



First Quarter Report 2011

Three Month Period Ended March 31, 2011

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Management's discussion and analysis (MD&A)

The following discussion and analysis of the consolidated results of operations and financial condition of PFB Corporation ("PFB" or the "Corporation") should be read in conjunction with the Corporation's unaudited condensed consolidated financial statements for the three month periods ended March 31, 2011 and 2010 and notes thereto and in conjunction with the Corporation's annual MD&A for the year ended December 31, 2010.

PFB's condensed consolidated financial statements for the three month period ended March 31, 2011, are the first consolidated financial statements prepared in accordance with International Financial reporting Standards ("IFRS" or "GAAP"), have been prepared in accordance with International Accounting Standard ("IAS") 34, *Interim Financial Reporting* as issued by the International Accounting Standards Board ("IASB").

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

This MD&A has been prepared as of May 20, 2011. All figures in this MD&A are stated in thousands of Canadian dollars except where stated otherwise.

Advisory regarding forward looking statements

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

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

All forward-looking statements reflect management's current views as at May 20, 2011, with respect to future events, and they are subject to certain risks, uncertainties and assumptions that may cause the actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements.

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

A more detailed assessment of the risks that could cause actual results to materially differ from current expectations can be found in the Risk Management and Assessment section of PFB's MD&A included in the 2010 Annual Report.

Non-GAAP financial measures

This MD&A presents certain non-GAAP financial measures to assist readers in understanding the Corporation's performance. Non-GAAP measures that do not have a standardized meaning prescribed by GAAP and therefore they may not be comparable to similarly measures used by other reporting issuers, and they should not be construed as an alternative to other financial measures determined in accordance with GAAP.

- (a) **Gross profit** – represents sales less cost of sales.
- (b) **Gross profit margin** – represents gross profit expressed as a percentage of sales.
- (c) **Operating profit (loss)** – represents the profit (loss) from operations before investment income, finance costs, and revaluation of contingent shares.
- (d) **Cash used in operating activities** – represents cash flows from operating activities before changes in non-cash working capital and unrealized foreign exchange gains/losses relating to non-cash working capital.

(e) **Cash used in operating activities** per common share – represents cash flows from operating activities before changes in non-cash working capital and unrealized foreign exchange gains/losses relating to non-cash working capital divided by the weighted average number of common shares issued and outstanding for the period.

Consolidated financial highlights (unaudited)

| | Three Months Ended March 31 | |
|---|--------------------------------|------------|
| | 2011 | 2010 |
| Sales | \$ 15,573 | \$ 11,742 |
| Cost of sales | (13,324) | (9,732) |
| Gross profit | 2,249 | 2,010 |
| Selling and administrative expenses | (3,566) | (3,194) |
| Other gains and (losses) | (154) | (153) |
| Operating Loss | (1,471) | (1,337) |
| Revaluation of contingent shares | (98) | - |
| Investment income | 13 | 18 |
| Finance costs | (124) | (133) |
| Loss before taxes | (1,680) | (1,452) |
| Income taxes recovery | 459 | 399 |
| Loss for the period | \$ (1,221) | \$ (1,053) |
| Loss per share - \$ per share | | |
| Basic | (0.18) | (0.16) |
| Diluted | (0.18) | (0.16) |
| Cash used in operating activities | \$ (470) | \$ (247) |
| Cash used in operating activities per common share - \$ per share | (0.07) | (0.04) |

Summary of quarterly financial data

| | 2011 ¹ | 2010 ¹ | | | | 2009 ¹ | | |
|----------------------------------|-------------------|-------------------|-----------|-----------|-----------|-------------------|-----------|-----------|
| | Qtr. 1 | Qtr. 4 | Qtr. 3 | Qtr. 2 | Qtr. 1 | Qtr. 4 | Qtr. 3 | Qtr. 2 |
| Sales | \$ 15,573 | \$ 17,859 | \$ 21,794 | \$ 18,567 | \$ 11,742 | \$ 15,856 | \$ 18,834 | \$ 19,651 |
| Gross profit | 2,249 | 4,438 | 6,036 | 3,876 | 2,010 | 4,866 | 6,169 | 6,571 |
| Operating income (loss) | (1,471) | 887 | 2,412 | 559 | (1,337) | 1,401 | 2,550 | 2,940 |
| Net income (loss) | (1,221) | 509 | 1,568 | 353 | (1,053) | 1,180 | 1,594 | 1,977 |
| Earnings (loss) per share | | | | | | | | |
| Basic - \$ per share | (0.18) | 0.08 | 0.24 | 0.05 | (0.16) | 0.18 | 0.24 | 0.30 |
| Diluted - \$ per share | (0.18) | 0.08 | 0.24 | 0.05 | (0.16) | 0.18 | 0.24 | 0.30 |

¹ Amounts presented for 2011 and 2010 have been prepared in accordance with IFRS. Amounts presented for 2009 have been prepared in accordance with Canadian GAAP before the transition to IFRS.

Consolidated results of operations

Due to the adoption of IFRS effective the first quarter of 2011, all comparative figures for 2010 that were previously reported in the consolidated financial statements prepared in accordance with Canadian generally accepted accounting principles (“Canadian GAAP”) have been restated to comply with the new standards adopted. See Note 21 of the Corporation’s condensed consolidated financial statements for the three month periods ended March 31, 2011 and 2010 for further information on the transition to IFRS and its impact on the Corporation’s performance and financial position.

On transition to IFRS, the Corporation now has two reportable operating segments:

| Operating segments | Description of segments |
|--------------------------------|--|
| Canada | Manufacturing and sales operations located in Canada for expanded polystyrene (EPS) and structural panels <i>Brands:</i> PlastiSpan EPS Product Solutions; Advantage ICFS; and Insulspan SIPS |
| United States of America (USA) | Manufacturing and sales operations located in the USA for building systems and structures <i>Brands:</i> Insulspan SIPS; Riverbend Timber Framing; and Precision Craft |

Recent acquisition

The Corporation completed the acquisition of the Precision Craft Group located in Idaho, USA, effective February 1, 2011. Total purchase consideration was \$3,445 consisting of cash of \$2,447 and contingent consideration of \$968. The contingent consideration consisted of 166,667 common shares of the Corporation issued and held in an escrow account subject to an earn-out agreement with the vendor over a maximum period of five years. See Note 20 to the condensed consolidated financial statements for the three months ended March 31, 2011, for additional information concerning the acquisition. The results of the acquired companies have been included in the condensed consolidation financial statements of the Corporation since the effective date.

Sales

Sales in the first quarter increased by 32.6% to \$15,573 compared to sales of \$11,742 in the first quarter of 2010.

Gross profit

Gross profit increased by 11.9% to \$2,249 in the first quarter compared to \$2,010 in the first quarter of 2010. Gross profit margin was 14.4% in the first quarter compared to 17.1% in the first quarter of 2010. The decrease in gross profit margin in the current period was chiefly driven by elevated raw material input costs used in manufacturing.

Under IFRS, freight expenses are included in cost of sales whereas under Canadian GAAP sales were reported net of freight expenses. This has the effect of diluting the gross profit margin calculation under IFRS as compared to the equivalent calculation under Canadian GAAP.

Loss before taxes

The loss before taxes in the current period was \$1,680 as compared to a loss before taxes of \$1,452 in the first quarter of 2010. Selling, general and administrative (SG&A) expenses were \$372 higher in the current period compared to the comparative quarter in 2010. SG&A expenses in the current period included \$237 of SG&A operating expenses attributed to the newly acquired Precision Craft group along with \$64 of direct acquisition costs.

Income taxes

The loss before taxes in the current period included \$98 attributed to the revaluation of contingent shares which has no tax basis. The effective income tax rate in the first quarter of 2011 was 29.0% after adjusting for the revaluation.

Loss

The loss increased by \$168 to \$1,221 in the first quarter of 2011 as compared to a loss of \$1,053 in the comparative quarter in 2010. Basic loss per common share for the current period was \$(0.18) as compared to a loss per common share of \$(0.16) in the comparative period of 2010.

Reportable operating segments

Canada - financial highlights

| | Three month periods ended | |
|-------------------------------------|---------------------------|-----------|
| | March 31 | |
| | 2011 | 2010 |
| Sales | \$ 13,841 | \$ 10,119 |
| Cost of sales | (11,690) | (8,418) |
| Gross profit | 2,151 | 1,701 |
| Selling and administrative expenses | (2,689) | (2,479) |
| Other gains (losses) | (9) | (22) |
| Operating loss | (547) | (800) |
| Revaluation of contingent shares | (98) | - |
| Investment income | 12 | 18 |
| Finance costs | (70) | (101) |
| Loss before taxes | \$ (703) | \$ (883) |

Sales

Sales in the first quarter of 2011 increased by 36.8% to \$13,841 as compared to sales of \$10,119 in the first quarter of 2010. Most of this increase was in the province of British Columbia.

Sales of EPS foam products in other regions of Canada in the current period were consistent with sales in the comparative period. Building system product sales, focused mainly at the residential construction sector, were lower in the current period. Unfavorable weather, mainly in western regions, adversely affected sales for those products along with the effects of increased competitor activity vying to maintain sales volumes in a smaller residential construction market which has yet to recover from the recession.

Gross profit

Gross profit in the first quarter of 2011 increased by \$450 to \$2,151 as compared to gross profit of \$1,701 in the first quarter of 2010. Gross profit margin in the current period was 15.5% as compared to 16.8% in the comparative period of 2010.

Raw material input costs were higher in the current quarter than in the first quarter of 2010, which served to weaken the gross profit margin. The adverse impact of increased input costs was partially mitigated by Canadian currency appreciation. The weaker gross profit margin in the current quarter also reflected a variation in product mix compared to the prior year quarter.

Selling and administrative expenses

Selling and administrative expenses increased by 8.5% or \$210 to \$2,689 as compared to \$2,479 in the first quarter of 2010. The main cause of the increase was one-time legal fees associated with an internal corporate reorganization and the acquisition of the Precision Craft Group.

Operating loss

The operating loss for the first quarter 2011 of \$547 was an improvement of \$253 over the loss of \$800 in the first quarter of 2010. The improvement was driven by the increased sales in the current quarter which delivered incremental gross profit.

USA - financial highlights

| | Three month periods ended | |
|-------------------------------------|----------------------------------|-------------|
| | March 31 | |
| | 2011 | 2010 |
| Sales | \$ 1,732 | \$ 1,623 |
| Cost of sales | (1,634) | (1,314) |
| Gross profit | 98 | 309 |
| Selling and administrative expenses | (877) | (715) |
| Other losses | (145) | (131) |
| Operating loss | (924) | (537) |
| Investment income | 1 | - |
| Finance costs | (54) | (32) |
| Loss before taxes | \$ (977) | \$ (569) |

Sales

Sales in the first quarter of 2011 increased by 6.7% to \$1,732 as compared to sales of \$1,623 in the first quarter of 2010. Sales in the current quarter include two-months of sales reported by the newly-acquired companies which were the main reason for the reported improvement.

Sales in the United States are mostly sold into the residential home construction channel. This sector of the construction market has recently reported new construction starts which have slumped to their lowest levels in decades. The market and economic challenges in the USA are impacting customer lead generation and confirmed sales orders.

Gross profit

Gross profit in the first quarter of 2011 decreased by \$211 to \$98 as compared to gross profit of \$309 in the first quarter of 2010. Gross profit margin in the current period was 5.7% as compared to 19% in the comparative period of 2010. The deterioration in the quality of gross profit margin in the current quarter was attributable to several factors, including: lower sales of higher margin manufactured products displaced by increased sales of service related activities which attract lower margins; and under-applied overhead costs expensed in the period as result of lower than normal production volumes at all three manufacturing facilities.

Selling and administrative expenses

Selling and administrative expenses increased by \$162 to \$877 as compared to \$715 in the comparative quarter in 2010. The increase is mainly attributable to the inclusion of the acquired companies. Activities are focused on streamlining the overhead cost structure of the USA operations to align operating expenses with prevailing sales and to realize synergies from the recent acquisition.

Other losses

Other losses in the current quarter were similar to the losses in the first quarter of 2010. The losses in both years are attributable to the unrealized foreign exchange impact of a Canadian parent loan which is denominated in Canadian dollars. The progressive and consistent weakening of the U.S. dollar versus the Canadian dollar increases the value of the loan in the foreign subsidiary.

Operating loss

The operating loss for the first quarter 2011 of \$924 represented a drop of \$387 over the loss of \$537 reported for the first quarter of 2010. The deterioration was primarily driven by the disproportionate relationship between gross profit margin in the current quarter and selling and administrative expenses. This association in the first quarter which is seasonally the worst quarter for sales is not indicative of expectations in subsequent quarters of the current year.

Liquidity and capital resources

Sources of liquidity

The Corporation expects that cash, future operating cash flows, and amounts available to be drawn against approved credit facilities will enable the Corporation to finance its ongoing business requirements including working capital, financial obligations, and regular dividend payments, over the next twelve months. The Corporation's credit facilities contain certain covenants with which the Corporation was in compliance as at March 31, 2011.

Cash

Cash and cash equivalent balances as at March 31, 2011 and December 31, 2010 are as follows:

| | March 31, 2011 | December 31, 2010 |
|------------------|----------------|-------------------|
| Cash | \$ 895 | \$ 6,699 |
| Cash equivalents | - | 3,002 |
| | \$ 895 | \$ 9,701 |

In the first quarter of 2011, \$2,063 of cash was used to fund the acquisition of the Precision Craft group and \$4,958 was used to fund increases in non-cash working capital, mainly trade receivables and inventories. Increases in non-cash working capital amounts at this time in the Corporation's fiscal cycle are typical although higher than normal. (see Change in Working Capital section below).

