First Quarter Report 2017

For the three month periods ended March 31, 2017 and 2016

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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 month periods ended March 31, 2017 and 2016 and notes thereto and in conjunction with the Corporation's annual MD&A for the year ended December 31, 2016.

PFB's unaudited condensed interim consolidated financial statements for the three month periods ended March 31, 2017 and 2016 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 May 11, 2017. 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 May 11, 2017, 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, 2016.

2. Summary of quarterly financial data

	2017	2016				2015		
	Qtr. 1	**Qtr. 4**	**Qtr. 3**	**Qtr. 2**	**Qtr. 1**	**Qtr. 4**	**Qtr. 3**	**Qtr. 2**
Sales	**$ 19,487**	$ 25,058	$ 28,838	$ 28,480	$ 19,157	$ 24,440	$ 29,849	$ 27,316
Gross profit	**2,944**	5,932	7,434	7,466	3,843	5,203	7,366	7,605
Gross profit margin %	**15.1**	23.7	25.8	26.2	20.1	21.3	24.7	27.8
Operating (loss) income	**(1,212)**	2,039	3,104	3,130	(6)	1,437	3,378	3,402
Net (loss) income	**(890)**	1,145	1,936	1,762	(155)	836	2,212	2,120
(Loss) earnings per share:								
Basic and diluted	**(0.13)**	0.17	0.29	0.26	(0.02)	0.12	0.33	0.32
EBITDA [1]	**32**	2,996	4,066	4,088	955	2,426	4,319	4,353
EBITDA per share [1]	**-**	0.44	0.61	0.61	0.14	0.36	0.64	0.65

3. Consolidated statements of loss (unaudited)

	Three month periods ended March 31	
	2017	**2016**
Sales	**$ 19,487**	$ 19,157
Cost of sales	**(16,543)**	(15,314)
Gross profit	**2,944**	3,843
Selling expenses	**(2,695)**	(2,543)
Administrative expenses	**(1,441)**	(1,267)
Other losses	**(20)**	(39)
Operating loss	**(1,212)**	(6)
Gain on sale of marketable securities	**275**	-
Investment income	**50**	66
Finance costs	**(280)**	(358)
Loss before tax	**(1,167)**	(298)
Income tax recovery	**277**	143
Loss for the period	**$ (890)**	$ (155)
Loss per share - $ per share		
Basic and diluted	**$ (0.13)**	$ (0.02)
Funds flow (used in) from operations [1]	**$ (331)**	$ 1,222
Funds flow (used in) from operations per share [1]	**(0.05)**	0.18

[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. Sales and gross profit margins in the first quarter of each year are typically the lowest in the annual reporting cycle.

4. Consolidated results of operations

Sales

Consolidated sales were $19,487, in the current quarter, an increase of $330 or 1.7% from sales of $19,157 in Q1/16. The Canadian operating segment was the significant contributor to the overall growth in sales.

Gross profit

Consolidated gross profit was $2,944 in the current quarter as compared to $3,843 in Q1/16. Gross profit margin in the current quarter decreased to 15.1% of sales as compared to a gross profit margin of 20.1% in Q1/16. The cause of the dramatic reduction in gross profit margin was unscheduled upstream supply chain outages that lead to a short-term 66% spike in the price of our basic raw material during the period. The cost of inventories recognized as an expense in cost of sales during the three month period ended March 31, 2017 was $14,808 contrasted to $13,855 during the 2016 comparative period.

Operating loss

An operating loss of $1,212 was incurred in the current quarter, contrasted with operating loss of $6 reported in Q1/16. Higher raw material costs, selling and administrative expenses were the significant contributors to the change.

Loss before tax

In the current quarter, a loss before taxes of $1,167 reflected a negative variance of $869, compared to the loss before taxes of $298 reported in the comparative quarter of 2016.

Income taxes

Income tax recovery in the current quarter was $277 as compared to income tax recovery of $143 in Q1/16. The effective tax rate for the current period is influenced by a deferred tax recovery related to the purchase of leased assets.

Loss and loss per share

A loss of $890 resulted in the current quarter which contrasted with a loss of $155 reported in the comparative quarter of 2016, a negative variance of $735.

Basic and diluted loss per common share in the current quarter was $0.13 as compared to a basic and diluted loss per share of $0.02 in Q1/16, a negative variance of $0.11 per share.

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, 2016 and 2015) 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 below). There are varying levels of integration between each segment.

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.

Information for each reportable operating segment for the three month periods ended March 31 is set out below:

	Sales revenues		**Operating (loss) income**	
	2017	**2016**	**2017**	**2016**
Canada	**$ 13,495**	$ 12,422	**$ (673)**	$ 449
USA	**5,992**	6,735	**(269)**	(355)
Total for segments	**$ 19,487**	$ 19,157	**(942)**	94
Corporate – expense			**(268)**	(46)
Foreign exchange loss on inter-segment loan			**(2)**	(54)
Consolidated operating loss			**$ (1,212)**	$ (6)

(a) Canadian segment

Sales
Sales generated by the Canadian segment increased to $13,495 in the current quarter from $12,422 in Q1/16, an increase of 8.6% or $1,073. The Canadian market continues to exhibit significant regional differences. The increase in sales occurred principally in markets where the regional economy is not affected by the decrease in crude oil prices, while markets interrelated with the oil sector, generally stabilized.

Operating (loss) income
The Canadian segment reported an operating loss of $673 for the current quarter compared to operating income of $449 in Q1/16, a negative variance of $1,122. A significant spike increased our material and overhead costs, which resulted in an increased operating loss compared with the 2016 period.

(b) USA segment

Sales
As reported in Canadian dollars, USA segment sales in the current quarter decreased to $5,992 from $6,735 in Q1/16 a decrease of $743 or 11%. The slight strengthening of the Canadian dollar throughout Q1/17, compared to Q1/16, created an slightly unfavorable currency effect when USA segment sales transacted in U.S. dollars are converted for consolidation purposes but a favourable effect when purchasing raw materials priced in US dollars. Sales in the PFB Custom Homes Group were reduced from prior year levels.

Average foreign exchange rates experienced by the Corporation during the periods reflected the appreciation of the Canadian currency from an average rate of $1.37 per US$1.00 in the 2016 comparative period to an average rate of approximately $1.32 per US$1.00 in the current period. Eliminating the effect of foreign exchange fluctuations, the sales declined 8.2% for the periods expressed, in USA dollars.

Operating loss
The USA segment reported a reduced operating loss of $269 in the current quarter from a loss of $355 in the comparative quarter of 2016, a favourable variance of $86.

