



## **Condensed Interim Consolidated Financial Statements**

**For the three and nine month periods ended September 30, 2018 and 2017**

## **Condensed Interim Consolidated Financial Statements (Unaudited)**

### **Notice of non-auditor review of condensed interim consolidated financial statements for the three and nine month periods ended September 30, 2018 and 2017**

The accompanying unaudited condensed interim consolidated financial statements of PFB Corporation for the three and nine month periods ended September 30, 2018 and 2017 are the responsibility of the Corporation's management.

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

Dated: October 25, 2018

## Condensed Interim Consolidated Statements of Income

For the three and nine month periods ended September 30, 2018 and 2017

Thousands of Canadian dollars, except per share amounts



	Note	Three month periods ended September 30		Nine month periods ended September 30	
		2018	2017	2018	2017
<b>Sales</b>	5	<b>\$ 39,374</b>	\$ 28,649	<b>\$ 93,062</b>	\$ 77,512
Cost of sales	7	<b>(29,715)</b>	(22,004)	<b>(72,316)</b>	(62,450)
<b>Gross profit</b>		<b>9,659</b>	6,645	<b>20,746</b>	15,062
Selling expenses		<b>(3,147)</b>	(2,917)	<b>(9,174)</b>	(8,570)
Administrative expenses		<b>(1,834)</b>	(1,499)	<b>(5,199)</b>	(4,721)
Other (losses) gains		<b>(10)</b>	44	<b>(149)</b>	35
<b>Operating income</b>		<b>4,668</b>	2,273	<b>6,224</b>	1,806
Gain on sale of marketable securities		-	-	-	275
Investment income		<b>4</b>	21	<b>49</b>	90
Finance costs		<b>(192)</b>	(183)	<b>(595)</b>	(659)
<b>Income before taxes</b>		<b>4,480</b>	2,111	<b>5,678</b>	1,512
Income taxes expense		<b>(1,215)</b>	(592)	<b>(1,569)</b>	(471)
<b>Net income for the period</b>		<b>\$ 3,265</b>	\$ 1,519	<b>\$ 4,109</b>	\$ 1,041
<b>Earnings per share - \$ per share</b>					
Basic	6	<b>\$ 0.48</b>	\$ 0.23	<b>\$ 0.61</b>	\$ 0.16
Diluted	6	<b>\$ 0.48</b>	\$ 0.23	<b>\$ 0.61</b>	\$ 0.16
<b>Weighted average number of common shares outstanding</b>					
Basic		<b>6,716,003</b>	6,716,003	<b>6,716,003</b>	6,716,003
Diluted		<b>6,729,270</b>	6,716,003	<b>6,720,490</b>	6,716,003

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

# Condensed Interim Consolidated Statements of Comprehensive Income (Loss)

For the three and nine month periods ended September 30, 2018 and 2017

Thousands of Canadian dollars



	Note	Three month periods ended September 30		Nine month periods ended September 30	
		2018	2017	2018	2017
<b>Net income for the period</b>		<b>\$ 3,265</b>	<b>\$ 1,519</b>	<b>\$ 4,109</b>	<b>\$ 1,041</b>
<b>Other comprehensive (loss) income:</b>					
<b>Items that may subsequently be reclassified to income:</b>					
Foreign currency translation adjustments					
Exchange differences on translating foreign operations, net of tax		(339)	(679)	547	(1,293)
<b>Items that may not be subsequently reclassified to income:</b>					
Restricted available for sale financial assets					
Unrealized gain (loss) on available for sale financial assets, net of tax	17	-	(69)	177	(23)
Other comprehensive (loss) income for the period		(339)	(748)	724	(1,316)
<b>Comprehensive income (loss) for the period</b>		<b>\$ 2,926</b>	<b>\$ 771</b>	<b>\$ 4,833</b>	<b>\$ (275)</b>

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

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

# Condensed Interim Consolidated Balance Sheets

As at September 30, 2018 and 2017, and December 31, 2017

Thousands of Canadian dollars



	Note	September 30, 2018	September 30, 2017	December 31, 2017
<b>ASSETS</b>				
<b>Current assets</b>				
Cash and cash equivalents	17	\$ 11,416	\$ 7,205	\$ 12,268
Trade receivables	17	17,064	13,156	9,809
Inventories	7	12,819	10,559	9,998
Income taxes recoverable		28	188	287
Prepaid expenses	3	849	661	474
Contract costs	3, 8	447	360	527
<b>Total current assets</b>		<b>42,623</b>	<b>32,129</b>	<b>33,363</b>
<b>Non-current assets</b>				
Marketable securities - restricted	17	1,483	1,164	1,239
Property, plant and equipment	11	39,149	40,550	40,099
Intangible assets		1,405	1,404	1,405
Goodwill		2,269	2,208	2,217
Accrued defined benefit pension plan		91	10	91
Deferred income tax assets		241	713	357
<b>Total non-current assets</b>		<b>44,638</b>	<b>46,049</b>	<b>45,408</b>
<b>Total assets</b>		<b>\$ 87,261</b>	<b>\$ 78,178</b>	<b>\$ 78,771</b>
<b>LIABILITIES</b>				
<b>Current Liabilities</b>				
Trade and other payables	3, 17	\$ 10,170	\$ 7,979	\$ 8,737
Contract liabilities	3, 9	8,028	6,104	5,158
Income taxes payable		850	-	39
Long-term debt	12, 15, 17	347	336	339
Finance lease obligations	13, 15	239	226	249
<b>Total current liabilities</b>		<b>19,634</b>	<b>14,645</b>	<b>14,522</b>
<b>Non-current liabilities</b>				
Long-term debt	12, 15, 17	8,306	8,653	8,567
Finance lease obligations	13, 15	2,914	2,984	2,983
Deferred operating lease obligations		667	447	506
Deferred income tax liabilities		1,658	1,488	1,368
<b>Total non-current liabilities</b>		<b>13,545</b>	<b>13,572</b>	<b>13,424</b>
<b>Total liabilities</b>		<b>33,179</b>	<b>28,217</b>	<b>27,946</b>
<b>SHAREHOLDERS' EQUITY</b>				
Common shares		20,947	20,947	20,947
Equity-settled employee benefits reserve		37	-	-
Accumulated other comprehensive income		3,172	2,286	2,448
Retained earnings		29,926	26,728	27,430
<b>Shareholders' equity</b>		<b>54,082</b>	<b>49,961</b>	<b>50,825</b>
<b>Total liabilities and shareholders' equity</b>		<b>\$ 87,261</b>	<b>\$ 78,178</b>	<b>\$ 78,771</b>

