Second Quarter Report 2016

For the three and six month periods ended June 30, 2016 and 2015

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Management's discussion and analysis (MD&A)

The following discussion and analysis of the consolidated results of operations and financial condition of PFB Corporation ("PFB" or the "Corporation") should be read in conjunction with the Corporation's unaudited condensed interim consolidated financial statements for the three and six month periods ended June 30, 2016 and 2015 and notes thereto and in conjunction with the Corporation's annual MD&A for the year ended December 31, 2015.

PFB's unaudited condensed interim consolidated financial statements for the three and six month periods ended June 30, 2016 and 2015 have been prepared in accordance with International Accounting Standard ("IAS") 34, *Interim Financial Reporting*.

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

This MD&A has been prepared as of July 28, 2016. All figures in this MD&A are stated in thousands of Canadian dollars, except where stated otherwise.

1. Advisory regarding forward looking statements

Securities laws encourage public issuers to disclose forward-looking information in their management's discussion and analysis (MD&A) so that investors can get a better understanding of future prospects and make informed investment decisions. Forward-looking information and statements included in this interim MD&A about PFB's objectives and management's expectations, beliefs, intentions or strategies for the future are not guarantees of future performance and should not be unduly relied upon.

All forward-looking statements reflect management's current views as at July 28, 2016, with respect to future events, and they are subject to certain risks, uncertainties and assumptions that may cause the actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements.

Such risks, uncertainties and assumptions include, but are not limited to: general economic conditions; the cost and availability of capital; actions by government authorities; actions by regulatory authorities; availability of raw materials; changes in raw materials prices; currency exchange rates; interest rates; competitor activity; industry pricing pressures; seasonality of the construction industry; and weather related factors. A more detailed assessment of the risks that could cause actual results to materially differ from current expectations can be found in the Risk Management and Assessment section of the Corporation's annual MD&A or in the Risk Factors section of the Annual Information Form for the year ended December 31, 2015.

2. Summary of quarterly financial data

	2016		2015				2014	
	Qtr. 2	**Qtr. 1**	**Qtr. 4**	**Qtr. 3**	**Qtr. 2**	**Qtr. 1**	**Qtr. 4**	**Qtr. 3**
Sales	**$ 28,480**	$ 19,157	$ 24,440	$ 29,849	$ 27,316	$ 17,532	$ 25,013	$ 27,414
Gross profit	**7,466**	3,843	5,203	7,366	7,605	3,525	5,574	6,069
Gross profit margin %	**26.2**	20.1	21.3	24.7	27.8	20.1	22.3	22.1
Operating income (loss)	**3,130**	(6)	1,437	3,378	3,402	35	1,956	2,440
Net income (loss)	**1,762**	(155)	836	2,212	2,120	(80)	1,116	1,549
Earnings (loss) per share:								
Basic and diluted	**0.26**	(0.02)	0.12	0.33	0.32	(0.01)	0.17	0.23
EBITDA [1]	**4,088**	955	2,426	4,319	4,353	1,053	2,921	3,371
EBITDA per share [1]	**0.61**	0.14	0.36	0.64	0.65	0.16	0.43	0.50

3. Consolidated statements of income (unaudited)

	Three month periods ended June 30		Six month periods ended June 30	
	2016	**2015**	**2016**	**2015**
Sales	**$ 28,480**	$ 27,316	**$ 47,637**	$ 44,848
Cost of sales	**(21,014)**	(19,711)	**(36,328)**	(33,718)
Gross profit	**7,466**	7,605	**11,309**	11,130
Selling expenses	**(2,666)**	(2,623)	**(5,209)**	(4,877)
Administrative expenses	**(1,648)**	(1,574)	**(2,915)**	(2,770)
Other losses	**(22)**	(6)	**(61)**	(46)
Operating income	**3,130**	3,402	**3,124**	3,437
Gain on sale of real estate	**-**	-	**-**	63
Investment income	**50**	47	**116**	106
Finance costs	**(355)**	(358)	**(713)**	(718)
Income before taxes	**2,825**	3,091	**2,527**	2,888
Income tax expense	**(1,063)**	(971)	**(920)**	(848)
Net income for the period	**$ 1,762**	$ 2,120	**$ 1,607**	$ 2,040
Earnings per share - $ per share				
Basic and diluted	**$ 0.26**	$ 0.32	**$ 0.24**	$ 0.30
Funds flow from operations [1]	**$ 4,066**	$ 4,382	**$ 5,288**	$ 5,314
Funds flow from operations per share [1]	**0.61**	0.65	**0.79**	0.79

[1] Non-GAAP financial measures do not have any standardized meaning prescribed by GAAP and are therefore unlikely to be comparable to similar measures presented by other issuers. Definitions of non-GAAP and additional GAAP measures used in the tables in Sections 2 and Section 3 above, along with relevant other notes, are detailed in Section 19 of this MD&A.

The Corporation's operations follow seasonal patterns in the construction industry which influences the timing of sales and earnings in the annual reporting cycle. Sales in the first and fourth quarter of each year are typically the lowest in the annual reporting cycle.

4. Consolidated results of operations

Sales

Consolidated sales were $28,480 in the three month period ended June 30, 2016, an increase of $1,164 or 4.3% from sales of $27,316 in the comparative three month period of 2015.