The USA segment had stable sales across most segments, with the exception of the PFB Custom Homes Group, which had a decline in sales compared to the comparative period. The first quarter in the annual cycle is typically the slowest from a sales perspective whereas the timing of certain product line marketing expenditures continues to be concentrated in the first quarter. Unrealized foreign exchange loss of $2 was experienced relating to an inter-segment loan to the USA segment.

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 Mar 31, 2017	As at Dec 31, 2016
Assets		
Segmented assets	**$ 47,361**	$ 51,616
Assets not allocated to segments:		
Cash and cash equivalents	**4,921**	17,171
Freehold land and buildings	**24,456**	7,234
Restricted marketable securities	**1,115**	2,803
Corporate – income taxes	**284**	13
Total assets	**$ 78,137**	$ 78,837
Liabilities		
Segmented liabilities	**$ 13,563**	$ 12,803
Liabilities not allocated to segments:		
Bank indebtedness	**2,175**	-
Finance lease obligations	**3,181**	14,220
Long-term debt	**9,152**	-
Corporate – income taxes	**-**	168
Total liabilities	**$ 28,071**	$ 27,191
Net segmented assets		
Canada	**$ 25,397**	$ 31,359
USA	**8,401**	7,454

5.3 Other segment information

	Three month periods ended March 31	
	2017	2016
Additions to non-current assets:		
Canada	**$ 88**	$ 1,385
USA	**106**	54
Total	**$ 194**	$ 1,439
Depreciation and amortization:		
Canada	**$ 587**	$ 627
USA	**179**	188
Total	**$ 766**	$ 815
Inter-segment sales	**$ 1,853**	$ 1,083

6. Liquidity

Sources of liquidity

The Corporation expects its current cash balances, future cash flows generated by operations, and 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 March 31, 2017 and December 31, 2016 were as follows:

	March 31, 2017	December 31, 2016
Cash held with banks	**$ 4,762**	$ 10,067
Short-term investments	**-**	7,067
Restricted cash	**159**	37
	$ 4,921	$ 17,171

PFB's cash balances typically fluctuate with the seasonality of its business. The reduction in cash balances in the current quarter was primarily used to fund the acquisition of the leased property and extinguishment of the lease liability at the Crossfield, Alberta site and to fund increased non-cash working capital.

Bank credit facilities

The Canadian revolving credit facilities were drawn down by $2,175 as at March 31, 2017 to fund working capital requirements. Repayment of the credit facility is expected during 2017.

Long-term debt

During the first quarter the Corporation obtained long-term debt from a Canadian bank, secured by the property, to fund the purchase of the real estate transaction at the Crossfield Alberta property in the amount of $9,152.

Summary of cash flows

A summary of cash flows for the three month periods ended March 31, 2017 and 2016 are shown in the following table.

	2017	2016
Net cash flows (used in) generated by:		
Cash used in operating activities after changes in non-cash working capital	**$ (5,599)**	$ (2,804)
Income taxes paid	**(238)**	(1,784)
Net cash used in operating activities	**(5,837)**	(4,588)
Investing activities	**(7,917)**	(1,299)
Financing activities	**1,401**	(866)
Effects of exchange rates on cash and cash equivalents held in foreign currency	**103**	(319)
Net decrease in cash and cash equivalents	**$ (12,250)**	$ (7,072)

(a) Operating activities

Cash used in operating activities after changes in non-cash working capital was $5,599 in the current quarter as compared to cash used in operating activities of $2,804 in the comparative quarter of 2016, an increase of $2,795. The main components making up the $5,599 of cash used in operating activities were funds flow used in operations of $331 and increases in non-cash working capital of $5,124.

Funds flow used in operations in Q1/17 was $331 contrasted to funds flow from operations in Q1/16 of $1,222, a negative variance of $1,553. The operating loss of $890, compared to an operating loss of $155 in the comparative period, or a negative variance of $735 was the main reason for the change in funds flow used in operations. Included in the net change was also a $275 gain on the sale of marketable securities from the sale of trust units released from escrow. In addition, the funds flow used in operations was negatively impacted by an unrealized foreign exchange gain of $83 as compared with an unrealized foreign exchange loss of $332 in the comparative period.

The changes in non-cash working capital amounts which occurred in the first quarter of 2017 are as follows:

	Mar 31, 2017	**Dec 31, 2016**	**Change**
Trade receivables	**$ 9,741**	$ 7,643	$ 2,098
Inventories	**13,419**	10,010	3,409
Prepaid expenses	**1,357**	1,111	246
Trade and other payables	**(7,382)**	(8,383)	1,001
Deferred revenue	**(4,451)**	(2,821)	(1,630)
	$ 12,684	$ 7,560	$ 5,124

The increase in non-cash working capital in the current quarter of $5,124 compared to an increase of $3,980 in Q1/16, a difference of $1,144.

Inventory values increased in the current quarter and are a normal occurrence, as operations begin building work-in-process and finished goods inventories ahead of the seasonal upsurge in sales activities. Similar to the prior year, management decided to increase inventories of finished goods during the slower Q1/17 period to provide operating flexibility during the busier summer periods. Inventory of raw material reflects lower volumes held, but represent an approximate 44% increase in inventory costs from the spike in higher feedstock prices.

The decrease in trade and other payables of $1,001 since the beginning of the year was reflective of regular payments of normal operating activities and decreased capital projects undertaken in Q1/17 as capital projects undertaken in some manufacturing facilities in Q1/16 are nearly complete.

Deferred revenue increased by $1,630 during the period representing increased deposits from customers paid to secure their future deliveries of custom products, mainly in the USA, reflecting strengthening of the order book for certain products.

(b) Investing activities

Cash flows used in investing activities in the current quarter were $7,917 as compared to cash flows used in investing activities of $1,299 in Q1/16. The total cash disbursed to fund the purchase price of the acquisition of the Crossfield, Alberta property was $18,800. A portion of this amount was credited to non-cash adjustments to the asset purchase of $1,995. Purchases of tangible and intangible assets in Q1/17 amounted to $292 as compared to purchases of $1,439 in Q1/16. The decrease in purchases of property, plant and equipment was attributed to the completion of upgrading manufacturing equipment in certain plants that occurred in 2016. Interest received on invested cash declined from $27 to $19, primarily due to the deployment of cash to the property purchase and the drawing of $2,175 from the revolving credit facility. Distributions from marketable securities decreased as the Corporation sold 318,421 trust units and is receiving less distributions.

(c) Financing activities

Cash flows generated from financing activities in the current quarter were $1,401, compared to cash flows of $866 used in financing activities in Q1/16. As part of the acquisition of the Crossfield, Alberta property, the Corporation extinguished finance lease obligations in the amount of $10,982 relating to the property. Cash inflow from a revolving credit facility was $2,175 and long-term debt acquired, related to the Crossfield, Alberta acquisition was $9,152.

