Audited Consolidated Financial Statements

For the Years Ended December 31, 2018 and 2017

Management's Report

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

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

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

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

The shareholders' auditor, Deloitte LLP, Chartered Professional Accountants, have audited the consolidated financial statements as at and for the years ended December 31, 2018 and 2017, in accordance with Canadian Generally Accepted Auditing Standards. Their independent report outlines the scope of their examination and opinion on the consolidated financial statements and is presented herein.

Robert Graham	**Mirko Papuga**
Chief Executive Officer	Chief Financial Officer
March 8, 2019	March 8, 2019
Calgary, Alberta	Calgary, Alberta

Deloitte.

Independent Auditor's Report

To the Shareholders and Board of Directors of PFB Corporation

Opinion

We have audited the consolidated financial statements of PFB Corporation (the "Company"), which comprise the consolidated balance sheets as at December 31, 2018 and 2017, and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards ("Canadian GAAS"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. The other information comprises:

- Management's Discussion and Analysis
- The information, other than the financial statements and our auditor's report thereon, in the Annual Report.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

The Annual Report is expected to be made available to us after the date of the auditor's report. If, based on the work we will perform on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor’s Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor’s report is Shawn Lai.

Deloitte LLP

Chartered Professional Accountants
March 8, 2019
Calgary, Alberta

Consolidated Balance Sheets

As at December 31, 2018 and 2017

Thousands of Canadian dollars

	Note	December 31, 2018	December 31, 2017
ASSETS			
Current assets			
Cash and cash equivalents	9	**$ 16,944**	$ 12,180
Cash – restricted	9	**1,347**	88
Trade receivables	10	**13,082**	9,809
Inventories	11	**11,638**	9,998
Income taxes recoverable	7	**193**	287
Prepaid expenses		**374**	474
Contract costs	12	**475**	527
Total current assets		**44,053**	33,363
Non-current assets			
Marketable securities - restricted	21, 25	**1,483**	1,239
Property, plant and equipment	14	**39,209**	40,099
Intangible assets	15	**1,447**	1,405
Goodwill	16	**2,360**	2,217
Accrued defined benefit pension plan	17	**10**	91
Deferred income tax assets	7	**270**	357
Total non-current assets		**44,779**	45,408
Total assets		**$ 88,832**	$ 78,771
LIABILITIES			
Current liabilities			
Trade and other payables		**$ 10,894**	$ 8,737
Contract liabilities	18	**6,464**	5,158
Income taxes payable	7	**681**	39
Long-term debt	19	**350**	339
Finance lease obligations	21	**255**	249
Total current liabilities		**18,644**	14,522
Non-current liabilities			
Long-term debt		**8,218**	8,567
Finance lease obligations	21	**2,984**	2,983
Deferred operating lease obligations	20	**719**	506
Deferred income tax liabilities	7	**1,631**	1,368
Total non-current liabilities		**13,552**	13,424
Total liabilities		**32,196**	27,946
SHAREHOLDERS' EQUITY			
Common shares	24	**20,947**	20,947
Equity-settled employee benefits reserve		**44**	-
Accumulated other comprehensive income		**4,176**	2,448
Retained earnings		**31,469**	27,430
Shareholders' equity		**56,636**	50,825
Total liabilities and shareholders' equity		**$ 88,832**	$ 78,771

Commitments and contingencies (Note 28), and operating leases (Note 27).

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

Approved by the Board of Directors

C. Alan Smith
Executive Chairman & Director

Gordon G. Tallman
Director

Consolidated Statements of Income

For the years ended December 31, 2018 and 2017
Thousands of Canadian dollars, except per share amounts

	Note	2018	2017
Sales		**$ 128,345**	$ 105,557
Cost of sales	11	**(99,544)**	(84,229)
Gross profit		**28,801**	21,328
Selling expenses		**(11,985)**	(11,424)
Administrative expenses		**(7,452)**	(6,399)
Other (losses) gains	6	**(152)**	13
Operating income		**9,212**	3,518
Gain on sale of marketable securities		**-**	275
Investment income		**67**	114
Finance costs		**(766)**	(832)
Income before taxes		**8,513**	3,075
Income tax expense	7	**(2,324)**	(794)
Net income for the year		**$ 6,189**	$ 2,281
Earnings per share - $ per share			
Basic	8	**$ 0.92**	$ 0.34
Diluted		**$ 0.92**	$ 0.34
Weighted average number of common shares outstanding			
Basic	8	**6,716,003**	**6,716,003**
Diluted		**6,732,470**	**6,716,003**

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

Consolidated Statements of Comprehensive Income

For the years ended December 31, 2018 and 2017
Thousands of Canadian dollars

	Note	2018	2017
Net income for the year		**$ 6,189**	$ 2,281
Other comprehensive income (loss):			
Items that may subsequently be reclassified to income:			
Foreign currency translation adjustments			
Exchange differences on translating foreign operations, net of tax		**1,689**	(1,209)
Restricted financial assets			
Unrealized gain on restricted financial assets, net of tax	21, 25	**177**	39
		1,866	(1,170)
Items that will not be subsequently reclassified to income:			
Defined benefit pension plan valuation change			
Unrealized (loss) gain on valuation change, net of tax		**(138)**	16
		(138)	16
Other comprehensive income (loss) for the year		**1,728**	(1,154)
Comprehensive income for the year		**$ 7,917**	$ 1,127

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

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

Consolidated Statements of Changes in Equity

As at December 31, 2018 and 2017

Thousands of Canadian dollars, except number of shares

		Common shares			Accumulated other comprehensive income				
	Note	Number of shares	Share capital	Equity-settled employee benefits reserve	Foreign currency translation adjustments	Unrealized gain on financial assets, net of taxes	Defined benefit pension plan valuation change, net of taxes	Retained earnings	Total
Balance at January 1, 2017		**6,716,003**	**$ 20,947**	**$ -**	**$ 3,360**	**$ 190**	**$ 52**	**$ 27,097**	**$ 51,646**
Net income for the year		-	-	-	-	-	-	2,281	2,281
Other comprehensive (loss) income for the year, net of tax		-	-	-	(1,209)	39	16	-	(1,154)
Total comprehensive (loss) income for the year		-	-	-	(1,209)	39	16	2,281	1,127
Payment of dividends	24	-	-	-	-	-	-	(1,948)	(1,948)
Balance at December 31, 2017		**6,716,003**	**20,947**	**-**	**2,151**	**229**	**68**	**27,430**	**50,825**
Net income for the year		-	-	-	-	-	-	6,189	6,189
Other comprehensive income (loss) for the year, net of tax		-	-	-	1,689	177	(138)	-	1,728
Total comprehensive income (loss) for the year		-	-	-	1,689	177	(138)	6,189	7,917
Payment of dividends	24	-	-	-	-	-	-	(2,150)	(2,150)
Share-based payment		-	-	44	-	-	-	-	44
Balance at December 31, 2018		**6,716,003**	**$ 20,947**	**$ 44**	**$ 3,840**	**$ 406**	**$ (70)**	**$ 31,469**	**$ 56,636**