In the six month period ended June 30, 2016, consolidated sales were $47,637, an increase of $2,789 or 6.2% from sales of $44,848 in the comparative six month period of 2015.

Gross profit

Consolidated gross profit was $7,466 in the three month period ended June 30, 2016, as compared to $7,605 in the comparative three month period of 2015. Gross profit margin decreased to 26.2% of sales in the current quarter as compared to a gross profit margin of 27.8% in Q2/15.

Consolidated gross profit was $11,309 in the six month period ended June 30, 2016, as compared to $11,130 in comparative six month period of 2015. Gross profit margin of 23.7% of sales in the current six month period was lower than a gross profit margin of 24.8% reported in the comparative six month period of 2015.

Selling and administrative expenses

Selling and administrative expenses have increased slightly as a result of increased sales but remain broadly aligned with the expenses in the comparative quarter of 2015. For the six months ended June 30, 2016, the $332 increase in selling and administrative expenses are primarily related to sales and commissions related to the USA segment.

Operating income

Operating income of $3,130 in the current quarter compared to operating income of $3,402 reported in Q2/15, an unfavorable variance of $272.

In the six month period ended June 30, 2016, operating income of $3,124 compared to operating income of $3,437 reported in the comparative six month period of 2015, which is a decrease of $313.

Income before taxes

In the current quarter, income before taxes was $2,825 was reported as compared to income before taxes of $3,091 in Q2/15.

In the six month period ended June 30, 2016, income before taxes of $2,527 was reported as compared to income before taxes of $2,888 reported in the comparative six month period of 2015.

Income taxes

Income tax expense in the current period was $1,063 as compared to income tax expense of $971 in Q2/15. The effective income tax rate of 36.4% applied for the six month period is higher than the 29.4% income tax rate for the six month period of 2015 due to prior period tax adjustments.

Net income

Net income of $1,762 in the current quarter compares to net income of $2,120 reported in the comparative quarter of 2015. In the six month period ended June 30, 2016, net income was $1,607 compared to net income of $2,040 in the comparative six month period of 2015.

Earnings per share

Basic earnings per share in the current quarter were $0.26 as compared to earnings per share of $0.32 reported in Q2/15. In the six month period ended June 30, 2016, earnings per share of $0.24 compares to a loss per share of $0.30 reported in the comparative six month period of 2016.

5. Reportable operating segments

The Corporation has two reportable operating segments:

Operating segments	Description of segments
Canada	Manufacturing and sales operations located in Canada for expanded polystyrene (EPS) products and structural insulating panels *Brands*: Plasti-Fab® EPS Product Solutions®; Advantage ICF System®; and Insulspan® SIPS; DuroFoam®
United States of America (USA)	Manufacturing and sales operations located in the USA for EPS products, building systems and structures, design services and installations *Brands*: Plasti-Fab® EPS Product Solutions®; Insulspan® SIPS; DuroSpan™; Riverbend® Timber Framing; Precision Craft® Log & Timber Homes; M.T.N. Design℠; Total Home Solution®; Point Zero™; TimberScape ™

Each operating segment mirrors the Corporation's accounting policies (as described in note 2 to the audited consolidated financial statements for the years ended December 31, 2015 and 2014) and its internal controls and reporting systems.

Segment performance predominantly focuses on the types of goods and services offered and their geographical locations of manufacturing and distribution. The chief operating decision maker evaluates performance on the basis of operating income or loss, as reported on a periodic basis. This performance measure is considered to be the most relevant in evaluating the results of each operating segment.

5.1 Segment revenues and income

Segment sales represent sales revenues directly attributable to each segment after inter-segment sales have been eliminated (see supplemental disclosures in the other segment information table). There are varying levels of integration between each segment.

Segment operating income or loss represents the income or loss reported by each segment excluding any allocations of corporate income or expenses and foreign exchange gains or losses arising on an inter-segment loan.

Information regarding each reportable operating segment for the three and six month periods ended June 30, 2016 and 2015, is set out below:

Three month periods ended June 30	**Sales revenues**		**Operating income**	
	2016	**2015**	**2016**	**2015**
Canada	**$ 18,565**	$ 21,587	**$ 1,746**	$ 3,372
USA	**9,915**	5,729	**1,380**	32
Totals for segments	**$ 28,480**	$ 27,316	**3,126**	3,404
Corporate – expense			**(36)**	(1)
Foreign exchange gain (loss) on inter-segment loan			**40**	(1)
Consolidated operating income			**$ 3,130**	$ 3,402

Six month periods ended June 30	**Sales revenues**		**Operating income (loss)**	
	2016	**2015**	**2016**	**2015**
Canada	**$ 30,987**	$ 34,933	**$ 2,195**	$4,205
USA	**16,650**	9,915	**1,025**	(694)
Totals for segments	**$ 47,637**	$ 44,848	**3,220**	3,511
Corporate - expense			**(82)**	(66)
Foreign exchange loss on inter-segment loan			**(14)**	(8)
Consolidated operating income			**$ 3,124**	$ 3,437

(a) Canada

Sales

Sales generated by the Canadian segment decreased from $21,587 in Q2/15 to $18,565 in the current quarter, a decrease of 14% or $3,022, which contributed to year-to-date sales declining by $3,946 or 11.3% over the corresponding six month period of 2015 to $30,987 for the first six months of 2016.