Long-term debt

Total long-term debt of \$8,733 as at March 31, 2011, compares to \$8,883 as at December 31, 2010.

| | March 31, 2011 | December 31, 2010 |
|-------------------------------------|-----------------|-------------------|
| <u>Payable in Canadian dollars:</u> | | |
| Long-term debt | \$ 7,618 | \$ 7,780 |
| Finance lease obligations | 451 | 402 |
| <u>Payable in U.S dollars:</u> | | |
| Long-term debt | 642 | 676 |
| Finance lease obligations | 22 | 25 |
| Total long-term debt | 8,733 | 8,883 |
| Less: current portion | (956) | (948) |
| | \$ 7,777 | \$ 7,935 |

All figures in the above table are stated in Canadian dollars.

Long-term debt reduced in the current quarter as a result of normal repayments and there was no increase in long-term debt in the period. Finance lease obligations increased by \$46 which represents the net effect new finance lease obligations of \$114 for replacement automobiles less normal repayments on existing finance leases.

Change in non-cash working capital

The changes in non-cash working capital amounts in the first quarter of 2011 are shown in the following table.

| | March 31, 2011 | December 31, 2010 | Increase (Decrease) |
|--------------------------|------------------|-------------------|---------------------|
| Trade receivables | \$ 10,291 | \$ 6,861 | \$ 3,430 |
| Inventories | 9,289 | 6,976 | 2,313 |
| Income tax receivable | 418 | 167 | 251 |
| Prepaid expenses | 883 | 664 | 219 |
| Trade and other payables | (6,721) | (6,137) | (584) |
| Deferred revenue | (2,608) | (1,534) | (1,074) |
| | \$ 11,552 | \$ 6,997 | \$ 4,555 |

Note: The March 31, 2011 amounts are inclusive of non-cash working capital acquired with the Precision Craft group.

Non-cash working capital increased in the current period by \$4,555, primarily in trade receivables and inventories. Increases in these categories are typical in the first quarter as sales begin to improve and inventory feedstock is built to support a continuation of increasing sales in subsequent quarters. The increases in the current quarter were higher than normal with outstanding trade receivables reflecting stronger Canadian sales in the period and higher inventory values carried to support the large public works contract. Increasing raw material inputs costs also contributed to the increased carrying costs of inventories.

An increase in trade and other payables was commensurate with increased trading activities in Canada in the period and an increase in deferred revenue was mainly attributed to the inclusion of additional deferred revenue arising from the acquisition completed in the period.

Summary of cash flows

A summary of cash flows for the three months ended March 31, 2011 and 2010 are shown in the following table.

| | March 31, 2011 | March 31, 2010 |
|---|----------------|-----------------|
| Cash used in: | | |
| Operating activities | \$ (5,456) | \$ (4,138) |
| Investing activities | (2,657) | (777) |
| Financing activities | (654) | (622) |
| Effects of foreign exchange on cash balances | (39) | (58) |
| Decrease in cash and cash equivalents | (8,806) | (5,595) |
| Cash and cash equivalents – beginning of period | 9,701 | 10,896 |
| Cash and cash equivalents – end of period | \$ 895 | \$ 5,301 |

(a) Operating activities

Cash used in operating activities was \$5,456 in the current quarter as compared to \$4,138 in the comparative quarter of 2010. The major sources of the cash outflows in both periods were increases in non-cash working capital.

The construction industry in Canada and the USA is seasonal in nature as a significant portion of work performed by customers' who buy the Corporation's products is performed outdoors. Accordingly, a larger portion of work is generally performed in the months when weather conditions are more conducive to the work being done. This seasonality is reflected in the quarterly pattern of cash flows provided by or used in operations.

(b) Investing activities

In the first quarter of 2011, cash flows used in investing activities were \$2,657 as compared with \$777 in the comparative period of 2010. Purchases of property, plant and equipment in the current quarter were \$622 for new manufacturing and I.T. equipment which was \$153 lower than the amount of \$775 in equipment purchases in the first quarter of 2010. Proceeds from disposals of equipment amounted to \$28 in the current period.

Effective February 1, 2011, the Corporation acquired the Precision Craft group of companies based in Idaho, USA. Cash paid on acquisition net of cash acquired was \$2,063.

(c) Financing activities

Financing activities in the first quarter of 2011 were \$654, similar to \$622 in the comparative period of 2010. Repayments of long-term debt were \$247 in the current period compared to \$228 in the prior year period and a regular quarterly dividend was paid in February 2011 in the amount of \$397 was comparable to \$394 paid in February 2010.

Capital structure

The primary objective of the Corporation when managing its capital is to provide a targeted rate of return while safeguarding corporate assets and ensuring the Corporation's ability to continue as a going concern. The basic components of the Corporation's current capital structure are shareholders' equity plus long-term debt. The core of the Corporation's capital management activities is the successful management of cash.

The Corporation's capital structure as at March 31, 2011 and December 31, 2010, is outlined in the following table:

| | March 31, 2011 | December 31, 2010 |
|----------------------|-----------------------|--------------------------|
| Long-term debt | \$ 8,733 | \$ 8,883 |
| Shareholders' equity | 41,914 | 43,531 |
| | \$ 50,647 | \$ 52,414 |

Share capital

A summary of the Corporation's share capital as at March 31, 2011 and December 31, 2010 is set forth in the following table:

| | March 31, 2011 | | December 31, 2010 | |
|---|-----------------------|------------------|--------------------------|---------------|
| | (Three Months) | | (Twelve Months) | |
| | No. of Shares | Amount | No. of Shares | Amount |
| Balance, beginning of period | 6,612,836 | \$ 20,110 | 6,568,736 | \$ 19,815 |
| Issued as contingent consideration for acquisition ¹ | 166,667 | - | - | - |
| Exercise of stock options | - | - | 50,000 | 313 |
| Repurchased pursuant to a normal course issuer bid | (1,700) | (5) | (5,900) | (18) |
| Balance, end of period | 6,777,803 | \$ 20,105 | 6,612,836 | \$ 20,110 |

¹ 166,667 common shares were issued in February 2011 as contingent consideration for an acquisition. The issued common shares are held in an escrow account and their release is conditional upon the achievement of an earn-out formula by the vendor over a maximum five-year time horizon.

Share-based options

The Corporation did not grant any share options in the three months ended March 31, 2011, and no share options were exercised in the period.

Dividends

During the first quarter of 2011, the Corporation's Board of Directors declared a regular quarterly dividend of \$0.06 (2010 - \$0.06) per common share which was paid on February 28, 2011. Dividends paid by the Corporation qualify as eligible dividends and satisfy the enhanced gross-up and dividend tax credit change enacted under Canadian tax law.

Normal course issuer bid

In the three month period ended March 31, 2011, the Corporation purchased for cancellation 1,700 (2010 - Nil) of its common shares under a normal course issuer bid for an aggregate price of \$11 (2010 - \$nil), of which, \$6 (2010 - \$nil) was charged to retained earnings as premium on redemption of the common shares.

Commitments and contractual obligations

The Corporation's obligations under contractual arrangements including repayments under long-term debt arrangements, capital expenditure commitments, performance bonds, and operating lease arrangements are summarized in the Corporation's 2010 Annual Consolidated Financial Statements and Annual management's Discussion and Analysis (MD&A) for 2010.

There have been no material changes in commitments and contractual obligations in the first quarter of 2011.

Outlook for remainder of 2011

The Corporation's operations in Canada continue to reflect a stronger economic environment than that which persists in the United States, although sales in Canada have not recovered to pre-recessionary levels. Order books for products in Canada are expanding, although the timing of when orders are required for shipping can be unpredictable as numerous factors can influence job-site readiness. The strong Canadian currency continues to promote import competition from the United States into Canada by American manufacturers.

The re-focusing of operations in the United States is underway following the recent acquisition. However, the residential construction market is not expected to show tangible signs of a recovery in 2011. The niche sectors in the USA at which the Corporation's products are directed face similar challenges to those of the general residential construction market although to a somewhat lesser degree. Nonetheless, demand is sluggish and changeable.

The pricing of the Corporation's major raw materials remains uncertain. Input costs remain at elevated levels compared to one year ago despite some relief from a stronger Canadian dollar. Opportunities to pass on the impact of higher input costs through increased selling prices are limited in the current environment. A key priority is maintaining pricing discipline.

Cash flows provided by operations together with existing credit facilities are considered adequate to meet all anticipated liquidity requirements in 2011.

Disclosure controls and procedures

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

In accordance with the provisions of National Instrument 52-109 *Certification of Disclosure in Issuer's Annual and Interim Filings*, Part 14, the CEO and CFO limited the scope of their design of disclosure controls and procedures to exclude disclosure controls and procedures of the Precision Craft Group (Precision Craft) which the Corporation acquired effective February 1, 2011. Precision Craft will be included within the scope of the design of the Corporation's disclosure controls and procedures within a minimum of one year from the date of acquisition.

Subject to the limitation described in the previous paragraph, an evaluation of the effectiveness of the design and operation of the Corporation's disclosure controls and procedures was conducted as of March 31, 2011, under the supervision of the CEO and CFO. Based on this evaluation, the CEO and CFO have concluded that the Corporation's disclosure controls and procedures, as defined in National Instrument 52-109, *Certification of Disclosure in Issuers' Annual and Interim Filings*, have been designed to provide reasonable assurance that material information relating to the Corporation, including its consolidated subsidiaries, is made known to them by others in those entities, and to provide reasonable assurance that accurate and complete disclosures in annual and interim filings is completed within the time periods specified.

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

Internal controls over financial reporting

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

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

Except as noted in the next paragraph, as at March 31, 2011, the CEO and CFO assessed the effectiveness of the Corporation's internal controls over financial reporting and concluded that it was effective and that no material weaknesses in the Corporation's internal controls over financial reporting had been identified.

The Corporation continues to review the processes and controls of Precision Craft. The CEO and CFO excluded Precision Craft from their assessment of the effectiveness of the Corporation's internal controls over financial reporting for the period ended March 31, 2011, as permitted by NI 52-109 Part 14 and applicable rules with respect to newly acquired businesses. Precision Craft will be included within the scope of the design and assessment of the effectiveness of the Corporation's internal controls over financial reporting within a minimum of one year from the date of acquisition.

In order to be IFRS-compliant commencing with the issuance of the Corporation's first IFRS consolidated financial statements in the first quarter of 2011, the Corporation has developed and implemented changes to financial processes and controls, as necessary, to address the enhanced presentation and disclosure requirements of IFRS. Such changes primarily impacted the processes and procedures utilized for collecting and accumulating the additional data that is required with the expanded level of disclosure and financial reporting under IFRS. In re-designing processes, management instituted sufficient controls to ensure the accuracy, completeness and reliability of financial information and conformity with the new reporting standards.

Critical accounting policies and estimates

In preparing the condensed consolidated financial statements in conformity with IFRS, estimates and assumptions have to be made that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Estimates and assumptions are reviewed on a continuous basis and are based on management's historical experience, knowledge of current conditions and other factors believed to be reasonable under the circumstances.

Material estimates and assumptions are made with respect to establishing the following: depreciation and amortization periods; goodwill and indefinite life intangible assets; the valuation of inventories; impairment of financial assets; customer rebates; current and deferred income taxes; impairment of non-financial assets (if any); fair value and level of financial instruments; and the measurement of employee future benefits.

Related party transactions

In the first quarter of 2011, there have been no additions to the related parties disclosed in the Corporation's 2010 Annual Report and there were no significant related party transactions in the first quarter of 2011.

Risk management and assessment

Detailed descriptions of the Corporation's risk management and assessment can be found in the Corporation's Annual MD&A for 2010. There have been no material changes in the uncertainties and material risk factors facing the Corporation since December 31, 2010.

Accounting standards

International Financial Reporting Standards (IFRS)

On February 13, 2008, the Canadian Accounting Standards Board confirmed a change-over date of January 1, 2011, as the date on which all publicly accountable enterprises are required to prepare financial statements that are fully converged with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board.

The March 31, 2011, unaudited condensed consolidated financial statements are the Corporation's first consolidated financial statements prepared in accordance with IFRS as issued by the International Accounting Standards Board (IASB). The condensed consolidated financial statements present the financial results of the Corporation for the first quarter ended March 31, 2011 with comparative information for 2010.

Impact of changes in accounting standards

The changes in accounting standards as a result of the transition to IFRS and their impact on the Corporation's previously reported results of operations and financial position prepared in accordance with Canadian GAAP are presented in Note 21 to the condensed consolidated financial statements.

Note 21 includes the following reconciliations in the IFRS presentation format of the consolidated financial statements previously reported under Canadian GAAP and the consolidated financial statements prepared under IFRS at the following dates:

- The consolidated balance sheet as at January 1, 2010 (the transition date to IFRS)
- The consolidated balance sheet as at March 31, 2010
- The consolidated balance sheet as at December 31, 2010
- The consolidated statement of comprehensive income for the year ended December 31, 2010
- The consolidated statement of comprehensive income for the three months ended March 31, 2010

Notes to the reconciliations provide narrative disclosures describing differences between the standards applied by the Corporation under previously reported Canadian GAAP and IFRS.