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

Consolidated Statements of Cash Flows

For the years ended December 31, 2018 and 2017

Thousands of Canadian dollars

	Note	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income for the year		**$ 6,189**	$ 2,281
Adjustments for:			
Depreciation expense	14	**3,634**	3,768
Amortization expense	15	**132**	132
Gain on disposal of property, plant and equipment	6, 14	**(58)**	(51)
Gain on sale of marketable securities		**-**	(275)
Defined benefit pension plan		**(79)**	(40)
Finance costs		**766**	832
Investment income		**(67)**	(114)
Income tax expense	7	**2,324**	794
Share-based payment expense		**44**	-
Unrealized foreign exchange (gains) losses	6	**(69)**	25
Changes in non-cash working capital	29	**(1,298)**	647
Unrealized foreign exchange relating to non-cash working capital		**17**	(64)
Changes in deferred operating lease obligations	20	**214**	8
Cash from operating activities, before income taxes		**11,749**	7,943
Income taxes paid, net		**(1,312)**	(144)
Net cash from operating activities		**10,437**	7,799
CASH FLOWS USED IN INVESTING ACTIVITIES			
Increase in restricted cash balance		**(1,259)**	(51)
Purchase of leased assets	22	**-**	(18,800)
Reclassification of lease obligations related to purchase of leased assets	22, 23	**-**	10,982
Non-cash deferred operating lease obligation related to purchase of leased assets	22	**-**	143
Purchase of property, plant and equipment	14	**(1,769)**	(1,482)
Purchase of intangible assets	15	**(64)**	(129)
Proceeds from disposal of property, plant and equipment		**82**	58
Interest received		**48**	40
Distributions received from marketable securities		**19**	74
Net cash used in investing activities		**(2,943)**	(9,165)
CASH FLOWS USED IN FINANCING ACTIVITIES			
Repayment of finance lease obligations	23	**(279)**	(246)
Settlement of finance lease obligation related to purchase of leased assets	22	**-**	(10,982)
Changes in long-term debt	19, 23	**(338)**	8,906
Proceeds from disposal of marketable securities		**-**	1,883
Finance costs paid		**(766)**	(832)
Dividends paid to shareholders	24	**(2,150)**	(1,948)
Net cash used in financing activities		**(3,533)**	(3,219)
Effects of exchange rate changes on the balance of cash held in foreign currencies		**803**	(369)
Net increase (decrease) in cash and cash equivalents		**4,764**	(4,954)
Cash and cash equivalents at the beginning of the year		**12,180**	17,134
Cash and cash equivalents at the end of the year	9	**$ 16,944**	$ 12,180

The accompanying notes are an integral part of these 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 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. Significant accounting policies

2.1 Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

2.2 Basis of preparation

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

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

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

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

2.3 Basis of consolidation

Subsidiaries are all entities over which the Corporation has control. The Corporation controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The consolidated financial statements incorporate the accounts of the Corporation and its subsidiaries (entities controlled by the Corporation). All subsidiaries are wholly-owned by the Corporation (Note 31).

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

2.4 Revenue Recognition

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.

2.4.1 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.

2.4.2 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.

2.4.3 Freight

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

2.4.4 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®. 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.

2.4.5 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.

2.4.6 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.

2.4.7 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 12 – Contract costs, Note 18 – Contract liabilities and Note 13 – Remaining performance obligations, for further information.

2.4.8 Investment income

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

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

2.5 Cash and cash equivalents, and restricted cash

Cash and cash equivalents consist of cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of 90 days or less.

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

2.6 Inventories

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

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

2.7 Property, plant and equipment (“PP&E”)

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

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

Depreciation commences when the assets are available for use and is recognized on a straight-line basis to depreciate the capitalized cost of assets to their estimated residual values over their estimated useful lives. When significant parts of an asset have different expected useful lives, they are accounted for as separate components of the asset and depreciated over their estimated useful lives and depreciation method when practical. Freehold land is not depreciated. Assets held under finance leases are depreciated over the shorter of the lease term and their expected useful lives.

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

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

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

2.8 Leasing

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

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

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

Operating lease payments are recognized in the consolidated statement of income as an expense on a straight-line basis over the lease term. Lease incentives received and predetermined fixed escalations of the minimum rent are recognized as an integral part of the total lease expense, over the term of the lease. The Corporation leases properties with rental incentives and predetermined fixed escalations of the minimum rent (Note 20).

2.9 Intangible assets

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

Class:	Useful life:
Patents	17 years
Product development costs	3 years
Software	3 to 5 years
Registered trade names	Indefinite life – not amortized
Order backlog	Lives of individual contracts (max. 3 years)
Non-compete agreements	1 to 1.5 years

Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses and the carrying amounts are tested for impairment at least annually or whenever there is an indication that an asset may be impaired. In the case of impairment, the recoverable amount of an asset is estimated in order to determine the extent of the impairment loss, if any (Note 2.11).

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

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

2.10 Goodwill

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

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

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

2.11 Impairment of tangible and intangible assets other than goodwill

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

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

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

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

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

2.12 Foreign currency translation

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

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

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

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

2.13 Provisions

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

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

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

2.14 Financial instruments

Financial assets and financial liabilities are recognized initially at fair value when the Corporation or a subsidiary of the Corporation becomes a party to the contractual provisions of the instrument (Note 25).

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

2.15 Financial assets

Financial assets are classified and measured based on three categories: (i) assets at amortized cost; (ii) fair value through profit or loss ("FVTPL"); or (iii) fair value through other comprehensive income ("FVOCI"). The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

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 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.

2.15.1 Impairment of financial assets

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 is net of any loss allowance.

2.16 Financial liabilities

Financial liabilities are recognized initially at fair value and subsequently measured at either fair value or amortized cost. The Corporation's financial liabilities are classified as 'financial liabilities at amortized cost' and include any borrowings and trade and other payables and are subsequently measured at amortized cost using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant year. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability. The Corporation does not hold any financial liabilities designated at fair value through profit or loss.

2.17 Taxation

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

2.17.1 Current tax

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

2.17.2 Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable income. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable income nor the accounting income. In addition, deferred tax liabilities are not recognized if the temporary difference arises from the initial recognition of goodwill.

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

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

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

2.17.3 Current and deferred tax for the year

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

2.18 Employee retirement benefit plan

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

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

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

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

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

2.19 Earnings per share

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

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

2.20 Share-based payment arrangements

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date.

