Second Quarter Report 2011

Three and Six Month Periods Ended June 30, 2011

This page is intentionally blank

NOTICE OF NO AUDITOR REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The accompanying unaudited condensed consolidated financial statements of PFB Corporation have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

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 and six month periods ended June 30, 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 and six month periods ended June 30, 2011, have been prepared in accordance with International Financial reporting Standards ("IFRS" or "GAAP") and 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 July 28, 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 July 28, 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 income (loss)** – represents the income (loss) from operations before investment income, finance costs, and the revaluation of contingent shares.

(d) **Cash provided by (used in) operating activities** – represents cash flows provided by (used in) operating activities before changes in non-cash working capital, changes in long-term trade receivables, and unrealized foreign exchange gains/losses relating to non-cash working capital.

P·F·B CORPORATION Better building ideas

(e) **Cash provided by (used in) operating activities per common share** – represents cash flows provided by (used in) operating activities before changes in non-cash working capital, changes in long-term trade receivables, 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 June 30		Six Months Ended June 30	
	2011	**2010**	**2011**	**2010**
Sales	**$ 21,298**	$ 18,567	**$ 36,871**	$ 30,309
Cost of sales	**(16,839)**	(14,691)	**(30,163)**	(24,423)
Gross profit	**4,459**	3,876	**6,708**	5,886
Selling and administrative expenses	**(3,508)**	(3,434)	**(7,074)**	(6,628)
Other gains and (losses)	**(124)**	117	**(278)**	(36)
Operating Income (loss)	**827**	559	**(644)**	(778)
Revaluation of contingent shares – gain (loss)	**83**	-	**(15)**	-
Investment income	**1**	6	**14**	24
Finance costs	**(133)**	(126)	**(257)**	(259)
Income (loss) before taxes	**778**	439	**(902)**	(1,013)
Income taxes recovery (expense)	**(197)**	(85)	**262**	314
Income (loss) for the period	**$ 581**	$ 354	**$ (640)**	$ (699)
Earnings (loss) per share - $ per share				
Basic	**0.09**	0.05	**(0.10)**	(0.11)
Diluted	**0.08**	0.05	**(0.10)**	(0.11)
Weighted average number of common shares outstanding	**6,607,628**	6,589,615	**6,609,834**	6,579,233
Cash used in operating activities	**$ 1,464**	$ 819	**$ 994**	$ 572
Cash used in operating activities per common share - $ per share	**0.22**	0.12	**0.15**	0.09

Summary of quarterly financial data

	2011 [1]		2010 [1]				2009 [1]	
	Qtr. 2	**Qtr. 1**	**Qtr. 4**	**Qtr. 3**	**Qtr. 2**	**Qtr. 1**	**Qtr. 4**	**Qtr. 3**
Sales	**$ 21,298**	**$ 15,573**	$ 17,859	$ 21,794	$ 18,567	$ 11,742	$ 15,856	$ 18,834
Gross profit	**4,459**	**2,249**	4,438	6,036	3,876	2,010	4,866	6,169
Operating income (loss)	**827**	**(1,471)**	887	2,412	559	(1,337)	1,401	2,550
Income (loss) for the period	**581**	**(1,221)**	509	1,568	353	(1,053)	1,180	1,594
Earnings (loss) per share								
Basic - $ per share	**0.09**	**(0.18)**	0.08	0.24	0.05	(0.16)	0.18	0.24
Diluted - $ per share	**0.08**	**(0.18)**	0.08	0.24	0.05	(0.16)	0.18	0.24

[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

Upon 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 and six month periods ended June 30, 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 *Brands*: 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 *Brands*: 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 and six month periods ended June 30, 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

Consolidated sales in the three month period ended June 30, 2011, increased by 14.7% to $21,298 compared to sales of $18,567 in the comparative quarter of 2010. Sales in the six month period ended June 30, 2011, increased by 21.7% to $36,871 compared to sales of $30,309 in the comparative six month period of 2010.

Gross profit

Gross profit increased by 15.0% to $4,459 in the current quarter compared to $3,876 in the second quarter of 2010. The gross profit margin was 20.9% in the current quarter which was identical to that reported in the second quarter of 2010. Gross profit increased by 14.0% to $6,708 in the six month period ended June 30, 2011, compared to gross profit of $5,886 in the comparative six month period of 2010. The gross profit margin was 18.2% in the first six month period of 2011 compared to 19.4% in the comparative six month period of 2010.

The slight decrease in gross profit margin in the current year was chiefly driven by elevated raw material input costs used in manufacturing.

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

Income (loss) before taxes

Income before taxes in the current quarter was $778 as compared to income before taxes of $439 in the comparative quarter of 2010. Selling and administrative (S&A) expenses increased by $74 in the current quarter compared to S&A expenses in the comparative quarter of 2010. S&A expenses in the current quarter included $26 of direct acquisition costs, $89 of restructuring costs, and $328 of expenses attributed to the Precision Craft group's operations which were not a feature in the comparative quarter.

In the six month period ended June 30, 2011, a loss before taxes of $902 resulted as compared to a loss before taxes of $1,013 in the first six months of 2010. S&A expenses increased by $446 in the six month period ended June 30, 2011, as compared to the first six months of 2010 and included the following incremental costs which were not featured in 2010: $90 of direct acquisition costs; $89 of restructuring costs; and $570 of S&A expenses in the PrecisionCraft group's operations.

The income (loss) before taxes for the current quarter and the six month period ended June 30, 2011, included an $83 gain and a $15 loss, respectively, which were attributed to the revaluation of contingent shares issued as part consideration for the Precision Craft group acquisition completed in the first quarter. Contingent shares are marked-to-market at the end of each period.

Income taxes

A consolidated effective income tax rate of 29% is expected for the full year 2011. The effective tax rate may higher or lower depending on the geographical mix of business between Canada and the USA.

Net income (loss)

Net income increased by $227 to $581 in the current quarter as compared to net income of $354 in the comparative quarter of 2010. The loss in the six month period ended June 30, 2011, decreased by $59 to $640 as compared to a loss of $699 in the comparative six month period of 2010.

In the current quarter, basic earnings per share were $0.09 as compared with earnings per share of $0.05 in the second quarter of 2010. In the six month period ended June 30, 2011, the loss per share was $(0.10) as compared to a loss per share of $(0.11) in the comparative six month period of 2010.

Reportable operating segments

(a) Canada - financial highlights

	Three month period ended June 30		Six month period ended June 30	
	2011	**2010**	**2011**	**2010**
Sales	**$ 18,470**	$ 16,890	**$ 32,311**	$ 27,009
Cost of sales	**(14,650)**	(13,613)	**(26,340)**	(22,031)
Gross profit	**3,820**	3,277	**5,971**	4,978
Selling and administrative expenses	**(2,462)**	(2,780)	**(5,151)**	(5,259)
Other losses	**(82)**	(45)	**(91)**	(67)
Operating income (loss)	**1,276**	452	**729**	(348)
Revaluation of contingent shares	**83**	-	**(15)**	-
Investment income	**2**	6	**14**	24
Finance costs	**(73)**	(94)	**(143)**	(195)
Income (loss) before taxes	**$ 1,288**	$ 364	**$ 585**	$ (519)

Sales

Sales in the second quarter of 2011 increased by 9.4% to $18,470 as compared to sales of $16,890 reported in the second quarter of 2010. Sales in the six month period ended June 30, 2011, increased by 19.6% to $32,311 as compared to sales of $27,009 in the first six months of 2010.

Sales of EPS foam products in the current periods increased over sales in the comparative periods of 2010. Building system product sales, focused mainly at the residential construction sector, have tracked lower in the current year compared to in 2010. Prolonged periods of wet weather, mainly in western regions, adversely affected sales for those products in addition to the effects of increased competitor activity vying to maintain sales volumes in a smaller residential construction market, which has yet to significantly recover from recessionary levels.

