periods ended September 30, 2016 or 2015.

Eligible inventories held by 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 September 30, 2016 and 2015.

Thousands of Canadian dollars, except per share amounts

7. Property, plant and equipment

Cost	Freehold land	Buildings	Plant and equipment	Assets under finance lease	Assets under construction	Total
Balance at January 1, 2015	**$ 2,197**	**$ 10,492**	**$ 36,657**	**$ 15,582**	**$ 410**	**$ 65,338**
Additions	-	-	6	52	1,539	1,597
Disposal of PP&E assets	-	-	(99)	(30)	-	(129)
Transfers between asset classes	-	14	861	-	(875)	-
Effect of foreign currency changes	142	890	813	37	43	1,925
Balance at September 30, 2015	**2,339**	**11,396**	**38,238**	**15,641**	**1,117**	**68,731**
Additions	-	-	-	312	621	933
Business combinations	822	184	148	-	-	1,154
Disposal of PP&E assets	-	-	(21)	-	-	(21)
Transfers between asset classes	-	433	637	-	(1,070)	-
Effect of foreign currency changes	47	255	251	17	2	572
Balance at December 31, 2015	**3,208**	**12,268**	**39,253**	**15,970**	**670**	**71,369**
Additions	-	-	26	122	2,450	2,598
Disposal of PP&E assets	-	-	(213)	(302)	-	(515)
Transfers between asset classes	-	9	723	-	(732)	-
Effect of foreign currency changes	(103)	(380)	(370)	(22)	-	(875)
Balance at September 30, 2016	**$ 3,105**	**$ 11,897**	**$ 39,419**	**$ 15,768**	**$ 2,388**	**$ 72,577**
Accumulated Depreciation						
Balance at January 1, 2015	**$ -**	**$ 4,911**	**$ 24,119**	**$ 1,824**	**$ -**	**$ 30,854**
Depreciation expense	-	491	1,498	708	-	2,697
Disposal of PP&E assets	-	-	(99)	(24)	-	(123)
Effect of foreign currency changes	-	303	434	10	-	747
Balance at September 30, 2015	**-**	**5,705**	**25,952**	**2,518**	**-**	**34,175**
Depreciation expense	-	179	528	244	-	951
Disposal of PP&E assets	-	-	(21)	-	-	(21)
Transfers between asset classes	-	-	-	-	-	-
Effect of foreign currency changes	-	99	138	5	-	242
Balance at December 31, 2015	**-**	**5,983**	**26,597**	**2,767**	**-**	**35,347**
Depreciation expense	-	544	1,517	755	-	2,816
Disposal of PP&E assets	-	(183)	(281)	-	-	(464)
Effect of foreign currency changes	-	(147)	(204)	(7)	-	(358)
Balance at September 30, 2016	**$ -**	**$ 6,197**	**$ 27,629**	**$ 3,515**	**$ -**	**$ 37,341**
Net book values						
September 30, 2015	$ 2,339	$ 5,691	$ 12,286	$ 13,123	$ 1,117	$ 34,556
December 31, 2015	3,208	6,285	12,656	13,203	670	36,022
September 30, 2016	**3,105**	**5,700**	**11,790**	**12,253**	**2,388**	**35,236**

Assets under construction as at September 30, 2016 are expected to be available for use in 2016.

Depreciation expense for the three and nine month periods ended September 30, 2016, in the amounts of $809 and $2,448 (2015 - $804 and $2,384) is included in cost of sales, with amounts of $96 and $271 (2015 - $66 and $204) included in selling expenses, and amounts of $34 and $97 (2015 - $32 and $109) included in administrative expenses, respectively.