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

## Condensed Interim Consolidated Statements of Changes in Equity

As at September 30, 2018 and 2017, and December 31, 2017

Thousands of Canadian dollars, except number of shares



	Common shares		Equity-settled employee benefits reserve	Accumulated other comprehensive income				Retained earnings	Total
	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		
<b>Balances at January 1, 2017</b>		<b>6,716,003</b>	<b>\$ 20,947</b>	-	<b>\$ 3,360</b>	<b>\$ 190</b>	<b>\$ 52</b>	<b>\$ 27,097</b>	<b>\$ 51,646</b>
Net income for the period		-	-	-	-	-	-	1,041	1,041
Other comprehensive loss for the period, net of tax		-	-	-	(1,293)	(23)	-	-	(1,316)
Total comprehensive (loss) income for the period		-	-	-	(1,293)	(23)	-	1,041	(275)
Payment of dividends	16	-	-	-	-	-	-	(1,410)	(1,410)
<b>Balances at September 30, 2017</b>		<b>6,716,003</b>	<b>20,947</b>	-	<b>2,067</b>	<b>167</b>	<b>52</b>	<b>26,728</b>	<b>49,961</b>
Net income for the period		-	-	-	-	-	-	1,240	1,240
Other comprehensive income for the period, net of tax		-	-	-	84	62	16	-	162
Total comprehensive income for the period		-	-	-	84	62	16	1,240	1,402
Payment of dividends		-	-	-	-	-	-	(538)	(538)
<b>Balances at December 31, 2017</b>		<b>6,716,003</b>	<b>20,947</b>	-	<b>2,151</b>	<b>229</b>	<b>68</b>	<b>27,430</b>	<b>50,825</b>
Net income for the period		-	-	-	-	-	-	4,109	4,109
Other comprehensive income for the period, net of tax		-	-	-	547	177	-	-	724
Total comprehensive income for the period		-	-	-	547	177	-	4,109	4,833
Payment of dividends	16	-	-	-	-	-	-	(1,613)	(1,613)
Share-based payment		-	-	37	-	-	-	-	37
<b>Balances at September 30, 2018</b>		<b>6,716,003</b>	<b>\$ 20,947</b>	<b>\$ 37</b>	<b>\$ 2,698</b>	<b>\$ 406</b>	<b>\$ 68</b>	<b>\$ 29,926</b>	<b>\$ 54,082</b>

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

# Condensed Interim Consolidated Statements of Cash Flows

For the three and nine month periods ended September 30, 2018 and 2017

Thousands of Canadian dollars



	Note	Three month periods ended September 30		Nine month periods ended September 30	
		2018	2017	2018	2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Net income for the period		\$ 3,265	\$ 1,519	\$ 4,109	\$ 1,041
Adjustments for:					
Depreciation expense	11	908	934	2,721	2,856
Amortization expense		31	33	102	97
Gain on disposal of property, plant and equipment		11	(35)	(31)	(41)
Gain on sale of marketable securities		-	-	-	(275)
Finance costs		192	183	595	659
Investment income		(4)	(21)	(49)	(90)
Income tax expense		1,215	592	1,569	471
Share-based payment expense		7	-	37	-
Unrealized foreign exchange (gain) loss		(8)	73	(10)	66
Changes in non-cash working capital	20	2,104	1,521	(6,068)	(3,093)
Changes in deferred operating lease obligations		52	11	161	(51)
Unrealized foreign exchange loss (gain) relating to non-cash working capital		-	(80)	48	(111)
Cash from operating activities, before income taxes		7,773	4,730	3,184	1,529
Income taxes recovered (paid), net		123	460	(150)	23
<b>Net cash from operating activities</b>		<b>7,896</b>	<b>5,190</b>	<b>3,034</b>	<b>1,552</b>
<b>CASH FLOWS USED IN INVESTING ACTIVITIES</b>					
Purchase of leased assets	14	-	-	-	(18,800)
Reclassification of lease obligations related to purchase of leased assets	14	-	-	-	10,982
Non-cash deferred operating lease obligations related to purchase of leased assets	14	-	-	-	143
Purchase of property, plant and equipment	11	(305)	(361)	(1,394)	(1,140)
Purchase of intangible assets		-	-	(62)	(100)
Proceeds from disposal of property, plant and equipment		-	37	55	44
Interest received		4	7	30	31
Distributions received from marketable securities		-	14	19	59
<b>Net cash used in investing activities</b>		<b>(301)</b>	<b>(303)</b>	<b>(1,352)</b>	<b>(8,781)</b>
<b>CASH FLOWS USED IN FINANCING ACTIVITIES</b>					
Repayment of finance lease obligations	15	(89)	(62)	(227)	(193)
Settlement of finance lease obligation related to purchase of leased assets	14	-	-	-	(10,982)
Changes in long-term debt, net	12, 15	(85)	(82)	(253)	8,989
Changes in bank indebtedness, net		(3,364)	(1,330)	-	-
Proceeds from disposal of marketable securities		-	-	-	1,883
Finance costs paid		(192)	(183)	(595)	(659)
Dividends paid to shareholders	16	(538)	(470)	(1,613)	(1,410)
<b>Net cash used in financing activities</b>		<b>(4,268)</b>	<b>(2,127)</b>	<b>(2,688)</b>	<b>(2,372)</b>
Effects of exchange rate changes on the balance of cash held in foreign currencies		(134)	(200)	154	(365)
<b>Net increase (decrease) in cash and cash equivalents</b>		<b>3,193</b>	<b>2,560</b>	<b>(852)</b>	<b>(9,966)</b>
Cash and cash equivalents at the beginning of the period		8,223	4,645	12,268	17,171
<b>Cash and cash equivalents at the end of the period</b>		<b>\$ 11,416</b>	<b>\$ 7,205</b>	<b>\$ 11,416</b>	<b>\$ 7,205</b>

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

# Notes to the Condensed Interim Consolidated Financial Statements

For the three and nine month periods ended September 30, 2018 and 2017

Thousands of Canadian dollars, except per share amounts



## 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 300, 2891 Sunridge Way NE, Calgary, Alberta, Canada T1Y 7K7. The Corporation’s shares are publicly traded on the Toronto Stock Exchange (“TSX”) under the symbol PFB. The principal business activity of the Corporation is manufacturing insulating building products made from expanded polystyrene materials and marketing these products in North America.