Gross profit

Gross profit in the current quarter increased by $543 or 16.6% to $3,820 as compared to gross profit of $3,277 reported for the second quarter of 2010. The gross profit margin in the current quarter was 20.7% as compared to 19.4% in the comparative quarter of 2010.

Gross profit in the six month period ended June 30, 2011, increased by $993 or 19.9% to $5,971 as compared to gross profit of $4,978 in the first six months of 2010. The gross profit margin in the current six month period was 18.5% as compared to 18.4% in the comparative six month period of 2010.

Raw material input costs in the current quarter remained elevated compared with the equivalent costs in the prior year quarter even after allowing for the favourable effects of a stronger currency this year. A favourable product mix generating stronger average margins combined with improved labour productivity in manufacturing operations helped mitigate the raw material cost impact.

Selling and administrative expenses

Selling and administrative (S&A) expenses in the current quarter decreased by 11.4% or $318 to $2,462 as compared to $2,780 reported in the second quarter of 2010. S&A expenses in the six month period ended June 30, 2011, decreased by 2.1% or $108 to $5,151 as compared to $5,259 reported in the comparative six months of 2010. S&A expenses were slightly lower in the current year across a broad range of expense categories.

Operating income (loss)

Operating income in the current quarter was $1,276 as compared to $452 in the second quarter of 2010. Operating income in the six month period ended June 30, 2011, was $729 as compared to an operating loss of $348 in the comparative six month period of 2010. The improvements in each period were driven by increased sales delivering incremental gross profit combined with lower S&A expenses.

(b) USA - financial highlights

	Three month period ended June 30		Six month period ended June 30	
	2011	**2010**	**2011**	**2010**
Sales	**$ 2,828**	$ 1,677	**$ 4,560**	$ 3,300
Cost of sales	**(2,189)**	(1,078)	**(3,823)**	(2,392)
Gross profit	**639**	599	**737**	908
Selling and administrative expenses	**(1,046)**	(654)	**(1,923)**	(1,369)
Other gains (losses)	**(42)**	162	**(187)**	31
Operating income (loss)	**(449)**	107	**(1,373)**	(430)
Investment income (expense)	**(1)**	-	**-**	-
Finance costs	**(60)**	(32)	**(114)**	(64)
Income (loss) before taxes	**$ (510)**	$ 75	**$ (1,487)**	$ (494)

Sales

Sales in the current quarter of 2011 increased by 68.6% or $1,151 to an amount of $2,828 as compared to sales of $1,677 in the second quarter of 2010. Sales in the six month period ended June 30, 2011, increased by 38.2% or $1,260 to $4,560 as compared to sales of $3,300 in the first six months of 2010. Since February 1, 2011, USA sales have included sales generated by the newly-acquired companies which were the major contributor to the sales improvement in both periods.

Sales in the United States are mostly sold into the residential home construction channel. New construction starts in this sector remain slumped at their lowest levels in decades. Accordingly, the market and economic challenges faced in the USA continue to adversely impact customer lead generation and the closing of contracts.

Gross profit

Gross profit in the current quarter increased by 6.7% or $40 to $639 as compared to gross profit of $599 reported in the second quarter of 2010. Gross profit margin in the current period was 22.6% as compared to 35.7% in the comparative quarter of 2010.

Gross profit in the six month period ended June 30, 2011, decreased by 18.8% or $171 to $737 as compared to gross profit of $908 in the first six months of 2010. Gross profit margin in the current six month period was 16.2% as compared to 27.5% in the comparative six month period of 2010.

The decrease in gross profit margin in the current quarter was attributable to several factors, including: lower sales of higher margin manufactured products; increased sales of service related activities which attract lower margins; a competitive pricing environment for manufactured products, and under-applied overhead costs expensed as result of lower than normal production volumes.

Selling and administrative expenses

Selling and administrative (S&A) expenses in the current quarter increased by 59.9% or $392 to $1,046 as compared to $654 reported in the second quarter of 2010. S&A expenses in the six month period ended June 30, 2011, increased by 40.5% or $554 to $1,923 as compared to $1,369 reported in the comparative six months of 2010.

The increases in S&A expenses in the current periods are mainly attributable to the inclusion S&A expenses of the newly-acquired companies but also included restructuring costs of $89 in the current quarter. The priorities in the USA operations are focused on streamlining the cost structure to align operating expenses with prevailing sales and to realize synergies from the acquisition.

Other gains (losses)

Other gains and losses consist primarily of unrealized foreign exchange changes on an inter-segment loan repayable to the Canadian segment which is denominated in Canadian dollars. Unrealized foreign exchange gains and losses arise as exchange rates fluctuate.

In the three and six month periods of 2011, unrealized foreign exchange losses of $42 and $187, respectively, arose as the US dollar weakened whereas in the comparative periods of 2010 unrealized foreign exchange gains of $162 and $31, respectively, arose as the US dollar was on a strengthening trend.

Operating income (loss)

In the current period, the USA operations reported an operating loss of $449 as compared to operating income of $107 in the comparative quarter of 2010. In the six month period ended June 30, 2011, the USA operations reported an operating loss of $1,373 as compared to an operating loss of $430 in the comparative six month period of 2010. The losses in the current year periods resulted from a lower margin sales mix and increased selling and administrative expenses.

Liquidity and capital resources

Sources of liquidity

The Corporation expects that cash balances, future operating cash flows, and amounts available to be drawn against approved credit facilities will enable the Corporation to fund its ongoing business requirements including changes in non-cash working capital, changes in long-term receivables, repayment of 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 June 30, 2011.

Cash

Cash and cash equivalents and bank indebtedness balances as at June 30, 2011 and December 31, 2010 are as follows:

	June 30, 2011	**December 31, 2010**
Cash (bank indebtedness)	**$ (517)**	$ 6,699
Cash equivalents	**-**	3,002
	$ (517)	$ 9,701

In the first six months of 2011, $2,063 of cash (cash paid less cash acquired) was used to fund the acquisition of the Precision Craft group and $6,552 and $308, respectively, was used to fund increases in non-cash working capital and long-term trade receivables. Trade receivables and inventories were the main components within non-cash working capital which increased, which is not uncommon at this time in the Corporation's fiscal cycle although the increases are higher than normal. (see the Change in Working Capital section below).

Long-term debt

Total long-term debt of $8,535 as at June 30, 2011, compares to $8,883 as at December 31, 2010.

	June 30, 2011	December 31, 2010
Payable in Canadian dollars:		
Long-term debt	**$ 7,455**	$ 7,780
Finance lease obligations	**438**	402
Payable in U.S dollars:		
Long-term debt	**622**	676
Finance lease obligations	**20**	25
Total long-term debt	**8,535**	8,883
Less: current portion	**(933)**	(948)
	$ 7,602	$ 7,935

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

Long-term debt reduced in the current quarter and six month period as a result of scheduled repayments and there were no increases in long-term debt in the six month period ended June 30, 2011. New finance leases of $58 were entered into in the current quarter bringing the total of new finance leases to $172 for the six month period ended June 30, 2011. The new finance lease obligations were for replacement automobiles. Combined repayments of long-term debt and finance lease payments in the current and six month periods of the current year were $236 and $483 (2010 - $264 and $492), respectively.

Change in non-cash working capital

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

	June 30, 2011	December 31, 2010	Increase (Decrease)
Trade receivables	**$ 12,849**	$ 6,784	$ 6,065
Inventories	**10,437**	6,976	3,461
Income tax receivable	**346**	167	179
Prepaid expenses	**685**	664	21
Trade and other payables	**(8,285)**	(6,137)	(2,148)
Deferred revenue	**(2,975)**	(1,534)	(1,441)
	$ 13,057	$ 6,920	$ 6,137

Note: The June 30, 2011, amounts are inclusive of non-cash working capital acquired with the Precision Craft group.