Upon completion of the purchase of leased assets, at Crossfield, Alberta, 318,421 trust units of the Canadian REIT owned by the Corporation, were released from escrow and were sold for gross proceeds of $1,883.

Payments of scheduled principal amounts and finance costs pertaining to finance lease obligations decreased as a result of the extinguished finance lease obligations, resulting from the acquisition of the Crossfield, Alberta property.

The increase in cash flows used to pay regular quarterly dividends to shareholders increased from $403 in Q1/16 to $470 in Q1/7 as a result of increasing the quarterly dividend from $.06 to $.07 per common share during 2016.

7. Capital resources

Capital structure

The Corporation's capital structure as at March 31, 2017and December 31, 2016, consisted of shareholder's equity in the amounts of $50,066 and $51,646, respectively.

Share capital

A summary of the Corporation's share capital position as at March 31, 2017 and December 31, 2016, is set forth in the following table:

	March 31, 2017 (Three Months)		December 31, 2016 (Twelve Months)	
	No. of Shares	**Amount**	**No. of Shares**	**Amount**
Balance, beginning of period	**6,716,003**	**$ 20,947**	6,716,003	$ 20,947
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

During the first quarter of 2017, the Corporation's board of directors declared a regular quarterly dividend of $0.07 (2016 - $0.06) per common share which was paid in February in each year.

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

Comprehensive income (loss)

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 (loss) income for the three month periods ended March 31, 2017 and 2016 is as follows:

	2017	**2016**
Loss for the period	**$ (890)**	**$ (155)**
Other comprehensive (loss) income	**(220)**	**(873)**
Comprehensive (loss) income for the period	**$ (1,110)**	**$ (1,028)**

In the first quarter of 2017, other comprehensive loss was $220 as compared to other comprehensive loss of $873 in the comparative quarter of 2016. Other comprehensive loss of $220 in the current quarter consisted losses of $162 (2016 – loss of $1,015) attributed to foreign currency translation when consolidating PFB's USA operations, and losses of $58 (2016 – gain of $142), representing an unrealized losses on restricted marketable securities, net of tax.

Included in accumulated comprehensive income at March 31, 2017, were foreign currency translation adjustments totaling $3,198, gains from marking to market available securities for sale of $132 and $52 of defined benefit valuation changes, net of tax, for total accumulated other comprehensive income of $3,382.

Long-term debt

As at February 28, 2017, the Corporation obtained long-term debt at a fixed interest rate of 3.25% from a Canadian bank to fund the purchase of property in Crossfield, Alberta. The long-term debt is being amortized over a 20 year amortization period and subject to renewal in 5 years. The long-term debt is eligible for prepayment privilege, subject to certain prepayment penalties and is supported by a first mortgage on the Corporation's property. Borrowing and closing costs were expensed as incurred.

The Corporation is subject to certain covenants on its long-term debt, one of which is a financial covenant to maintain a Debt Service Coverage Ratio of not less than 1.25:1. The financial covenant ratio is tested on an annual, year-end basis. A test of Debt Service Coverage compliance will be performed on December 31, 2017.

8. Commitments and contractual obligations

8.1 Lease obligations and commitments for PP&E and intangible assets

PFB's contractual obligations and commitments as at March 31, 2017 and December 31, 2016, 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 March 31, 2017					
Finance lease obligations	**$ 7,623**	**$ 576**	**$ 1,018**	**$ 860**	**$ 5,169**
Long-term debt	**12,459**	**623**	**1,246**	**1,246**	**9,344**
Operating lease obligations	**16,619**	**1,900**	**3,000**	**1,848**	**9,871**
Commitments for PP&E and intangible assets	**905**	**905**			
Total contractual obligations	**$ 37,606**	**$ 4,004**	**$ 5,264**	**$ 3,954**	**$ 24,384**
As at December 31, 2016					
Finance lease obligations	$ 29,692	$ 1,717	$ 3,499	$ 3,345	$ 21,131
Operating lease obligations	15,097	1,562	2,359	2,031	9,145
Commitments for PP&E and intangible assets	215	215	-	-	-
Total contractual obligations	$ 45,004	$ 3,494	$ 5,858	$ 5,376	$ 30,276

Finance lease obligations in the above table represent the aggregate outstanding principal amounts and related finance costs.

8.2 Performance bonds

As at March 31, 2017, the Canadian segment did not have any contracts secured by a performance bonds (December 31, 2016 - $nil). In the USA, performance bonds in the amount of $685 were pledged to various government agencies as at March 31, 2017 (December 31, 2016 - $691).

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 were pledged, at inception of the leases, 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 consolidated balance sheet as at March 31, 2017. 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.

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 statements of loss.

On February 28, 2017, upon closing of the purchase of leased assets from a Canadian REIT, the Corporation received from escrow 318,421 trust units. During the first quarter, the Corporation sold 318,421 trust units for gross proceeds of $1,883, resulting in a gain on items that have been reclassified from the Consolidated Statement of Comprehensive Loss in the amount of $275 to the Consolidated Financial Statement of Loss. The remaining 183,084 trust units remain in escrow until about March 15, 2023, and continue to result in monthly distributions.

10. Current Outlook

The overarching influence on first quarter operations was the unforeseen and unprecedented increase in our principal raw material costs caused by shortages of products resulting from manufacturing disruptions in the upstream styrene monomer supply chain. Styrene spot prices in United States dollars rose dramatically, by 66%, over the period from the beginning of December 2016 until the end of February 2017. The cost of inventories recognized as an expense in cost of sales during the three month period ended March 31, 2017 was $14,808 compared with $13,855 in 2016 which accounts for the unsatisfactory results in the first quarter. These spot price increases have now reversed and prices have returned to the base level prior to the run-up. The CAD/USD foreign exchange rate remained relatively constant during the period such that the effect of foreign exchange on these costs was minor.

The effect of increased raw material costs substantially reduced gross margins to 15.1% during first quarter of 2017 compared with gross margins of 20.1% experienced in the 2016 period. During the first quarter, the Corporation immediately began implementing price increases with its customers; however, there are timing delays with price increase implementation and the beneficial financial effects of the increases remain to be experienced over the balance of the year. First quarter gross margins of every year are generally lower than those experienced throughout the balance of the year and we expect margins to return to a normal range as the year progresses.