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

## 2. Statement of compliance

These condensed interim consolidated financial statements for the three and nine month periods ended September 30, 2018 and 2017, 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 condensed interim consolidated financial statements should be read in conjunction with the Corporation’s audited consolidated financial statements for the years ended December 31, 2017 and 2016.

These condensed interim consolidated financial statements were approved and authorized for issue by the board of directors of the Corporation at a meeting held on October 25, 2018.

## 3. Significant accounting policies

### 3.1 Presentation

These condensed interim consolidated financial statements have been prepared in accordance with the significant accounting policies and methods of computation as set out in the audited annual consolidated financial statements of the Corporation as at and for the years ended December 31, 2017 and 2016, with the exception of the adoption of IFRS 9, IFRS 15 and certain changes to IFRS 2, with a date of initial application of January 1, 2018. The Corporation’s significant accounting policies and effects of adoption for financial instruments and revenue are further described below.

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

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 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 condensed interim 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 Corporation has adopted the following accounting standards effective for annual periods beginning on or after January 1, 2018:

- **IFRS 15 - Revenue From Contracts With Customers**

The core principle of IFRS 15 is to recognize revenue in accordance with the transfer of control of contracted goods or services to customers in an amount that reflects the consideration to which the entity is, or expects to be, entitled on the basis of principles pertaining to the nature, timing and uncertainty of revenue and cash flows arising from the contracts. The Corporation elected to apply the standard on a retrospective method whereby all prior year statements are restated.



## Notes to the Condensed Interim Consolidated Financial Statements

For the three and nine month periods ended September 30, 2018 and 2017

Thousands of Canadian dollars, except per share amounts



### Impacts to previously reported results

The Corporation identified no impacts to consolidated statement of income or loss, consolidated statement of changes in equity, and the consolidated statements of cash flows upon the adoption of IFRS 15.

The following tables present the impact of the adoption of IFRS 15 on the Corporation's consolidated balance sheets as of January 1, 2017, December 31, 2017 and September 30, 2017:

	<b>January 1, 2017</b>		
	<b>As reported</b>	<b>Adjustments under IFRS 15</b>	<b>Adjusted</b>
Prepaid expenses	\$ 1,111	\$ (397)	\$ 714
Contract costs	-	397	397
	<b>\$ 1,111</b>	<b>\$ -</b>	<b>\$ 1,111</b>
Trade and other payables	\$ 8,383	\$ (1,024)	\$ 7,359
Deferred revenue	2,821	(2,821)	-
Contract liabilities	-	3,845	3,845
	<b>\$ 11,204</b>	<b>\$ -</b>	<b>\$ 11,204</b>

	<b>December 31, 2017</b>		
	<b>As reported</b>	<b>Adjustments under IFRS 15</b>	<b>Adjusted</b>
Prepaid expenses	\$ 1,001	\$ (527)	\$ 474
Contract costs	-	527	527
	<b>\$ 1,001</b>	<b>\$ -</b>	<b>\$ 1,001</b>
Trade and other payables	\$ 10,217	\$ (1,480)	\$ 8,737
Deferred revenue	3,678	(3,678)	-
Contract liabilities	-	5,158	5,158
	<b>\$ 13,895</b>	<b>\$ -</b>	<b>\$ 13,895</b>

	<b>September 30, 2017</b>		
	<b>As reported</b>	<b>Adjustments under IFRS 15</b>	<b>Adjusted</b>
Prepaid expenses	\$ 1,021	\$ (360)	\$ 661
Contract costs	-	360	360
	<b>\$ 1,021</b>	<b>\$ -</b>	<b>\$ 1,021</b>
Trade and other payables	\$ 9,172	\$ (1,193)	\$ 7,979
Deferred revenue	4,911	(4,911)	-
Contract liabilities	-	6,104	6,104
	<b>\$ 14,083</b>	<b>\$ -</b>	<b>\$ 14,083</b>

# Notes to the Condensed Interim Consolidated Financial Statements

For the three and nine month periods ended September 30, 2018 and 2017

Thousands of Canadian dollars, except per share amounts



## **Impacts of changes in revenue recognition accounting policy**

The Corporation enters into contracts to supply various goods, services or combinations of goods and services, which are capable of being distinct and accounted for as separate performance obligations. Revenue is recognized when performance obligations under the terms of a contract with customer are satisfied; generally this occurs with the transfer of control of products or services. Control transfers to customers upon shipment or delivery of goods to the destination and upon completion of services. Revenue is measured as the amount of consideration the Corporation expects to receive in exchange for transferring goods or providing services. Revenue is reduced for variable consideration attributable to customer returns, customer rebates and similar allowances. Sales, excise, and other taxes are excluded from revenue.

## **Manufactured goods**

Revenue from contracts to provide manufactured goods is recognized at the transfer of control, which occurs upon shipment or delivery, in accordance with the terms of the contract. When contracts contain multiple performance obligations, the Corporation allocates the transaction price to each performance obligation identified in the contract. Revenue is recognized when each performance obligation is achieved.

## **Rendering of services**

Revenue from the rendering of services includes design, advisory and installation services. Revenue from contracts to provide services is recognized when or as the services are provided in accordance with the performance obligations of the contract. The method to measure progress towards complete satisfaction of performance obligations over time is determined using the output method. When contracts include a combination of services, the Corporation allocates the transaction price to each service performance obligation and revenue is recognized as each distinct performance obligation is delivered.

## **Freight**

Freight services beyond normal freight terms incur charges that are recognized as freight revenues.