Non-cash working capital has increased since the beginning of the year by $6,137, primarily increases in trade receivables and inventories. Increases in these categories are typical in the first and second quarters of PFB's annual cycle as sales improve and inventory is held to support increased activity levels. The increases in the current six month period were higher than normal with outstanding trade receivables reflecting stronger Canadian sales in the period and higher inventories. Increased raw material inputs costs also contributed to the increased carrying costs of inventories.

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

In the six month period ended June 30, 2011, long-term trade receivables increased by $308 from $77 as at December 31, 2010 to $385. The Corporation is a material supplier to several contracts subject to holdbacks that will be released upon fulfillment of the contracts.

Summary of cash flows

A summary of cash flows for the six month periods ended June 30, 2011 and 2010 are shown in the following table.

	June 30, 2011	**June 30, 2010**
Cash used in:		
Operating activities	**$ (5,912)**	$ (5,624)
Investing activities	**(2,927)**	(1,225)
Financing activities	**(1,330)**	(1,015)
Effects of foreign exchange on cash balances	**(49)**	(48)
Decrease in cash and cash equivalents	**(10,218)**	(7,912)
Cash and cash equivalents – beginning of period	**9,701**	10,896
Cash and cash equivalents (bank indebtedness) – end of period	**$ (517)**	$ 2,984

(a) Operating activities

Cash used in operating activities in the first six months of 2011 was $5,912 as compared to $5,624 in the comparative six month period of 2010. The major sources of the cash outflows in both periods were as a result of increases in non-cash working capital, as mentioned above. Holdbacks are reported as long-term trade receivables on the balance sheet. In the current six month period, long-term trade receivables increased by $308.

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

(b) Investing activities

Cash used in investing activities in the first six months of 2011 was $2,927 as compared to $1,225 in the comparative six month period of 2010. Purchases of property, plant and equipment in the six month period ended June 30, 2011, were $857 (2010 - $1,254) for new manufacturing and I.T. equipment. Purchases of intangible assets amounted to $61 in the current year (2010 - $5) for application software. Proceeds from disposals of equipment in the current year amounted to $54 (2010 - $34).

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 (2010 - $nil).

(c) Financing activities

Cash used in financing activities in the first six months of 2011 was $1,330 as compared to $1,015 in the comparative six month period of 2010. Repayments of long-term debt were $483 (2010 - $492) in the current year and regular quarterly dividend payments amounted to $803 (2010 - $788) which were paid in the months of February and May.

Shares purchased under a normal course issuer bid in the current year cost $44 to acquire (2010 - $nil). See normal course issuer bid section below for more details.

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 Corporations capital management activities is the successful management of cash.

The Corporation's capital structure as at June 30, 2011 and December 31, 2010, is outlined in the following table:

	June 30, 2011	December 31, 2010
Long-term debt	**$ 8,535**	$ 8,883
Shareholders' equity	**42,057**	43,531
	$ 50,592	$ 52,414

Share capital

A summary of the Corporation's share capital as at June 30, 2011 and December 31, 2010 is set forth in the following table:

	June 30, 2011 (Six Months)		December 31, 2010 (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	**(7,250)**	**(22)**	(5,900)	(18)
Balance, end of period	**6,772,253**	**$ 20,088**	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 or six month periods ended June 30, 2011 and 2010. No share options were exercised in the six month period ended June 30, 2011, whereas 50,000 share options were exercised in the six month period ended June 30, 2010.

Dividends

During the first and second quarters of 2011, the Corporation's Board of Directors declared regular quarterly dividends of $0.06 (2010 - $0.06) per common share which were paid on February 28, 2011 and May 31, 2011, respectively. 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 June 30, 2011, the Corporation purchased for cancellation 5,550 (2010 – Nil) of its common shares under a normal course issuer bid for an aggregate price of $34 (2010 - $nil), of which, $16 (2010 - $nil) was charged to retained earnings as premium on redemption of the common shares. In the six month period ended June 30, 2011, the Corporation purchased for cancellation 7,250 (2010 – Nil) of its common shares under a normal course issuer bid for an aggregate price of $44 (2010 - $nil), of which, $22 (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 six months 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. Customer orders for products in Canada are robust, although the timing of when orders are required for shipping can be unpredictable and create variability in reported sales as numerous factors beyond the Corporation's control can influence job-site readiness. Abnormally high precipitation in many regions during the first half of this year was a key occurrence which adversely impacted the timing of sales.

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 pricing of the Corporation's major raw materials have moderated recently but ongoing volatility is expected. Notwithstanding, input costs still remain at elevated levels compared to one year ago despite some further 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.

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 June 30, 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 June 30, 2011, the CEO and CFO assessed the effectiveness of the Corporation's internal control over financial reporting and concluded that it was effective and that no material weaknesses in the Corporation's internal control over financial reporting had been identified.

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 control over financial reporting for the period ended June 30, 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; allowance for doubtful accounts; 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 and second quarters of 2011, there have been no additions to the related parties disclosed in the Corporation's 2010 Annual Report and there were no significant or new related party transactions in the first six months 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 were 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 for each interim period in 2011 will present the financial results of the Corporation for that interim period and year-to-date position with the 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 June 30, 2010
- The consolidated balance sheet as at December 31, 2010
- The consolidated statement of comprehensive income for the three and six month periods ended June 30, 2010
- The consolidated statement of comprehensive income for the year ended December 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, 2012 or later.

(a) IAS 1 (Amended) *Presentation of Financial Statements* – Amendments which require companies preparing financial statements in accordance with IFRS to group together items within other comprehensive income (OCI) that may be reclassified to the profit or loss section of the income statement. IAS 1 (Amended) is effective for annual periods beginning on or after July 1, 2012.

(b) 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.

(c) IAS 19 (Amended) *Employee Benefits* – Amendments make important improvements by: (1) eliminating the option to defer the recognition of gains and losses known as the "corridor" method, (2) streamlining the presentation of changes in assets and liabilities arising from defined benefit plans, including requiring re-measurement to be presented in OCI thereby separating those changes from an entity's day-to-day operations, and (3) enhancing the disclosure requirements for defined benefit plans, providing better information about the characteristics of defined benefit plans and the risks that entities are exposed to through participating in those plans. IAS 19 (Amended) is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted.

(d) IAS 27 (Amended) *Separate Financial Statements* – Revised to eliminate the principles of consolidation from IAS 27 and focus on the requirements related to disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. The Standard requires an entity preparing separate financial statements to account for those investments at cost or in accordance with IFRS 9 *Financial Instruments*. This standard is required to be applied for accounting periods beginning on or after January 1, 2013, with early adoption permitted.

(e) IAS 28 (Revised) *Investments in Associates and Joint Ventures* – Prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. This standard is required to be applied for accounting periods beginning on or after January 1, 2013, with early adoption permitted.

(f) 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.

(g) 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, with earlier application permitted.

(h) IFRS 10 *Consolidated Financial Statements* – Establishes principles for the presentation of consolidated financial statements when an entity controls one or more other entities. The new standard defines the principle of control and establishes control as the basis for determining which entities are consolidated in the consolidated financial statements. IFRS 10 is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted.

(i) IFRS 11 *Joint Arrangements* – Establishes principles for financial reporting by parties to a joint arrangement. The standard provides a new definition of a joint arrangement focusing on the rights and obligations of the arrangement, rather than its legal form. IFRS 11 classifies joint arrangements into two types – joint operations and joint ventures. IFRS 11 is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted.