The influence of world crude oil prices on the economies of North America are the largest driver in the outlook for the Corporation. Weak crude oil prices, from historically higher levels, in the longer term have the potential to maintain stabilized raw material costs. Such has been our experience throughout 2015 and 2016. A discounted Canadian dollar exchange rate versus the U.S. dollar has partly counteracted the benefits of reducing costs because all raw materials are priced in United States dollars. Additionally, the lower oil prices have had the effect of slowing construction demand and therefore demand for our products in some of our oil producing regional markets. There are early signs of economic recovery in some of these regions; and broadly, the effect of lower oil prices 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, which has a positive outcome for the Corporation. We operate in highly competitive markets for EPS products where impulsive competitor actions can create challenging conditions for all participants. Our focus on our growth continues to be in the United States and we remain cautiously optimistic that the positive momentum there will continue. Growing interest in our nationally branded products that are manufactured in the USA has remained strong. Any growth in the USA housing market would have positive effects on our custom homes business. Additionally, we continue to search for suitable acquisitions to expand our USA initiatives. We do not expect that current controversy over international border trade to have any substantive adverse effect on our operations at this time.

On February 28, 2017 the Company completed its previously announced acquisition of 27 acres of land and buildings located in Crossfield, Alberta for the acquisition cost of $18,800. The property is occupied by the Company as the base of our Alberta manufacturing operations. Blended principal and interest payments due under terms of the mortgage in the next twelve months are $623 which is a reduction from the previous leasing costs attributable to the property over the last twelve months of $1,130, for reduction of $507.

PFB's balance sheet remains strong and liquid despite the deployment of approximately $9,670 of treasury cash to complete the close of the Crossfield property acquisition. 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

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 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 of the design and operation of the Corporation's disclosure controls and procedures was conducted as of March 31, 2017, under the supervision of the CEO and CFO. Based on this evaluation, the CEO and CFO have concluded that the Corporation's disclosure controls and procedures, 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.

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

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 March 31, 2017, 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, 2016 and its 2016 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 May 11, 2017, the Corporation's board of directors declared the regular quarterly dividend of $0.07 per common share. The dividend will be paid on May 31, 2017, to shareholders of record at the close of business on May 23, 2017.

16. Related party transactions

There have been no material changes in related party transactions in the first quarter of 2017.

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 2016. There have been no material changes in the uncertainties and material risk factors facing the Corporation since December 31, 2016. See section 10 for risks relating to commodity prices.

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

New and revised IFRSs effective for annual periods starting on January 1, 2017:

The following amendments to certain accounting standards were effective for annual periods beginning on or after January 1, 2017 and have been adopted by the Corporation, as applicable:

- **Amendments to IAS 12 *Income Taxes***
  The amendments clarify the recognition of deferred tax assets for unrealized losses.

- **Amendments to IAS 7 *Statement of Cash Flows***
  The amendments clarify certain amendments to disclose changes in liabilities arising from financing activities.

- **Annual Improvements to IFRS's 2014-2016 Cycle**
  Amendments to IFRS 1 remove short-term exemptions. Amendments to IFRS 12 clarify disclosure requirements that apply to items classified as held for sale, held for distribution or as discontinued operations. Amendments to IAS 12 clarify an election to measure at fair value through profit or loss an investment in an associate or joint venture.

The Corporation implemented the amendments to IAS 7, *Statement of Cash Flows*, in the first quarter of 2017 to provide disclosures on changes in liabilities arising from financing activities, including both cash and non-cash flows changes.

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.

Proposed Standard	Description	Previous or Related Standard(s)	Effective Date
IFRIC 22 – *Foreign Currency Transactions and Advance Consideration*	A new standard that provides requirements about which exchange rate to use in reporting foreign currency transactions (such as revenue transactions) when payment is made or received in advance.	IAS 21 – *The Effects of Changes in Foreign Exchange Rates*	Annual periods beginning on or after January 1, 2018, with early adoption permitted.
IFRS 15 – *Revenue from Contracts with Customers*	A single standard on revenue recognition that contains a single model that applies to contracts with a customer and two approaches to recognizing revenue; at a point in time or over a period of time.	IAS 11 - *Construction Contracts*; IAS 18 - *Revenue*; IFRIC 13 - *Customer Loyalty Programs*; IFRIC 15 - *Agreements for the Construction of Real Estate*; IFRIC 18 - *Transfers of Assets from Customers;* SIC-31 - *Revenue - Barter Transactions Involving Advertising Services*	Annual periods beginning on or after January 1, 2018, with early adoption permitted.
IFRS 9 – *Financial Instruments*	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 – *Financial Instruments: Recognition and Measurement; Presentation; Disclosures*	Annual periods beginning on or after January 1, 2018, with early adoption permitted.
IFRS 16 – *Leases*	A new standard on lease accounting that results in substantially all lessee leases being recognized on the statement of financial position.	IAS 17 - *Leases*	Annual periods beginning on or after January 1, 2019, with early adoption permitted.
IFRS 17 – *Insurance Contracts*	In June 2014, the IASB issued a revised exposure draft proposing a comprehensive measurement approach for all types of insurance contracts.	IFRS 4 – *Insurance Contracts*	Final standard expected in the first half of 2017 for annual periods beginning on or after January 1, 2021, with early adoption permitted.

Amendment Date	Description	Amended Standard(s)	Effective Date
December 8, 2016	The amendments paragraph 57 to clarify when there is a change of use, with a list of examples of evidence in paragraph 57 (a)–(d).	IAS 40 – *Investment Property*	Annual periods beginning on or after January 1, 2018.
September 12, 2016	The amendments provide two options for entities that issue insurance contracts – an overlay approach or a deferral approach.	IFRS 4 – *Insurance Contracts*	Dependent on the application of IFRS 9, with annual periods beginning on or after January 1, 2018.
June 20, 2016	The amendments clarify certain accounting for cash-settled, share-based payment transactions.	IFRS 2 – *Share-based Payments*	Annual periods beginning on or after January 1, 2018.
April 12, 2016	Amendments clarify certain aspects of the standard and provide some transition relief for modified and completed contracts.	IFRS 15 – *Revenue from Contracts with Customers*	Annual periods beginning on or after January 1, 2018.

Management continues to evaluate the impact of these new standards on the Corporation's consolidated financial statement measurements and disclosures. The Corporation does not anticipate early adoption of any new standards or amendments. The following provides an update to the disclosure in the annual Consolidated Financial Statements for the year ended December 31, 2016:

IFRS 15 – Revenue from Contracts with Customers
The Corporation has created a plan and is currently in the process of reviewing various revenue streams, finalizing the definition of performance obligations and preparing disclosure requirements. The Corporation's current estimate of the time and effort necessary to complete our implementation plan for IFRS 15 extends into late 2017.