## **Construction contracts**

Construction contracts include performance obligations for the construction of an asset or to supply a bundled combination of products and services, such as full design build services and the Total Home Solution<sup>®</sup>. As performance obligations are achieved, revenue is recognized over time or at a point in time, depending on the nature of the performance obligation. The method to measure progress towards complete satisfaction of performance obligations over time is determined using the output method. Performance obligations are satisfied at a point in time upon shipment or delivery of goods.

When acting as principal for design, advisory, installation, engineering or other work, the Corporation recognizes revenue on a gross basis.

When total costs to be incurred on a contract exceed the total estimated revenue to be earned, a provision for the entire loss on the contract is recognized in the period the loss is determined.

Contract modifications that occur are accounted for as if they were part of the existing contract and are recognized as a cumulative adjustment to revenue.

## **Other revenue types**

Revenue from the sale of other goods or services not listed above is generally ancillary and is recognized when control is transferred, typically on the delivery of the product or service to the customer. These revenues include the sale of scrap material, digital media subscriptions and other revenue types.

## **Contract costs**

Costs the Corporation would not have incurred if a contract had not been obtained and expected to be recovered, are included in other current assets on the consolidated balance sheet as contract costs. Contract costs are reduced over the life of a contract in proportion to the completion of those performance obligations.

# Notes to the Condensed Interim Consolidated Financial Statements

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Thousands of Canadian dollars, except per share amounts



## Contract liabilities

Contract liabilities include cash consideration received as a deposit at the beginning of certain contracts. Contract liabilities are reduced as performance obligations are achieved. The Corporation has determined there are no significant financing components with customers.

Contract liabilities also include variable consideration for customer volume rebates and are accounted for using the 'most likely amount' method. Retrospective price reductions are applied when a customer purchases specified quantities of manufactured goods.

The operating cycle, or duration, of some construction contracts may exceed an annual year. All contract liabilities are classified as current as they are expected to be realized or satisfied within the normal operating cycle of the contract.

Refer to Note 8 – Contract costs, Note 9 – Contract liabilities and Note 10 – Remaining performance obligations, for further information.

## • IFRS 9 - Financial Instruments

The core principle of IFRS 9 is to introduce new requirements for the classification and measurement of financial assets, amend hedge accounting and introduce a forward-looking expected loss impairment model. The Corporation elected to apply the standard on a retrospective method whereby all prior year statements are restated.

## Impacts of previously reported results

The Corporation identified no impacts to the consolidated statement of income or loss, consolidated statement of changes in equity, or the consolidated statements of cash flows upon the adoption of IFRS 9.

Upon adoption, the Corporation made an irrevocable election to account for changes in the fair value of the marketable securities, through other comprehensive income, until derecognition. This is consistent with the accounting treatment prior to adoption.

There are several financial instrument classification and measurement changes as a result of this change in accounting policy. The following table summarizes the classification and measurement changes for each class of the Corporation's financial assets and financial liabilities upon adoption at January 1, 2018:

Financial instrument	IAS 39		IFRS 9	
	Category	Measurement	Category	Measurement
Cash and cash equivalents	FVTPL	Fair value	Assets at amortized cost	Amortized cost
Restricted marketable securities	Available for sale	Fair value	FVOCI	Fair value
Trade receivables	Loans and receivables	Amortized cost	Assets at amortized cost	Amortized cost
Bank indebtedness	Other financial liabilities	Amortized cost	Financial liabilities at amortized cost	Amortized cost
Trade and other payables	Other financial liabilities	Amortized cost	Financial liabilities at amortized cost	Amortized cost
Long-term debt	Other financial liabilities	Amortized cost	Financial liabilities at amortized cost	Amortized cost

As a result of adopting IFRS 9, the changes in classification categories did not result in any adjustment to the carrying amount of the related financial assets and financial liabilities.

## Impacts of changes in financial instruments accounting policy

Financial assets are classified and measured in three categories measured at amortized cost, fair value through other comprehensive income ("FVOCI") and fair value through profit or loss ("FVTPL").

Financial assets are initially measured at fair value. Upon initial recognition, the Corporation classifies its financial assets as subsequently measured at either amortized cost or fair value, depending on its business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Financial assets are not

# Notes to the Condensed Interim Consolidated Financial Statements

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reclassified subsequent to their initial recognition, except if in the period the Corporation changes its business model for managing financial assets.

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as FVTPL:

- (i) The asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- (ii) The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The Corporation uses the “expected credit loss” model for calculating impairment and recognizes expected credit losses as a loss allowance for assets measured at amortized cost. The Corporation’s trade and other receivables are typically short-term with payments received within a twelve month period and do not have a significant financing component, therefore the Corporation recognizes an amount equal to the lifetime expected credit losses based on the Corporation’s historical experience. The carrying amount of these assets in the condensed interim consolidated balance sheets is net of any loss allowance.

- **IFRS 2 – Share-based payment**

The Corporation has adopted amendments to IFRS 2 – *Share-based payment*, effective January 1, 2018 on a prospective basis. The amendments provide guidance on the effects of vesting and non-vesting conditions, a net settlement feature for withholding tax obligations and changes to the classification of the transaction from cash-settled to equity-settled.

The adoption of the amendment to IFRS 2 – *Share-based payment*, did not have any effect on the consolidated financial statements.

### 3.4 New and revised accounting standards and interpretations, but not yet effective:

The International Accounting Standards Board (“IASB”) and International Financial Reporting Interpretations Committee (“IFRIC”) have issued a number of new standards, amendments and interpretations 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. The new standard and amendments applicable to the Corporation are as follows:

- **IFRS 16 – Leases**

In January 2016, the IASB issued IFRS 16 - *Leases*, which supersedes IAS 17 - *Leases*. IFRS 16 establishes principles for the recognition, measurement, presentation and disclosure of leases. The standard establishes a single model for lessees to bring leases on-balance sheet while lessor accounting remains largely unchanged and retains the finance and operating lease distinctions. The standard requires the lessees to recognize a lease liability reflecting discounted future lease payments and a “right-of-use asset” for all lease contracts, and record it on the balance sheet, except with respect to lease contracts that meet limited exception criteria. IFRS 16 is effective for annual periods beginning on or after January 1, 2019 with earlier adoption permitted.