The fair value determined at the grant date is expensed on a straight-line basis over the vesting period, based on the Corporation's estimate of equity instruments that will eventually vest, with a corresponding increase in equity.

At the end of each reporting year, the Corporation revises its estimate of the number of equity instruments expected to vest. The impact of any revision to the original estimates, if any, is recognized in profit or loss such that the cumulative expense reflects the revised estimate with a corresponding adjustment to the equity-settled employee benefits reserve.

3. Critical accounting judgments and estimates

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

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

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

3.1 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.

3.2 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.

3.3 Cash-generating unit (“CGU”)

Determination of which assets constitute a CGU is subject to management judgments. Also, the asset composition of a CGU can directly impact the recoverability of assets included therein. The recoverable amount of a CGU is assessed at the CGU level and is the higher of the CGU’s fair value less costs of disposal and its value in use. A CGU may be impaired when its carrying amount exceeds its recoverable amount. Key assumptions used for the value in use calculations are set out in Note 16.

3.4 Impairment of goodwill

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

3.5 Impairment of tangible and intangible assets

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

3.6 Valuation of inventories

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

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

3.7 Allowance for doubtful accounts

Amounts included in allowance for doubtful accounts reflect the lifetime expected credit losses for trade receivables. Management determines allowances based on best estimates of future expected credit losses, considering historical credit loss experience, current economic conditions, and forecasts of future economic conditions. Significant or unanticipated changes in economic conditions could impact the magnitude of future expected credit losses. The value of the allowance for doubtful accounts reserve typically tracks the seasonality trend of trade receivables. Specific reserves may be created for individual customers in exceptional circumstances. Bad debts are written off against the reserve.

3.8 Income taxes

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

3.9 Measurement of retirement benefits

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

3.10 Property plant and equipment

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

3.11 Valuations performed during a business combination

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

3.12 Finance leases

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

3.13 Share-based payment arrangements

The compensation costs relating to share-based payment arrangements are based on estimates of how many common shares will actually vest and be exercised.

4. 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.

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 and December 31, 2017:

Thousands of Canadian dollars

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

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

- **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 financial statements 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:

Thousands of Canadian dollars

	IAS 39		IFRS 9	
Financial instrument	**Category**	**Measurement**	**Category**	**Measurement**
Cash and cash equivalents	FVTPL	Fair value	Assets at amortized cost	Amortized cost
Restricted cash	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.

- **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.

4.1 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 will apply IFRS 16 retrospectively and recognize the cumulative effect of initial application on January 1, 2019, subject to permitted and elected practical expedients. The Corporation will not apply this standard to short-term leases and leases for which the underlying asset is of low value. The Corporation has elected not to separate non-lease components from lease components for all underlying asset classes except Property, which the Corporation has elected to separate and exclude non-lease components from lease components.

The Corporation continues to assess and quantify the effect of this standard on the consolidated financial statements, information systems and internal controls. During the fourth quarter, the Corporation has further reviewed existing contracts for lease recognition, completed an analysis of discount rates and the tax-effects of leases upon retrospective adoption.

Thousands of Canadian dollars

The measurement of the total lease expense over the term of a lease will be unaffected by the new standard, however, management expects to recognize additional right-of-use assets and lease obligations on the consolidated balance sheet. Management also expects changes to cost of sales as operating expenses will be presented as depreciation and finance costs. Material changes are expected to the consolidated balance sheet and immaterial changes to the consolidated statement of income. Although total cash movement will be unchanged, the presentation in the statement of cash flows will differ under the new standard. The full quantification of the new standard will be disclosed in the condensed interim consolidated financial statements for the first quarter of 2019.

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 (Note 2), 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 years ended December 31, 2018 and 2017 are set out below:

	Sales revenues		Operating income	
	2018	**2017**	**2018**	**2017**
Canada	**$ 78,346**	**$ 68,970**	**$ 4,602**	$ 1,746
USA	**49,999**	**36,587**	**4,026**	1,319
Total for segments	**$ 128,345**	**$ 105,557**	**8,628**	3,065
Corporate – income			**586**	452
Foreign exchange (loss) gain on inter-segment settlements			**(2)**	1
Consolidated operating income			**$ 9,212**	$ 3,518

Thousands of Canadian dollars

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:

	2018	2017
Assets		
Segment assets	**$ 47,366**	$ 41,658
Assets not allocated to segments:		
Cash and cash equivalents	**16,944**	12,180
Freehold land and buildings	**22,750**	23,386
Restricted marketable securities	**1,483**	1,239
Corporate taxes[1]	**289**	308
Total assets	**$ 88,832**	$ 78,771
Liabilities		
Segment liabilities	**$ 20,389**	$ 15,788
Liabilities not allocated to segments:		
Finance lease obligations	**3,239**	3,232
Long term debt	**8,568**	8,906
Corporate taxes[1]	**-**	20
Total liabilities	**$ 32,196**	$ 27,946
Net segment assets		
Canada	**$ 19,970**	$ 19,802
USA	**7,007**	6,068

[1] Current and deferred taxes.

5.3 Other segment information

	2018	2017
Additions to non-current assets:		
Canada	**$ 795**	$ 914
USA	**1,007**	648
Corporate	**31**	7,724
Total	**$ 1,833**	$ 9,286
Depreciation and amortization:		
Canada	**$ 2,066**	$ 2,177
USA	**627**	675
Corporate	**1,073**	1,048
Total	**$ 3,766**	$ 3,900
Inter-segment sales	**$ 7,052**	$ 5,657

Thousands of Canadian dollars

6. Other (losses) gains

	2018	2017
Unrealized foreign exchange gains (losses)	**$ 69**	$ (25)
Realized foreign exchange losses	**(235)**	(13)
Gain on disposals of property, plant and equipment	**58**	51
Share-based payment expense	**(44)**	-
	$ (152)	$ 13

7. Income taxes

7.1 Income taxes recognized in the year

	2018	2017
Current tax expense	**$ 2,027**	$ 401
Deferred tax expense	**297**	393
Income tax expense	**$ 2,324**	$ 794

In the year ended December 31, 2018, deferred income tax expense of $44 (2017 - $28) was recognized directly in other comprehensive income.

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

	2018	2017
Income before taxes	**$ 8,513**	$ 3,075
Income tax expense calculated at 27.4% (2017 – 27.4%)	**$ 2,333**	$ 842
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(90)**	216
Enacted rate changes	**-**	1
Non-taxable portion of capital gain	**-**	(68)
Expenses not deductible in determining taxable income	**57**	42
Prior period adjustments and reassessments	**19**	(210)
Other	**5**	(29)
Income tax expense	**$ 2,324**	$ 794

The statutory tax rate in the table above is the combined Canadian federal and blended provincial income tax rate of approximately 27.4% (2017 – 27.4%).