(j) IFRS 12 *Disclosure of Interest in Other Entities* – A new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. IFRS 12 is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted.

(k) IFRS 13 *Fair Value Measurement* – To improve the consistency and reduce the complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRS. IFRS 13 is effective for annual periods beginning on or after July 1, 2013, with early application permitted.

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

Condensed Consolidated Statement of Comprehensive Income (Loss)

For the three and six month periods ended June 30, 2011 and 2010

Unaudited - thousands of Canadian dollars, except per share amounts

	Note	For the three month period ended June 30		For the six month period ended June 30	
		2011	**2010**	**2011**	**2010**
Sales		**$ 21,298**	$ 18,567	**$ 36,871**	$ 30,309
Cost of sales		**(16,839)**	(14,691)	**(30,163)**	(24,423)
Gross profit		**4,459**	3,876	**6,708**	5,886
Selling and administrative expenses		**(3,508)**	(3,434)	**(7,074)**	(6,628)
Other gains and (losses)	5	**(124)**	117	**(278)**	(36)
Operating income (loss)		**827**	559	**(644)**	(778)
Revaluation of contingent shares – gain (loss)	20	**83**	-	**(15)**	-
Investment income		**1**	6	**14**	24
Finance costs		**(133)**	(126)	**(257)**	(259)
Income (loss) before taxes		**778**	439	**(902)**	(1,013)
Income taxes recovery (expense)		**(197)**	(85)	**262**	314
Income (loss) for the period		**581**	354	**(640)**	(699)
Other comprehensive income (loss), net of income tax					
Exchange differences on translating foreign operations (net of tax $nil)		**1**	(38)	**13**	(12)
Total comprehensive income (loss) for the period		**$ 582**	$ 316	**$ (627)**	$ (711)
Earnings (loss) per share - $ per share					
Basic	6	**$ 0.09**	$ 0.05	**$ (0.10)**	$ (0.11)
Diluted	6	**$ 0.08**	$ 0.05	**$ (0.10)**	$ (0.11)
Weighted average number of common shares outstanding		**6,607,628**	6,589,615	**6,609,834**	6,579,233

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

Condensed Consolidated Balance Sheets

As at June 30, 2011 and December 31, 2010

Unaudited - thousands of Canadian dollars

	Note	June 30, 2011	December 31, 2010
ASSETS			
Current assets			
Cash and cash equivalents		**$ -**	$ 9,701
Trade receivables	11	**12,849**	6,784
Inventories	10	**10,437**	6,976
Income taxes recoverable		**346**	167
Prepaid expenses		**685**	664
Total current assets		**24,317**	24,292
Non-current assets			
Long-term trade receivables	11	**385**	77
Property, plant and equipment	7	**37,145**	36,543
Intangible assets	8	**1,485**	150
Goodwill	9	**1,672**	580
Accrued benefit asset	15	**130**	130
Deferred income tax assets		**680**	573
Total non-current assets		**41,497**	38,053
Total assets		**$ 65,814**	$ 62,345
LIABILITIES			
Current Liabilities			
Bank indebtedness		**$ 517**	$ -
Trade and other payables		**8,285**	6,137
Deferred revenue		**2,975**	1,534
Current portion of long-term debt	14	**933**	948
Total current liabilities		**12,710**	8,619
Non-current liabilities			
Long-term debt	14	**7,602**	7,935
Contingent consideration	20	**983**	-
Deferred income tax liabilities		**2,462**	2,260
Total non-current liabilities		**11,047**	10,195
Total liabilities		**23,757**	18,814
SHAREHOLDERS' EQUITY			
Common shares	12	**20,088**	20,110
Contributed surplus		**384**	384
Foreign currency translation reserve		**58**	45
Retained earnings		**21,527**	22,992
Shareholders' equity		**42,057**	43,531
Total liabilities and shareholders' equity		**$ 65,814**	$ 62,345

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

Condensed Consolidated Statement of Changes in Equity

As at June 30, 2011 and 2010, December 31, 2010 and January 1, 2010
Unaudited - thousands of Canadian dollars

		Common shares					
	Note	No. of Shares	Share capital	Contributed surplus [2]	Foreign currency translation reserve	Retained earnings	Total
Balance at January 1, 2010		6,568,736	$ 19,815	$ 365	$ -	$ 23,212	$ 43,392
Loss for the period		-	-	-	-	(699)	(699)
Other comprehensive loss for the period, net of tax		-	-	-	(12)	-	(12)
Total comprehensive loss for the period		-	-	-	(12)	(699)	(711)
Payment of dividends		-	-	-	-	(788)	(788)
Share-based payment expense		-	-	57	-	-	57
Exercise of share options		50,000	313	(48)			265
Balance at June 30, 2010		6,618,736	20,128	374	(12)	21,725	42,215
Profit for the period		-	-	-	-	2,077	2,077
Other comprehensive income for the period, net of tax		-	-	-	57	-	57
Total comprehensive income for the period		-	-	-	57	2,077	2,134
Payment of dividends		-	-	-	-	(795)	(795)
Share-based payment expense		-	-	10	-	-	10
Repurchased pursuant to normal course issuer bid		(5,900)	(18)	-	-	(15)	(33)
Exercise of share options		-	-	-	-	-	-
Balance at December 31, 2010		6,612,836	20,110	384	45	22,992	43,531
Loss for the period		-	-	-	-	(640)	(640)
Other comprehensive income for the period, net of tax		-	-	-	13	-	13
Total comprehensive income for the period		-	-	-	13	(640)	(625)
Payment of dividends	12	-	-	-	-	(803)	(803)
Issued as contingent consideration for acquisition [1]	20	166,667	-	-	-	-	-
Repurchased pursuant to normal course issuer bid	12	(7,250)	(22)	-	-	(22)	(44)
Balance at June 30, 2011		**6,772,253**	**$ 20,088**	**$ 384**	**$ 58**	**$ 21,527**	**$ 42,057**

[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 and six month periods ended June 30, 2011 and 2010

Unaudited - thousands of Canadian dollars

	Note	For the three month period ended June 30		For the six month period ended June 30	
		2011	**2010**	**2011**	**2010**
CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES					
Income (loss) for the period		**$ 581**	$ 354	**$ (640)**	$ (699)
Adjustments for items not affecting cash and cash equivalents:					
Depreciation and amortization expense:					
Cost of sales	7,8	**688**	622	**1,331**	1,250
Selling and administrative expense	7,8	**123**	119	**250**	237
Gain on disposal of property, plant and equipment	7	**53**	(12)	**34**	(15)
Share-based payment expense		**-**	28	**-**	57
Revaluation of contingent consideration	20	**(83)**	-	**15**	-
Deferred income tax		**46**	(177)	**(255)**	(314)
Unrealized foreign exchange (gain) loss		**56**	(115)	**259**	56
		1,464	819	**994**	572
Changes in non-cash working capital	19	**(1,710)**	(2,252)	**(6,552)**	(6,143)
Changes in long-term trade receivables		**(191)**	-	**(308)**	-
Unrealized foreign exchange loss relating to non-cash working		**(18)**	(53)	**(46)**	(53)
Net cash used in operating activities		**(456)**	(1,486)	**(5,912)**	(5,624)
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchase of property, plant and equipment	7	**(235)**	(479)	**(857)**	(1,254)
Purchase of intangible assets	8	**(61)**	-	**(61)**	(5)
Cash paid on acquisition (net of cash acquired)	20	**-**	-	**(2,063)**	-
Proceeds from disposal of property, plant and equipment	7	**26**	31	**54**	34
Net cash used in investing activities		**(270)**	(448)	**(2,927)**	(1,225)
CASH FLOWS FROM FINANCING ACTIVITIES					
Repayment of long-term debt		**(236)**	(264)	**(483)**	(492)
Dividends paid	12	**(406)**	(394)	**(803)**	(788)
Exercise of stock options	12	**-**	265		265
Repurchase of common shares	12	**(34)**	-	**(44)**	-
Net cash used in financing activities		**(676)**	(393)	**(1,330)**	(1,015)
Effects of exchange rate changes on the balance of cash held in foreign currencies – (gain) loss		**(10)**	10	**(49)**	(48)
Net decrease in cash and cash equivalents		**(1,412)**	(2,317)	**(10,218)**	(7,912)
Cash and cash equivalents at the beginning of the period		**895**	5,301	**9,701**	10,896
Cash and cash equivalents at the end of the period		**$ (517)**	$ 2,984	**$ (517)**	$ 2,984

See Note 19.2 for supplementary information on cash flows for interest and taxes

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

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 and six month periods ended June 30, 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.