IFRS 16 – Leases
The Corporation is currently assessing the standard and anticipates undertaking an initial scoping assessment subsequent to the implementation of IFRS 15. The Corporation intends to adopt IFRS 16 in its financial statements for the annual period beginning on January 1, 2019. It is not yet possible to make reliable estimates of the potential impact of IFRS 16 on the Corporation's financial statements and disclosures.

IFRS 9 – Financial Instruments
The Corporation is currently assessing the standard and intends to adopt IFRS 9 in its financial statements for the annual period beginning on January 1, 2018.

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 (loss) income to quarterly EBITDA and related per share amounts for the current quarter and previous seven quarters:

	2017 Q1	2016 Q4	2016 Q3	2016 Q2	2016 Q1	2015 Q4	2015 Q3	2015 Q2
Net (loss) income (As per financial statements)	**$ (890)**	$ 1,145	$ 1,936	$ 1,762	$ (155)	$ 836	$ 2,212	$ 2,120
Add back (deduct):								
Income taxes	**(277)**	602	870	1,063	(143)	308	865	971
Finance costs	**280**	354	354	355	358	356	356	358
Investment income	**(50)**	(62)	(56)	(50)	(66)	(63)	(55)	(47)
Depreciation	**941**	932	939	935	942	951	902	898
Amortization	**28**	25	23	23	19	38	39	53
EBITDA	**32**	2,996	4,066	4,088	955	2,426	4,319	4,353
EBITDA per share	**-**	0.44	0.61	0.61	0.14	0.36	0.64	0.65

Condensed Consolidated Financial Statements (Unaudited)

Notice of non-auditor review of condensed consolidated financial statements for the three month periods ended March 31, 2017 and 2016

The accompanying unaudited condensed consolidated financial statements of PFB Corporation for the three month periods ended March 31, 2017 and 2016 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: May 11, 2017

Condensed Interim Consolidated Financial Statements of Loss

For the three month periods ended March 31, 2017 and 2016
Thousands of Canadian dollars, except per share amounts

	Note	2017	2016
Sales		**$ 19,487**	$ 19,157
Cost of sales	6	**(16,543)**	(15,314)
Gross profit		**2,944**	3,843
Selling expenses		**(2,695)**	(2,543)
Administrative expenses		**(1,441)**	(1,267)
Other losses		**(20)**	(39)
Operating loss		**(1,212)**	(6)
Gain on sale of marketable securities		**275**	-
Investment income		**50**	66
Finance costs		**(280)**	(358)
Loss before tax		**(1,167)**	(298)
Income tax recovery		**277**	143
Loss for the period		**$ (890)**	$ (155)
Loss per share - $ per share			
Basic and diluted		**$ (0.13)**	$ (0.02)
Weighted average number of common shares outstanding			
Basic and diluted		**6,716,003**	6,716,003

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

Consolidated Statements of Comprehensive Loss

For the three month periods ended March 31, 2017 and 2016
Thousands of Canadian dollars

	Note	2017	2016
Loss for the period		**$ (890)**	$ (155)
Other comprehensive loss:			
Items that may subsequently be reclassified to income:			
Foreign currency translation adjustments			
Exchange differences on translating foreign operations, net of tax		**(162)**	(1,015)
Restricted available for sale financial assets			
Unrealized (loss) gain on available for sale financial assets, net of tax	13	**(58)**	142
Other comprehensive loss for the period		**(220)**	(873)
Comprehensive loss for the period		**$ (1,110)**	$ (1,028)

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

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

Condensed Interim Consolidated Balance Sheets

As at March 31, 2017, March 31, 2016 and December 31, 2016
Thousands of Canadian dollars

	Note	March 31, 2017	March 31, 2016	December 31, 2016
ASSETS				
Current assets				
Cash and cash equivalents		**$ 4,921**	$ 9,180	$ 17,171
Trade receivables	13	**9,741**	8,027	7,643
Inventories	6	**13,419**	11,962	10,010
Income taxes recoverable		**743**	224	505
Prepaid expenses		**1,357**	1,155	1,111
Total current assets		**30,181**	30,548	36,440
Non-current assets				
Marketable securities - restricted	13	**1,115**	2,387	2,803
Property, plant and equipment	7	**41,914**	35,909	35,041
Intangible assets		**1,554**	1,437	1,496
Goodwill		**2,317**	2,274	2,332
Accrued defined benefit pension plan		**10**	-	10
Deferred income tax assets		**1,046**	1,902	715
Total non-current assets		**47,956**	43,909	42,397
Total assets		**$ 78,137**	$ 74,457	$ 78,837
LIABILITIES				
Current Liabilities				
Bank indebtedness	11	**$ 2,175**	$ -	$ -
Trade and other payables	13	**7,382**	6,417	8,383
Deferred revenue		**4,451**	4,522	2,821
Long-term debt	8,11,13	**330**	-	-
Finance lease obligations	9,11,13	**181**	357	316
Total current liabilities		**14,519**	11,296	11,520
Non-current liabilities				
Long-term debt	8,11,13	**8,822**	-	-
Finance lease obligations	9,11,13	**3,000**	14,013	13,904
Deferred operating lease obligations	13	**424**	415	498
Accrued defined benefit pension plan		**-**	180	-
Deferred income tax liabilities		**1,306**	1,316	1,269
Total non-current liabilities		**13,552**	15,924	15,671
Total liabilities		**28,071**	27,220	27,191
SHAREHOLDERS' EQUITY				
Common shares		**20,947**	20,947	20,947
Accumulated other comprehensive income		**3,382**	2,626	3,602
Retained earnings		**25,737**	23,664	27,097
Shareholders' equity		**50,066**	47,237	51,646
Total liabilities and shareholders' equity		**$ 78,137**	$ 74,457	$ 78,837

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

Consolidated Statements of Changes in Equity

As at March 31, 2017 and 2016, and December 31, 2016
Thousands of Canadian dollars, except number of shares

		Common shares		Accumulated other comprehensive income				
	Note	Number 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, 2016		**6,716,003**	**$ 20,947**	**$ 3,785**	**$ (255)**	**$ (31)**	**$ 24,222**	**$ 48,668**
Loss for the period		-	-	-	-	-	(155)	(155)
Other comprehensive (loss) income for the period, net of tax		-	-	(1,015)	142	-	-	(873)
Total comprehensive (loss) income for the period		-	-	(1,015)	142	-	(155)	(1,028)
Payment of dividends	12	-	-	-	-	-	(403)	(403)
Balances at March 31, 2016		**6,716,003**	**20,947**	**2,770**	**(113)**	**(31)**	**23,664**	**47,237**
Net income for the period		-	-	-	-	-	4,843	4,843
Other comprehensive income (loss) for the period, net of tax		-	-	590	303	83	-	976
Total comprehensive income (loss) for the period		-	-	590	303	83	4,843	5,819
Payment of dividends		-	-	-	-	-	(1,410)	(1,410)
Balances at December 31, 2016		**6,716,003**	**20,947**	**3,360**	**190**	**52**	**27,097**	**51,646**
Loss for the period		-	-	-	-	-	(890)	(890)
Other comprehensive (loss) income for the period, net of tax		-	-	(162)	(58)	-	-	(220)
Total comprehensive (loss) income for the period		-	-	(162)	(58)	-	(890)	(1,110)
Payment of dividends	12	-	-	-	-	-	(470)	(470)
Balances at March 31, 2017		**6,716,003**	**$ 20,947**	**$ 3,198**	**$ 132**	**$ 52**	**$ 25,737**	**$ 50,066**