Elected exemptions and mandatory exceptions to retrospective application of IFRS

IFRS generally requires first-time adopters of IFRS to apply IFRS fully and retrospectively. IFRS 1 First-time Adoption of International Financial Reporting Standards, allows adopters to elect certain exemptions to full retrospective application.

The Corporation applied the following optional exemptions and mandatory exceptions from full retrospective application of IFRS:

Elected exemptions

(a) Property, plant and equipment

IFRS 1 provides the option to measure property, plant and equipment at its fair value at the date of transition and using those amounts as deemed cost or using the historical valuation under the prior GAAP. The Corporation has elected to continue applying the historical valuation cost model for PP&E and has not restated PP&E to fair value under IFRS.

(b) Share-based payments

IFRS 1 provides the option to not have to retrospectively restate share-based payments that had vested or settled prior to January 1, 2010. The Corporation elected to not restate share-based payments which had vested before the transition date.

(c) Business combinations

IFRS 1 provides the option to apply IFRS 3 Business Combinations prospectively from the transition date or from a specific date prior to the transition date. The Corporation elected to not restate business combination that took place prior to the transition date.

(d) Employee benefits

IFRS 1 permits a first-time adopter to recognize all cumulative actuarial gains and losses that existed at the transition date in opening retained earnings for all employee benefit plans. The Corporation has elected to not recognize cumulative actuarial gains and losses up to the date of transition and to recognize gains and losses in future years using the corridor approach. The Corporation has elected to reset the “corridor” to zero as at the date of transition.

(e) Cumulative translation differences

IFRS 1 permits the cumulative translation gains and losses account to be reset to zero at the transition date. This provides relief from determining cumulative transition differences in accordance with IAS 21, from the date a subsidiary was acquired. The Corporation has elected to reset the cumulative translation gains and losses account to zero at the transition date.

Mandatory exceptions

(a) Estimates

IFRS-1 prohibits use of hindsight to create or revise previous estimates. The estimates made under Canadian GAAP are consistent with their application under IFRS.

Future accounting changes

The International Accounting Standards Board (“IASB”) has issued a number of new and revised International Accounting Standards, International Financial Reporting Standards, amendments and related interpretations which are effective for the Corporation’s financial year beginning on or after January 1, 2011. For the purpose of preparing and presenting the consolidated financial statements for the relevant periods, the Corporation has consistently adopted all these new standards for the relevant reporting periods.

- (a) IFRS 7 (Revised) *Financial Instruments: Disclosures* – Amendments enhancing disclosures about transfers of financial assets. IFRS 7 (Revised) is effective for annual periods beginning on or after July 1, 2011.
- (b) IFRS 9 *Financial Instrument: Classification and Measurement*. This is the first part of a new standard that will replace IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 has two measurement categories, amortized cost and fair value. All equity instruments are measured at fair value. IFRS 9 also includes guidance on financial liabilities and derecognition of financial instruments which is similar to the guidance included in IAS 39. IFRS 9 (Revised) is effective for annual periods beginning on or after January 1, 2013.
- (c) IAS 12 (Revised) *Income Taxes* – Recovery of underlying deferred income tax assets. IAS 12 (Revised) is effective for annual periods beginning on or after January 1, 2012.

The Corporation has not yet determined the impact of adopting these new standards will have on its consolidated financial statements.

The Corporation has not early adopted these standards, amendments and interpretations. However, the Corporation is currently assessing what impact the application of these standards or amendments will have on the consolidated financial statements.

Condensed Consolidated Statement of Comprehensive Income (Loss)

For the three month period ended March 31, 2011 and 2010

Unaudited - thousands of Canadian dollars, except per share amounts



| | Note | For the three month periods ended March 31 | |
|---|------|--|-------------------|
| | | 2011 | 2010 |
| Sales | | \$ 15,573 | \$ 11,742 |
| Cost of sales | | (13,324) | (9,732) |
| Gross profit | | 2,249 | 2,010 |
| Selling and administrative expenses | | (3,566) | (3,194) |
| Other gains and (losses) | 5 | (154) | (153) |
| Operating Loss | | (1,471) | (1,337) |
| Revaluation of contingent shares | 20 | (98) | - |
| Investment income | | 13 | 18 |
| Finance costs | | (124) | (133) |
| Loss before taxes | | (1,680) | (1,452) |
| Income taxes recovery | | 459 | 399 |
| Loss for the period | | (1,221) | (1,053) |
| Other comprehensive income, net of income tax | | | |
| Exchange differences on translating foreign operations (net of tax \$nil) | | 12 | 26 |
| Total comprehensive loss for the period | | \$ (1,209) | \$ (1,027) |
| Loss per share - \$ per share | | | |
| Basic | 6 | (0.18) | (0.16) |
| Diluted | 6 | (0.18) | (0.16) |

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

Condensed Consolidated Balance Sheets

As at March 31, 2011, December 31, 2010 and January 1, 2010

Unaudited - thousands of Canadian dollars



| | Note | March 31, 2011 | December 31, 2010 | January 1, 2010 |
|---|------|------------------|-------------------|------------------|
| ASSETS | | | | |
| Current assets | | | | |
| Cash and cash equivalents | | \$ 895 | \$ 9,701 | \$ 10,896 |
| Trade receivables | 11 | 10,097 | 6,784 | 5,892 |
| Inventories | 10 | 9,289 | 6,976 | 6,257 |
| Income taxes recoverable | | 418 | 167 | 276 |
| Prepaid expenses | | 883 | 664 | 648 |
| Total current assets | | 21,582 | 24,292 | 23,969 |
| Non-current assets | | | | |
| Long term trade receivables | 11 | 194 | 77 | - |
| Property, plant and equipment | 7 | 37,704 | 36,543 | 37,702 |
| Intangible assets | 8 | 1,491 | 150 | 245 |
| Goodwill | 9 | 1,677 | 580 | 580 |
| Accrued benefit asset | 15 | 130 | 130 | 54 |
| Deferred income tax assets | | 547 | 573 | 1,080 |
| Total non-current assets | | 41,743 | 38,053 | 39,661 |
| Total assets | | \$ 63,325 | \$ 62,345 | \$ 63,630 |
| LIABILITIES | | | | |
| Current Liabilities | | | | |
| Trade and other payables | | \$ 6,721 | \$ 6,137 | \$ 7,016 |
| Deferred revenue | | 2,608 | 1,534 | 1,504 |
| Current portion of long-term debt | 14 | 956 | 948 | 919 |
| Total current liabilities | | 10,285 | 8,619 | 9,439 |
| Non-current liabilities | | | | |
| Long-term debt | 14 | 7,777 | 7,935 | 8,744 |
| Contingent consideration | 20 | 1,067 | - | - |
| Deferred income tax liabilities | | 2,282 | 2,260 | 2,055 |
| Total non-current liabilities | | 11,126 | 10,195 | 10,799 |
| Total liabilities | | 21,411 | 18,814 | 20,238 |
| SHAREHOLDERS' EQUITY | | | | |
| Common shares | 12 | 20,105 | 20,110 | 19,815 |
| Contributed surplus | | 384 | 384 | 365 |
| Foreign currency translation reserve | | 57 | 45 | - |
| Retained earnings | | 21,368 | 22,992 | 23,212 |
| Shareholders' equity | | 41,914 | 43,531 | 43,392 |
| Total liabilities and shareholders' equity | | \$ 63,325 | \$ 62,345 | \$ 63,630 |

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

Condensed Consolidated Statement of Changes in Equity

As at March 31, 2011 and 2010, December 31, 2010 and January 1, 2010

Unaudited - thousands of Canadian dollars



| | Common shares | | | Contributed surplus ² | Foreign currency translation reserve | Retained earnings | Total |
|---|---------------|------------------|------------------|----------------------------------|--------------------------------------|-------------------|------------------|
| | Note | No. of Shares | Shares capital | | | | |
| Balance at January 1, 2010 | | 6,568,736 | \$ 19,815 | \$ 365 | \$ - | \$ 23,212 | \$ 43,392 |
| Loss for the period | | - | - | - | - | (1,053) | (1,053) |
| Other comprehensive income for the period, net of income tax | | - | - | - | 26 | - | 26 |
| Total comprehensive income for the period | | - | - | - | 26 | (1,053) | (1,027) |
| Payment of dividends | | - | - | - | - | (394) | (394) |
| Share-based payment expense | | - | - | 29 | - | - | 29 |
| Balance at March 31, 2010 | | 6,568,736 | 19,815 | 394 | 26 | 21,765 | 42,000 |
| Profit for the period | | - | - | - | - | 2,430 | 2,430 |
| Other comprehensive income for the period, net of tax | | - | - | - | 19 | - | 19 |
| Total comprehensive income for the period | | - | - | - | 19 | 2,430 | 2,449 |
| Payment of dividends | | - | - | - | - | (1,188) | (1,188) |
| Share-based payment expense | | - | - | 38 | - | - | 38 |
| Repurchased pursuant to normal course issuer bid | | (5,900) | (18) | - | - | (15) | (33) |
| Exercise of share options | | 50,000 | 313 | (48) | - | - | 265 |
| Balance at December 31, 2010 | | 6,612,836 | 20,110 | 384 | 45 | 22,992 | 43,531 |
| Loss for the period | | - | - | - | - | (1,221) | (1,221) |
| Other comprehensive income for the period, net of tax | | - | - | - | 12 | - | 12 |
| Total comprehensive income for the period | | - | - | - | 12 | (1,221) | (1,209) |
| Payment of dividends | 12 | - | - | - | - | (397) | (397) |
| Issued as contingent consideration for acquisition ¹ | 20 | 166,667 | - | - | - | - | - |
| Repurchased pursuant to normal course issuer bid | 12 | (1,700) | (5) | - | - | (6) | (11) |
| Balance at March 31, 2011 | | 6,777,803 | \$ 20,105 | \$ 384 | \$ 57 | \$ 21,368 | \$ 41,914 |

¹ 166,667 common shares were issued in February 2011 as contingent consideration for an acquisition. The issued common shares are held in an escrow account and will be released upon achievement by the vendor of an earn-out formula (see Note 20).

² Contributed surplus represents equity-settled employee benefits reserve which relates entirely to share options vested.

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

Condensed Consolidated Statement of Cash Flows

For the three month periods ended March 31, 2011 and 2010

Unaudited - thousands of Canadian dollars



| | Note | March 31, 2011 | March 31, 2010 |
|--|------|----------------|-----------------|
| CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES | | | |
| Loss for the period | | \$ (1,221) | \$ (1,053) |
| Adjustments for items not affecting cash and cash equivalents: | | | |
| Depreciation and amortization expense: | | | |
| Cost of sales | 7 | 643 | 628 |
| Selling and administrative expense | 7 | 127 | 118 |
| Gain on disposal of property, plant and equipment | 7 | (19) | (3) |
| Share-based payment expense | | - | 29 |
| Revaluation of contingent consideration | 20 | 98 | - |
| Deferred income tax | | (301) | (137) |
| Unrealized foreign exchange loss | | 203 | 171 |
| | | (470) | (247) |
| Changes in non-cash working capital | 19 | (4,958) | (3,891) |
| Unrealized foreign exchange loss relating to non-cash working | | (28) | - |
| Net cash used in operating activities | | (5,456) | (4,138) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Purchase of property, plant and equipment | 7 | (622) | (775) |
| Purchase of intangible assets | 8 | - | (5) |
| Cash paid on acquisition (net of cash acquired) | 20 | (2,063) | - |
| Proceeds from disposal of property, plant and equipment | 7 | 28 | 3 |
| Net cash used in investing activities | | (2,657) | (777) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Repayment of long-term debt | | (247) | (228) |
| Dividends paid | 12 | (397) | (394) |
| Repurchase of common shares | 12 | (10) | - |
| Net cash used in financing activities | | (654) | (622) |
| Effects of exchange rate changes on the balance of cash held in foreign currencies | | (39) | (58) |
| Net decrease in cash and cash equivalents | | (8,806) | (5,595) |
| Cash and cash equivalents at the beginning of the period | | 9,701 | 10,896 |
| Cash and cash equivalents at the end of the period | | \$ 895 | \$ 5,301 |

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

Notes to the Unaudited Condensed Consolidated Financial Statements

For the three months ended March 31, 2011

Unaudited - thousands of Canadian dollars



1. General information

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

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

2. Significant accounting policies

2.1 Statement of compliance

The unaudited condensed consolidated financial statements for the three months ended March 31, 2011, have been prepared in accordance with International Accounting Standard (IAS) 34 *Interim Financial Reporting* using the accounting policies described herein that the Corporation expects to adopt in its consolidated financial statements for the year ending December 31, 2011.

These are the Corporation’s first unaudited condensed consolidated financial statements reported under IFRS including IFRS 1 *First Time Adoption of IFRS* (“IFRS 1”). The unaudited condensed consolidated financial statements should be read in conjunction with the Corporation’s audited financial statements for the year ended December 31, 2010, which were prepared in accordance with Canadian Generally Accepted Accounting Principles (“GAAP”).

An explanation of how the transition from Canadian GAAP to IFRS as at January 1, 2010, (the transition date) has affected the reported balance sheet position, financial performance and cash flows of the Corporation, including the effects of mandatory exceptions and optional exemptions under IFRS 1 is provided in Note 21.

The unaudited condensed consolidated financial statements were authorized for issuance by the Corporation’s Board of Directors on May 26, 2011.

2.2 Basis of preparation

The unaudited condensed consolidated financial statements were prepared on a historical cost basis except for certain financial instruments 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 unaudited condensed consolidated financial statements are presented in Canadian dollars.