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 July 28, 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.

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.

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 to 5 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

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.

The 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.

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.

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.

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; allowance for doubtful accounts; 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.

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, 2012 or later.

- IAS 1 (Amended) *Presentation of Financial Statements* – Amendments which require companies preparing financial statements in accordance with IFRS to group together items within other comprehensive income (OCI) that may be reclassified to the profit or loss section of the income statement. IAS 1 (Amended) is effective for annual periods beginning on or after July 1, 2012.
- 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.
- IAS 19 (Amended) *Employee Benefits* – Amendments make important improvements by: (1) eliminating the option to defer the recognition of gains and losses known as the "corridor" method, (2) streamlining the presentation of changes in assets and liabilities arising from defined benefit plans, including requiring re-measurement to be presented in OCI thereby separating those changes from an entity's day-to-day operations, and (3) enhancing the disclosure requirements for defined benefit plans, providing better information about the characteristics of defined benefit plans and the risks that entities are exposed to through participating in those plans. IAS 19 (Amended) is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted.
- IAS 27 (Amended) *Separate Financial Statements* – Revised to eliminate the principles of consolidation from IAS 27 and focus on the requirements related to disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. The Standard requires an entity preparing separate financial statements to account for those investments at cost or in accordance with IFRS 9 *Financial Instruments*. This standard is required to be applied for accounting periods beginning on or after January 1, 2013, with early adoption permitted.
- IAS 28 (Revised) *Investments in Associates and Joint Ventures* – Prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. This standard is required to be applied for accounting periods beginning on or after January 1, 2013, with early adoption permitted.
- 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, with earlier application permitted.
- IFRS 10 *Consolidated Financial Statements* – Establishes principles for the presentation of consolidated financial statements when an entity controls one or more other entities. The new standard defines the principle of control and establishes control as the basis for determining which entities are consolidated in the consolidated financial statements. IFRS 10 is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted.
- IFRS 11 *Joint Arrangements* – Establishes principles for financial reporting by parties to a joint arrangement. The standard provides a new definition of a joint arrangement focusing on the rights and obligations of the arrangement, rather than its legal form. IFRS 11 classifies joint arrangements into two types – joint operations and joint ventures. IFRS 11 is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted.
- IFRS 12 *Disclosure of Interest in Other Entities* – A new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. IFRS 12 is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted.

- IFRS 13 *Fair Value Measurement* – To improve the consistency and reduce the complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRS. IFRS 13 is effective for annual periods beginning on or after July 1, 2013, with early application permitted.

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

Information regarding each reportable operating segment for the three month periods ended June 30 is set out below:

	Three month period ended June 30, 2011			**Three month period ended June 30, 2010**		
	Canada	**USA**	**Total**	**Canada**	**USA**	**Total**
Sales	**$ 18,470**	**$ 2,828**	**$ 21,298**	$ 16,890	$ 1,677	$ 18,567
Cost of sales	**(14,650)**	**(2,189)**	**(16,839)**	(13,613)	(1,078)	(14,691)
Gross profit	**3,820**	**639**	**4,459**	3,277	599	3,876
Selling and administrative expenses	**(2,462)**	**(1,046)**	**(3,508)**	(2,780)	(654)	(3,434)
Other gains and (losses)	**(82)**	**(42)**	**(124)**	(45)	162	117
Operating income (loss)	**1,276**	**(449)**	**827**	452	107	559
Revaluation of contingent shares - gain	**83**	**-**	**83**	-	-	
Investment income (expense)	**2**	**(1)**	**1**	6	-	6
Finance costs	**(73)**	**(60)**	**(133)**	(94)	(32)	(126)
Income (loss) before taxes	**$ 1,288**	**$ (510)**	**$ 778**	$ 364	$ 75	$ 439
Additions to non-current assets:						
Property, plant and equipment	**138**	**97**	**235**	476	3	479
Intangible assets	**61**	**-**	**61**	-	-	-
Goodwill	**-**	**-**	**-**	-	-	-
Supplementary information:						
Depreciation and amortization:						
Cost of sales	**569**	**119**	**688**	570	52	622
Selling and administrative expenses	**104**	**19**	**123**	113	6	119
Inter-segment sales [1]	**294**	**46**	**N/A**	425	63	N/A
Inter-segment interest income (expense)	**55**	**(55)**	**-**	25	(25)	-

[1] Inter-segment sales have been eliminated on consolidation

Information regarding each reportable operating segment for the six month periods ended June 30 is set out below:

	Six month period ended June 30, 2011			Six month period ended June 30, 2010		
	Canada	**USA**	**Total**	**Canada**	**USA**	**Total**
Sales	**$ 32,311**	**$ 4,560**	**$ 36,871**	$ 27,009	$ 3,300	$ 30,309
Cost of sales	**(26,340)**	**(3,823)**	**(30,163)**	(22,031)	(2,392)	(24,423)
Gross profit	**5,971**	**737**	**6,708**	4,978	908	5,886
Selling and administrative expenses	**(5,151)**	**(1,923)**	**(7,074)**	(5,259)	(1,369)	(6,628)
Other gains and (losses)	**(91)**	**(187)**	**(278)**	(67)	31	(36)
Operating income (loss)	**729**	**(1,373)**	**(644)**	(348)	(430)	(778)
Revaluation of contingent shares - loss	**(15)**	**-**	**(15)**	-	-	-
Investment income	**14**	**-**	**14**	24	-	24
Finance costs	**(143)**	**(114)**	**(257)**	(195)	(64)	(259)
Income (loss) before taxes	**$ 585**	**$ (1,487)**	**$ (902)**	$ (519)	$ (494)	$ (1,013)
Segment assets	**55,975**	**9,839**	**65,814**	55,287	5,825	61,112
Segment liabilities	**(18,375)**	**(5,382)**	**(23,757)**	(15,948)	(2,950)	(18,898)
Additions to non-current assets:						
Property, plant and equipment	**754**	**103**	**857**	1,242	12	1,254
Intangible assets	**61**	**-**	**61**	5	-	5
Goodwill	**-**	**1,097**	**1,097**	-	-	-
Supplementary information:						
Depreciation and amortization:						
Cost of sales	**1,138**	**193**	**1,331**	1,137	113	1,250
Selling and administrative expenses	**204**	**46**	**250**	226	11	237
Inter-segment sales [1]	**478**	**128**	**N/A**	690	92	N/A
Inter-segment interest income (expense)	**103**	**(103)**	**-**	50	(50)	-

[1] Inter-segment sales have been eliminated on consolidation

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

5. Other gains and losses

	Three month period ended June 30		Six month period ended June 30	
	2011	**2010**	**2011**	**2010**
Foreign exchange gain (loss)	**$ (71)**	$ 133	**$ (244)**	$ 6
Share-based payment expense	**-**	(28)	**-**	(57)
Gain (loss) on disposal of property, plant and equipment	**(53)**	12	**(34)**	15
	$ (124)	$ 117	**$ (278)**	$ (36)