In the oil producing regions of the Canadian segment, revenue decreased by 37% during Q2/16 and 49% for the six month period compared to the 2015 periods, respectively. The remaining Canadian operations experienced net growth in sales in both the current quarter and six month periods, when compared to the 2015 periods, respectively.

Operating income

The Canadian segment reported operating income of $1,746 in the current quarter, a decrease of $1,626 as compared to operating income of $3,372 reported in Q2/15.

In the six month period ended June 30, 2016, the Canadian segment reported operating income of $2,195 as compared to operating income of $4,205 in the comparative six month period of 2015, a negative variance of $2,010.

(b) USA

Sales

As reported in Canadian dollars, sales in the USA segment increased from $5,729 in Q2/15 to $9,915 in the current quarter, an increase of $4,186 or 73%. Average foreign exchange rates experienced by the Corporation during the periods reflected the continued devaluation of the Canadian currency from an average rate of $1.23 per US$1.00 in the 2015 comparative period, to an average rate of approximately $1.29 per US$1.00 in the current year periods. The increased sales include the Lester Prairie, Minnesota plant acquired at the end of 2015, which is performing satisfactorily and the integration of its operations with the Company is proceeding as expected.

Eliminating the effect of foreign exchange fluctuations, the sales, expressed in USA dollars, were $7,694 in the current quarter or 65% higher than Q2/15 sales of $4,656.

As reported in Canadian dollars, sales in the USA segment increased from $9,915 in six month period ending June 30, 2015 to $16,650 in the current six month period, an increase of $6,735 or 68%. Average foreign exchange rates experienced by the Corporation during the periods reflected the continued devaluation of the Canadian currency from an average rate of $1.24 per US$1.00 in the 2015 comparative period, to an average rate of approximately $1.33 per US$1.00 in the current six month period.

Eliminating the effect of foreign exchange fluctuations, the sales, expressed in USA dollars, were $12,621 in the current six month period or 57% higher than sales of $8,017 in the comparative six month period.

Operating income (loss)

The USA segment reported significantly improved operating income of $1,380 in the current quarter as compared to operating income of $32 in the comparative quarter of 2015. This represents an improvement of $1,348. In the six month period ended June 30, 2016, the USA segment reported an operating income of $1,025 as compared to an operating loss of $694 in the comparative six month period of 2015, a favorable variance of $1,719. The drivers of improvement were primarily of increased sales and improved gross margins.

5.2 Segment assets and liabilities

Management measures capital employed using net segmented assets. The reconciliation of segmented assets and liabilities in relation to consolidated assets and liabilities is set out in the table below:

	As at Jun 30, 2016	**As at Dec 31, 2015**
Assets		
Segmented assets	**$ 57,648**	$ 52,362
Assets not allocated to segments:		
Cash and cash equivalents	**10,542**	16,252
Freehold land and buildings	**7,310**	8,003
Restricted marketable securities	**2,583**	2,192
Corporate – income taxes recoverable	**13**	35
Total assets	**$ 78,096**	$ 78,844
Liabilities		
Segmented liabilities	**$ 15,103**	$ 15,703
Liabilities not allocated to segments:		
Finance lease obligations	**14,285**	14,471
Corporate – deferred income tax liability	**118**	2
Total liabilities	**$ 29,506**	$ 30,176
Net segmented assets		
Canada	**$ 35,301**	$ 27,713
USA	**7,244**	8,946

5.3 Other segment information

	Three month periods ended June 30		Six month periods ended June 30	
	2016	**2015**	**2016**	**2015**
Additions to non-current assets:				
Canada	**$ 623**	$ 270	**$ 2,008**	$ 642
USA	**159**	245	**213**	333
Total	**$ 782**	$ 515	**$ 2,221**	$ 975
Depreciation and amortization:				
Canada	**$ 631**	$ 648	**$ 1,258**	$ 1,297
USA	**185**	175	**373**	350
Total	**$ 816**	$ 823	**$ 1,631**	$ 1,647
Inter-segment sales	**$ 1,233**	$ 1,108	**$ 2,316**	$ 1,839

6. Liquidity

Sources of liquidity

The Corporation expects its current cash balances, future cash flows generated by operations, and unused credit facilities will be sufficient to fund its ongoing business requirements over the next twelve months, including: working capital; contractual obligations; and payment of regular dividends.

Cash

Cash and cash equivalent balances as at June 30, 2016 and December 31, 2015 were as follows:

	June 30, 2016	December 31, 2015
Cash held with banks	**$ 7,482**	$ 5,706
Short-term investments	**2,552**	10,025
Restricted cash	**508**	521
	$ 10,542	$ 16,252

PFB's cash balances typically fluctuate with the seasonality of its business. The reduction in cash in the six month period ended June 30, 2016, was primarily attributed to fund non-cash working capital requirements, corporate tax installments, capital expenditures, finance costs, and regular quarterly dividend payments.

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

Bank credit facilities

There were no changes to the Corporation's bank credit facilities during the current quarter.