The accounting policies set out below have been applied consistently in the preparation of the unaudited condensed consolidated financial statements for all periods presented, including the presentation of the opening balance sheet as at January 1, 2010, except for certain mandatory exceptions and optional exemptions taken pursuant to IFRS 1 as described in Note 21. Standards and guidelines not effective in the current reporting period are described in Note 3 below.

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

The unaudited condensed consolidated financial statements include the accounts of the Corporation and its subsidiaries in accordance with IAS 27 *Consolidated and Separate Financial Statements*. All inter-company accounts and transactions are eliminated upon consolidation. Income and expenses of subsidiaries acquired or disposed of during the year are included in the condensed consolidated statement of comprehensive income (loss) from the effective date of acquisition and up to the effective date of disposal, as appropriate.

All subsidiaries are wholly-owned by the Corporation. Therefore, there are no non-controlling interests in any subsidiaries of the Corporation.

Notes to the Unaudited Condensed Consolidated Financial Statements

For the three months ended March 31, 2011

Unaudited - thousands of Canadian dollars



2.4 Business combinations

The Corporation uses the acquisition method of accounting for business combinations. The consideration transferred in a business combination is measured at fair value for the assets transferred, liabilities incurred and the equity interests issued by the Corporation. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are recognized in profit or loss as incurred.

At the acquisition date, identifiable assets acquired and liabilities assumed are measured initially at their fair value at the acquisition date. The excess of the total of the consideration transferred and the acquisition date fair value of any previous equity interest in the acquiree over the fair value of the Corporation's share of identifiable net assets acquired is recorded as goodwill. If this amount is less than the fair value of the net assets of the acquiree, such as in the case of a bargain purchase, the difference is recognized immediately in profit or loss.

When the consideration transferred by the Corporation in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and is included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which is the earlier of one year from the acquisition date or when the Corporation has all information necessary to finalize the acquisition) about facts and circumstances that existed at the acquisition date. The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not re-measured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is re-measured at subsequent reporting dates in accordance with IAS 39 *Financial Instruments: Recognition and measurement*, or IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, as appropriate, with the corresponding gain or loss being recognized in profit or loss.

The Corporation has no non-controlling interests.

2.5 Revenue Recognition

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

Sales revenue is recognized upon shipment of products, which is the date ownership risks and benefits transfer to the customer, and the collection of receivables is reasonably assured. Sales revenue is reported net of any customer discounts and rebates, where applicable. Sales contracts for the sale of products that involve custom manufacturing require customers to sign a formal sales agreement which typically requires deposits and/or progress payments to be made at various pre-determined as outlined in the contracts. All deposits and progress payments received are classified as deferred revenue on the consolidated balance sheet until such time the project is completely manufactured and shipped to the customer.

Investment 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. Investment income represents interest income which is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

2.6 Cash and cash equivalents

Cash and cash equivalents consist of highly liquid marketable investments with an original maturity date of 90 days or less. Cash equivalents are designated at fair value through profit or loss.

2.7 Inventories

Inventories, which comprise raw materials and supplies, work-in-progress and finished products, are carried at the lower of cost and net realizable value. Cost is determined using the weighted average cost method and includes the cost of purchase, cost of conversion and other costs required to bring the inventories to their present location and condition. Net realizable value is determined as selling price less the cost to sell. The cost of work-in-process and finished product inventories include 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.

Notes to the Unaudited Condensed Consolidated Financial Statements

For the three months ended March 31, 2011

Unaudited - thousands of Canadian dollars



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

2.8 Property, plant and equipment (PP&E)

PP&E, including equipment under capital leases, are carried at cost less accumulated depreciation and any impairment losses. Gains and losses, determined as the difference between sales proceeds and the carrying amount of the asset, arising on the disposal of individual assets are recognized in earnings in the period of disposal.

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.

Estimated useful lives are as follows:

| Property, plant and equipment | Estimated Useful Lives |
|--------------------------------------|--|
| Freehold land | Unlimited useful life and not depreciated |
| Buildings | 15 to 40 years |
| Plant and equipment | 3 to 20 years |
| Equipment under finance lease | Lesser of expected useful life and the term of the lease |
| Assets under construction | Depreciation commences when the asset is available for use as intended by management |

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 the derecognition of an item of PP&E measured as the difference between the net sales proceeds and the carrying amount of the asset, is recognized in profit or loss.

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

2.9 Borrowing costs

Borrowing costs attributable to the acquisition, construction or production of qualifying asset(s) are added to the cost of those assets for periods which pre-cede the dates the asset(s) are available for their intended use. All other borrowing costs are recognized as finance costs in the period in which they are incurred. No borrowing costs have been capitalized in PP&E.

2.10 Leasing

Leases are classified as either finance or operating leases. Leases that transfer substantially all of the risks and benefits of ownership to the Corporation are capitalized as finance leases within PP&E and long-term debt. All other leases are recorded as operating leases and expensed as incurred.

2.11 Intangible assets

Intangible assets with finite useful lives that are acquired separately are measured at cost less accumulated amortization and any impairment losses. The Corporation assesses each intangible asset for legal, regulatory, contractual, competitive or other factors to determine if the expected useful life is finite. Intangible assets with a finite life are amortized over the estimated useful lives of the related assets on a straight line basis.

| Intangible asset | Estimated Useful Lives |
|---------------------------|---|
| Patents | 17 years |
| Product development costs | 3 years |
| Software | 3 years |
| Registered trade names | Indefinite life – not amortized |
| Order backlog | Over the lives of the contracts (up to 3 years) |
| Non-compete agreement | 2 years commencing in 2013 when contract becomes active |

Notes to the Unaudited Condensed Consolidated Financial Statements

For the three months ended March 31, 2011

Unaudited - thousands of Canadian dollars



Intangible assets with indefinite lives are measured at cost less any 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 (see Note 2.13 for policy on impairment of non-financial assets).

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 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 or disposal. Any gain or loss arising from derecognition 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.

2.12 Goodwill

Goodwill arising in a business combination is recognized as an asset at the date that control is acquired. Goodwill is measured as the excess of the sum of the fair value of the consideration transferred over the fair value of the identifiable assets less the fair value of the liabilities assumed. Goodwill is not amortized.

For the purposes of impairment testing, goodwill is allocated to each of the Corporation's cash-generating units that are expected to benefit from the synergies of the combination. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the unit may be impaired. If the recoverable amount of the cash-generating unit 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 losses for goodwill are recognized directly in profit or loss in the condensed consolidated statement of comprehensive income (loss).

2.13 Impairment of non-financial assets

At each reporting date, the Corporation reviews the carrying amounts of its non-financial assets, including PP&E, and intangible assets and goodwill to determine whether there is any indication of impairment. Goodwill and intangible assets with indefinite useful lives are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired. Where such impairment exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax 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.

Where a reasonable and consistent basis of allocation can be identified, corporate assets are allocated to 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.

If the recoverable amount of an asset or group of assets is estimated to be less than its carrying amount, the carrying amount of the asset or group of assets is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset or group of assets is increased to the extent that the carrying value of the underlying assets does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment had been recognized. Impairment reversals, other than goodwill impairment which cannot be reversed, are recognized in operating income in the period in which they occur.

Notes to the Unaudited Condensed Consolidated Financial Statements

For the three months ended March 31, 2011

Unaudited - thousands of Canadian dollars



2.14 Foreign currency translation

The Corporation's primary economic environment in which the Corporation operates its businesses is Canada. The unaudited condensed consolidated financial statements are presented in Canadian dollars, which is the Corporation's presentation currency. Monetary balance sheet amounts denominated in a non-functional currency are translated using exchange rates at the reporting period dates. Gains and losses arising from this translation are included in profit or loss. Non-monetary assets and liabilities denominated in a non-functional currency are recorded at their historical exchange rate on the transaction date.

The Corporation's subsidiaries located in the United States have a functional currency of U.S. dollars and their financial statements are translated into Canadian dollars at the reporting date exchange rate for assets and liabilities, and at the monthly average exchange rate for revenues and expenses. Equity balance sheet amounts denominated in U.S. dollars are translated using historical exchange rates. Unrealized gains and losses resulting from this translation are included in other comprehensive income.

2.15 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 an outflow of resources 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 period, 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.

2.16 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. Fair values are based on quoted market prices from active markets, where available, otherwise fair values are estimated using valuation methodologies. Subsequent measurement of financial instruments is based on their classification and, except in limited circumstances; the classification of financial instruments is not subsequently changed.

Financial instruments are classified into one of the following categories:

| Classification | Financial Instruments Held | Measurement |
|---|---|--------------------|
| Financial assets and liabilities carried at fair value through profit or loss ("FVTPL") | Cash and cash equivalents Contingent consideration | Fair value |
| Loans and receivables | Trade and other receivables | Amortized cost |
| Financial assets held to maturity | None | Amortized cost |
| Financial assets available for sale | None | Amortized cost |
| Other financial liabilities | Trade and other payables Long-term debt | Amortized cost |

All financial instruments in FVTPL are classified as held for trading and no financial instruments have been designated as FVTPL.

Realized and unrealized gains and losses from financial assets and liabilities carried at fair value through profit or loss are recognized in profit or loss in the periods such gains and/or losses arise.

The effective interest rate method is a method of calculating the amortized cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the debt instrument or where appropriate, a shorter period, to the net carrying amount on initial recognition.

Notes to the Unaudited Condensed Consolidated Financial Statements

For the three months ended March 31, 2011

Unaudited - thousands of Canadian dollars



Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Generally, the carrying amount of the financial asset is reduced by the impairment loss.

The Corporation derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. The Corporation derecognizes a financial liability when, and only when, the Corporation's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

Transaction costs other than those related to financial instruments classified as fair value through profit or loss, which are expensed as incurred, are capitalized to the carrying amount of the instrument and amortized using the effective interest rate method.

2.17 Derivative instruments

Financial and non-financial derivative instruments in the form of futures contracts, options contracts and forward contracts mitigate current and anticipated exposure to fluctuations in commodity prices and foreign currency exchange rates. The Corporation's policies prohibit the use of any derivative instruments for trading or speculative purposes.

Any financial derivative instruments are recorded at fair value on the consolidated balance sheet. Fair values are based on quoted market prices from active markets, where available, otherwise fair values are estimated using valuation methodologies.

Financial derivative instruments are recorded in current or non-current assets and liabilities based on their remaining terms to maturity. All changes in fair values of the derivative instruments are recorded in net income unless the derivative qualifies and is effective as a hedging instrument in a designated hedging relationship. The Corporation's contingent shares are recorded as a non-current liability on the consolidated balance sheet. The contingent shares were issued in a business combination.

2.18 Impairment of financial assets

The Corporation assesses at each reporting period date whether there is objective evidence that a financial asset or group of financial assets is impaired.

If there is objective evidence that an impairment loss on loans and receivables and any held-to-maturity investments carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of loss is recognized in profit or loss. Objective evidence of financial assets carried at amortized cost exists if the counterparty is experiencing significant financial difficulty, there is a breach of contract, or it is probable that the counterparty will enter into bankruptcy or financial reorganization.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed and any subsequent reversal is recognized in profit or loss, to the extent that the carrying amount of the asset does not exceed its amortized cost at the reversal date.

2.19 Income taxes

Income tax expense or recovery comprises current amounts of income taxes payable or receivable and deferred income taxes.

Current income tax expense is the expected tax payable on taxable income for the period using tax rates substantively enacted at the reporting date and any adjustment to taxes payable in respect of previous years.

Deferred income tax assets and liabilities are recognized for temporary differences between the carrying amounts of assets and liabilities in the condensed consolidated financial statements and the corresponding tax bases used in the computation of taxable income. Deferred income tax liabilities are generally recognized for all taxable temporary differences. Deferred income 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 income tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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A deferred income tax asset is recognized for unused tax losses and credits to the extent that it is probable that future taxable income will be available against which they can be utilized. Deferred income tax assets are reviewed at each reporting period and are reduced to the extent that it is no longer probable that the related tax benefit will be utilized. Deferred income tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Corporation intends to settle its current tax assets and liabilities on a net basis.

Deferred income tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Corporation is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Current and deferred income taxes relating to items recognized directly in equity or other comprehensive income are recognized in equity or other comprehensive income and not in profit or loss. Where current tax or deferred income taxes arise from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

2.20 Share-based compensation

The Corporation has a share option plan for directors, officers, employees and consultants. The Corporation uses the fair value method of accounting for such awards. Under the fair value method, the Corporation measures compensation cost attributable to all share options at fair value at the grant date using a Black-Scholes option pricing model and expenses the fair value on a straight-line basis over their respective vesting period with a corresponding increase to contributed surplus. Upon the exercising of share options, the Corporation records consideration received, together with amounts previously recognized in stock based expense, as an increase in share capital. The Corporation accounts for actual forfeitures as they occur.

2.21 Critical accounting, estimates and assumptions

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Estimates and assumptions are reviewed on a continuous basis and are based on management's historical experience, knowledge of current conditions and other factors believed to be reasonable under the circumstances.

Material estimates and assumptions are made with respect to establishing the following: depreciation and amortization periods; goodwill and indefinite life intangible assets; the valuation of inventories; impairment of financial assets; customer rebates; current and deferred income taxes; impairment of non-financial assets (if any); fair value and level of financial instruments; and the measurement of employee future benefits.

2.22 Employee benefit plan

The Corporation has a defined benefits 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 Canada Revenue Agency and is funded in accordance with applicable legislation.