6. Earnings (loss) per share

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

	Three month period ended June 30		Six month period ended June 30	
	2011	**2010**	**2011**	**2010**
Income (loss) for the period	**$ 581**	$ 354	**$ (640)**	$ (699)
Weighted average number of common shares outstanding - basic	**6,607,628**	6,589,615	6,609,834	6,579,233
Effect of:				
Dilutive stock options [1]	**-**	-	-	-
Contingent consideration [1]	**166,667**	-	-	-
Weighted average number of common shares outstanding - diluted	**6,774,295**	6,589,615	**6,609,834**	6,579,233
Earnings (loss) per share:				
Basic	**$ 0.09**	$ 0.05	**$ (0.10)**	$ (0.11)
Diluted	**$ 0.08**	$ 0.05	**$ (0.10)**	$ (0.11)

[1] 150,000 stock options granted in the third quarter of 2007 were anti-dilutive as at June 30, 2011 and 2010, and, therefore, they have not been included in the calculation of diluted shares in the above table. In February 2011, 166,667 common shares were issued as contingent consideration as part of the acquisition of the Precision Craft companies and are held in an escrow account. In the three month period ended June 30, 2011, the contingent shares are dilutive and they have been included in the calculation of diluted shares. In the six month period ended June 30, 2011, the contingent shares are anti-dilutive and they have been excluded in the calculation of diluted shares.

7. Property, plant and equipment

	As at June 30, 2011	As at December 31, 2010
Carrying amounts of:		
Freehold land	**$ 5,147**	$ 5,160
Buildings	**17,557**	17,708
Plant and equipment	**13,215**	13,154
Equipment under finance lease	**512**	469
Assets under construction	**714**	52
	$ 37,145	$ 36,543

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	-	60	33	172	764	1,029
Disposal of PP&E assets	-	-	(412)	(63)	-	(475)
Acquisition through business combination (Note 20)	-	301	959	-	-	1,260
Transfer between asset groups	-	-	102	-	(102)	-
Effect of foreign currency exchange differences	(13)	(69)	(69)	(2)	-	(153)
Balance at June 30, 2011	**$ 5,147**	**$ 26,808**	**$ 31,235**	**$ 874**	**$ 714**	**$ 64,778**

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)	(904)	(57)	-	(963)
Effect of foreign currency exchange differences	-	(96)	(151)	(3)	-	(250)
Balance at December 31, 2010	**-**	**8,808**	**17,468**	**298**	**-**	**26,574**
Depreciation expense	-	457	921	111	-	1,489
Eliminated on disposal of PP&E assets	-	-	(341)	(47)	-	(388)
Effect of foreign currency exchange differences	-	(14)	(28)	-	-	(42)
Balance at June 30, 2011	**$ -**	**$ 9,251**	**$ 18,020**	**$ 362**	**$ -**	**$ 27,633**

Depreciation commences when assets are available for use. Depreciation expense for the three and six month periods ended June 30, 2011, in the amounts of $650 and $1,284 (2010 - $599 and $1,187), respectively, is included in cost of sales, with amounts of $86 and $205 (2010 - $101 and $197), respectively, included in selling and administrative expenses.

8. Intangible assets

	As at June 30, 2011	As at December 31, 2010
Carrying amounts of:		
Patents	**$ 44**	$ 46
Product development costs	**26**	41
Software	**362**	63
Registered trade name	**912**	-
Order backlog	**114**	-
Non-compete agreement	**27**	-
	$ 1,485	$ 150

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	-	-	61	-	-	-	61
Acquisitions through business combinations (Note 20)	-	-	297	934	147	28	1,406
Disposal of intangible assets	-	-	-	-	-	-	-
Effect of foreign currency exchange	-	(7)	(13)	(22)	(3)	(1)	(46)
Balance at June 30, 2011	**$ 70**	**$ 885**	**$ 2,227**	**$ 912**	**$ 144**	**$ 27**	**$ 4,265**

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	2	13	47	-	30	-	92
Eliminated on disposal of intangible assets	-	-	-	-	-	-	-
Effect of foreign currency exchange	-	(5)	(1)	-	-	-	(6)
Balance at June 30, 2011	**$ 26**	**$ 859**	**$ 1,865**	**$ -**	**$ 30**	**$ -**	**$ 2,780**

Amortization expense for the three and six month periods ended June 30, 2011, in the amounts of $38 and $47 (2010 - $23 and $63), respectively, is included in cost of goods sold, with amounts of $37 and $45 (2010 - $19 and $40), respectively, included in selling and administrative expenses.

9. Goodwill

	As at June 30, 2011	As at December 31, 2010
Cost	**$ 580**	$ 580
Accumulated impairment losses	**-**	-
Balance at beginning of period	**580**	580
Additional amounts recognized from business combinations occurring during the period (Note 20)	**1,121**	-
Effect of foreign currency exchange differences	**(29)**	-
Balance at end of period	**$ 1,672**	$ 580

10. Inventories

	As at June 30, 2011	As at December 31, 2010
Raw materials	**$ 4,792**	$ 3,323
Work in progress	**1,747**	1,293
Finished goods	**3,898**	2,360
	$ 10,437	$ 6,976

The cost of inventories recognized as cost of sales during the three and six month periods ended June 30, 2011, was $14,879 and $26,836 (2010 - $13,064 and $21,717), respectively.

The cost of inventories recognized as cost of sales during the three and six month periods ended June 30, 2011, was $42 and $58 (2010 - $85 and $133),respectively, 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 and six month periods ended June 30, 2011 and 2010.

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

11.1 Current trade receivables

Aging profile	As at June 30, 2011	As at December 31, 2010
Current and past due for less than 30 days	$ 9,492	$ 4,912
Past due for between 31and 90 days	3,574	1,875
Past due for 91 days or longer	452	545
Total gross current trade receivables	13,518	7,332
Allowance for doubtful accounts	(669)	(548)
Current trade receivables, net	**$ 12,849**	$ 6,784

11.2 Long-term trade receivables

	As at June 30, 2011	As at December 31, 2010
Total long-term trade receivables	$ 385	$ 77

[1] The Corporation is a material supplier to several contracts subject to holdbacks that will be released upon fulfillment of the contracts.

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

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

11.3 Change in allowance for doubtful accounts

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

	Three month period ended June 30		Six month period ended June 30		Twelve month period ended
	2011	2010	**2011**	2010	December 31, 2010
Balance at beginning of period	**$ (616)**	$ (518)	**$ (548)**	$ (474)	$ (474)
(Additional amounts provided for) / unused amounts reversed during the period	**(53)**	(48)	**(121)**	(100)	(85)
Trade receivables written off during the period	**-**	-	**-**	8	11
Balance at end of period	**$ (669)**	$ (566)	**$ (669)**	$ (566)	$ (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 and six month periods ended June 30, 2011 and 2010 and the twelve month period ended December 31, 2010. In the three month period ended June 30, 2010, 50,000 share options were exercised at a strike price of $5.30 per option or $265 aggregate price. The market price of PFB's common shares at the date of exercise was $6.27 per share.

12.3 Dividends

During the three and six month periods ended June 30, 2011, the Corporation's board of directors declared regular quarterly dividends of $0.06 (2010 – $0.06) per common share which were paid in the months of February and May.

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 ends 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 at 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 prices by means of open market transactions on The Toronto Stock Exchange.