Summary of cash flows

A summary of cash flows for the three and six month periods ended June 30, 2016 and 2015 are shown in the following table:

	Three month periods ended June 30		Six month periods ended June 30	
	2016	**2015**	**2016**	**2015**
Net cash flows from (used in):				
Operating activities	**$ 3,007**	$ 3,442	**$ (1,581)**	$ 1,963
Investing activities	**(704)**	(460)	**(2,003)**	(798)
Financing activities	**(924)**	(844)	**(1,790)**	(1,690)
Effect of foreign exchange on cash held in foreign currency - (loss) gain	**(17)**	(47)	**(336)**	229
Net increase (decrease) in cash and cash equivalents	**$ 1,362**	$ 2,091	**$ (5,710)**	$ (296)
Cash and cash equivalents – beginning of period	**9,180**	6,546	**16,252**	8,933
Cash and cash equivalents – end of period	**$ 10,542**	$ 8,637	**$ 10,542**	$ 8,637

(a) Operating activities

Net cash from operating activities was $3,007 in the current quarter as compared to $3,442 in the comparative quarter of 2015, a decrease of $435. In the six month period ended June 30, 2016, net cash used in operating activities was $1,581 versus net cash from operating activities of $1,963 in the comparative six month period of 2015, a variance of $3,544.

Generally, net cash from operating activities decreased as a result of increased changes in non-cash working capital and corporate income tax payments, as compared to the 2015 comparative periods.

(b) Investing activities

Net cash used in investing activities was $704 in the current quarter as compared to cash flows used in investing activities of $460 in Q2/15. In the six month period ended June 30, 2016, net cash used in investing activities was $2,003 versus net cash from investing activities of $798 in the comparative six month period of 2015. Capital expenditures in the current year of $2,221 for property, plant, equipment and intangible assets were $1,246 higher than capital expenditures for the same period in 2015 of $975.

(c) Financing activities

Net cash used in financing activities in the current quarter was $924 as compared to net cash used in financing activities of $844 in the comparative quarter of 2015.

In the six month period ended June 30, 2016, net cash flows used in financing activities were $1,790 versus $1,690 in the comparative six month period of 2015. Net cash used in financing activities increased primarily due to increased dividend payments.

The changes in non-cash working capital amounts which occurred in the six month period ended June 30, 2016 are shown in the following table:

	Jun 30, 2016	Dec 31, 2015	Change
Trade receivables	**$ 11,753**	$ 7,535	$ 4,218
Inventories	**11,056**	10,069	987
Prepaid expenses	**1,209**	932	277
Trade and other payables	**(8,204)**	(8,903)	699
Deferred revenue	**(5,109)**	(3,408)	(1,701)
	$ 10,705	$ 6,225	$ 4,480

Non-cash working capital increased in the six month period ended June 30, 2016 by $4,480 (2015 - $2,573).

The increased trade receivables balance is reflective of higher sales and the seasonality of the sales cycle.

Inventory levels have increased since the beginning of the year, which is normal in the operating cycle, and are comparable to Q2/15 levels, with the exception of finished goods which are $647 higher than at December 31, 2015.

The decrease in trade and other payables of $699 since the beginning of the year is reflective of normal operating activities and payment of goods.

Deferred revenue has increased in the current six month period by an aggregate amount of $1,701, reflective of continued increased sales contract activity in the USA segment.

7. Capital resources

Capital structure

The Corporation's capital structure as at June 30, 2016 and December 31, 2015, consisted of shareholder's equity in the amounts of $48,590 and $48,668, respectively.

Share capital

The Corporation has one class of publicly traded voting common shares. A summary of the Corporation's share capital position as at June 30, 2016 and December 31, 2015, is set forth in the following table:

	June 30, 2016 (Six Months)		**December 31, 2015 (Twelve Months)**	
	Number of Common Shares	**Amount**	**Number of Common Shares**	**Amount**
Balance, beginning of period	**6,716,003**	**$ 20,947**	6,716,003	$ 20,947
Repurchased pursuant to normal course issuer bid	**-**	**-**	-	-
Balance, end of period	**6,716,003**	**$ 20,947**	6,716,003	$ 20,947

Share-based options

The Corporation does not have any outstanding share-based options.

Dividends

In the first quarter of 2016, the Corporation's board of directors declared a regular quarterly dividend of $0.06 (2015 - $0.06) per common share which was paid in the month of February in each year, respectively. The dividend payment in February 2016 amounted to $403 (2015 - $403).

In the second quarter of 2016, the Corporation's board of directors declared a regular quarterly dividend of $0.07 (2015 - $0.06) per common share which was paid in the month of May in each year, respectively. The dividend payment in May 2016 amounted to $470 (2015 - $403).

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 and six month periods ended June 30, 2016 and 2015, the Corporation did not purchase any of its common shares for cancellation under a normal course issuer bid.

Comprehensive income

Comprehensive income consists of net income or loss, together with certain other economic gains and losses which, collectively, are described as "other comprehensive income" and those items are excluded from the consolidated statements of income.