The Plan's assets are held by an independent trustee and monthly contributions are paid into the Plan by the Corporation based on amounts determined by an independent actuary using assumptions approved by management. Actuarial valuations are currently performed annually by a qualified actuary, typically at March 31 and updated at December 31. The plan assets are invested in marketable securities and the fair value can be determined on a frequent basis. Future approved benefit increases are used to determine the accrued benefit obligation. The accrued benefit obligation and current service cost are calculated using the projected benefit method pro-rated on service. Past services cost arising from plan amendments, and net actuarial gains and loss that exceed 10% of the greater of the accrued benefit obligation and fair value of plan assets, are expensed in equal amount over the expected average remaining service life of the employee group.

The accrued benefit asset recognized on the consolidated balance sheet is representative of contributions (normal service plus special) being made by the Corporation exceeding its pension expense.

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2.23 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 period.

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 a period 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 period. 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.

3. Future accounting changes

The International Accounting Standards Board (“IASB”) has issued a number of new and revised International Accounting Standards, International Financial Reporting Standards, amendments and related interpretations which are effective for the Corporation’s financial year beginning on or after January 1, 2011. For the purpose of preparing and presenting the consolidated financial statements for the relevant periods, the Corporation has consistently adopted all these new standards for the relevant reporting periods.

- IFRS 7 (Revised) *Financial Instruments: Disclosures* – Amendments enhancing disclosures about transfers of financial assets. IFRS 7 (Revised) is effective for annual periods beginning on or after July 1, 2011.
- IFRS 9 *Financial Instrument: Classification and Measurement*. This is the first part of a new standard that will replace IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 has two measurement categories, amortized cost and fair value. All equity instruments are measured at fair value. IFRS 9 also includes guidance on financial liabilities and derecognition of financial instruments which is similar to the guidance included in IAS 39. IFRS 9 (Revised) is effective for annual periods beginning on or after January 1, 2013.
- IAS 12 (Revised) *Income Taxes* – Recovery of underlying deferred income tax assets. IAS 12 (Revised) is effective for annual periods beginning on or after January 1, 2012.

The Corporation has not yet determined the impact of adopting these new standards will have on its consolidated financial statements.

The Corporation has not early adopted these standards, amendments and interpretations. However, the Corporation is currently assessing what impact the application of these standards or amendments will have on the consolidated financial statements.

4. Segment information

The Corporation has two reportable operating segments (Canada and the United States of America (the “USA”)) and each segment mirrors the Corporation’s internal reporting systems.

The Corporation’s chief operating decision makers evaluate segment performance on the basis of profit or loss before taxes, as reported to internal management via segment managers, on a periodic basis. This performance measure is considered to be the most relevant in evaluating the results of each segment.

Segment sales reported below represents revenue generated from external customers. There were inter-segment sales in the current year (see supplemental disclosure below). Segment results and assets include items directly attributable to each segment as well as items that can be allocated on a reasonable basis. There are varying levels of integration between each segment. This integration includes shared expenses relating to certain administrative services. Inter segment transactions are accounted for at the transaction amounts as if those transactions were with external parties.

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Information regarding each reportable operating segment is set out below:

| | Three month period ended March 31, 2011 | | | Three month period ended March 31, 2010 | | |
|---|--|----------|------------|--|----------|------------|
| | Canada | USA | Total | Canada | USA | Total |
| Sales | \$ 13,841 | \$ 1,732 | \$ 15,573 | \$ 10,119 | \$ 1,623 | \$ 11,742 |
| Cost of sales | (11,690) | (1,634) | (13,324) | (8,418) | (1,314) | (9,732) |
| Gross profit | 2,151 | 98 | 2,249 | 1,701 | 309 | 2,010 |
| Selling and administrative expenses | (2,689) | (877) | (3,566) | (2,479) | (715) | (3,194) |
| Other gains and (losses) | (9) | (145) | (154) | (22) | (131) | (153) |
| Operating Loss | (547) | (924) | (1,471) | (800) | (537) | (1,337) |
| Revaluation of contingent shares | (98) | - | (98) | - | - | - |
| Investment income | 12 | 1 | 13 | 18 | - | 18 |
| Finance costs | (70) | (54) | (124) | (101) | (32) | (133) |
| Loss before taxes | \$ (703) | \$ (977) | \$ (1,680) | \$ (883) | \$ (569) | \$ (1,452) |
| Segment assets | 54,067 | 9,258 | 63,325 | 54,535 | 5,624 | 60,159 |
| Segment liabilities | (17,332) | (4,079) | (21,411) | (14,895) | (3,264) | (18,159) |
| Additions to non-current assets: | | | | | | |
| Property, plant and equipment | 616 | 6 | 622 | 765 | 10 | 775 |
| Intangible assets | - | 1,406 | 1,406 | - | 5 | 5 |
| Goodwill | - | 1,097 | 1,097 | - | - | - |
| Supplementary information: | | | | | | |
| Depreciation and amortization: | | | | | | |
| Cost of sales | 569 | 74 | 643 | 567 | 61 | 628 |
| Selling and administrative expenses | 100 | 27 | 127 | 113 | 5 | 118 |
| Inter-segment sales | 184 | 82 | 266 | 265 | 29 | 294 |
| Inter-segment interest income (expense) | 48 | (48) | - | 25 | (25) | - |

The accounting policies of the reportable segments are the same as the Corporation's accounting policies described in Note 2.

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5. Other gains and losses

| | Three month period ended March 31, 2011 | Three month period ended March 31, 2010 |
|---|--|--|
| Foreign exchange loss | \$ (173) | \$ (127) |
| Share-based payment expense | - | (29) |
| Gain on disposal of property, plant and equipment | 19 | 3 |
| | \$ (154) | \$ (153) |

6. Loss per share

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

| | Three month period ended March 31, 2011 | Three month period ended March 31, 2010 |
|--|--|--|
| Loss for the period | \$ (1,221) | \$ (1,053) |
| Weighted average number of common shares outstanding - basic | 6,612,063 | 6,568,736 |
| Effect of dilutive stock options ¹ | - | 7,936 |
| Weighted average number of common shares outstanding - diluted | 6,612,063 | 6,576,672 |
| Loss per share: | | |
| Basic | \$ (0.18) | \$ (0.16) |
| Diluted | \$ (0.18) | \$ (0.16) |

¹ 150,000 stock options granted in the third quarter of 2007 were anti-dilutive as at March 31, 2010, and, therefore, they have not been included in the calculation of shares assumed issued and shares assumed purchased in the above table. In March 2011, 166,667 common shares were issued as contingent consideration as part of the acquisition of the Precision Craft companies. The common shares are held in an escrow account and they have been excluded in the shares assumed issued in the above table as they were anti-dilutive.

7. Property, plant and equipment

| | As at March 31, 2011 | As at December 31, 2010 | As at January 1, 2010 |
|-------------------------------|-------------------------|----------------------------|--------------------------|
| Carrying amounts of: | | | |
| Freehold land | \$ 5,149 | \$ 5,160 | \$ 5,185 |
| Buildings | 17,726 | 17,708 | 16,891 |
| Plant and equipment | 13,689 | 13,154 | 14,618 |
| Equipment under finance lease | 526 | 469 | 469 |
| Assets under construction | 614 | 52 | 539 |
| | \$ 37,704 | \$ 36,543 | \$ 37,702 |

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| Cost | Freehold land | Buildings | Plant and equipment | Equipment under finance lease | Assets under construction | Total |
|--|-----------------|------------------|---------------------|-------------------------------|---------------------------|------------------|
| Balance at January 1, 2010 | \$ 5,185 | \$ 24,775 | \$ 31,415 | \$ 610 | \$ 539 | \$ 62,524 |
| Additions | - | 6 | 9 | 258 | 1,554 | 1,827 |
| Disposal of PP&E assets | - | (2) | (904) | (105) | - | (1,011) |
| Transfer between asset groups | - | 1,853 | 182 | 6 | (2,041) | - |
| Effect of foreign currency exchange differences | (25) | (116) | (80) | (2) | - | (223) |
| Balance at December 31, 2010 | 5,160 | 26,516 | 30,622 | 767 | 52 | 63,117 |
| Additions | - | - | - | 114 | 616 | 730 |
| Disposal of PP&E assets | - | - | (81) | (18) | - | (99) |
| Acquisition through business combination (Note 20) | - | 304 | 968 | - | 6 | 1,278 |
| Transfer between asset groups | - | - | 60 | - | (60) | - |
| Effect of foreign currency exchange differences | (11) | (60) | (66) | (1) | - | (138) |
| Balance at March 31, 2011 | \$ 5,149 | \$ 26,760 | \$ 31,503 | \$ 862 | \$ 614 | \$ 64,888 |

| Accumulated Depreciation | Freehold land | Buildings | Plant and equipment | Equipment under finance lease | Assets under construction | Total |
|---|---------------|-----------------|---------------------|-------------------------------|---------------------------|------------------|
| Balance at January 1, 2010 | \$ - | \$ 7,884 | \$ 16,797 | \$ 141 | \$ - | \$ 24,822 |
| Depreciation expense | - | 1,022 | 1,726 | 217 | - | 2,965 |
| Eliminated on disposal of PP&E assets | - | (2) | (906) | (57) | - | (965) |
| Effect of foreign currency exchange differences | - | (96) | (149) | (3) | - | (248) |
| Balance at December 31, 2010 | - | 8,808 | 17,468 | 298 | - | 26,574 |
| Depreciation expense | - | 257 | 470 | 55 | - | 782 |
| Eliminated on disposal of PP&E assets | - | - | (75) | (16) | - | (91) |
| Effect of foreign currency exchange differences | - | (31) | (49) | (1) | - | (81) |
| Balance at March 31, 2011 | \$ - | \$ 9,034 | \$ 17,814 | \$ 336 | \$ - | \$ 27,184 |

Depreciation commences when assets are available for use. Depreciation expense for the three month period ended March 31, 2011 in the amount of \$635 (2010 - \$589) is included in cost of sales, with an amount of \$119 (2010 - \$93) included in selling and administrative expenses.

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8. Intangible assets

| | As at March 31, 2011 | As at December 31, 2010 | As at January 1, 2010 |
|-----------------------------|-------------------------|----------------------------|--------------------------|
| Carrying amounts of: | | | |
| Patents | \$ 45 | \$ 46 | \$ 50 |
| Product development costs | 33 | 41 | 132 |
| Software | 329 | 63 | 63 |
| Registered trade name | 914 | - | - |
| Order backlog | 143 | - | - |
| Non-compete agreement | 27 | - | - |
| | \$ 1,491 | \$ 150 | \$ 245 |

| Cost | Patents | Product development costs | Software | Registered trade names | Order backlog | Non-compete agreement | Total |
|--|--------------|---------------------------|-----------------|------------------------|---------------|-----------------------|-----------------|
| Balance at January 1, 2010 | \$ 70 | \$ 915 | \$ 1,825 | \$ - | \$ - | \$ - | \$ 2,810 |
| Additions | - | - | 68 | - | - | - | 68 |
| Disposal of intangible assets | - | - | - | - | - | - | - |
| Effect of foreign currency exchange | - | (23) | (11) | - | - | - | (34) |
| Balance at December 31, 2010 | 70 | 892 | 1,882 | - | - | - | 2,844 |
| Additions | - | - | - | - | - | - | - |
| Acquisitions through business combinations (Note 20) | - | - | 300 | 942 | 148 | 28 | 1,418 |
| Disposal of intangible assets | - | - | - | - | - | - | - |
| Effect of foreign currency exchange | - | (6) | (10) | (28) | (5) | (1) | (50) |
| Balance at March 31, 2011 | \$ 70 | \$ 886 | \$ 2,172 | \$ 914 | \$ 143 | \$ 27 | \$ 4,212 |

| Accumulated Amortization | Patents | Product development costs | Software | Registered trade names | Order backlog | Non-compete agreement | Total |
|---|--------------|---------------------------|-----------------|------------------------|---------------|-----------------------|-----------------|
| Balance at January 1, 2010 | \$ 20 | \$ 783 | \$ 1,762 | \$ - | \$ - | \$ - | \$ 2,565 |
| Amortization expense | 4 | 122 | 60 | - | - | - | 186 |
| Eliminated on disposal of intangible assets | - | - | - | - | - | - | - |
| Effect of foreign currency exchange | - | (54) | (3) | - | - | - | (57) |
| Balance at December 31, 2010 | 24 | 851 | 1,819 | - | - | - | 2,694 |
| Amortization expense | 1 | 7 | 26 | - | - | - | 34 |
| Eliminated on disposal of intangible assets | - | - | - | - | - | - | - |
| Effect of foreign currency exchange | - | (5) | (2) | - | - | - | (7) |
| Balance at March 31, 2011 | \$ 25 | \$ 853 | \$ 1,843 | \$ - | \$ - | \$ - | \$ 2,721 |

Amortization expense for the three month period ended March 31, 2011 in the amount of \$9 (2010 - \$39) is included in cost of goods sold, with an amount of \$25 (2010 - \$22) included in selling and administrative expenses.