The Corporation's USA segment were subject to federal and state statutory tax rates of approximately 25% for 2018 (2017 – 38%). As a result of US Tax Reform Legislation, effective January 1, 2018, the USA segment will be subject to a combined rate of approximately 25% and deferred tax balances at December 31, 2018 of the USA segment are measured at this enacted rate.

7.2 Current tax assets

	As at Dec 31, 2018	As at Dec 31, 2017
Current tax assets		
Income taxes recoverable	**$ 193**	$ 287
Current tax liabilities		
Income taxes payable	**681**	39

Thousands of Canadian dollars

7.3 Deferred tax balances

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

	As at Dec 31, 2018	As at Dec 31, 2017
Deferred tax assets		
Property, plant and equipment	**$ 570**	$ 133
Non-capital tax losses carried forward	**-**	209
Reserve	**-**	95
Land	**(112)**	(112)
Other	**(188)**	115
Intangible assets	**-**	(83)
	$ 270	$ 357
Deferred tax liabilities		
Property, plant and equipment	**$ (2,099)**	$ (1,673)
Intangible assets	**(141)**	(40)
Non-capital tax losses carried forward	**8**	-
Other	**29**	(16)
Reserves	**183**	61
Lease items	**192**	161
Deferred operating lease obligation	**197**	139
	$ (1,631)	$ (1,368)

Non-capital tax losses carried forward expire on 2029.

8. Earnings per share

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

	2018	2017
Net income for the period	**$ 6,189**	$ 2,281
Weighted average number of common shares outstanding – basic	**6,716,003**	6,716,003
Effect of:		
Dilutive stock options	**16,467**	N/A
Weighted average number of common shares outstanding - diluted	**6,732,470**	6,716,003
Earnings per share:		
Basic	**$ 0.92**	$ 0.34
Diluted	**$ 0.92**	$ 0.34

Thousands of Canadian dollars

9. Cash and cash equivalents

	As at Dec 31, 2018	As at Dec 31, 2017
Cash held with banks	**$ 13,744**	$ 12,180
Short-term investments	**3,200**	-
	$ 16,944	$ 12,180

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

	As at Dec 31, 2018	As at Dec 31, 2017
Cash - restricted	**$ 1,347**	$ 88

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

10. Trade receivables

Eligible trade receivables held by the Corporation's subsidiaries in Canada have been pledged as security with a bank in support of a revolving credit facility. The revolving credit facility was unused as at December 31, 2018.

10.1 Current trade receivables

Aging profile	As at Dec 31, 2018	As at Dec 31, 2017
Current and past due for less than 30 days	**$ 11,800**	$ 8,764
Past due for between 31 and 90 days	**1,343**	572
Past due for 91 days or longer	**487**	886
Total gross current trade receivables	**13,630**	10,222
Allowance for doubtful accounts	**(548)**	(413)
Current trade receivables, net	**$ 13,082**	$ 9,809

The average trade credit allowed on the sale of goods is between 30 and 60 days from the date of shipment. For sales of customized products and services, deposits and/or payment installments are typically incorporated into contract terms to mitigate the potential for default. Deposits and installments received on individual accounts which exceed the value of goods and/or services invoiced are recorded as contract liabilities on the consolidated balance sheets.

The Corporation has recognized an allowance for doubtful trade receivables on accounts that are past due by more than 31 days based on best estimates of future expected credit losses and estimated irrecoverable amounts determined by reference to past experiences. As at December 31, 2018 and 2017, the allowance for doubtful accounts reserve includes amounts to cover new accounts in the Canadian segment and continuing exposure with several long-standing customers in the USA segment, both of which have trade receivables included in the past due for 91 days or longer category.

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

Thousands of Canadian dollars

10.2 Change in allowance for doubtful accounts

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

	2018	2017
Balance at beginning of year	**$ (413)**	$ (254)
Additional amounts provided for during the year	**(148)**	(211)
Trade receivables written off during the year	**13**	52
Balance at end of year	**$ (548)**	$ (413)

11. Inventories

	As at Dec 31, 2018	As at Dec 31, 2017
Raw materials	**$ 5,907**	$ 5,186
Work in progress	**2,404**	1,979
Finished goods	**3,327**	2,833
	$ 11,638	$ 9,998

Eligible inventories held by each of the Corporation's Canadian and USA subsidiaries have been pledged as security with a bank in support of revolving credit facilities. The revolving credit facilities were unused as at December 31, 2018.

The cost of inventories recognized as an expense in cost of sales in the year ended December 31, 2018, was $80,184 (2017 - $68,263). Included in the cost of inventories recognized as an expense were write-downs from full cost to net realizable value in the amount of $799 (2017 - $331). There were no reversals of any write-downs in either 2018 or 2017.

12. 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 year was $377 (2017- $315). 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 $475 (2017 - $527).

13. 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 year end were $17,077 (2017 - $17,256). The Corporation estimates it will recognize approximately $13,937 of revenue from the unsatisfied performance obligations upon completion of those performance obligations over the next twelve months and $3,140 after twelve months.

14. Property, plant and equipment

In the tables below, assets under finance leases include buildings, automobiles and materials handling equipment. As at December 31, 2018, automobiles and materials handling equipment had a carrying amount of $473 (2017 - $486) and buildings had a carrying value of $2,042 (2017 - $2,186) for a total amount of assets under finance lease of $2,515 (2017 -

Thousands of Canadian dollars

$2,672). Automobile leases include provisions whereby the automobiles can be purchased for their residual value whereas the individual building leases have no such rights to purchase at any residual value.

Assets under construction as at December 31, 2018 are expected to be available for use in 2019.

Cost	Freehold land	Buildings	Plant and equipment	Assets under finance leases	Assets under construction	Total
Balance at January 1, 2017	**$ 3,149**	**$ 12,100**	**$ 40,266**	**$ 15,770**	**$ 2,081**	**$ 73,366**
Additions	-	52	43	244	1,387	1,726
Purchase of leased assets	5,432	2,243	-	-	-	7,675
Transfer of leased assets	-	11,745	-	(11,745)	-	-
Disposal of PP&E assets	-	(77)	(291)	(160)	-	(528)
Transfers between asset classes	-	96	2,648	-	(2,744)	-
Effect of foreign currency changes	(124)	(457)	(469)	(32)	(26)	(1,108)
Balance at December 31, 2017	**8,457**	**25,702**	**42,197**	**4,077**	**698**	**81,131**
Additions	-	-	8	289	1,761	2,058
Disposal of PP&E assets	-	-	(350)	(247)	-	(597)
Transfer of leased assets	-	-	217	(217)	-	-
Transfers between asset classes	-	213	1,819	-	(2,032)	-
Effect of foreign currency changes	155	576	656	41	21	1,449
Balance at December 31, 2018	**$ 8,612**	**$ 26,491**	**$ 44,547**	**$ 3,943**	**$ 448**	**$ 84,041**