A summary of comprehensive income (loss) for the three and six month periods ended June 30, 2016 and 2015 is as follows:

	Three month periods ended June 30		Six month periods ended June 30	
	2016	**2015**	**2016**	**2015**
Net income for the period	**$ 1,762**	$ 2,120	**$ 1,607**	$ 2,040
Other comprehensive income (loss)	**61**	(334)	**(812)**	1,177
Comprehensive income for the period	**$ 1,823**	$ 1,786	**$ 795**	$ 3,217

In the second quarter of 2016, comprehensive income was $1,823 as compared to comprehensive income of $1,786 in the comparative quarter of 2015. Other comprehensive income of $61 in the current quarter consisted of a loss of $82 (Q2/15 – loss of $204) attributed to foreign currency translation when consolidating PFB's USA operations, and a gain of $143 (Q2/15 – loss of $130) representing unrealized gains on restricted marketable securities, net of tax.

Included in accumulated comprehensive income at June 30, 2016, were foreign currency translation adjustments totaling $2,688, marketable securities adjustments of $30, net of tax and $(31) of defined benefit valuation changes, net of tax for total accumulated other comprehensive income of $2,687.

Long-term debt

The Corporation had no long-term debt as at June 30, 2016.

8. Commitments and contractual obligations

8.1 Leases and commitments for PP&E and intangible assets

PFB's contractual obligations and commitments as at June 30, 2016 and December 31, 2015, are as outlined in the following table:

Contractual obligations (Payment due periods)	**Total**	**Within 1 year**	**2–3 years**	**4–5 years**	**Over 5 years**
As at June 30, 2016					
Finance lease obligations	**$ 30,453**	**$ 1,739**	**$ 3,398**	**$ 3,368**	**$ 21,948**
Operating lease obligations	**16,391**	**1,877**	**2,898**	**1,955**	**9,661**
Commitments for PP&E and intangible assets	**635**	**635**	**-**	**-**	**-**
Total contractual obligations	**$ 47,479**	**$ 4,251**	**$ 6,296**	**$ 5,323**	**$ 31,609**
As at December 31, 2015					
Finance lease obligations	$ 31,347	$ 1,803	$ 3,387	$ 3,384	$ 22,773
Operating lease obligations	16,239	1,587	2,655	1,892	10,105
Commitments for PP&E and intangible assets	2,250	2,250	-	-	-
Total contractual obligations	$ 49,836	$ 5,640	$ 6,042	$ 5,276	$ 32,878

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

8.2 Performance bonds

As at June 30, 2016, the Canadian segment did not have any performance bonds outstanding (December 31, 2015 - $nil). In the USA, performance bonds in the amount of $616 were pledged to various government agencies as at June 30, 2016 (December 31, 2015 - $608).

9. Financial instruments

The Corporation holds marketable securities in the form of units of a Canadian REIT which is the landlord of certain buildings being leased. The units are restricted as they have been pledged as security for minimum rent obligations for a period of ten years during which time they will be held in an escrow account. The units have been classified as long-term restricted marketable securities on the condensed consolidated balance sheet as at June 30, 2016. The units are marked-to-market based on the quoted price of the units at the end of each accounting period with unrealized gains or losses recorded in other comprehensive income, net of tax.

The Canadian REIT currently pays monthly distributions on the units and the distributions flow to the Corporation as they are paid. The distributions have been included in investment income in the consolidated statement of income.

10. Current Outlook

Consolidated revenue growth is generally meeting management’s expectations. Revenue growth in the USA segment reflects improvements across all operating units and increased 65% during Q2/16 and 57% for the six months when compared to the comparative periods in US dollars. The increased sales include the Lester Prairie, Minnesota plant acquired at the end of 2015, which is performing satisfactorily and the integration of its operations with the Company is proceeding as expected. Gross margins earned by the USA operations, overall, are improving from historical levels but are still less than those earned by the Canadian operations. Therefore the effect of revenue growth in the USA has been to reduce consolidated gross margin percentages.

In the oil producing regions of the Canadian segment, revenue decreased by 37% during Q2/16 and 49% for the six month period, when compared to the previous 2015 periods, respectively. The remaining Canadian operations experienced net growth in sales in both the current quarter and the six month periods, when compared to the previous 2015 periods, respectively. It is expected that the economies of the oil producing region of Canada will continue to be negatively impacted as the year progresses. Currently, our orders on hand, design work-in-progress, the pace of quoting and new order intake remain firm. In addition, order books in the USA segment continue to demonstrate strong, year-over-year growth.

The volatility of the Canadian currency during the second quarter reduced from prior periods, although average foreign exchange rates experienced by the Corporation during the periods reflected the continued devaluation of the Canadian currency from an average rate of $1.24 per US$1.00 in the 2015 comparative period to an average rate of approximately $1.33 per US$1.00 in the current six month period. The Corporation acquires raw materials priced in US dollars and benefits from the natural hedge of generating cash through the USA segment. The Corporation does not engage in foreign exchange hedging operations.

Following the course of crude oil price declines in the fourth quarter of 2014, input costs of our main raw material, styrene, decreased. Raw material costs have traded in a narrow range subsequently, but began trending upwards during the first quarter of 2016. Throughout the second quarter, raw material pricing of chemical inputs has traded in a narrow range but wood and timber inputs have continued to increase. Gross margins, as a percentage of sales, fluctuate seasonally and are generally at the lowest levels during the first and fourth quarters. Our manufacturing operations remain focused on delivering operational efficiencies over the course of the year to build on the successful outcomes being achieved. Minor equipment upgrades have been implemented in several plants and normal rate of capital spending are planned for the balance of 2016.