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9. Goodwill

| | As at March 31, 2011 | As at December 31, 2010 | As at January 1, 2010 |
|--|-------------------------|----------------------------|--------------------------|
| Cost | \$ 580 | \$ 580 | \$ 580 |
| Accumulated impairment losses | - | - | - |
| Balance at beginning of period | 580 | 580 | 580 |
| Additional amounts recognized from business combinations occurring during the period (Note 20) | 1,121 | - | - |
| Effect of foreign currency exchange differences | (24) | - | - |
| Balance at end of period | \$ 1,677 | \$ 580 | \$ 580 |

10. Inventories

| | As at March 31, 2011 | As at December 31, 2010 | As at January 1, 2010 |
|------------------|-------------------------|----------------------------|--------------------------|
| Raw materials | \$ 4,860 | \$ 3,323 | \$ 3,510 |
| Work in progress | 1,393 | 1,293 | 1,068 |
| Finished goods | 3,036 | 2,360 | 1,679 |
| | \$ 9,289 | \$ 6,976 | \$ 6,257 |

The cost of inventories recognized as cost of sales during the three month period ended March 31, 2011 was \$11,957 (2010 - \$8,653).

The cost of inventories recognized as cost of sales includes \$16 (2010 - \$48) in respect of write-downs of inventory to net realizable value. There were no reversals of any cost to net realizable write-downs in the three month periods ended March 31, 2011 and 2011.

Inventories held by the Corporation's subsidiaries in both Canada and the USA have been pledged as security with banks in each country, respectively, in support of the revolving credit facilities.

11. Trade receivables

| Aging profile | As at March 31, 2011 | As at December 31, 2010 | As at January 1, 2010 |
|--|-------------------------|----------------------------|--------------------------|
| Current and past due for less than 30 days | \$ 8,684 | \$ 4,924 | \$ 4,031 |
| Past due for between 31 and 90 days | 1,537 | 1,901 | 2,053 |
| Past due for 91 days or longer | 686 | 584 | 282 |
| Total gross trade receivables | 10,907 | 7,409 | 6,366 |
| Allowance for doubtful accounts | (616) | (548) | (474) |
| Long-term trade receivables ¹ | (194) | (77) | - |
| Trade receivables, net | \$ 10,097 | \$ 6,784 | \$ 5,892 |

¹ The Corporation is a material supplier to a large contract which is subject to a holdback that will be released upon fulfillment of the contract.

Trade receivables held by the Corporation's subsidiaries in both Canada and the USA have been pledged as security with banks in each country, respectively, in support of revolving credit facilities.

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See note 17.1 for discussion of the Corporation's credit risk.

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

| | Three month periods ended | | Twelve month period ended |
|---|---------------------------|-----------------|---------------------------|
| | March 31, 2011 | March 31, 2010 | December 31, 2010 |
| Balance at beginning of period | \$ (548) | \$ (474) | \$ (474) |
| (Additional amounts provided for) / unused amounts reversed during the period | (68) | (52) | (85) |
| Trade receivables written off during the period | - | 8 | 11 |
| Balance at end of period | \$ (616) | \$ (518) | \$ (548) |

12. Share capital

12.1 Authorized

The Corporation's authorized share capital represents:

- (a) An unlimited number of voting common shares without nominal or par value.
- (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.

12.2 Share Options

No share options were granted under the Corporation's share option plan in the three month periods ended March 3, 2011 and 2010 and the twelve month period ended December 31, 2010.

12.3 Dividends

During the three month period ended March 31, 2011, the Corporation's board of directors declared a regular dividend of \$0.06 (2010 – \$0.06) per common share which was paid on February 28, 2011

12.4 Normal Course Issuer Bid

In September 2010, the Corporation obtained approval from The Toronto Stock Exchange to renew its Normal Course Issuer Bid program for a 12-month period which commenced on September 3, 2010 and ending no later than September 2, 2011. The renewal allows the Corporation to purchase, no later than September 2, 2011, up to a maximum of 330,936 of its common shares, representing 5% of the Corporation's 6,618,736 issued and outstanding common shares as September 3, 2010, subject to daily maximum purchases of 1,000 common shares. The Corporation will purchase, from time to time, its common shares at market price by means of open market transactions on The Toronto Stock Exchange.

In the period ended March 31, 2011, the Corporation purchased and cancelled 1,700 (2010 – nil) of its common shares under the normal course issuer bid for an aggregate price of \$11 (2010 - \$nil), of which \$6 (2010 - \$nil) was charged to retained earnings as premium on redemption of the common shares.

13. Operating credit facilities

The Corporation's subsidiary in Canada has a revolving demand credit facility with a major Canadian bank with a maximum approved limit of \$8,000 (December 31, 2010 - \$8,000 & January 1, 2010 - \$8,000). The revolving credit facility is secured by a first ranking security interest in trade receivables and inventories of the Canadian subsidiary. The interest rate on the Canadian revolving credit facility is the Canadian bank's prime rate plus 0.5%. There is no standby fee associated with the facility. As at March 31, 2011, December 31, 2010 and January 1, 2010, the revolving credit facility of \$8,000 was unused. The subsidiary is subject to certain covenants on the credit facilities, one of which is a financial covenant to maintain a Fixed Charge Coverage of not less than 1.25:1. The covenant was in compliance at March 31, 2011, December 31 2010, and January 1, 2010. PFB Corporation has provided a guarantee and postponement of claim to the bank in the amount of \$10,000 (December 31, 2010 - \$10,000 and January 1, 2010 - \$10,000).

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The Corporation's subsidiary in the USA, Insulspan Incorporated, has a revolving credit facility with a U.S. bank, whose parent company is a major Canadian bank. The maximum borrowing limit under the facility is USD \$1,500. The actual borrowing limit is determined by eligible trade receivables and inventories as defined by the bank. The interest rate on bank indebtedness under the facility is subject to a minimum interest rate of 4.0% and, if the bank's prime rate plus 0.25% exceeds 4.0%, the latter rate will be in effect. As at March 31, 2011, December 31, 2010 and January 1, 2010, the revolving credit facility in the USA was unused. The revolving credit facility has a standby fee per month which is of minimal value.

14. Long-term debt

As at March 31, 2011, the total aggregate principal repayment amount outstanding on the Corporation's non-revolving credit facility was \$7,617 (2010 - \$8,277). At that date, the unused portion of the non-revolving facility was \$4,247 (2010 - \$4,202) and represented an approved limit of \$4,300 less principal amounts outstanding on capital leases financed by the bank. The Corporation's Canadian subsidiary is subject to certain covenants on its credit facilities, one of which is a financial covenant to maintain a Fixed Charge Coverage of not less than 1.25:1. As at March 31, 2011, December 31, 2010, and January 1, 2010, the financial covenant ratio was in compliance.

The Corporation's USA subsidiary has a term loan facility with a U.S. bank, whose parent company is a major Canadian bank, which is secured by manufacturing properties in Michigan, USA. At March 31, 2011, the outstanding principal amount of the term loan was USD \$662 (2010 - USD \$730). The loan bears an interest rate of U.S. prime plus 0.25%. The Corporation provided a guarantee and postponement of claim to the U.S. bank in the maximum amount of USD \$1,050.

During the three month period ended March 31, 2011, new capital lease agreements in the total amount of \$114 (2010 - \$75) were entered into by the Corporation's subsidiaries, principally for materials handling equipment and automobiles. Long-term debt commitments as at March 31, 2011, and December 31, 2010, were as follows:

| | Date of loan | Interest rate | Interest term | As at March 31, 2011 | As at December 31, 2010 |
|-------------------------------------|-------------------|----------------|---------------|----------------------|-------------------------|
| <u>Payable in Canadian dollars:</u> | | | | | |
| Term loan | Dec 24/09 | 3.10% | 5 years | \$ 662 | \$ 679 |
| Term loan | Mar 30/10 | 3.10% | 5 years | 683 | 701 |
| Term loan | Jun 25/08 | 6.05% | 5 years | 4,455 | 4,545 |
| Term loan | Sep 30/08 | 5.50% | 5 years | 1,818 | 1,855 |
| Finance leases | Various | 4.40% to 6.60% | 3 to 5 years | 451 | 402 |
| <u>Payable in U.S. dollars</u> | | | | | |
| Term loan | Renewed Apr 28/08 | Prime +0.25% | 5 years | 642 | 676 |
| Finance leases | Various | 3.70% to 7.50% | 3 to 5 years | 22 | 25 |
| | | | | 8,733 | 8,883 |
| Less: Current portion | | | | (956) | (948) |
| Long-term portion | | | | \$ 7,777 | \$ 7,935 |

All figures in the above table are stated in Canadian dollars.

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

| | |
|----------------------------|-----------------|
| Current within 12 months | \$ 956 |
| Due within 12 to 24 months | 907 |
| Due within 25 to 36 months | 6,021 |
| Due within 37 to 48 months | 154 |
| Due after 48 months | 695 |
| Total | \$ 8,733 |

15. Defined benefits plan

The Corporation has a defined benefits pension plan for specific Ontario-based employees who are members of the United Steel, Paper and Forestry, Rubber, Manufacturing, Energy, Allied Industrial and Service Workers International union. In the three month period ended March 31, 2011, the aggregate of current service costs and special payments amounted to \$31 (2010 - \$28) which were expensed in cost of sales.

16. Related party transactions

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.

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.

Details of transactions between the Corporation and other related parties are disclosed below.

16.1 Trading transactions

During the three month period ended March 31, 2011, the Corporation's subsidiaries entered into the following trading transactions with related parties:

| | Nature of transactions | Three month period ended March 31, 2011 | Three month period ended March 31, 2010 |
|---|-----------------------------|---|---|
| Aeonian Capital Corporation | Management services | \$ 50 | \$ 50 |
| McCarthy Tetrault LLP | Legal services | - | 7 |
| William H. Smith Professional Corporation | Legal services | 11 | - |
| Baker Investments LLC | Stipend and travel expenses | 27 | 28 |
| | | \$ 88 | \$ 85 |

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

| | Amounts owed by related parties | | | Amounts owed to related parties | | |
|---|---------------------------------|-------------------------------|-----------------------------|---------------------------------|-------------------------------|-----------------------------|
| | As at March 31, 2011 | As at December 31, 2010 | As at January 1, 2010 | As at March 31, 2011 | As at December 31, 2010 | As at January 1, 2010 |
| Aeonian Capital Corporation | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| McCarthy Tetrault LLP | - | - | - | - | - | - |
| William H. Smith Professional Corporation | - | - | - | 3 | 26 | - |
| Baker Investments, LLC | - | - | - | 3 | 9 | - |
| | \$ - | \$ - | \$ - | \$ 6 | \$ 35 | \$ - |

17. Financial instruments and financial risk management

The Corporation, through its financial assets and liabilities, has exposure to the following risks from its use of financial instruments. The following analysis provides a measurement of risks as at the condensed consolidated balance sheet date of March 31, 2011.

The Corporation 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.

A summary of the classifications and carrying values of financial instruments held by the Corporation as at March 31, 2011, December 31, 2010, and January 1, 2010 are stated in the following table:

| | As at March 31, 2011 | | As at December 31, 2010 | | As at January 1, 2010 | |
|---------------------------|----------------------|------------|-------------------------|------------|-----------------------|------------|
| | Carrying Value | Fair Value | Carrying Value | Fair Value | Carrying Value | Fair Value |
| Financial assets | | | | | | |
| FVTPL: | | | | | | |
| Cash and cash equivalents | \$ 895 | \$ 895 | \$ 9,701 | \$ 9,701 | \$ 10,896 | \$ 10,896 |
| Financial liabilities | | | | | | |
| FVTPL: | | | | | | |
| Contingent consideration | 1,067 | 1,067 | - | - | - | - |

The fair value of cash and cash equivalents, trade receivables, and trade and other payables approximate their carrying value due to the short-term maturity of those instruments. The fair value of fixed interest rate long-term debt has been determined by comparing the floating interest rate that the Corporation could obtain in the market for debt with similar terms to its fixed-rate debt. The fair value of long-term debt with variable interest rates does not differ significantly from its carrying value as the interest rate is subject to market fluctuations. There have been no changes in accounting policies in the current year.

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 values based on unadjusted quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities.

Level 2: Fair values 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.

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

The following table presents the corporation's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of March 31, 2011, December 31, 2010, and January 1, 2010:

| | Total | Level 1 | Level 2 | Level 3 |
|---------------------------|--------|---------|---------|---------|
| FVTPL | | | | |
| Financial assets: | | | | |
| Cash and cash equivalents | | | | |
| March 31, 2011 | \$ 895 | \$ 895 | - | - |
| December 31, 2010 | 9,701 | 9,701 | - | - |
| January 1, 2010 | 10,896 | 10,896 | - | - |
| Financial liabilities: | | | | |
| Contingent consideration | | | | |
| March 31, 2011 | 1,067 | 1,067 | - | - |
| December 31, 2010 | - | - | - | - |
| January 1, 2010 | - | - | - | - |

17.1 Credit risk

Credit risk is defined as the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge its obligation.

The Corporation's exposure to credit risk is associated with accounts receivable and the potential risk that a customer will be unable to pay amounts due. Allowances for doubtful accounts and bad debts are estimated and maintained as at the balance sheet date. The amounts reported for accounts receivables in the balance sheet are net of allowances for doubtful accounts and bad debts 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, usually involving detailed design work, are required to make advance payments at various predefined stages of a sales contract. All payments received in advance are reported as customer deposits under the current liability section of the balance sheet. Final contract balances are typically required to be paid in full before products are shipped.

Management diligently reviews past due accounts receivable 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 accounts receivable reserve are expensed or credited, as applicable, to sales and marketing expenses in profit and loss.

PFB believes that credit risk associated with its accounts receivable is limited for the following reasons:

- (i) Accounts receivable balances are spread amongst a broad customer base which is dispersed across a wide geographic range.
- (ii) The ageing profile of accounts receivables balances are systematically monitored by management.
- (iii) Larger customers are offered a discount of 1% off invoice value if full payment is received by an agreed date in the month following the month of sale.
- (iv) Payments for highly-customized orders are received in advance of products being shipped.