Accumulated Depreciation						
Balance at January 1, 2017	**$ -**	**$ 6,636**	**$ 28,268**	**$ 3,421**	**$ -**	**$ 38,325**
Depreciation expense	-	1,186	2,104	478	-	3,768
Disposal of PP&E assets	-	2,318	-	(2,318)	-	-
Transfers between asset classes	-	(77)	(287)	(157)	-	(521)
Effect of foreign currency changes	-	(226)	(295)	(19)	-	(540)
Balance at December 31, 2017	**-**	**9,837**	**29,790**	**1,405**	**-**	**41,032**
Depreciation expense	-	1,201	2,006	427	-	3,634
Disposal of PP&E assets	-	-	(350)	(223)	-	(573)
Transfer of leased assets	-	-	201	(201)	-	-
Effect of foreign currency changes	-	313	406	20	-	739
Balance at December 31, 2018	**$ -**	**$ 11,351**	**$ 32,053**	**$ 1,428**	**$ -**	**$ 44,832**

Net book values						
2017	$ 8,457	$ 15,865	$ 12,407	$ 2,672	$ 698	$ 40,099
2018	**8,612**	**15,140**	**12,494**	**2,515**	**448**	**39,209**

Depreciation commences when assets are available for use. Depreciation expense for the year ended December 31, 2018 in the amount of $3,112 (2017 - $3,265) is included in cost of sales, with an amount of $377 (2017 - $345) included in selling expenses, and an amount of $145 (2017 - $158) included in administrative expenses.

Thousands of Canadian dollars

15. Intangible assets

Cost	Patents	Product development costs	Software	Registered trade names	Order backlog	Non-compete agreement	Total
Balance at January 1, 2017	**$ 70**	**$ 971**	**$ 2,616**	**$ 1,346**	**$ 199**	**$ 38**	**$ 5,240**
Additions	-	-	129	-	-	-	129
Effect of foreign currency changes	-	(20)	(31)	(88)	(13)	(2)	(154)
Balance at December 31, 2017	**70**	**951**	**2,714**	**1,258**	**186**	**36**	**5,215**
Additions	-	-	64	-	-	-	64
Effect of foreign currency changes	-	25	39	110	16	3	193
Balance at December 31, 2018	**$ 70**	**$ 976**	**$ 2,817**	**$ 1,368**	**$ 202**	**$ 39**	**$ 5,472**

Accumulated Amortization	Patents	Product development costs	Software	Registered trade names	Order backlog	Non-compete agreement	Total
Balance at January 1, 2017	**$ 53**	**$ 971**	**$ 2,483**	**$ -**	**$ 199**	**$ 38**	**$ 3,744**
Amortization expense	5	-	127	-	-	-	132
Effect of foreign currency changes	-	(20)	(31)	-	(13)	(2)	(66)
Balance at December 31, 2017	**58**	**951**	**2,579**	**-**	**186**	**36**	**3,810**
Amortization expense	5	-	127	-	-	-	132
Effect of foreign currency changes	-	25	39	-	16	3	83
Balance at December 31, 2018	**$ 63**	**$ 976**	**$ 2,745**	**$ -**	**$ 202**	**$ 39**	**$ 4,025**

Net book values	Patents	Product development costs	Software	Registered trade names	Order backlog	Non-compete agreement	Total
2017	$ 12	$ -	$ 135	$ 1,258	$ -	$ -	$ 1,405
2018	**7**	**-**	**72**	**1,368**	**-**	**-**	**1,447**

Amortization expense for the year ended December 31, 2018 in the amount of $10 (2017 - $10) is included in cost of goods sold, an amount of $10 (2017 - $13) is included in selling expenses, and an amount of $112 (2017 - $109) is included in administrative expenses.

16. Goodwill

16.1 Cost

	2018	2017
Balance at beginning of year	**$ 2,217**	$ 2,332
Effect of foreign currency exchange differences	**143**	(115)
Balance at end of year	**$ 2,360**	$ 2,217

For the purpose of impairment testing, goodwill is allocated to CGUs (Note 16.2). As at the testing date selected, the Corporation determined that the value in use of each cash-generating unit exceeded their carrying amounts and therefore no provision for impairment was provided. In order to determine whether impairment is incurred, the Corporation estimates the recoverable amount of each CGU. Recoverable amounts are determined on the basis of value in use calculations. Classification of CGUs and value in use in 2018 was determined the same way as in 2017.

Thousands of Canadian dollars

16.2 Allocation of goodwill to cash-generating units

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

	As at Dec 31, 2018	As at Dec 31, 2017
Canada	**$ 580**	$ 580
USA	**1,780**	1,637
	$ 2,360	$ 2,217

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

The Corporation used a discount rate of 12.0% (12.0% in 2017). The discount rate was determined based on an estimate of the Corporation's weighted average cost of capital. The discount rate is pre-tax.

The key assumptions used for value in use calculations in 2018 and 2017 were as follows:

Year	Cash generating unit	Compound annual growth rate (5 Years)	Long-term growth rate	Discount rate
2018	**Canada**	**2.9 %**	**2.0 %**	**12.0 %**
	USA	**6.9 %**	**2.0 %**	**12.0 %**
2017	Canada	4.8 %	2.0 %	12.0 %
	USA	11.0 %	2.0 %	12.0 %

17. Retirement benefits plans

17.1 Group registered retirement savings plan

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

17.2 Group 401K plan

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

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

17.3 Defined benefit pension plan

The Corporation operates a funded defined benefit pension plan for qualifying Ontario-based employees who are members of the United Steel, Paper and Forestry, Rubber, Manufacturing, Energy, Allied Industrial and Service

Thousands of Canadian dollars

Workers International Union. Under the plan, retiring employees receive on a monthly basis a fixed benefit amount multiplied by the number of years of eligible service. No other post-retirement benefits are provided to these employees except for a minimal amount of life insurance coverage.

The most recent actuarial valuation of plan assets and the present value of defined benefit obligation were determined as at December 31, 2016 and the accounting valuations were subsequently updated to December 31, 2018, by the independent actuary. The next valuation report is required as at December 31, 2019.