PFB’s balance sheet remains strong, with good liquidity, and our focus is to maintain financial strength.

11. Off-balance sheet arrangements

The Corporation does not believe it has any off-balance sheet arrangements (other than what has been reported in this MD&A) that have, or are reasonably likely to have, a current or future material effect on the Corporation’s financial condition, results of operations, or liquidity.

12. Disclosure controls and procedures (DC&P)

The Corporation’s disclosure controls and procedures have been designed to provide reasonable assurance that all material information relating to PFB and its operations is identified and communicated to the Chief Executive Officer (CEO) and

Chief Financial Officer (CFO), as it becomes known so that appropriate decisions can be made regarding public disclosures, as required under the continuous disclosure requirements of securities legislation.

An evaluation of the effectiveness of the design and operation of the Corporation's disclosure controls and procedures was conducted as of June 30, 2016, 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.

Limitation scope of design

The Company has limited the scope of its DC&P and internal controls and procedures (ICFR) to exclude controls, policies and procedures of the Poly Foam operations acquired not more than 365 days before the last day of the period covered by the annual filing. The company elected to exclude it from the scope of certification as allowed by NI 52-109. The Company intends to perform such testing within one year of acquisition.

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

13. Internal controls over financial reporting (ICFR)

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

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

As at June 30, 2016, the CEO and CFO assessed the effectiveness of the Corporation's internal control over financial reporting and concluded that it was effective and that no material weaknesses in the Corporation's internal control over financial reporting had been identified.

14. Critical accounting policies and estimates

The Corporation prepares its financial statements in accordance with IFRS, which requires assumptions and estimates to be made. The assumptions and estimates require certain judgments to be made which are based on historical experience, current trends, and all information deemed relevant at the time financial statements are prepared.

The Corporation's annual audited consolidated financial statements for the year ended December 31, 2015 and its 2015 annual MD&A outlined the accounting policies and estimates that are critical to the understanding of the Corporation's results of operations and its businesses.

15. Subsequent event

On July 28, 2016, the Corporation's board of directors declared a regular quarterly dividend of $0.07 per common share. The dividend will be paid on August 26, 2016, to shareholders of record at the close of business on August 12, 2016.

16. Related party transactions

There have been no material changes in related party transactions in the three and six month periods ended June 30, 2016.

17. Risk management and assessment

Detailed descriptions of the Corporation's risk management and assessment can be found in the Corporation's annual MD&A for 2015. There have been no material changes in the uncertainties and material risk factors facing the Corporation since December 31, 2015.

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

New and revised IFRSs effective for annual periods starting on January 1, 2016:

The following amendments to certain accounting standards were effective for annual periods beginning on or after January 1, 2016 and have been adopted by the Corporation, as applicable:

- **Amendments to IAS 1 *Presentation of Financial Statements***
  The amendments clarify guidance on materiality and aggregation, use of subtotals, aggregation and disaggregation of financial statement line items, the order of the notes to the financial statements and disclosure of significant accounting policies.

- **Amendments to IFRS 7 *Financial Instrument: Disclosures***
  The amendments clarify whether a servicing contract is continuing involvement in a transferred asset for the purpose of determining the disclosures required and the applicability of the amendments to IFRS 7 on offsetting disclosures to condensed interim financial statements.

- **Amendments to IAS 34 *Interim Financial Reporting***
  The amendments clarify the requirement relating to information required by IAS 34 that is presented elsewhere within the interim financial report but outside the interim financial statements.

- **Amendments to IFRS 14 *Regulatory Deferral Accounts***
  The amendments are applicable to first-time adopters of IFRS with rate-regulated activities.

- **Amendments to IFRS 10 *Consolidated Financial Statements*; IFRS 12 *Disclosure of Interest in Other Entities*; IAS 28 *Investments in Associates and Joint Ventures***
  The amendments address issues in applying the consolidation exception for investment entities.

- **Amendments to IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*; IFRS 7 *Financial Instruments: Disclosures*; IAS 19 *Employee Benefits*; IFRS 34 *Interim Financial Reporting***
  The minor amendments are related to the Annual Improvement to IFRSs 2012-2014 Cycle.

- **Amendments to IAS 27 *Equity Method in Separate Financial Statements***
  The amendments reinstate the equity method as an accounting option for investments in subsidiaries, joint ventures and associates in an entity's separate financial statements.

- **Amendments to IAS 16 *Property, Plant and Equipment*; IAS 41 *Agriculture***
  The amendments clarify to include bearer plants within the scope of IAS 16 rather than IAS 41.

- **Amendments to IAS 16 *Property, Plant and Equipment*; IAS 38 *Intangible Assets***
  The amendments clarify that revenue-based methods to calculate depreciation of an asset are not appropriate, except in two limited circumstances.

- **Amendments to IFRS 11 *Joint Arrangements: Accounting for Acquisition of Interest in Joint Operations***
  The amendments clarify to add new guidance to IFRS 11 on accounting for the acquisition of an interest in a joint operation.