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- (v) PFB's largest individual customer, determined by trailing annual sales, represents less than 5% of total consolidated sales revenues.

In the three month period ended March 31, 2011, sales to a single external customer accounted for 24.9% (2010 - 0%) of total consolidated sales for the period.

The credit risk on cash balances is limited because the counterparties are large commercial banks in Canada and the United States.

Interest collected from customers on payment of past due accounts receivable balances is included in investment income in the Consolidated Statement of Operations and Comprehensive Income.

17.2 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 United States dollar, as the prices of most raw material supplies used in its businesses are denominated in U.S. dollars. Raw material supplies which are denominated in U.S. dollars are usually paid within thirty days or less of receiving the actual deliveries, which is consistent with industry practices.

The following tables detail the Corporation's exposure to foreign currency risk as at March 31, 2011 and 2010 including a sensitivity analysis to changes in foreign exchange rates.

| | Three month period ended March 31, 2011 | | | Three month period ended March 31, 2010 | | |
|--------------------------|--|----------------------------|--|--|----------------------------|--|
| | USD \$ | Change in currency % | Effect on after tax profit (loss) | USD \$ | Change in currency % | Effect on after tax profit (loss) |
| Net monetary assets | \$ 1,685 | 5.0% | \$ 84 | \$ 2,298 | 5.0% | \$ 115 |
| Net monetary liabilities | 2,769 | 5.0% | 138 | 2,284 | 5.0% | 114 |

Periodically, management may commit to entering into foreign exchange contracts to attempt to protect earnings against relatively short-term fluctuation in exchange rates. In such cases, management attempts to make informed judgements in entering such transactions but there is a possibility that markets may not respond in ways predicted. To the extent that the Corporation does not fully hedge its foreign currency exposure and exchange rate risk, or the Corporation's subsidiaries are not able 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 does not enter into currency driven derivative financial instruments for speculative purposes. As at March 31, 2011, December 31, 2010, March 31, 2010, and January 1, 2010, the Corporation did not hold any foreign exchange contracts.

17.3 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 is exposed to interest rate risk on a small portion of its long-term debt commitments and it does not currently hold any financial instruments to mitigate those risks. Management believes that the potential adverse impact of interest rate fluctuations on the current level of borrowings exposed to interest rate risk will not be significant in relation to its expected future earnings.

As at March 31, 2011, the Corporation has in place a combination of revolving and non-revolving credit facilities. Revolving credit facilities of \$8,000 (December 31, 2010 - \$8,000, January 1, 2010 - \$8,000) and USD \$1,500 (December 31, 2010 - USD \$1,500, January 1, 2010 - \$1,500) were unused at the balance sheet dates (see Note 12). The unused portion of the non-revolving credit facility with a Canadian bank at March 31, 2011 was \$4,247 (December 31, 2010 - \$4,230, January 1, 2010 - \$4,196) which represents an approved limit of \$4,300 less amounts outstanding on capital leases which are financed by the Canadian bank (see Note 13).

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17.4 Liquidity risk

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

The Corporation's objective is to maintain sufficient liquidity to meet its 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 from 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. Based on the Corporation's aggregate liquid assets as compared to its liabilities and commitments, management assesses the Corporation's liquidity risk to be low.

The Corporation has financial liabilities with the following maturities:

| As at March 31, 2011 | 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 | \$ 6,721 | \$ 6,721 | \$ - | \$ - | \$ - | \$ - |
| Long term debt | 8,733 | 956 | 907 | 6,021 | 154 | 695 |
| Total | \$ 15,454 | \$ 7,677 | \$ 907 | \$ 6,021 | \$ 154 | \$ 695 |
| As at December 31, 2010 | | | | | | |
| Trade and other payables | \$ 6,137 | \$ 6,137 | \$ - | \$ - | \$ - | \$ - |
| Long term debt | 11,074 | 1,668 | 1,464 | 5,989 | 548 | 1,405 |
| Total | \$ 17,211 | \$ 7,805 | \$ 1,464 | \$ 5,989 | \$ 548 | \$ 1,405 |

18. Management of Capital

The primary objective of the Corporation when managing its capital is to produce a targeted rate of return while safeguarding corporate assets and ensuring the corporation's ability to continue as a going concern. The basic components of the Corporation's current capital structure are shareholders' equity plus long-term debt. The core of the Corporation's capital management activities is the successful management of cash.

The Corporation's capital structure as at March 31, 2011, December 31, 2010, and January 1, 2010, is outlined in the following table:

| | March 31, 2011 | December 31, 2010 | January 1, 2010 |
|--------------------------------|-----------------------|--------------------------|------------------------|
| Long-term debt | \$ 8,733 | \$ 8,883 | \$ 9,663 |
| Shareholders' equity | 41,914 | 43,531 | 43,392 |
| Total capital structure | \$ 50,647 | \$ 52,414 | \$ 53,055 |

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 (Normal Course Issuer Bid); issuing new shares; and increasing or repaying long-term debt.

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.

Consistent with many other issuers, the Corporation monitors capital using the following non-GAAP ratios:

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- Return on Shareholders' Equity, which is defined as net income for the most recent twelve-month period divided by total shareholders' equity at the beginning of that twelve-month period. Shareholders' Equity is defined as all components of shareholders' equity (i.e. share capital, contributed surplus, and retained earnings).
- Net Debt divided by Shareholders' Equity. Net debt is defined as total debt (the current portion plus long-term portion), as shown in the balance sheet, less cash and cash equivalents.
- Current ratio, which is defined as current assets divided by current liabilities.

The Corporation's Canadian subsidiary is subject to certain covenants on its credit facilities, one of which is a financial covenant to maintain a Fixed Charge Coverage of not less than 1.25:1. Fixed Charge Coverage is defined as the ratio of EBITDA (profit from continuing operations, excluding extraordinary gains or losses, plus interest expense and income taxes accrued during the period, plus depreciation and amortization expenses deducted in the period) plus payments under operating leases less cash income taxes and unfunded capital expenditures to fixed charges. Fixed charges are defined as the total of interest expense, scheduled principal payments in respect of funded debt, payments under operating leases, and corporate distributions. The Corporation has also provided a guarantee and postponement of claim to support certain facilities of subsidiaries. The Corporation monitors compliance with its covenant ratio on a quarterly basis and reports any exceptions to its Board of Directors. As at March 31, 2011, December 31, 2010, and January 1, 2010, the financial covenant ratio was in compliance.

19. Supplementary cash flow information

19.1 Changes in non-cash working capital inclusive of the Precision Craft acquisition

| Decrease (increase) in: | Three month period ended March 31, 2011 | Three month period ended March 31, 2010 |
|---|--|--|
| Trade receivables (Current and long-term) | \$ (2,739) | \$ (354) |
| Inventories | (2,074) | (1,719) |
| Income taxes receivable | (251) | (407) |
| Prepaid expenses | 9 | (42) |
| Trade and other payables | 142 | (1,702) |
| Deferred revenue | (45) | 333 |
| | \$ (4,958) | \$ (3,891) |

19.2 Cash flows for interest and taxes

| | Three month period ended March 31, 2011 | Three month period ended March 31, 2010 |
|------------------------|--|--|
| Cash interest paid | \$ (124) | \$ (133) |
| Cash interest received | 13 | 18 |
| Income taxes paid | \$ (97) | \$ (147) |

19.3 Non-cash transactions

| Non-cash transactions excluded from the condensed consolidated statement of cash flows | Three month period ended March 31, 2011 | Three month period ended March 31, 2010 |
|--|--|--|
| Property, plant and equipment acquired and financed by finance leases | \$ 114 | \$ 92 |

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20. Business combinations

20.1 Subsidiaries acquired

| Names of acquired companies | Principal activities | Date of acquisition | Proportion of voting equity interest acquired | Consideration transferred |
|--|--|---------------------|---|---------------------------|
| Precision Craft, Inc. Mountain Architects, Inc. PC Design Build, Inc. (collectively called the Precision Craft group) | Designs and builds luxury log and timber frame homes | February 1, 2011 | 100% | \$ 3,445 |

The Precision Craft Group was acquired to expand the Corporation's distribution channels throughout the United States (USA) for its insulating building products and to integrate a successful business and marketing model into existing operations in the USA. The date of acquisition of February 1, 2011, is the date that the Corporation obtained 100% control of the Precision Craft group.

Historically, the Precision Craft group has experienced similar seasonality patterns to that of the Corporation's existing businesses. Accordingly, the first quarter's sales performance is not typically indicative of expected sales in the remaining quarters in the year. Since the effective date of acquisition, sales of \$597 and a loss of \$117 reported by the Precision Craft group is included in the condensed consolidated statement of comprehensive income (loss) in the current period.

20.2 Consideration transferred and goodwill arising on acquisition

| | Precision Craft Group |
|--|-----------------------|
| Cash | \$ 2,477 |
| Contingent consideration ¹ | 968 |
| Total | 3,445 |
| Less: fair value of identifiable net assets acquired | (2,324) |
| Goodwill arising on acquisition | \$ 1,121 |

¹ Under a contingent consideration agreement, the Corporation issued 166,667 common shares which are held in an escrow account to be released in accordance with the terms of an earn-out agreement with the vendor. The earn-out agreement has a maximum time horizon of five years and management expects the earn-out provisions to be achieved. At the effective date of acquisition, the common shares held in the escrow account had a fair value of \$5.81 per share (\$968). Contingent consideration is marked-to-market on a periodic basis based on the market price of the Corporation's shares.

Acquisition costs in the amount of \$64 have been expensed in selling and administrative expenses.

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20.3 Assets acquired and liabilities recognized at the date of acquisition

| | Precision Craft Group |
|---------------------------------|------------------------------|
| Current assets | |
| Cash and cash equivalents | \$ 414 |
| Trade receivables | 494 |
| Inventories | 467 |
| Non-current assets | |
| Property, plant and equipment | 1,260 |
| Intangible assets | 1,406 |
| Current liabilities | |
| Trade and other payables | (1,375) |
| Non-current liabilities | |
| Deferred income tax liabilities | (342) |
| Total | \$ 2,324 |

20.4 Net cash outflow on acquisition of subsidiaries

| | Precision Craft Group |
|--|------------------------------|
| Consideration paid in cash | \$ 2,477 |
| Less: cash and cash equivalent balances acquired | (414) |
| | \$ 2,063 |

21. First time adoption of IFRS

The policies set out in the Summary of Significant Accounting Policies section have been applied in preparing the unaudited condensed consolidated financial statements for the three month period ended March 31, 2011, the comparative information presented in these condensed consolidated financial statements for the three month period ended March 31, 2010, and in the preparation of an opening IFRS balance sheet at January 1, 2010 (the Corporation's Transition Date).

In preparing these unaudited condensed consolidated financial statements, the Corporation applied the following optional exemptions and mandatory exceptions from full retrospective application of IFRS.

21.1 Elected exemptions from full retrospective application

21.1.1 Property, plant and equipment

IFRS 1 provides the option to measure property, plant and equipment at its fair value at the date of transition and using those amounts as deemed cost or using the historical valuation as if IFRS would always have been applied (retrospectively). The Corporation has elected to apply the historical valuation cost model for PP&E.

21.1.2 Share-based payments

IFRS 1 provides the option to not have to retrospectively restate share-based payments for share options that were issued after November 7, 2002, that had vested or settled prior to January 1, 2010. The Corporation elected to not restate share-based payments which had vested before the transition date.

21.1.3 Business combinations

IFRS 1 provides the option to apply IFRS 3 *Business Combinations* prospectively from the transition date or from a specific date prior to the transition date. The Corporation elected to not restate business combination recorded in accordance with Canadian GAAP that took place prior to the transition date.

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21.1.4 Employee benefits

IFRS 1 permits a first-time adopter to recognize all cumulative actuarial gains and losses that existed at the transition date in opening retained earnings for all employee benefit plans. The Corporation has elected to not recognize cumulative actuarial gains and losses up to the date of transition and to recognize gains and losses in future years using the corridor approach. The Corporation has elected to reset the “corridor” to zero as at the date of transition.

21.1.5 Cumulative translation differences

IFRS 1 permits the cumulative translation gains and losses account to be reset to zero at the transition date. This provides relief from determining cumulative transition differences in accordance with IAS 21, from the date a subsidiary was acquired. The Corporation has elected to reset the cumulative translation gains and losses account to zero at the transition date.

21.2 Mandatory exceptions to retrospective application

21.2.1 Estimates

IFRS-1 prohibits use of hindsight to create or revise previous estimates. The estimates made under Canadian GAAP are consistent with their application under IFRS.

21.3 Reconciliation of Canadian GAAP to IFRS

An explanation of how the transition from Canadian GAAP to IFRS has affected the Corporation’s consolidated balance sheet, financial performance (statement of comprehensive income (loss)) and cash flows is set out in the following table.