The Corporation intends to adopt IFRS 16 at its effective date for annual period beginning on January 1, 2019. The Corporation is currently assessing and quantifying the effect of this standard on the consolidated financial statements, information systems and internal controls. During the third quarter, the Corporation has completed its initial assessment of the potential impact on its consolidated financial statements. The most significant impact of adopting IFRS 16 will be the recognition of right-of-use assets and corresponding lease liabilities on its operating leases for office spaces, warehouses, lands and office equipment. The Corporation plans to apply IFRS 16 by using the retrospective approach whereby all comparative periods are restated as if IFRS 16 always applied. On the transition date of January 1, 2019, the Corporation expects to recognize additional leases on the consolidated balance sheet and changes to cost of sales; as operating expenses will be presented as depreciation and finance costs.

## 4. Critical accounting estimates and judgments

The preparation of financial statements in accordance with IFRS requires management to make estimates and judgments that affect the application of accounting policies and the reported carrying amounts of assets and liabilities and the results of operations. Except for the changes below, the Corporation has consistently applied the accounting estimates and judgements to all periods presented in these consolidated financial statements.

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

# Notes to the Condensed Interim Consolidated Financial Statements

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## Revenue recognition

IFRS 15 requires management to make judgments and estimates. Judgement relates to the identification of performance obligations in each contract. Some contracts with customers include a bundled set of goods and services and judgement is required to determine the goods and services that are distinct performance obligations. Judgement is required to determine any level of integration and any interdependency between goods and services entered with customers. Allocation of the transaction price to different performance obligations may require estimates. In instances where information is incomplete or not available, determination of selling prices include market conditions and other observable inputs such as the scope of work and geographic region.

Judgements and estimates are also required to determine an appropriate measure of progress and pattern of delivery when determining how control of promised goods or services transfers to a customer.

Estimates of incentives or rebates are updated regularly as information becomes available and only to the extent that the variable consideration is constrained.

## Remaining performance obligations

Many factors may lead to a change during a contract performance period, which can result in a change to contract profitability from one financial reporting period to another. Some of the factors that can change the contract revenue include differing site conditions, the availability of skilled labour, the performance of subcontractors, unusual weather and the accuracy of original contracts. Judgements are required of factors that may impact remaining, unsatisfied performance obligations. Estimates are required to determine the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied, or partially unsatisfied, as at the end of each reporting period. Judgement is also required to determine the timing of when unsatisfied performance obligations will become realized as revenue in future periods.

## 5. Segment information

The Corporation operates individual legal entities in Canada and the USA which are reported as operating segments and revenue is reported in accordance with that segmentation.

The Corporation has two reportable operating segments, Canada and the USA, and each segment applies the same accounting policies, internal controls and reporting systems. Segments are based on the way management organizes the operations. Segments are identified and managed by the geographic and regulatory environment they operate within because they require compliance with different regulations. Segment performance predominantly focuses on operating results and the manner in which resources are allocated based on Canadian and USA operations respectively.

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

### 5.1 Segment sales and operating income

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

The Corporation operates individual legal entities in Canada and the USA which are reported as operating segments and revenue is reported in accordance with that segmentation.

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 which typically include design and installation services that together provide the basis for a bundled sale of its manufactured products.

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

Information regarding each reportable operating segment for three and nine month periods ended September 30, 2018 and 2017 are set out below:

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Three month periods ended September 30	Sales revenues		Operating income	
	2018	2017	2018	2017
Canada	\$ 24,095	\$ 19,573	\$ 2,782	\$ 1,687
USA	15,279	9,076	1,696	352
Totals for segments	<u>\$ 39,374</u>	<u>\$ 28,649</u>	<u>4,478</u>	<u>2,039</u>
Corporate – income			193	238
Foreign exchange loss on inter-segment settlements			(3)	(4)
Consolidated operating income			<u>\$ 4,668</u>	<u>\$ 2,273</u>

  

Nine month periods ended September 30	Sales revenues		Operating income	
	2018	2017	2018	2017
Canada	\$ 59,034	\$ 51,740	\$ 3,750	\$ 1,202
USA	34,028	25,772	2,021	397
Totals for segments	<u>\$ 93,062</u>	<u>\$ 77,512</u>	<u>5,771</u>	<u>1,599</u>
Corporate – income			453	213
Foreign exchange loss on inter-segment settlements			-	(6)
Consolidated operating income			<u>\$ 6,224</u>	<u>\$ 1,806</u>

## 5.2 Segment assets and liabilities

Management measures capital employed using net segmented assets. The location of the capital assets and liabilities determines the geographic areas. 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, 2018	As at Dec 31, 2017
<b>Assets</b>		
Segmented assets	\$ 51,347	\$ 41,570
Assets not allocated to segments:		
Cash and cash equivalents	11,416	12,268
Freehold land and buildings	22,754	23,386
Restricted marketable securities	1,483	1,239
Corporate – taxes <sup>1</sup>	261	308
Total assets	<u>\$ 87,261</u>	<u>\$ 78,771</u>
<b>Liabilities</b>		
Segmented liabilities	\$ 21,373	\$ 15,788
Liabilities not allocated to segments:		
Finance lease obligations	3,153	3,232
Long term debt	8,653	8,906
Corporate – taxes <sup>1</sup>	-	20
Total liabilities	<u>\$ 33,179</u>	<u>\$ 27,946</u>
<b>Net segmented assets</b>		
Canada	\$ 22,954	\$ 19,802
USA	7,020	5,980

<sup>1</sup> Current and deferred taxes.