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

	As at Dec 31, 2018	**As at Dec 31, 2017**
Present value of the funded defined benefit obligation	**$ (1,898)**	$ (1,837)
Fair value of plan assets	**1,908**	1,928
Net asset arising from defined benefit obligation	**$ 10**	$ 91

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

	2018	**2017**
Discount rate (end of fiscal year)	**3.75 %**	3.75 %
Expected return on plan assets	**3.75 %**	3.75 %

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

	2018	**2017**
Current service costs	**$ 46**	$ 42
Administration costs	**10**	51
Interest costs	**69**	69
Interest income	**(74)**	(69)
	$ 51	$ 93

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

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

	2018	**2017**
Opening defined benefit obligation	**$ 1,837**	$ 1,833
Current service costs	**46**	42
Interest cost on obligation	**69**	69
Benefit payments	**(54)**	(67)
Actuarial gain	**-**	(40)
Closing defined benefit obligation	**$ 1,898**	$ 1,837

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

	2018	**2017**
Opening fair value of plan assets	**$ 1,928**	$ 1,843
Actual (loss) return on plan assets	**(87)**	70
Employer contributions	**131**	133
Administration costs	**(10)**	(51)
Benefit payments	**(54)**	(67)
Closing fair value of plan assets	**$ 1,908**	$ 1,928

Thousands of Canadian dollars

The major categories of plan assets are as follows:

	Distribution of plan assets	
	As at Dec 31, 2018	**As at Dec 31, 2017**
Equity instruments	**71 %**	71 %
Fixed income securities	**29 %**	29 %
Total	**100 %**	100 %

To the best of management's knowledge, none of the plan assets are invested in the Corporation's shares.
The Corporation expects to make contributions of $109 to the defined benefit plan in the 2019 financial year.

18. 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 changes in contract liabilities are set out below:

	Contract liabilities		Revenue related to				
2018	**Balance, beginning of period [1]**	**Current period [2]**	**Current period deposits [3]**	**Beginning of period deposits [4]**	**Rebates, net [5]**	**Foreign exchange**	**Balance, end of period**
Jan 1- Mar 31	**$ 5,158**	**$ 4,070**	**$ (736)**	**$ (1,857)**	**$ (772)**	**$ 39**	**$ 5,902**
Apr 1- Jun 30	**5,902**	**6,402**	**(1,607)**	**(3,357)**	**452**	**102**	**7,894**
Jul 1- Sep 30	**7,894**	**8,486**	**(4,107)**	**(4,699)**	**598**	**(144)**	**8,028**
Oct 1- Dec 31	**8,028**	**8,830**	**(5,581)**	**(5,041)**	**(34)**	**262**	**6,464**
2017							
Jan 1- Mar 31	$ 3,845	$ 4,480	$ (1,263)	$ (1,585)	$ (601)	$ (3)	$ 4,873
Apr 1- Jun 30	4,873	5,218	(2,318)	(2,527)	437	(155)	5,528
Jul 1- Sep 30	5,528	4,158	(1,409)	(2,349)	345	(169)	6,104
Oct 1- Dec 31	6,104	5,729	(3,454)	(3,667)	285	161	5,158

[1] Contract liabilities for customer deposits the Corporation has received for outstanding performance obligations and unpaid customer rebates earned and payable by the Corporation.

[2] Customer deposits that the Corporation has received during the period from new contracts with customers or additional customer deposits on existing contracts with customers, in advance of the Corporation's performance.

[3] Revenue recognized through the completion of performance obligations related only to the extent new customer deposits are received in the same period, excluding any amounts recognized as revenue from beginning balances. The decrease in contract liabilities is constrained to revenue recognized from customer deposits applied to performance obligations achieved in the current period.

[4] Revenue recognized through the completion of performance obligations related to either new or existing contracts, for customer deposits on hand from prior periods, that was included in the beginning balance and excludes amounts recognized during the period in the note above.

[5] Customer rebates payable by the Corporation or amounts paid to customers.

19. Borrowings

19.1 Operating credit facilities

Canada

The Canadian segment has a revolving facility that is secured by a first ranking security interest in trade receivables and inventories of the Canadian subsidiary, with a parent guarantee.

Thousands of Canadian dollars

The Corporation continues to provide a guarantee and postponement of claim to the bank in the amount of $10,000. The interest rate applicable on draws made against the facility is the Canadian bank's prime rate plus 0.5% and the facility carries a monthly standby fee when not being utilized. The credit facility was not used as at December 31, 2018.

USA

The USA segment has a credit facility arrangement with a US bank for a variable rate revolving facility in the amount of $1,250. The revolving facility is secured by all inventory and equipment of the USA subsidiary. The interest rate applicable on draws made against the facility is a variable rate based on an index plus 0.25%.

Under the facility, the USA subsidiary is subject to certain covenants, one of which is a financial covenant to maintain an Operating Cash Flow to Fixed Charge Coverage ratio of not less than 1.20:1. The second covenant is to maintain a Total Debt to Tangible Net Worth Ratio of less than 3.00 to 1.00. The credit facility was not used as at December 31, 2018.

19.2 Long-term debt

The Corporation's long-term debt position is stated in the following table:

	Dec 31, 2018
Balance at beginning of period	**$ 8,906**
Borrowings	**-**
Repayments	**(338)**
Balance at end of period	**$ 8,568**

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, as amounts are not material.

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 financial covenant ratio was tested and the Corporation was compliant with the ratio as at December 31, 2018.

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

	Dec 31, 2018
Current within 12 months	$ 350
Due within 12 to 24 months	361
Due within 25 to 36 months	373
Due within 37 to 48 months	385
Due within 49 to 60 months	398
Due after 60 months	6,701
Total	**$ 8,568**

20. Deferred operating lease obligations

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

Thousands of Canadian dollars

As at December 31, 2018, deferred operating lease obligations were recorded in the amount of $719 as a long-term liability on the consolidated balance sheet (2017 - $506).

21. Finance lease obligations

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

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

As part of the sale leaseback transaction, a proportion of the consideration received was in units of the Canadian REIT which were pledged as security for the minimum rent obligations for the building leases over the first ten years of the lease term. The Canadian REIT units are held in an escrow account until the earlier of ten years from the initial lease date or the plan of arrangement is completed. The units had a fair value of $1,483 (2017 - $1,239) (Note 25). The Canadian REIT paid a final monthly distribution on the units on May 15, 2018. The distributions have been included in investment income in the consolidated statements of income.

On February 28, 2017, the Corporation repurchased one of the four properties from the Canadian REIT (Note 22).

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

	Minimum lease payments	
	Dec 31, 2018	**Dec 31, 2017**
Not later than one year	**$ 649**	$ 648
Later than one year and not later than five years	**1,976**	1,899
Later than five years	**4,405**	4,851
Total minimum lease payments	**7,030**	7,398
Less: amounts representing finance costs	**3,791**	4,166
Present value of minimum lease payments	**$ 3,239**	$ 3,232

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

	Dec 31, 2018	**Dec 31, 2017**
Current	**$ 255**	$ 249
Long-term	**2,984**	2,983
Total	**$ 3,239**	$ 3,232

22. 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 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 (Note 19). 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.