In the three month period ended June 30, 2011, the Corporation purchased and cancelled 5,550 (2010 – nil) of its common shares under the normal course issuer bid for an aggregate price of $34 (2010 - $nil), of which $16 (2010 - $nil) was charged to retained earnings as premium on redemption of the common shares. In the six month period ended June 30, 2011, the Corporation purchased and cancelled 7,250 (2010 – nil) of its common shares under the normal course issuer bid for an aggregate price of $44 (2010 - $nil), of which $22 (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). 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 June 30, 2011, the revolving credit facility of $8,000 was drawn down by an amount of $980 whereas as at December 31, 2010 the facility 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 June 30, 2011, and December 31 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).

The Corporation's subsidiary in the USA 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 June 30, 2011, and December 31, 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 June 30, 2011, the total aggregate principal amounts outstanding on the Corporation's non-revolving credit facility with a major Canadian bank was $7,455 (2010 - $8,111). At that date, the unused portion of the non-revolving facility was $4,254 (2010 - $4,213) 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 June 30, 2011, and December 31, 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 June 30, 2011, the outstanding principal amount of the term loan was USD $622 (2010 – USD $713). 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 and six month periods ended June 30, 2011, new capital lease agreements in the total amount of $58 (2010 - $78) and $172 (2010 - $153), respectively, were entered into by the Corporation's subsidiaries for automobiles. Long-term debt commitments as at June 30, 2011, and December 31, 2010, were as follows:

	Date of loan	Interest rate	Interest term	As at June 30, 2011	As at December 31, 2010
Payable in Canadian dollars:					
Term loan	Dec 24/09	3.10%	5 years	**$ 644**	$ 679
Term loan	Mar 30/10	3.10%	5 years	**665**	701
Term loan	Jun 25/08	6.05%	5 years	**4,364**	4,545
Term loan	Sep 30/08	5.50%	5 years	**1,782**	1,855
Finance leases	Various	4.40% to 6.60%	3 to 5 years	**438**	402
Payable in U.S. dollars					
Term loan	Renewed Apr 28/08	Prime +0.25%	5 years	**622**	676
Finance leases	Various	3.70% to 7.50%	3 to 5 years	**20**	25
				8,535	8,883
Less: Current portion				**(933)**	(948)
Long-term portion				**$ 7,602**	$ 7,935

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

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

Current within 12 months	$ 933
Due within 12 to 24 months	892
Due within 25 to 36 months	5,874
Due within 37 to 48 months	128
Due after 48 months	708
Total	**$ 8,535**

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 and six month periods ended June 30, 2011, the aggregate of current service costs and special payments were $25 and $57 (2010 - $31 and $60), respectively, which were expensed in cost of sales.

16. Related party transactions

All related party transactions are constituted in the ordinary course of business and they have been measured at the agreed to exchange amounts which approximate fair value. All transactions with related parties have been approved by the board of directors.

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

16.1 Trading transactions

During the three and six month periods ended June 30, 2011 and 2010, the Corporation's subsidiaries entered into the following trading transactions with related parties:

		Three month period ended June 30		Six month period ended June 30	
	Nature of transactions	**2011**	**2010**	**2011**	**2010**
Aeonian Capital Corporation	Management services	**$ 50**	$ 50	**$ 100**	$ 100
McCarthy Tetrault LLP	Legal services	**-**	33	**-**	40
William H. Smith Professional Corporation	Legal services	**7**	-	**18**	-
Baker Investments LLC	Stipend and travel expenses	**32**	26	**59**	54
		$ 89	$ 109	**$ 177**	$ 194

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 June 30, 2011	**As at December 31, 2010**	**As at June 30, 2011**	**As at December 31, 2010**
Aeonian Capital Corporation	**$ -**	$ -	**$ -**	$ -
McCarthy Tetrault LLP	**-**	-	**-**	-
William H. Smith Professional Corporation	**-**	-	**-**	26
Baker Investments, LLC	**-**	-	**3**	9
	$ -	$ -	**$ 3**	$ 35

17. Financial instruments and financial risk management

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

A summary of the classifications and carrying values of financial instruments held by the Corporation as at June 30, 2011, December 31, 2010, are stated in the following table:

	As at June 30, 2011		As at December 31, 2010	
	Carrying Value	**Fair Value**	**Carrying Value**	**Fair Value**
Financial assets				
FVTPL:				
Cash and cash equivalents	**$ -**	**$ -**	$ 9,701	$ 9,701
Financial liabilities				
FVTPL:				
Bank indebtedness	**517**	**517**	-	-
Contingent consideration	**983**	**983**	-	-

The fair value of cash and cash equivalents and bank indebtedness approximate their carrying value due to the short-term maturity of those instruments. Contingent consideration is marked-to-market at each period end. 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.

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 June 30, 2011, and December 31, 2010:

	Total	Level 1	Level 2	Level 3
FVTPL				
Financial assets:				
Cash and cash equivalents				
June 30, 2011	**$ -**	**$ -**	**-**	**-**
December 31, 2010	9,701	9,701	-	-
Financial liabilities:				
Bank indebtedness				
June 30, 2011	**517**	**517**	-	-
December 31, 2010	**-**	**-**	-	-
Contingent consideration				
June 30, 2011	**983**	**983**	-	-
December 31, 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.

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

In the three and six month periods ended June 30, 2011, sales to a single external customer accounted for 10.7% and 16.7% (2010 – 1.9% and 1.2%), respectively, 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 June 30, 2011 and 2010 including a sensitivity analysis to changes in foreign exchange rates.

	Period ended June 30, 2011			**Period ended June 30, 2010**		
	USD	**Change in currency**	**Effect on after tax income (loss)**	**USD**	**Change in currency**	**Effect on after tax income (loss)**
Net monetary assets	**$ 1,753**	**5.0%**	**$ 88**	$ 852	5.0%	$ 43
Net monetary liabilities	**2,720**	**5.0%**	**136**	1,638	5.0%	82

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 June 30, 2011 and 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 Corporations 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 June 30, 2011, the Corporation has in place a combination of revolving and non-revolving credit facilities with banks in Canada and the USA. In Canada, as at June 30, 2011, $980 of a revolving credit facility limit of $8,000 was used (December 31, 2010 - $8,000 limit unused). In the USA, a revolving credit facility limit of USD $1,500 (subject to eligible account receivables and inventory) was unused as at June 30, 2011 (December 31, 2010 – USD $1,500 unused). See Note 12. As at June 30, 2011, the unused portion of the non-revolving credit facility with a Canadian bank was $4,254 (December 31, 2010 - $4,230) which represents an approved limit of $4,300 less amounts outstanding on capital leases which are financed by the Canadian bank (see Note 13).

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 June 30, 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**
Bank indebtedness	**$ 517**	**$ 517**	**$ -**	**$ -**	**$ -**	**$ -**
Trade and other payables	**8,285**	**8,285**	**-**	**-**	**-**	**-**
Long term debt	**8,535**	**933**	**892**	**5,874**	**128**	**708**
Total	**$ 17,337**	**$ 9,735**	**$ 892**	**$ 5,874**	**$ 128**	**$ 708**
As at December 31, 2010						
Trade and other payables	$ 6,137	$ 6,137	$ -	$ -	$ -	$ -
Long term debt	8,883	948	894	5,681	242	1,118
Total	$ 15,020	$ 7,085	$ 894	$ 5,681	$ 242	$ 1,118

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 June 30, 2011, and December 31, 2010, is as outlined in the following table:

	June 30, 2011	December 31, 2010
Long-term debt	**$ 8,535**	$ 8,883
Shareholders' equity	**42,057**	43,531
Total capital structure	**$ 50,592**	$ 52,414

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.