## Notes to the Condensed Interim Consolidated Financial Statements

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### 5.3 Other segment information

	Three month periods ended September 30		Nine month periods ended September 30	
	2018	2017	2018	2017
<b>Additions to non-current assets:</b>				
Canada	\$ 214	\$ 240	\$ 611	\$ 522
USA	71	73	825	570
Corporate	20	48	20	7,823
Total	\$ 305	\$ 361	\$ 1,456	\$ 8,915
<b>Depreciation and amortization:</b>				
Canada	\$ 511	\$ 504	\$ 1,557	\$ 1,646
USA	160	169	461	528
Corporate	268	294	805	779
Total	\$ 939	\$ 967	\$ 2,823	\$ 2,953
<b>Inter-segment sales</b>	<b>\$ 2,206</b>	<b>\$ 1,124</b>	<b>\$ 5,447</b>	<b>\$ 4,416</b>

## 6. Earnings per share

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

	Three month periods ended September 30		Nine month periods ended September 30	
	2018	2017	2018	2017
Net income for the period	\$ 3,265	\$ 1,519	\$ 4,109	\$ 1,041
Weighted average number of common shares outstanding – basic	6,716,003	6,716,003	6,716,003	6,716,003
Effect of:				
Dilutive stock options	13,267	N/A	4,487	N/A
Weighted average number of common shares outstanding - diluted	6,729,270	6,716,003	6,720,490	6,716,003
Earnings per share:				
Basic	\$ 0.48	\$ 0.23	\$ 0.61	\$ 0.16
Diluted	\$ 0.48	\$ 0.23	\$ 0.61	\$ 0.16

## 7. Inventories

	As at Sept 30, 2018	As at Dec 31, 2017
Raw materials	\$ 6,025	\$ 5,186
Work in progress	3 166	1,979
Finished goods	3,628	2,833
	<b>\$ 12,819</b>	<b>\$ 9,998</b>



# Notes to the Condensed Interim Consolidated Financial Statements

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The cost of inventories recognized as an expense in cost of sales during the three and nine month periods ended September 30, 2018 was \$26,247 and \$64,358 (2017 - \$19,538 and \$55,756), respectively.

The cost of inventories recognized as an expense during the three and nine month periods ended September 30, 2018, includes \$206 and \$495, respectively, (2017 - \$65 and \$209) 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, 2018 or 2017.

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 unused as at September 30, 2018 and December 31, 2017.

## 8. Contract costs

Contract costs represent the incremental costs of obtaining a contract with a customer on the expectation these costs will be recovered. Contract costs are comprised of sales commissions paid or payable to obtain certain contracts. These costs are amortized on a proportionate basis as a selling expense over the life of the contract, as this reflects the period over which goods or services are transferred to the customer. Amortization recognized in selling expenses during the three and nine month periods ended September 30, 2018 was \$171 and \$221 (2017- \$66 and \$196), respectively. Amortization of contract costs follows the seasonality of operations and is typically higher in the second and third quarter upon completion of performance obligations. Contract costs remaining to be amortized as selling expenses are \$447 (December 31, 2017 - \$527).

## 9. Contract liabilities

The Corporation enters into contracts to sell its products and services in the normal course of its operations. When the customer's payment precedes performance, the Corporation recognizes a contract liability. A contract liability is also recognized for the estimated rebates payable to customers associated with recognized sales at the end of the period. Contract liabilities are reduced as performance obligations are achieved and rebates paid. The opening and closing balances of the contract liabilities are as follows:

	<b>Contract liabilities</b>
<b>Balance at January 1, 2017</b>	<b>\$ 3,845</b>
Increase	13,856
Transfer to revenue from new contracts	(4,990)
Transfer to revenue from opening balance	(6,461)
Rebates, net	181
Foreign exchange	(327)
<b>Balance at September 30, 2017</b>	<b>6,104</b>
Increase	5,729
Transfer to revenue from new contracts	(3,455)
Transfer to revenue from opening balance	(3,667)
Rebates, net	285
Foreign exchange	162
<b>Balance at December 31, 2017</b>	<b>5,158</b>
Increase	18,958
Transfer to revenue from new contracts	(6,450)
Transfer to revenue from opening balance	(9,913)
Rebates, net	278
Foreign exchange	(3)
<b>Balance at September 30, 2018</b>	<b>\$ 8,028</b>



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## 10. Remaining performance obligations

Performance obligations for certain goods manufactured, construction and design contracts generally include deposits which are initially recorded as contract liabilities and represent obligations of work that has not yet been completed. Revenue from unsatisfied performance obligations is recognized when services are rendered and control of the goods is transferred to the customers. For contracts that include deposits, the total remaining performance obligations, as at September 30, 2018 were \$17,793. The Corporation estimates it will recognize approximately \$14,652 of revenue from the unsatisfied performance obligations upon completion of those performance obligations over the next twelve months and \$3,141 after twelve months.