The Corporation has determined that the above amendments had no material impact on the disclosures or on amounts recognized in the condensed interim consolidated financial statements.

New and revised IFRSs issued in 2016 but not yet effective:

- **IAS 16 *Leases***
  In January 2016, the IASB issued IFRS 16 *Leases*, effective for the annual period beginning on or after January 1, 2019. The new standard on lease accounting will result in substantially all lessee leases being recognized on the statement of financial position.

- **Amendments to IAS 12 *Income Taxes***
  In January 2016, the IASB issued amendments to IAS 12 *Income Taxes*, effective for the annual period beginning on or after January 1, 2017. The amendments clarify the recognition of deferred tax assets for unrealized losses.

- **Amendments to IAS 7 *Statement of Cash Flows***
  In January 2016, the IASB issued amendments to IAS 12 *Statement of Cash Flows*, effective for the annual period beginning on or after January 1, 2017. The amendments clarify certain amendments to disclose changes in liabilities arising from financing activities.

- **Amendments to IFRS 15 *Revenue from Contracts with Customers***
  In April 2016, the IASB issued amendments to IFRS 15 *Revenue from Contracts with Customers*, effective for the annual period beginning on or after January 1, 2018. The amendments clarify certain aspects of the standard and provide some transition relief for modified and completed contracts.

Management has not yet evaluated the impact of these new standards on the Corporation's consolidated financial statement measurements and disclosures. The Corporation does not anticipate early adoption.

19. Non-GAAP and additional GAAP measures

PFB uses measurements primarily based on IFRS as issued by the International Accounting Standards Board and also certain secondary non-GAAP measurements.

The non-GAAP measures used by PFB are considered to be useful as complimentary measures in assessing PFB's financial performance. Non-GAAP measurements do not have a standardized meaning prescribed by IFRS and, as such, are unlikely to be comparable in definition to similar measures presented by other companies.

The definitions of non-GAAP and additional GAAP measurements used in this MD&A are stated below:

Measure	**Definition**
Funds flow from operations	Net cash flows generated by operating activities before changes in non-cash working capital, changes in deferred operating lease obligations, unrealized foreign exchange gain or loss relating to non-cash working capital, and income taxes paid or recovered.
EBITDA	Represents earnings before interest, taxes, depreciation and amortization. EBITDA is an absolute measure of our operating performance and provides an indication of the results generated by our business activities prior to how the activities are financed, how assets are depreciated and amortized, or how results are taxed.
Funds flow from operations per share	Funds flow from operations divided by the weighted average number of shares issued and outstanding for the year.
EBITDA per share	EBITDA divided by the basic weighted average number of shares outstanding in the period.
Gross profit	Gross profit represents sales less cost of sales.
Operating income	Operating income shows us how we have performed before the effects of certain non-operating expenses, financing decisions and taxes.
Gross profit margin	Gross profit divided by sales expressed as a percentage.

The following table shows the reconciliation of quarterly net income (loss) to quarterly EBITDA and related per share amounts for the current quarter and previous seven quarters:

	2016 Q2	2016 Q1	2015 Q4	2015 Q3	2015 Q2	2015 Q1	2014 Q4	2014 Q3
Net income (loss) (As per financial statements)	**$ 1,762**	$ (155)	$ 836	$ 2,212	$ 2,120	$ (80)	$ 1,116	$ 1,549
Add back (deduct):								
Income taxes	**1,063**	(143)	308	865	971	(123)	532	576
Finance costs	**355**	358	356	356	358	360	359	359
Investment income	**(50)**	(66)	(63)	(55)	(47)	(59)	(51)	(44)
Depreciation	**935**	942	951	902	898	897	898	882
Amortization	**23**	19	38	39	53	58	67	49
EBITDA	**4,088**	955	2,426	4,319	4,353	1,053	2,921	3,371
EBITDA per share	**0.61**	0.14	0.36	0.64	0.65	0.16	0.43	0.50

Condensed Consolidated Financial Statements (Unaudited)

Notice of non-auditor review of condensed consolidated financial statements for the three and six month periods ended June 30, 2016 and 2015

The accompanying unaudited condensed consolidated financial statements of PFB Corporation for the three and six month periods ended June 30, 2016 and 2015 are the responsibility of the Corporation's management.

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

Dated: July 28, 2016

Condensed Interim Consolidated Statements of Income

For the three and six month periods ended June 30, 2016 and 2015
Thousands of Canadian dollars, except per share amounts

	Note	Three month periods ended June 30 2016	Three month periods ended June 30 2015	Six month periods ended June 30 2016	Six month periods ended June 30 2015
Sales		**$ 28,480**	$ 27,316	**$ 47,637**	$ 44,848
Cost of sales	6	**(21,014)**	(19,711)	**(36,328)**	(33,718)
Gross profit		**7,466**	7,605	**11,309**	11,130
Selling expenses		**(2,666)**	(2,623)	**(5,209)**	(4,877)
Administrative expenses		**(1,648)**	(1,574)	**(2,915)**	(2,770)
Other losses		**(22)**	(6)	**(61)**	(46)
Operating income		**3,130**	3,402	**3,124**	3,437
Gain on sale of real estate		**-**	-	**-**	63
Investment income		**50**	47	**116**	106
Finance costs		**(355)**	(358)	**(713)**	(718)
Income before taxes		**2,825**	3,091	**2,527**	2,888
Income taxes expense		**(1,063)**	(971)	**(920)**	(848)
Net income for the period		**$ 1,762**	$ 2,120	**$ 1,607**	$ 2,040
Earnings per share - $ per share					
Basic and diluted		**$ 0.26**	$ 0.32	**$ 0.24**	$ 0.30
Weighted average number of common shares outstanding					
Basic and diluted		**6,716,003**	6,716,003	**6,716,003**	6,716,003