Thousands of Canadian dollars, except per share amounts

8. Finance lease obligations

The Corporation's finance lease obligations as at September 30, 2016, and December 31, 2015, are as stated in the following table:

	Minimum lease payments	
	Sept 30, 2016	**Dec 31, 2015**
No later than one year	**$ 1,730**	$ 1,803
Later than one year and not later than five years	**6,807**	6,771
Later than five years	**21,547**	22,773
Total minimum lease payments	**30,084**	31,347
Less: amounts representing finance costs	**15,821**	16,876
Present value of minimum lease payments	**$ 14,263**	$ 14,471

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

	Sept 30, 2016	**Dec 31, 2015**
Current	**$ 319**	$ 384
Long-term	**13,944**	14,087
Total	**$ 14,263**	$ 14,471

9. Issued capital

9.1 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 ended on September 10, 2016.

The Normal Course Issuer Bid lapsed on September 10, 2016, without renewal and without any share repurchases over the 12-month period ending September 10, 2016.

9.2 Dividends

In the first quarter of 2016, the Corporation's board of directors declared a regular quarterly dividend of $0.06 (2015 - $0.06) per common share which was paid in February of each year, respectively. The dividend payment in February 2016 amounted to $403 (2015 - $403).

In the second quarter of 2016, the Corporation's board of directors declared a regular quarterly dividend of $0.07 (2015 - $0.06) per common share which was paid in May of each year, respectively. The dividend payment in May 2016 amounted to $470 (2015 - $403).

In the third quarter of 2016, the Corporation's board of directors declared a regular quarterly dividend of $0.07 (2015 - $0.06) per common share which was paid in August of each year, respectively. The dividend payment in August 2016 amounted to $470 (2015 - $403).

10. Financial instruments

10.1 Fair Value Hierarchy

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:

Thousands of Canadian dollars, except per share amounts

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 carrying amounts of the financial instruments are a reasonable approximation of their fair value. A summary of the classifications and carrying values of financial instruments held by the Corporation as at September 30, 2016 and December 31, 2015, are stated in the following table:

				Sept 30, 2016	**Dec 31, 2015**
Financial instrument	**Category**	**Measurement**	**Hierarchy**	**Carrying Amount**	**Carrying Amount**
Cash and cash equivalents	FVTPL	Fair value	Level 1	**$ 13,966**	$ 16,252
Restricted marketable securities	Available for sale	Fair value	Level 1	**2,763**	2,192
Trade receivables	Loans and receivables	Amortized cost	N/A	**11,387**	7,535
Trade and other payables	Other financial liabilities	Amortized cost	N/A	**(8,700)**	(8,903)
Finance lease obligations	Other financial liabilities	Amortized cost	N/A	**(14,263)**	(14,471)
Deferred operating lease obligations	Other financial liabilities	Amortized cost	Level 2	**(458)**	(341)

During the third quarter of 2016, there were no transfers between level 1 and level 2 fair value measurements.

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.
- 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.

11. Commitments and contingencies

11.1 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 should, in the unlikely event, the subsidiary not fulfil its contractual obligations. 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 September 30, 2016, the Canadian segment did not have any performance bonds outstanding (December 31, 2015 - $ none). In the USA, performance bonds in the amount of $675 were pledged to various government agencies as at September 30, 2016 (December 31, 2015 - $608).

11.2 Expenditures for property, plant and equipment

As at September 30, 2016, the Corporation had commitments of $605 for purchasing property, plant and equipment.

Thousands of Canadian dollars, except per share amounts

12. Supplementary cash flow information

12.1 Changes in non-cash working capital

	Three month periods ended September 30		Nine month periods ended September 30	
Increase (decrease) in:	**2016**	**2015**	**2016**	**2015**
Trade receivables	**$ (366)**	$ (1,496)	**$ 3,852**	$ 2,780
Inventories	**(567)**	709	**420**	1,791
Prepaid expenses	**(244)**	(206)	**33**	(24)
Trade and other payables	**(496)**	(522)	**203**	(1,812)
Deferred revenue	**424**	(104)	**(1,277)**	(1,781)
	$ (1,249)	$ (1,619)	**$ 3,231**	$ 954

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

	Three month period ended September 30		Nine month period ended September 30	
	2016	**2015**	**2016**	**2015**
Property, plant and equipment acquired with finance lease obligations	**$ 73**	$ -	**$ 122**	$ 52

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