## 11. Property, plant and equipment

Cost	Freehold land	Buildings	Plant and equipment	Assets under finance	Assets under construction	Total
<b>Balance at January 1, 2017</b>	<b>\$ 3,149</b>	<b>\$ 12,100</b>	<b>\$ 40,266</b>	<b>\$ 15,770</b>	<b>\$ 2,081</b>	<b>\$ 73,366</b>
Additions	-	30	42	165	1,068	1,305
Purchase of leased assets	5,432	2,243	-	-	-	7,675
Transfer of leased assets	-	11,745	-	(11,745)	-	-
Disposal of PP&E assets	-	(77)	(153)	(81)	-	(311)
Transfers between asset classes	-	47	2,434	-	(2,481)	-
Effect of foreign currency changes	(133)	(492)	(504)	(34)	(26)	(1,189)
<b>Balance at September 30, 2017</b>	<b>8,448</b>	<b>25,596</b>	<b>42,085</b>	<b>4,075</b>	<b>642</b>	<b>80,846</b>
Additions	-	22	1	79	319	421
Disposal of PP&E assets	-	-	(138)	(79)	-	(217)
Transfers between asset classes	-	49	214	-	(263)	-
Effect of foreign currency changes	9	35	35	2	-	81
<b>Balance at December 31, 2017</b>	<b>8,457</b>	<b>25,702</b>	<b>42,197</b>	<b>4,077</b>	<b>698</b>	<b>81,131</b>
Additions	-	-	8	144	1,386	1,538
Disposal of PP&E assets	-	-	(270)	(223)	-	(493)
Effect of foreign currency changes	57	209	220	17	17	520
<b>Balance at September 30, 2018</b>	<b>\$ 8,514</b>	<b>\$ 25,911</b>	<b>\$ 42,155</b>	<b>\$ 4,015</b>	<b>\$ 2,101</b>	<b>\$ 82,696</b>
<b>Accumulated Depreciation</b>						
<b>Balance at January 1, 2017</b>	<b>\$ -</b>	<b>\$ 6,636</b>	<b>\$ 28,268</b>	<b>\$ 3,421</b>	<b>\$ -</b>	<b>\$ 38,325</b>
Depreciation expense	-	884	1,593	379	-	2,856
Transfer of leased assets	-	2,318	-	(2,318)	-	-
Disposal of PP&E assets	-	(77)	(150)	(81)	-	(308)
Effect of foreign currency changes	-	(242)	(315)	(20)	-	(577)
<b>Balance at September 30, 2017</b>	<b>-</b>	<b>9,519</b>	<b>29,396</b>	<b>1,381</b>	<b>-</b>	<b>40,296</b>
Depreciation expense	-	302	511	99	-	912
Disposal of PP&E assets	-	-	(137)	(76)	-	(213)
Effect of foreign currency changes	-	16	20	1	-	37
<b>Balance at December 31, 2017</b>	<b>-</b>	<b>9,837</b>	<b>29,790</b>	<b>1,405</b>	<b>-</b>	<b>41,032</b>
Depreciation expense	-	899	1,507	315	-	2,721
Disposal of PP&E assets	-	-	(270)	(199)	-	(469)
Effect of foreign currency changes	-	110	145	8	-	263
<b>Balance at September 30, 2018</b>	<b>\$ -</b>	<b>\$ 10,846</b>	<b>\$ 31,172</b>	<b>\$ 1,529</b>	<b>\$ -</b>	<b>\$ 43,547</b>
<b>Net book values</b>						
September 30, 2017	\$ 8,448	\$ 16,077	\$ 12,689	\$ 2,694	\$ 642	\$ 40,550
December 31, 2017	8,457	15,865	12,407	2,672	698	40,099
<b>September 30, 2018</b>	<b>8,514</b>	<b>15,065</b>	<b>10,983</b>	<b>2,486</b>	<b>2,101</b>	<b>39,149</b>

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Assets under construction as at September 30, 2018 are expected to be available for use in 2018.

Depreciation expense for the three and nine month periods ended September 30, 2018, in the amounts of \$775 and \$2,334 (2017 - \$806 and \$2,485) is included in cost of sales, with amounts of \$96 and \$280 (2017 - \$87 and \$255) included in selling expenses, and amounts of \$37 and \$107 (2017 - \$41 and \$116) included in administrative expenses, respectively.

### 12. Long-term debt

The Corporation's long-term debt position as at September 30, 2018, and December 31, 2017 is stated in the following table:

	Sept 30, 2018	Dec 31, 2017
Balance at beginning of period	\$ 8,906	\$ -
Borrowings	-	9,152
Repayments	(253)	(246)
<b>Balance at end of period</b>	<b>\$ 8,653</b>	<b>\$ 8,906</b>

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. The Corporation was in compliance with the financial covenant as at the prior annual reporting period. A test of Debt Service Coverage compliance will be performed as at December 31, 2018.

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

	Sept 30, 2018
Current within 12 months	\$ 347
Due within 12 to 24 months	358
Due within 25 to 36 months	370
Due within 37 to 48 months	382
Due within 49 to 60 months	395
Due after 60 months	6,801
<b>Total</b>	<b>\$ 8,653</b>

### 13. Finance lease obligations

The Corporation's finance lease obligations as at September 30, 2018, and December 31, 2017, are as stated in the following table:

	Minimum lease payments	
	Sept 30, 2018	Dec 31, 2017
No later than one year	\$ 638	\$ 648
Later than one year and not later than five years	1,885	1,899
Later than five years	4,518	4,851
Total minimum lease payments	7,041	7,398
Less: amounts representing finance costs	3,888	4,166
<b>Present value of minimum lease payments</b>	<b>\$ 3,153</b>	<b>\$ 3,232</b>

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

	Sept 30, 2018	Dec 31, 2017
Current	\$ 239	\$ 249
Long-term	2,914	2,983
<b>Total</b>	<b>\$ 3,153</b>	<b>\$ 3,232</b>

## 14. 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 12). 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.

## 15. 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:

	Dec 31, 2017	Cash changes		Non-cash changes			Sept 30, 2018
		Borrowings	Repayments	Additions	Disposal	Foreign exchange	
Bank indebtedness	\$ -	\$ 4,616	\$ (4,616)	\$ -	\$ -	\$ -	\$ -
Long-term debt	8,906	-	(253)	-	-	-	8,653
Finance lease obligations	3,232	-	(227)	144	(5)	9	3,153
<b>Total</b>	<b>\$ 12,138</b>	<b>\$ 4,616</b>	<b>\$ (5,096)</b>	<b>\$ 144</b>	<b>\$ (5)</b>	<b>\$ 9</b>	<b>\$ 11,806</b>

## 16. Issued capital

### 16.1 Normal course issuer bid

In January 2018, 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 January 10, 2018 and ends no later than January 11, 2019. The renewal allows the Corporation to purchase, up to a maximum of 50,000 of its common shares representing 0.74% of the Corporation’s 6,716,003 issued and outstanding common shares as at December 31, 2017, subject to a daily maximum purchase of 1,000 common shares. The Corporation will purchase from time-to-time its

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

In the three and nine month periods ended September 30, 2018 and 2017, the Corporation did not purchase any of its common shares for cancellation under the Normal Course Issuer Bid.

## 16.2 Dividends

In the first quarter of 2018, the Corporation's board of directors declared a regular quarterly dividend of \$0.08 (2017 - \$0.07) per common share which was paid in February of each year, respectively. The dividend payment in February 2018 amounted to \$538 (2017 - \$470).

In the second quarter of 2018, the Corporation's board of directors declared a regular quarterly dividend of \$0.08 (2017 - \$0.07) per common share which was paid in May of each year, respectively. The dividend payment in May 2018 amounted to \$537 (2017 - \$470).

In the third quarter of 2018, the Corporation's board of directors declared a regular quarterly dividend of \$0.08 (2017 - \$0.07) per common share which was paid in August of each year, respectively. The dividend payment in August 2018 amounted to \$538 (2017 - \$470).