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

Condensed Interim Consolidated Statement of Cash Flows

For the three month periods ended March 31, 2017 and 2016
Thousands of Canadian dollars

	Note	2017	2016
CASH FLOWS USED IN OPERATING ACTIVITIES			
Loss for the period		**$ (890)**	$ (155)
Adjustments for:			
Depreciation expense	7	**941**	942
Amortization expense		**28**	19
Gain on disposal of plant and equipment		**(5)**	(65)
Gain on sale of marketable securities		**(275)**	-
Finance costs		**280**	358
Investment income		**(50)**	(66)
Income tax recovery		**(277)**	(143)
Unrealized foreign exchange (gain) loss		**(83)**	332
Funds flow (used in) from operations		**(331)**	1,222
Changes in non-cash working capital	16	**(5,124)**	(3,980)
Changes in deferred operating lease obligations		**(74)**	74
Unrealized foreign exchange (loss) gain relating to non-cash working capital		**(70)**	(120)
Cash used in operating activities		**(5,599)**	(2,804)
Income taxes paid		**(238)**	(1,784)
Net cash used in operating activities		**(5,837)**	(4,588)
CASH FLOWS USED IN INVESTING ACTIVITIES			
Purchase of leased assets	10	**(18,800)**	-
Reclassification of lease obligations related to purchase of leased assets	11	**10,982**	-
Non-cash deferred operating lease obligations related to purchase of leased assets	10	**143**	-
Purchase of property, plant and equipment	7	**(194)**	(1,418)
Purchase of intangible assets		**(98)**	(21)
Proceeds from disposal of property, plant and equipment		**-**	74
Interest received		**19**	27
Distributions received on marketable securities		**31**	39
Net cash used in generated by investing activities		**(7,917)**	(1,299)
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES			
Repayment of finance lease obligations	11	**(77)**	(105)
Settlement of finance lease obligations related to purchase of leased assets	11	**(10,982)**	-
Proceeds from long-term debt	8, 11	**9,152**	-
Proceeds from bank indebtedness	11,13	**2,175**	-
Proceeds from disposal of marketable securities		**1,883**	-
Finance costs paid		**(280)**	(358)
Dividends paid to shareholders	12	**(470)**	(403)
Net cash from (used in) financing activities		**1,401**	(866)
Effects of exchange rate changes on cash and cash equivalents held in foreign currencies		**103**	(319)
Net decrease in cash and cash equivalents		**(12,250)**	(7,072)
Cash and cash equivalents at the beginning of the period		**17,171**	16,252
Cash and cash equivalents at the end of the period		**$ 4,921**	$ 9,180

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 month periods ended March 31, 2017 and 2016, 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, 2016 and 2015.

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 May 11, 2017.

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, 2016 and 2015.

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 sector usually 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 this reporting period 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, 2017 and have been adopted by the Corporation, as applicable:

- **Amendments to IAS 12 *Income Taxes***
  The amendments clarify the recognition of deferred tax assets for unrealized losses.

- **Amendments to IAS 7 *Statement of Cash Flows***
  The amendments clarify certain amendments to disclose changes in liabilities arising from financing activities.

- **Annual Improvements to IFRS's 2014-2016 Cycle**
  Amendments to IFRS 1 removes short-term exemptions. Amendments to IFRS 12 clarify disclosure requirements that apply to items classified as held for sale, held for distribution or as discontinued operations. Amendments to IAS 12 clarify an election to measure at fair value through profit or loss an investment in an associate or joint venture.

Thousands of Canadian dollars, except per share amounts

The Corporation implemented the amendments to IAS 7, *Statement of Cash Flows*, in the first quarter of 2017 to provide disclosures on changes in liabilities arising from financing activities, including both cash and non-cash flows changes.

3.4 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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IFRS 9 – *Financial Instruments*	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 – *Financial Instruments: Recognition and Measurement; Presentation; Disclosures*	Annual periods beginning on or after January 1, 2018, with early adoption permitted.
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IFRS 17 – *Insurance Contracts*	In June 2014, the IASB issued a revised exposure draft proposing a comprehensive measurement approach for all types of insurance contracts.	IFRS 4 – *Insurance Contracts*	Final standard expected in the first half of 2017 for annual periods beginning on or after January 1, 2021, with early adoption permitted.

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Management continues to evaluate the impact of these new standards on the Corporation's consolidated financial statement measurements and disclosures. The Corporation does not anticipate early adoption of any new standards or amendments. The following provides an update to the disclosure in the annual Consolidated Financial Statements for the year ended December 31, 2016:

IFRS 15 – Revenue from Contracts with Customers
The Corporation has created a plan and is currently in the process of reviewing various revenue streams, finalizing performance obligations and preparing disclosure requirements. The Corporation's current estimate of the time and effort necessary to complete our implementation plan for IFRS 15 extends into late 2017.

IFRS 16 – Leases
The Corporation is currently assessing the standard and anticipates to undertake an initial scoping assessment subsequent to the implementation of IFRS 15. The Corporation intends to adopt IFRS 16 in its financial statements for the annual period beginning on January 1, 2019. It is not yet possible to make reliable estimates of the potential impact of IFRS 16 on the Corporation's financial statements and disclosures.

IFRS 9 – Financial Instruments
The Corporation is currently assessing the standard and intends to adopt IFRS 9 in its financial statements for the annual period beginning on January 1, 2018.

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 judgement 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.

Thousands of Canadian dollars, except per share amounts

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 (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.