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 June 30, 2011, and December 31, 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

	Three month period ended June 30		Six month period ended June 30	
Decrease (increase) in:	**2011**	**2010**	**2011**	**2010**
Trade receivables	**$ (2,751)**	$ (2,271)	**$ (5,374)**	$ (2,625)
Inventories	**(1,148)**	(879)	**(3,222)**	(2,598)
Income taxes receivable	**72**	183	**(179)**	(224)
Prepaid expenses	**198**	32	**207**	(10)
Trade and other payables	**1,551**	473	**1,693**	(1,229)
Deferred revenue	**368**	210	**323**	543
	$ (1,710)	$ (2,252)	**$ (6,552)**	$ (6,143)

19.2 Cash flows for interest and taxes

	Three month period ended June 30		Six month period ended June 30	
	2011	**2010**	**2011**	**2010**
Cash interest paid	**(257)**	$ (127)	**(381)**	$ (260)
Cash interest received	**14**	6	**27**	24
Income taxes paid	**(82)**	(71)	**(179)**	(218)

19.3 Non-cash transactions excluded from the condensed consolidated statement of cash flows

	Three month period ended June 30		Six month period ended June 30	
	2011	**2010**	**2011**	**2010**
Property, plant and equipment acquired and financed by finance leases	**$ 58**	$ 61	**$ 172**	$ 153

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, manufactures 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. During the three month period ended June 30, 2011 sales of $882 and a loss of $114 was reported by the Precision Craft group. In the five month period since the date of acquisition, sales of $1,479 and a loss of $231 was reported by the Precision Craft group. These amounts are included in the condensed consolidated statement of comprehensive income (loss) in the current reporting periods.

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 $90 have been expensed in selling and administrative expenses in the six month period ended June 30, 2011.

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 and six month periods ended June 30, 2011, the comparative information presented in these condensed consolidated financial statements for the three and six month periods ended June 30, 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.

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 tables.

Notes to the Unaudited Condensed Consolidated Financial Statements

For the three and six month periods ended June 30, 2011 and 2010
Thousands of Canadian dollars

	As at January 1, 2010			As at June 30, 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	$ 2,984	$ -	$ 2,984	$ 9,701	$ -	$ 9,701
Trade receivables	5,892	-	5,892	8,517	-	8,517	6,784	-	6,784
Inventories	6,257	-	6,257	8,855	-	8,855	6,976	-	6,976
Current taxes recoverable	276	-	276	1,037	-	1,037	167	-	167
Prepaid expenses	648	-	648	658	-	658	664	-	664
Deferred income tax asset	637	(637)	-	367	(367)	-	310	(310)	-
Total current assets	24,606	(637)	23,969	22,418	(367)	22,051	24,602	(310)	24,292
Non-current assets									
Long-term trade receivable	-	-	-	-	-	-	77	-	77
Property, plant and equipment	31,580	6,122	37,702	31,810	5,929	37,739	31,016	5,527	36,543
Intangible assets	260	(15)	245	163	(14)	149	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	708	(171)	537	573	-	573
Total non-current assets	38,646	1,015	39,661	39,043	16	39,059	38,258	(205)	38,053
Total assets	$ 63,252	$ 378	$ 63,630	$ 61,461	$ (351)	61,110	$ 62,860	$ (515)	$ 62,345
LIABILITIES									
Current Liabilities									
Trade and other payables	$ 7,016	$ -	$ 7,016	$ 5,787	$ -	5,787	$ 6,137	$ -	$ 6,137
Deferred revenue	1,504	-	1,504	2,047	-	2,047	1,534	-	1,534
Current portion of long-term debt	919	-	919	958	-	958	948	-	948
Total current liabilities	9,439	-	9,439	8,792	-	8,792	8,619	-	8,619
Non-current liabilities									
Long-term debt	8,744	-	8,744	8,375	-	8,375	7,935	-	7,935
Deferred income tax liabilities	482	1,573	2,055	756	973	1,729	1,129	1,131	2,260
Total non-current liabilities	9,226	1,573	10,799	9,131	973	10,104	9,064	1,131	10,195
Total liabilities	18,665	1,573	20,238	17,923	973	18,896	17,683	1,131	18,814
EQUITY									
Capital and reserves									
Common shares	19,815	-	19,815	20,128	-	20,128	20,110		20,110
Contributed surplus	365	-	365	374	-	374	384	-	384
Foreign currency translation reserve	-	-	-	-	(12)	(12)	-	45	45
Retained earnings	24,407	(1,195)	23,212	23,036	(1,312)	21,724	24,683	(1,691)	22,992
Shareholders' equity	44,587	(1,195)	43,392	43,538	(1,324)	42,214	45,177	(1,647)	43,531
Total liabilities and equity	$ 63,252	$ 378	$ 63,630	$ 61,461	$ (351)	61,110	$ 62,860	$ (515)	$ 62,345

	Three month periods ended June 30, 2010			Six month periods ended June 30, 2010			Twelve month period ended 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
Sales	$ 17,338	$ 1,229	$ 18,567	$ 28,309	$ 2,000	$ 30,309	$ 65,580	$ 4,382	$ 69,962
Cost of sales	(13,351)	(1,340)	(14,691)	(22,195)	(2,228)	(24,423)	(48,716)	(4,822)	(53,538)
Gross profit	3,987	(111)	3,876	6,114	(228)	5,886	16,864	(440)	16,424
Selling and administrative expenses	(3,465)	31	(3,434)	(6,688)	60	(6,628)	(13,661)	68	(13,593)
Other gains and (losses)	(14)	131	117	(23)	(13)	(36)	3	(249)	(246)
Operating income (loss)	508	51	559	(597)	(181)	(778)	3,206	(621)	2,585
Investment income	6	-	6	24	-	24	41	-	41
Finance cost	(127)	1	(126)	(259)	-	(259)	(502)	-	(502)
Income (loss) before taxes	387	52	439	(832)	(181)	(1,013)	2,745	(621)	2,124
Income taxes (expense)/recovery	(117)	32	(85)	249	65	314	(871)	(124)	(747)
Income (loss) for the period	**270**	**84**	**354**	**(583)**	**(116)**	**(699)**	**1,874**	**(497)**	**1,377**
Other comprehensive income, net of income tax									
Exchange differences on translating foreign operations (net of tax $nil)	-	(38)	(38)	-	(12)	(12)	-	45	45
Total comprehensive (loss) income for the period	**$ 270**	**$ 46**	**$ 316**	**$ (583)**	**$ (130)**	**$ (711)**	**$ 1,874**	**$ (452)**	**$ 1,422**
Earnings (loss) per share - $ per share									
Basic	$ 0.04	$ 0.01	$ 0.05	$ (0.09)	$ (0.02)	$ (0.11)	$ 0.28	$ (0.07)	$ 0.21
Diluted	$ 0.04	$ 0.01	$ 0.05	$ (0.09)	$ (0.02)	$ (0.11)	$ 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).

(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)**

Consolidated statement of comprehensive income (loss) as at June 30, 2010 (three and six month periods):

(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 and six month periods ended June 30, 2010, were $1,229 and $2,000 (December 31, 2010 - $4,382), respectively. The effect of the reclassification increased both sales and cost of sales in the three and six month periods by $1,229 and $2,000 (December 31, 2010 - $4,382), respectively.

(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 and six month periods ended June 30, 2010, was $111 and $228 respectively, (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 and six month periods ended June 30, 2010, resulted in other gains and (losses) and other comprehensive income being $103 and $44 higher, respectively, (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 and six month periods ended June 30, 2010 was an increase to other gains and (losses) of $29 and $57, respectively, 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 and six month periods ended June 30, 2010, the tax recovery was $32 and $65 higher, respectively, (December 31, 2010 - $124 higher) under IFRS than under Canadian GAAP.

Consolidated statement of cash flows for the three and six month periods ended June 30, 2010:

There have not been any material changes to the statement of cash flows as at June 30, 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.