Thousands of Canadian dollars

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.

23. 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, 2017	Borrowings	Repayments	Additions	Disposal	Foreign exchange	Dec 31, 2018
Bank indebtedness	$ -	$ 4,616	$ (4,616)	$ -	$ -	$ -	**$ -**
Long-term debt	8,906	-	(338)	-	-	-	**8,568**
Finance lease obligations	3,232	-	(279)	289	(24)	21	**3,239**
Total	**$ 12,138**	**$ 4,616**	**$ (5,233)**	**$ 289**	**$ (24)**	**$ 21**	**$ 11,807**

24. Issued capital

24.1 Authorized

The Corporation's authorized share capital represents:

(a) An unlimited number of voting common shares without nominal or par value which carry one vote per share and carry a right to dividends.

(b) An unlimited number of preferred shares without nominal or par value, issuable in series at the discretion of the directors of the Corporation of which none are outstanding.

24.2 Share-based payments

The Corporation has a stock option plan under which the maximum number of shares issuable is equal to 10% of the number of issued and outstanding common shares. A stock option allows the grantee of the option to acquire common shares of the Corporation, at the strike price established at the time of grant. Options may be exercised at any time from the vesting date to the date of expiry. 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 a director 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 respective 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 December 31, 2018:

Thousands of Canadian dollars

Number of options outstanding	Number of options exercisable	Weighted average exercise	Weighted average remaining life	Grant date: Weighted average risk-free interest	Weighted average expected life	Estimated volatility (%)	Expected annual dividend yield (%)	Calculated weighted average fair value
375,000	-	$ 8.50	9.25	2.11	9.69	18.04	3.98	$ 0.76
25,000	25,000	$ 8.05	4.40	2.11	4.92	18.04	3.98	$ 0.81
400,000	**25,000**	**$ 8.47**						

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 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 December 31, 2018, no options were exercised or expired. There are 400,000 options outstanding as at December 31, 2018.

24.3 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.

During the year ended December 31, 2018 and 2017, the Corporation did not purchase any of its common shares for cancellation under the Normal Course Issuer Bid. The Normal Course Issuer Bid lapsed on January 11, 2019 without renewal.

24.4 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).

In the fourth quarter of 2018, the Corporation's board of directors declared a regular quarterly dividend of $0.08 (2017 - $0.08) per common share which was paid in November of each year, respectively. The dividend payment in November 2018 amounted to $537 (2017 - $538).

Aggregate dividends paid in the year ended December 31, 2018, amounted to $2,150 (2017 - $1,948).

Thousands of Canadian dollars

25. Financial instruments

25.1 Capital management

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

The capital structure of the Corporation consists of net debt (long-term debt as detailed in Note 19 offset by cash and cash equivalents) and equity of the Corporation (comprising issued share capital, reserves, and retained earnings as detailed in the consolidated statement of changes in equity).

The Corporation's capital structure, net of cash and cash equivalents, as at December 31, 2018 and 2017, is as outlined in the following table:

	As at December 31, 2018	As at December 31, 2017
Borrowings	**$ 8,568**	$ 8,906
Less: cash and cash equivalents	**16,944**	12,180
Surplus cash	**$ (8,376)**	$ (3,274)
Shareholders' equity	**$ 56,636**	$ 50,825
Net borrowings to equity ratio	**N/A**	N/A

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

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

25.2 Categories of financial instruments

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

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

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

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

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

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

- The carrying amount of cash and cash equivalents, restricted cash, 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.

Thousands of Canadian dollars

- Long-term debt is carried at amortized cost. The estimated fair value of long-term borrowings has been estimated to approximate the amortized cost.

A summary of the categories, measurement basis, hierarchy, carrying values and fair values of financial instruments held by the Corporation are stated in the following table (see Note 4):

				December 31, 2018		December 31, 2017	
Financial instrument	**Category**	**Measurement**	**Hierarchy**	**Carrying Amount**	**Fair Value**	**Carrying Amount**	**Fair Value**
Cash and cash equivalents	Assets at amortized cost	Amortized cost	Level 1	**$ 16,944**	**$ 16,944**	$ 12,180	$ 12,180
Cash - restricted	Assets at amortized cost	Amortized cost	Level 1	**1,347**	**1,347**	88	88
Restricted marketable securities	FVOCI	Fair value	Level 2	**1,483**	**1,483**	1,239	1,239
Trade receivables	Assets at amortized cost	Amortized cost	N/A	**13,082**	**13,082**	9,809	9,809
Trade and other payables	Financial liabilities at amortized cost	Amortized cost	N/A	**(10,894)**	**(10,894)**	(8,737)	(8,737)
Long-term debt	Financial liabilities at amortized cost	Amortized cost	Level 2	**(8,568)**	**(8,568)**	(8,906)	(8,906)

During the year ending December 31, 2018, restricted marketable securities were transferred from Level 1 to Level 2 fair value measurements.

25.3 Credit risk

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

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

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

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

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

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

- Trade receivables balances are spread amongst a broad customer base which is dispersed across a wide geographic range;

Thousands of Canadian dollars

- The aging profile of trade receivables balances is systematically monitored by management;
- Larger customers are offered a discount off invoice for prompt payment which is strictly enforced; and
- Payments for highly-customized orders are received in advance of products being shipped.

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

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

25.4 Foreign currency risk

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

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

Periodically, management may commit to entering into foreign exchange contracts to attempt to protect earnings against relatively short-term fluctuations in exchange rates. In such cases, management attempts to make informed judgments in entering such transactions but there is a possibility that markets may not respond in ways predicted. To the extent that the Corporation does not fully hedge its foreign currency exposure and exchange rate risk, or the Corporation's subsidiaries are not able to or do not raise their selling prices accordingly when exchange rates are moving in an unfavourable direction, the profitability of the business could be adversely affected. The Corporation did not hold any foreign exchange contracts as at December 31, 2018.

The following tables detail the Corporation's exposure to foreign currency risk as at December 31, 2018 and 2017, including a sensitivity analysis to changes in foreign exchange rates:

	December 31, 2018			**December 31, 2017**		
	USD	**Change in currency**	**Effect on after tax income (loss)**	**USD**	**Change in currency**	**Effect on after tax income (loss)**
Net monetary assets	**$ 12,567**	**5.0%**	**$ 478**	$ 8,062	5.0%	$ 307
Net monetary liabilities	**(3,981)**	**5.0%**	**$ (152)**	(3,126)	5.0%	$ (119)

25.5 Interest rate risk

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

The Corporation's Canadian subsidiary had access to a revolving credit facility with a Canadian bank. The revolving credit facility had a limit of $10,000, based on marginable trade receivables and inventories. The revolving credit facility was repaid and unused at December 31, 2018 (December 31, 2017 - $10,000 unused). The Corporation's USA subsidiary had access to a revolving credit facility with a US bank. The revolving credit facility had a limit of $1,250, based on all inventory and equipment. The revolving credit facility was unused as at December 31, 2018 (December 31, 2017 - $1,250, unused).