Information regarding each reportable operating segment for three month periods ended March 31 are set out below:

	Sales revenues		Operating (loss) income	
	2017	**2016**	**2017**	**2016**
Canada	**$ 13,495**	$ 12,422	**$ (673)**	$ 449
USA	**5,992**	6,735	**(269)**	(355)
Total for segments	**$ 19,487**	$ 19,157	**(942)**	94
Corporate – expense			**(268)**	(46)
Foreign exchange loss on inter-segment loan			**(2)**	(54)
Consolidated operating loss			**$ (1,212)**	$ (6)

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 Mar 31, 2017	**As at Dec 31, 2016**
Assets		
Segmented assets	**$ 47,361**	$ 51,616
Assets not allocated to segments:		
Cash and cash equivalents	**4,921**	17,171
Freehold land and buildings	**24,456**	7,234
Restricted marketable securities	**1,115**	2,803
Corporate – income taxes	**284**	13
Total assets	**$ 78,137**	$ 78,837
Liabilities		
Segmented liabilities	**$ 13,563**	$ 12,803
Liabilities not allocated to segments:		
Bank indebtedness	**2,175**	-
Finance lease obligations	**3,181**	14,220
Long-term debt	**9,152**	-
Corporate – income taxes	**-**	168
Total liabilities	**$ 28,071**	$ 27,191
Net segmented assets		
Canada	**$ 25,397**	$ 31,359
USA	**8,401**	7,454

Thousands of Canadian dollars, except per share amounts

5.3 Other segment information

	Three month periods ended March 31	
	2017	**2016**
Additions to non-current assets:		
Canada	**$ 88**	$ 1,385
USA	**106**	54
Total	**$ 194**	$ 1,439
Depreciation and amortization:		
Canada	**$ 587**	$ 627
USA	**179**	188
Total	**$ 766**	$ 815
Inter-segment sales	**$ 1,853**	$ 1,083

6. Inventories

	As at Mar 31, 2017	As at Dec 31, 2016
Raw materials	**$ 6,619**	$ 4,953
Work in progress	**2,828**	2,106
Finished goods	**3,972**	2,951
	$ 13,419	$ 10,010

The cost of inventories recognized as an expense in cost of sales during the three month period ended March 31, 2017 was $14,808 (2016 - $13,855).

The cost of inventories recognized as an expense during the three month period ended March 31, 2017, includes $50 (2016 - $128) 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 each of the three month periods ended March 31, 2017 or 2016.

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 Canadian revolving credit facilities were drawn down by $2,175 as at March 31, 2017 and unused as at December 31, 2016.

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, 2016	**$ 3,208**	**$ 12,268**	**$ 39,253**	**$ 15,970**	**$ 670**	**$ 71,369**
Additions	-	-	13	25	1,405	1,443
Disposal of PP&E assets	-	-	(9)	(219)	-	(228)
Transfers between asset classes	-	9	226	-	(235)	-
Effect of foreign currency changes	(121)	(448)	(443)	(26)	-	(1,038)
Balance at March 31, 2016	**3,087**	**11,829**	**39,040**	**15,750**	**1,840**	**71,546**
Additions	-	9	13	146	1,520	1,688
Disposal of PP&E assets	-	-	(242)	(169)	-	(411)
Transfers between asset classes	-	32	1,219	29	(1,280)	-
Effect of foreign currency changes	62	230	236	14	1	543
Balance at December 31, 2016	**3,149**	**12,100**	**40,266**	**15,770**	**2,081**	**73,366**
Additions	-	30	10	22	154	216
Purchase of leased assets	5,432	2,243	-	-	-	7,675
Transfer of leased assets	-	11,745	-	(11,745)	-	-
Disposal of PP&E assets	-	-	(13)	-	-	(13)
Transfers between asset classes	-	-	378	-	(378)	-
Effect of foreign currency changes	(17)	(61)	(61)	(4)	-	(143)
Balance at March 31, 2017	**$ 8,564**	**$ 26,057**	**$ 40,580**	**$ 4,043**	**$ 1,857**	**$ 81,101**

Accumulated Depreciation	Freehold land	Buildings	Plant and equipment	Assets under finance lease	Assets under construction	Total
Balance at January 1, 2016	**$ -**	**$ 5,983**	**$ 26,597**	**$ 2,767**	**-**	**$ 35,347**
Depreciation expense	-	185	508	249	-	942
Disposal of PP&E assets	-	-	(7)	(212)	-	(219)
Effect of foreign currency changes	-	(179)	(245)	(9)	-	(433)
Balance at March 31, 2016	**-**	**5,989**	**26,853**	**2,795**	**-**	**35,637**
Depreciation expense	-	544	1,520	742	-	2,806
Disposal of PP&E assets	-	-	(214)	(149)	-	(363)
Transfers between asset classes	-	-	(26)	26	-	-
Effect of foreign currency changes	-	103	135	7	-	245
Balance at December 31, 2016	**-**	**6,636**	**28,268**	**3,421**	**-**	**38,325**
Depreciation expense	-	240	511	190	-	941
Transfer of leased assets	-	2,318	-	(2,318)	-	-
Disposal of PP&E assets	-		(13)	-	-	(13)
Transfers between asset classes	-	-	-	-	-	-
Effect of foreign currency changes	-	(27)	(37)	(2)	-	(66)
Balance at March 31, 2017	**$ -**	**$ 9,167**	**$ 28,729**	**$ 1,291**	**$ -**	**$ 39,187**

Thousands of Canadian dollars, except per share amounts

Net book values						
March 31, 2016	$ 3,087	$ 5,840	$ 12,187	$ 12,955	$ 1,840	$ 35,909
December 31, 2016	3,149	5,464	11,998	12,349	2,081	35,041
March 31, 2017	**8,564**	**16,890**	**11,851**	**2,752**	**1,857**	**41,914**

Assets under construction as at March 31, 2017 are expected to be available for use in 2017.

Depreciation expense for the three month period ended March 31, 2017, in the amount of $822 (2016 - $825) is included in cost of sales, with an amount of $85 (2016 - $86) included in selling expenses, and an amount of $34 (2016 - $31) included in administrative expenses.

8. Long-term debt

The Corporation's long-term debt position as at March 31, 2017, and December 31, 2016, is stated in the following table:

	Mar 31, 2017	**Dec 31, 2016**
Balance at beginning of period	**$ -**	$ -
Borrowings	**9,152**	-
Repayments	**-**	-
Balance at end of period	**$ 9,152**	$ -

As at February 28, 2017, the Corporation obtained long-term debt from a Canadian bank to fund the purchase of a real estate transaction completed at a fixed interest rate of 3.25%. The long-term debt is being amortized over a 20 year amortization period and subject to renewal within 5 years. The long-term debt is eligible for prepayment privilege, subject to certain prepayment penalties and is supported by the Corporation's property. Borrowing and closing costs were expensed as incurred.

The Corporation is subject to certain covenants on its long-term debt, one of which is a financial covenant to maintain a Debt Service Coverage Ratio of not less than 1.25:1. The financial covenant ratio is tested on an annual, year-end basis. A test of Debt Service Coverage compliance will be performed on December 31, 2017.