## 16.3 Share-based payments

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

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

Under PFB's stock option plan, 400,000 stock options were granted to certain directors and senior management with an exercise price ranging from \$8.05 to \$8.50 per share. Options granted on May 10, 2018 to directors vest immediately and expire on May 10, 2023. Options granted to senior management on March 8, 2018, commence to vest after the second anniversary of the grant date, continue to vest on a graduated schedule and expire on March 8, 2028. The exercise price of the options was determined with reference to the price of PFB's stock on the Toronto Stock Exchange on the grant date.

The following table sets forth information concerning the inputs used in this model, share options granted and vested under the stock option plan as at September 30, 2018:

Number of options outstanding	Number of options exercisable	Weighted average exercise	Grant date					
			Weighted average remaining life	Weighted average risk-free interest	Weighted average expected life	Estimated volatility (%)	Expected annual dividend yield (%)	Calculated weighted average fair value
375,000	-	\$ 8.50	9.50	2.11	9.69	18.04	3.98	\$ 0.76
25,000	25,000	\$ 8.05	4.67	2.11	4.92	18.04	3.98	\$ 0.81
<b>400,000</b>	<b>25,000</b>	<b>\$ 8.47</b>						

At the grant date, each option is measured at the fair value determined using the Black-Scholes option pricing model. The risk-free interest rate is based on Government of Canada bonds with similar duration, at the grant date. The weighted average expected life is based from the grant date to the date on which the option is expected to be exercised. Expected volatility is estimated by considering historic share price volatility over the most recently completed annual reporting period.

The fair value of options granted with immediate vesting have an aggregate fair value of \$20 or \$0.81 per option, and are reported as a compensation expense on the grant date, with a corresponding increase in contributed surplus on the balance sheet. Options with vesting requirements have an aggregate fair value of \$286 or \$0.76 per option and are amortized on a straight-line basis over the ten year vesting period with the quarterly amortization amounts reported as

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compensation expense included as an administrative expense on the income statement with the off-set to contributed surplus on the balance sheet. During the period ended September 30, 2018, no options were exercised or expired. There are 400,000 options outstanding as at September 30, 2018.

## 17. Financial instruments

### 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:

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, 2018 and December 31, 2017, are stated in the following table:

Financial instrument	Hierarchy	Sept 30, 2018	Dec 31, 2017
		Carrying amount	Carrying amount
Cash and cash equivalents	Level 1	\$ 11,416	\$ 12,268
Restricted marketable securities	Level 2	1,483	1,239
Trade receivables	N/A	17,064	9,809
Trade and other payables	N/A	(10,170)	(8,737)
Long Term debt	Level 2	(8,653)	(8,906)

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 Canadian REIT which are priced at \$8.10 per unit based on a plan of arrangement and remain in escrow until the plan of arrangement is completed.
- Long-term debt is carried at amortized cost. The estimated fair value of long-term borrowings has been estimated to approximate the amortized cost.

## 18. Commitments and contingencies

### 18.1 Performance bonds

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

As at September 30, 2018, the Canadian segment did not have any performance bonds outstanding (December 31, 2017 - \$nil). In the USA, performance bonds in the amount of \$617 (December 31, 2017 - \$598) were pledged to various government agencies as at September 30, 2018.

# Notes to the Condensed Interim Consolidated Financial Statements

For the three and nine month periods ended September 30, 2018 and 2017

Thousands of Canadian dollars, except per share amounts



## 18.2 Expenditures for property, plant and equipment

As at September 30, 2018, the Corporation had commitments of \$517 (September 30, 2017 - \$328) for purchasing property, plant and equipment and commitments of \$53 (September 30, 2017 - \$nil) for purchasing intangible assets.

## 18.3 Letters of credit

The Corporation has drawn letters of credit from its bank to guarantee payments for inventory purchases expected to settle in the fourth quarter. The Corporation did not post any cash to collateralize its letters of credit. Letters of credit outstanding as at September 30, 2018 were \$1,075 (2017 - \$nil).

## 19. 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.

### Trading transactions

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

In the three months ended September 30, 2018 and 2017, the Corporation had the following trading transactions with related parties:

<b>Related party</b>	<b>Nature of transactions</b>	<b>2018</b>	<b>2017</b>
E. Carruthers Trucking	Transportation services	\$ 622	\$ 549
Aeonian Capital Corporation	Management services	87	87
		<b>\$ 709</b>	<b>\$ 636</b>

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

<b>Related party</b>	<b>Nature of transactions</b>	<b>2018</b>	<b>2017</b>
E. Carruthers Trucking	Transportation services	\$ 58	\$ 73

## 20. Supplementary cash flow information

### 20.1 Changes in non-cash working capital

	<b>Three month periods ended September 30</b>		<b>Nine month periods ended September 30</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
Trade receivables	\$ 2,314	\$ (1,157)	\$ 7,255	\$ 5,513
Inventories	(2,699)	(1,309)	2,821	549
Prepaid expenses	(278)	(303)	375	(53)
Contract costs	(109)	4	(80)	(37)
Trade and other payables	(1,198)	1,820	(1,433)	(620)
Contract liabilities	(134)	(576)	(2,870)	(2,259)
	<b>\$ (2,104)</b>	<b>\$ (1,521)</b>	<b>\$ 6,068</b>	<b>\$ 3,093</b>

## Notes to the Condensed Interim Consolidated Financial Statements

For the three and nine month periods ended September 30, 2018 and 2017

Thousands of Canadian dollars, except per share amounts



### 20.2 Non-cash transactions excluded from the consolidated statement of cash flows

	Three month period ended September 30		Nine month period ended September 30	
	2018	2017	2018	2017
Property, plant and equipment acquired with finance lease obligations	\$ 51	\$ 92	\$ 145	\$ 165

### 21. Subsequent event

#### Letters of credit

On October 12, 2018, letters of credit in the amount of \$537 to guarantee payments for inventory purchases settled. Additional costs of inventories incurred in bringing inventory to their present location and condition amounted to \$5 and will be expensed in future periods as cost of sales.