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| | As at January 1, 2010 | | | As at March 31, 2010 | | | As at December 31, 2010 | | |
|--------------------------------------|-----------------------|------------------------------|------------------|----------------------|------------------------------|------------------|-------------------------|------------------------------|------------------|
| | Canadian GAAP | Effect of transition to IFRS | IFRS | Canadian GAAP | Effect of transition to IFRS | IFRS | Canadian GAAP | Effect of transition to IFRS | IFRS |
| ASSETS | | | | | | | | | |
| Current assets | | | | | | | | | |
| Cash and cash equivalents | \$ 10,896 | \$ - | \$ 10,896 | \$ 5,301 | \$ - | \$ 5,301 | \$ 9,701 | \$ - | \$ 9,701 |
| Trade receivables | 5,892 | - | 5,892 | 6,247 | - | 6,247 | 6,784 | - | 6,784 |
| Inventories | 6,257 | - | 6,257 | 7,976 | - | 7,976 | 6,976 | - | 6,976 |
| Current taxes recoverable | 276 | - | 276 | 421 | - | 421 | 167 | - | 167 |
| Prepaid expenses | 648 | - | 648 | 690 | - | 690 | 664 | - | 664 |
| Deferred income tax asset | 637 | (637) | - | 998 | (998) | - | 310 | (310) | - |
| Total current assets | 24,606 | (637) | 23,969 | 21,633 | (998) | 20,635 | 24,602 | (310) | 24,292 |
| Non-current assets | | | | | | | | | |
| Long-term trade receivable | - | - | - | - | - | - | 77 | - | 77 |
| Property, plant and equipment | 31,580 | 6,122 | 37,702 | 31,861 | 5,913 | 37,774 | 31,016 | 5,527 | 36,543 |
| Intangible assets | 260 | (15) | 245 | 205 | (17) | 188 | 167 | (17) | 150 |
| Goodwill | 5,887 | (5,307) | 580 | 5,887 | (5,307) | 580 | 5,887 | (5,307) | 580 |
| Accrued benefit asset | 475 | (421) | 54 | 475 | (421) | 54 | 538 | (408) | 130 |
| Deferred income tax assets | 444 | 636 | 1,080 | 529 | 137 | 666 | 573 | - | 573 |
| Total non-current assets | 38,646 | 1,015 | 39,661 | 38,957 | 305 | 39,262 | 38,258 | (205) | 38,053 |
| Total assets | \$ 63,252 | \$ 378 | \$ 63,630 | \$ 60,590 | \$ (693) | \$ 59,897 | \$ 62,860 | \$ (515) | \$ 62,345 |
| LIABILITIES | | | | | | | | | |
| Current Liabilities | | | | | | | | | |
| Trade and other payables | \$ 7,016 | \$ - | \$ 7,016 | \$ 5,313 | \$ - | \$ 5,313 | \$ 6,137 | \$ - | \$ 6,137 |
| Deferred revenue | 1,504 | - | 1,504 | 1,837 | - | 1,837 | 1,534 | - | 1,534 |
| Current portion of long-term debt | 919 | - | 919 | 954 | - | 954 | 948 | - | 948 |
| Total current liabilities | 9,439 | - | 9,439 | 8,104 | - | 8,104 | 8,619 | - | 8,619 |
| Non-current liabilities | | | | | | | | | |
| Long-term debt | 8,744 | - | 8,744 | 8,529 | - | 8,529 | 7,935 | - | 7,935 |
| Deferred income tax liabilities | 482 | 1,573 | 2,055 | 589 | 675 | 1,264 | 1,129 | 1,131 | 2,260 |
| Total non-current liabilities | 9,226 | 1,573 | 10,799 | 9,118 | 675 | 9,793 | 9,064 | 1,131 | 10,195 |
| Total liabilities | 18,665 | 1,573 | 20,238 | 17,222 | 675 | 17,897 | 17,683 | 1,131 | 18,814 |
| EQUITY | | | | | | | | | |
| Capital and reserves | | | | | | | | | |
| Common shares | 19,815 | - | 19,815 | 19,815 | - | 19,815 | 20,110 | - | 20,110 |
| Contributed surplus | 365 | - | 365 | 394 | - | 394 | 384 | - | 384 |
| Foreign currency translation reserve | - | - | - | - | 26 | 26 | - | 45 | 45 |
| Retained earnings | 24,407 | (1,195) | 23,212 | 23,159 | (1,394) | 21,765 | 24,683 | (1,691) | 22,992 |
| Shareholders' equity | 44,587 | (1,195) | 43,392 | 43,368 | (1,368) | 42,000 | 45,177 | (1,646) | 43,530 |
| Total liabilities and equity | \$ 63,252 | \$ 378 | \$ 63,630 | \$ 60,590 | \$ (693) | \$ 59,897 | \$ 62,860 | \$ (515) | \$ 62,345 |

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| | Three month period ended March 31, 2010 | | | Twelve month period ended December 31, 2010 | | |
|---|--|------------------------------------|-------------------|--|------------------------------------|-----------------|
| | Canadian GAAP | Effect of transition to IFRS | IFRS | Canadian GAAP | Effect of transition to IFRS | IFRS |
| Sales | \$ 10,971 | \$ 771 | \$ 11,742 | \$ 65,580 | \$ 4,382 | \$ 69,962 |
| Cost of sales | (8,844) | (888) | (9,732) | (48,716) | (4,822) | (53,538) |
| Gross profit | 2,127 | (117) | 2,010 | 16,864 | (440) | 16,424 |
| Selling and administrative expenses | (3,223) | 29 | (3,194) | (13,661) | 68 | (13,593) |
| Other gains and (losses) | (9) | (144) | (153) | 3 | (249) | (246) |
| Operating profit (loss) | (1,105) | (232) | (1,337) | 3,206 | (621) | 2,585 |
| Investment income | 18 | - | 18 | 41 | - | 41 |
| Finance cost | (133) | - | (133) | (502) | - | (502) |
| Profit (loss) before taxes | (1,220) | (232) | (1,452) | 2,745 | (621) | 2,124 |
| Income taxes (expense)/recovery | 366 | 33 | 399 | (871) | (124) | (747) |
| Profit (loss) for the period | (854) | (199) | (1,053) | 1,874 | (497) | 1,377 |
| Other comprehensive income, net of income tax | | | | | | |
| Exchange differences on translating foreign operations (net of tax \$nil) | - | 26 | 26 | - | 45 | 45 |
| Total comprehensive (loss) income for the period | \$ (854) | \$ (173) | \$ (1,027) | \$ 1,874 | \$ (452) | \$ 1,422 |
| Earnings (loss) per share - \$ per share | | | | | | |
| Basic | \$ (0.13) | \$ (0.03) | \$ (0.16) | \$ 0.28 | \$ (0.07) | \$ 0.21 |
| Diluted | \$ (0.13) | \$ (0.03) | \$ (0.16) | \$ 0.28 | \$ (0.07) | \$ 0.21 |

21.4 Notes to the IFRS reconciliation tables above:

Consolidated Balance sheet as at January 1, 2010:

(a) Adjustment to PP&E

Under IAS 16 *Property, plant and equipment*, when a fixed asset consists of an number of individual components for which different depreciation methods or rates are appropriate, each component is accounted for separately. The major assets making up the asset classes of buildings and machinery and equipment were componentized and the expected lives of individual assets and components were revised. The changes were applied retrospectively to the date of acquisition of each asset and/or component which resulted in lower accumulated depreciation expense under IFRS than was reported under Canadian GAAP. As a result of these changes, the effect on transition to IFRS as at January 1, 2010, resulted in an increase of \$6,387 in the carrying amount of property, plant and equipment.

Upon adopting IAS 21 *The effects of changes in foreign exchange*, the carrying amounts of PP&E held in the Corporation's foreign operations in their functional currency of U.S. dollars were translated to the Corporation's functional currency of Canadian dollars at the closing exchange rate as of January 1, 2010. Under Canadian GAAP, PP&E cost and accumulated depreciation held in foreign operations was translated to Canadian dollars at historical exchange rates. As a result of these changes, the carrying amount of PP&E was reduced by \$265.

The net change to the carrying amount of PP&E on transition to IFRS was an increase of \$6,122 (\$6,395 - \$265).

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(b) Adjustment to intangible assets

Upon adopting IAS 21 *The effects of changes in foreign exchange*, the carrying amounts of intangible assets held in the Corporation's foreign operations in their functional currency of U.S. dollars were translated to the Corporation's functional currency of Canadian dollars at the closing exchange rate as of January 1, 2010. Under Canadian GAAP, intangible assets cost and accumulated amortization held in foreign operations was translated at historical exchange rates. As a result of these changes, the carrying amount of intangible assets was reduced by \$15.

(c) Adjustment to goodwill

Under Canadian GAAP, the Corporation was considered to be a fully-integrated operation consisting of a single reporting unit. Therefore, goodwill was allocated over the single reporting unit. IFRS introduced the concept of cash generating units (CGU). Management concluded that, under IFRS, the Corporation had two groups of identifiable assets that generate cash inflows which are largely independent of the cash flows from each other. Accordingly, goodwill was allocated to each CGU, as appropriate. IAS 36 *Impairment of assets* requires the assessment of impairment be based on discounted future cash flows.

As at the date of transition, it was determined that goodwill allocated to one of the two CGU's was impaired and, accordingly, the carrying amount of goodwill was reduced by \$5,307 to reflect the impairment loss.

(d) Adjustment to accrued benefit asset

The Corporation has a defined benefits pension plan for certain of its employees in Ontario, Canada. Under IFRS 1, the Corporation elected not to recognize cumulative actuarial gains and losses up to the date of transition. It elected to reset the corridor to zero as at the date of transition. Gains and losses post-transition date are recognized using the corridor approach. As at the date of transition the carrying amount of the accrued benefit asset of \$475 under Canadian GAAP reduced to \$54 under IFRS. The effect of transition also creates a deferred tax liability.

(e) Adjustment to deferred tax asset and liability

Under IFRS, deferred income tax balances are classified as non-current, irrespective of the classification of the assets or liabilities to which they relate to or the expected timing of reversal of the temporary differences. Under Canadian GAAP, deferred income taxes balances relating to current assets or current liabilities must be classified as current.

The adjustments to the change in carrying values of PP&E and accrued benefit asset as a result of transitioning to IFRS created temporary difference for tax. Accordingly, deferred tax liability was adjusted by a net \$1,574 attributed to the temporary differences, \$1,682 deferred tax liability on the PP&E adjustment and a \$108 deferred tax asset on the accrued benefit asset adjustment.

(f) Adjustment to opening retained earnings

Upon transition to IFRS, the offset to the aggregate balance sheet adjustments in the amount of \$1,195 was a reduction in retained earnings as at January 1, 2010. A summary of the adjustments was as follows:

| Balance sheet account | Nature of adjustment | |
|----------------------------------|--|-------------------|
| PP&E | Change in accumulated depreciation | \$ 6,387 |
| | Foreign exchange revaluation of NBV held in foreign operations | (265) |
| Intangible assets | Foreign exchange revaluation of NBV held in foreign operations | (15) |
| Goodwill | Impairment loss | (5,307) |
| Accrued benefit asset | Change in accrued benefit asset | (421) |
| Deferred tax liability | Temporary differences on PP&E adjustment | (1,682) |
| | Temporary differences on accrued benefit asset adjustment | 108 |
| Opening retained earnings | | \$ (1,195) |

Notes to the Unaudited Condensed Consolidated Financial Statements

For the three months ended March 31, 2011

Unaudited - thousands of Canadian dollars



Consolidated statement of comprehensive income (loss) as at March 31, 2010 (three month period):

(a) Adjustment to sales and cost of sales

Under Canadian GAAP, sales were reported net of freight expenses. Under IFRS, freight expenses are included in cost of sales. Freight expenses in the three month period ended March 31, 2010, were \$771 (December 31, 2010 - \$4,382). The effect of the reclassification increased both sales and cost of sales by \$771 (December 31, 2010 - \$4,382).

(b) Adjustment to cost of sales

Under Canadian GAAP, as at January 1, 2010, two major asset classes of PP&E (buildings, machinery and equipment) were componentized and the depreciation method changed from declining balance method to straight-line. Depreciation expense in subsequent periods was based on straight line depreciation using components in those classes established under IFRS and relating estimated useful lives.

Accordingly, depreciation expenses in the three month period ended March 31, 2010, was \$117 (December 31, 2010 - \$440) higher than under Canadian GAAP.

(c) Adjustment to other gains and losses

Under Canadian GAAP, the translation of the Corporation's assets and liabilities in its foreign operations were performed in accordance with the temporal method in which monetary assets and liabilities were translated using current exchange rates and non-monetary assets and liabilities translated using historical rates. The resulting translation effect was recorded in profit or loss under Canadian GAAP.

Under IFRS, all assets and liabilities held in the Corporation's foreign operations, with the exception of equity, are translated using the current exchange rate. Under IFRS, the outcome of translating the Corporation's foreign operations is all reported in other comprehensive income. Accordingly, the translation change effect in the three month period ended March 31, 2010, resulted in other losses and other comprehensive income being \$115 higher (December 31, 2010 - \$182 higher) under IFRS than under Canadian GAAP.

Under IFRS, share-based payment expense has been reclassified from selling and administrative expenses to other gains and losses. The result of the reclassification in the three month period ended March 31, 2010 was an increase to other gains and (losses) of \$29 and a decrease to selling and administrative expenses of the same amount. The effect of the change in the twelve month period ending December 31, 2010 was \$67.

(d) Adjustment to income tax recovery

The adjustment to depreciation expense noted in (b) above results in a temporary difference for taxation. In the three month period ended March 31, 2010, the tax recovery was \$33 higher (December 31, 2010 - \$124 higher) under IFRS than under Canadian GAAP.

Consolidated statement of cash flows for the three month period ended March 31, 2010:

There have not been any material changes to the statement of cash flows as at March 31, 2010 as a result of implementing IFRS. Cash flows from operating, investing and financing activities are not materially different under IFRS as compared to under Canadian GAAP.

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