25.6 Liquidity risk

Liquidity risk is defined as the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. Financial liabilities include principal and interest payments.

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

Thousands of Canadian dollars

The Corporation has financial liabilities with the following maturities:

As at December 31, 2018	**Total**	**Current less than 12 months**	**Due within 12 to 24 months**	**Due within 25 to 36 months**	**Due within 37 to 48 months**	**Due after 48 months**
Trade and other payables	**$ 10, 894**	**$ 10,894**	**$ -**	**$ -**	**$ -**	**$ -**
Long-term debt	**11,369**	**623**	**623**	**623**	**623**	**8,877**
Finance lease obligations	**7,030**	**649**	**575**	**479**	**453**	**4,874**
Total	**$ 29,293**	**$ 12,166**	**$ 1,198**	**$ 1,102**	**$ 1,076**	**$ 13,751**
As at December 31, 2017						
Trade and other payables	$ 8,737	$ 8,737	$ -	$ -	$ -	$ -
Long-term debt	11,992	623	623	623	623	9,500
Finance lease obligations	7,398	648	559	486	429	5,276
Total	$ 28,127	$ 10,008	$ 1,182	$ 1,109	$ 1,052	$ 14,776

26. 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 (Note 5.3). Details of transactions between the Corporation and other related parties are disclosed below.

26.1 Trading transactions

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

In the years ended December 31, 2018 and 2017, the Corporation had the following trading transactions with related parties:

Related party	**Nature of transactions**	**2018**	**2017**
E. Carruthers Trucking	Transportation services	**$ 2,163**	$ 1,920
Aeonian Capital Corporation	Management services	**350**	350
		$ 2,513	$ 2,270

The following related party balances were outstanding at the end of the reporting years:

Related party	**Nature of transactions**	**2018**	**2017**
E. Carruthers Trucking	Transportation services	**$ 81**	$ 68

Aeonian Capital Corporation (“Aeonian”), and its affiliates, owned 2,991,168 (2017 - 2,967,668) common shares of the Corporation representing 44.5% (2017 – 44.2%) of the 6,716,003 issued and outstanding shares as at December 31, 2018. Aeonian is controlled by C. Alan Smith, Executive Chairman of PFB. The Corporation is charged fees by Aeonian for management services including those provided by Mr. Smith. The fees are reported under administrative expenses in the consolidated statement of income.

Thousands of Canadian dollars

E. Carruthers Trucking is owned by a sibling of a member of the Board of PFB. The transactions have occurred in the normal course of operations at arm's length and are based on standard commercial terms.

26.2 Compensation of key management personnel

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

	2018	**2017**
Short-term benefits [1]	**$ 1,477**	$ 1,198
Post-employments benefits	**-**	-
Other long-term benefits	**-**	-
Share-based payments	**44**	-
Termination benefits	**-**	-
	$ 1,521	$ 1,198

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

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

27. Operating lease arrangements

Operating leases generally have varying terms of between 12 months and 15 years, with options to renew in some cases. Several leases either have rent incentives or rent escalation clauses. There are no contingent rents or sublease payments applicable to any operating lease.

The Corporation's future minimum payments under non-cancellable, operating lease arrangements for lands, buildings and equipment, as at December 31, 2018 and December 31, 2017 are as stated in the table below:

	2018	**2017**
Not later than one year	**$ 1,404**	$ 1,217
Later than one year and not later than five years	**5,011**	3,815
Later than five years	**4,966**	5,823
	$ 11,381	$ 10,855

28. Commitments and contingencies

28.1 Performance bonds

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

As at December 31, 2018, the Canadian segment did not have any performance bonds outstanding (December 31, 2017 - $nil). In the USA, performance bonds in the amount of $651 (December 31, 2017 - $598) were pledged to various government agencies as at December 31, 2018.

28.2 Expenditures for property, plant and equipment and intangible assets

Under the terms of the carefree triple net property leases with a Canadian REIT, the Corporation's subsidiary, Plasti-Fab Ltd., is responsible for all major repairs necessary to maintain the leased properties in a state of good order and condition over the duration of the leases (Note 21). As at December 31, 2018, no definitive schedule of major repairs has been determined.

Thousands of Canadian dollars

The Corporation had the following commitments for property, plant and equipment and intangible assets as at December 31, 2018 and 2017:

	As at Dec 31, 2018	As at Dec 31, 2017
Property, plant and equipment	**$ 494**	$ 273
Intangible assets	**58**	-
	$ 552	$ 273

28.3 Contingent liabilities

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

28.4 Environment

The Corporation's subsidiaries are subject to various laws, regulations, and government policies relating to health and safety, production operations, storage and transportation of goods, disposal and environmental emissions of various substances and materials, and to the protection of the environment in general.

29. Supplementary cash flow information

29.1 Changes in non-cash working capital

	2018	2017
Trade receivables	**$ (3,273)**	$ (2,166)
Inventories	**(1,640)**	12
Prepaid expenses	**100**	240
Contract cost	**52**	(130)
Trade and other payables	**2,157**	1,378
Contract liabilities	**1,306**	1,313
	$ (1,298)	$ 647

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

	2018	2017
Property, plant and equipment acquired with finance lease obligations	**$ 289**	$ 244

30. Subsequent events

Declaration of regular quarterly dividend

On February 1, 2019, the Board of Directors declared a regular quarterly dividend of $0.08 per common share payable on February 28, 2019, to shareholders of record at the close of business on February 14, 2019.

Letters of credit

Outstanding letters of credit for $1,301 remain outstanding as guarantee payments for inventory purchases.

Operating credit facility

As at January 18, 2019, the operating credit facility in Canada was increased to $17,000.

Thousands of Canadian dollars

31. Subsidiaries

Subsidiary	Principal activities	Place of incorporation and operation	Proportion of ownership interest and voting power held by the Corporation	
			December 31, 2018	**December 31, 2017**
Canada				
Plasti-Fab Ltd.	Manufacturing	Alberta, Canada	**100%**	100%
USA				
PFB America Corporation	Holding company	Delaware, USA	**100%**	100%
PFB Custom Homes Group, LLC	Design and construction services	Delaware, USA	**100%**	100%
PFB Manufacturing, LLC	Manufacturing	Delaware, USA	**100%**	100%
PFB America Real Estate, LLC	Real estate holdings	Delaware, USA	**100%**	100%

32. Approval of financial statements

The financial statements were approved by the Board of Directors and authorized for issue on March 8, 2019.