Estimated principal repayments on long-term debt through to maturity are set out in the table below:

	Mar 31, 2017
Current within 12 months	$ 330
Due within 12 to 24 months	341
Due within 25 to 36 months	353
Due within 37 to 48 months	364
Due within 49 to 60 months	376
Due after 60 months	7,388
Total	**$ 9,152**

Thousands of Canadian dollars, except per share amounts

9. Finance lease obligations

The Corporation's finance lease obligations as at March 31, 2017, and December 31, 2016, are as stated in the following table:

	Minimum lease payments	
	Mar 31, 2017	**Dec 31, 2016**
No later than one year	**$ 576**	$ 1,717
Later than one year and not later than five years	**1,878**	6,844
Later than five years	**5,169**	21,131
Total minimum lease payments	**7,623**	29,692
Less: amounts representing finance costs	**4,442**	15,472
Present value of minimum lease payments	**$ 3,181**	$ 14,220

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

	Mar 31, 2017	**Dec 31, 2016**
Current	**$ 181**	$ 316
Long-term	**3,000**	13,904
Total	**$ 3,181**	$ 14,220

10. Purchase of leased property

On February 28, 2017, the Corporation purchased, under a Right of First Offer ("ROFO") a property which was previously leased from a Canadian real estate income trust ("Canadian REIT"). The lease interest in the property was recorded as an operating lease of land and a finance lease of the buildings. The gross purchase price for the property was $18,822, of which $9,670 was paid in cash and $9,152 was funded through a mortgage on the property obtained from a Canadian financial institution (see Note 8). The Corporation expensed $22 direct costs related to the transaction as incurred.

The transaction resulted in the elimination of all leasing obligations related to the purchased property. In determining the transaction price allocated to land, the Corporation engaged assistance of third party specialists, to determine the fair value related as $5,432.

For accounting purposes, the deferred operating lease obligations on the balance sheet, were eliminated in the amount of $143.

The cost and accumulated depreciation of amounts previously classified as leasehold improvements, for property enhancements installed from March 2013 to February 2017 were reclassified from leasehold improvements to buildings in the amounts of $398 and $343, respectively.

At March 15, 2013, the present value of minimum lease payments relating to the finance lease asset was recorded as the finance lease obligation in the amount of $14,220. This balance, through lease payments, decreased to $10,982 on February 28, 2017 and was extinguished on the transaction date.

The land and building assets, along with the mortgage for buildings, have been allocated to the Corporate reportable segment.

Thousands of Canadian dollars, except per share amounts

11. Reconciliation of liabilities arising from financing activities

The following table provides a reconciliation between the opening and closing balances for financing activities, including cash and non-cash flows changes:

		Cash changes			Non-cash changes		
	Dec 31, 2016	**Repayments**	**Settlements**	**Borrowings**	**Additions**	**Foreign exchange**	**Mar 31, 2017**
Bank indebtedness	$ -	$ -	$ -	$ 2,175	$ -	**$ -**	**$ 2,175**
Long-term debt	-	-	-	9,152	-	**-**	**9,152**
Finance lease obligations	14,220	(77)	(10,982)	-	22	(2)	**3,181**
Total	**$ 14,220**	**$ (77)**	**$ (10,982)**	**$ 11,327**	**$ 22**	**$ (2)**	**$ 14,508**

12. Issued capital

12.1Dividends

In the three month periods ended March 31, 2017 and 2016, the Corporation's Board of Directors declared a regular quarterly dividend of $0.07 and $0.06 per common share paid in the month of February in each year, respectively.

The dividend payment in February 2017 amounted to $470 (2016 - $403).

13. Financial instruments

13.1Fair 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:

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 March 31, 2017 and December 31, 2016, are stated in the following table:

				Mar 31, 2017	**Dec 31, 2016**
Financial instrument	**Category**	**Measurement**	**Hierarchy**	**Carrying Amount**	**Carrying Amount**
Cash and cash equivalents	FVTPL	Fair value	Level 1	**$ 4,921**	$ 17,171
Restricted marketable securities	Available for sale	Fair value	Level 1	**1,115**	2,803
Trade receivables	Loans and receivables	Amortized cost	N/A	**9,741**	7,643
Bank indebtedness	Other financial liabilities	Amortized cost	Level 1	**(2,175)**	-
Trade and other payables	Other financial liabilities	Amortized cost	N/A	**(7,382)**	(8,383)
Long-term debt	Other financial liabilities	Amortized cost	Level 2	**(9,152)**	-
Finance lease obligations	Other financial liabilities	Amortized cost	N/A	**(3,181)**	(14,220)
Deferred operating lease obligations	Other financial liabilities	Amortized cost	Level 2	**(424)**	(498)

During the first quarter of 2017, 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, bank indebtedness 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.
- Long-term debt is carried at amortized cost. The estimated fair value of long-term borrowings have been estimated to approximate the amortized cost.
- 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.

14. Commitments and contingencies

14.1Performance 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 March 31, 2017, the Canadian segment did not have any contracts secured by performance bonds (December 31, 2016 - $nil). In the USA, performance bonds in the amount of $685 (December 31, 2016 - $691) were pledged to various government agencies as at March 31, 2017.

14.2 Expenditures for property, plant and equipment

As at March 31, 2017, the Corporation had commitments of $905 (March 31, 2016 - $983) for purchasing property, plant and equipment.

15. 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.

15.1Trading 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.

Thousands of Canadian dollars, except per share amounts

In the three months ended March 31, 2017 and 2016, the Corporation had the following trading transactions with related parties:

Related party	Nature of transactions	2017	2016
E. Carruthers Trucking	Transportation services	**$ 337**	$ 293
Aeonian Capital Corporation	Management services	**87**	87
		$ 424	$ 380

Related party balances outstanding at the end of the reporting periods, are:

Related party	Nature of transactions	2017	2016
E. Carruthers Trucking	Transportation services	**$ 19**	$ 35
		$ 19	$ 35

16. Supplementary cash flow information

16.1 Changes in non-cash working capital

	Three month periods ended March 31	
Increase (decrease):	**2017**	**2016**
Trade receivables	**$ 2,098**	$ 492
Inventories	**3,409**	1,893
Prepaid expenses	**246**	223
Trade and other payables	**1,001**	2,486
Deferred revenue	**(1,630)**	(1,114)
	$ 5,124	$ 3,980

16. 2 Non-cash transactions excluded from the consolidated statement of cash flows

	Three month periods ended March 31	
	2017	**2016**
Property, plant and equipment acquired with finance lease obligations	**$ 22**	$ 25

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