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

Consolidated Statements of Comprehensive Income

For the three and six month periods ended June 30, 2016 and 2015
Thousands of Canadian dollars

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	Note	Three month periods ended June 30		Six month periods ended June 30	
		2016	**2015**	**2016**	**2015**
Net income for the period		**$ 1,762**	$ 2,120	**$ 1,607**	$ 2,040
Other comprehensive income (loss):					
Items that may subsequently be reclassified to income:					
Foreign currency translation adjustments					
Exchange differences on translating foreign operations		**(82)**	(204)	**(1,097)**	1,078
Restricted available for sale financial assets	10				
Unrealized gain (losses) on available for sale financial assets, net of tax		**143**	(130)	**285**	99
Other comprehensive income (loss) for the period		**61**	(334)	**(812)**	1,177
Comprehensive income for the period		**$ 1,823**	$ 1,786	**$ 795**	$ 3,217

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

Condensed Interim Consolidated Balance Sheets

As at June 30, 2016 and 2015, and December 31, 2015
Thousands of Canadian dollars

	Note	June 30, 2016	June 30, 2015	December 31, 2015
ASSETS				
Current assets				
Cash and cash equivalents		**$ 10,542**	$ 8,637	$ 16,252
Trade receivables	10	**11,753**	13,207	7,535
Inventories	6	**11,056**	9,976	10,069
Income taxes recoverable		**221**	1	35
Prepaid expenses		**1,209**	945	932
Total current assets		**34,781**	32,766	34,823
Non-current assets				
Marketable securities - restricted	10	**2,583**	2,362	2,192
Property, plant and equipment	7	**35,676**	34,220	36,022
Intangible assets		**1,440**	1,382	1,521
Goodwill		**2,265**	2,210	2,385
Deferred income tax assets		**1,351**	1,936	1,901
Total non-current assets		**43,315**	42,110	44,021
Total assets		**$ 78,096**	$ 74,876	$ 78,844
LIABILITIES				
Current Liabilities				
Trade and other payables	10	**$ 8,204**	$ 8,379	$ 8,903
Deferred revenue		**5,109**	4,393	3,408
Income taxes payable		**-**	821	1,497
Finance lease obligations	8, 10	**331**	333	384
Total current liabilities		**13,644**	13,926	14,192
Non-current liabilities				
Finance lease obligations	8, 10	**13,954**	13,981	14,087
Deferred operating lease obligations	10	**436**	298	341
Accrued defined benefit pension plan		**180**	56	180
Deferred income tax liabilities		**1,292**	1,583	1,376
Total non-current liabilities		**15,862**	15,918	15,984
Total liabilities		**29,506**	29,844	30,176
SHAREHOLDERS' EQUITY				
Common shares		**20,947**	20,947	20,947
Accumulated other comprehensive income		**2,687**	2,105	3,499
Retained earnings		**24,956**	21,980	24,222
Shareholders' equity		**48,590**	45,032	48,668
Total liabilities and shareholders' equity		**$ 78,096**	$ 74,876	$ 78,844

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

Consolidated Statements of Changes in Equity
As at June 30, 2016 and 2015, and December 31, 2015
Thousands of Canadian dollars, except number of shares

		Common shares		Accumulated other comprehensive income				
	Note	**No. of Shares**	**Share capital**	**Foreign currency translation adjustments, net of taxes**	**Unrealized gain on available for sale assets, net of taxes**	**Defined benefit pension plan valuation change, net of taxes**	**Retained earnings**	**Total**
Balances at January 1, 2015		**6,716,003**	**$ 20,947**	**$ 1,083**	**$ (229)**	**$ 74**	**$ 20,746**	**$ 42,621**
Net loss for the period		-	-	-	-	-	2,040	2,040
Other comprehensive income (loss) for the period, net of tax		-	-	1,078	99	-	-	1,177
Total comprehensive income (loss) for the period		-	-	1,078	99	-	2,040	3,217
Payment of dividends	9	-	-	-	-	-	(806)	(806)
Balances at June 30, 2015		**6,716,003**	**$ 20,947**	**$ 2,161**	**$ (130)**	**$ 74**	**$ 21,980**	**$ 45,032**
Net income for the period		-	-	-	-	-	3,048	3,048
Other comprehensive income (loss) for the period, net of tax		-	-	1,624	(125)	(105)	-	1,394
Total comprehensive income (loss) for the period		-	-	1,624	(125)	(105)	3,048	4,442
Payment of dividends	9	-	-	-	-	-	(806)	(806)
Balances at December 31, 2015		**6,716,003**	**$ 20,947**	**$ 3,785**	**$ (255)**	**$ (31)**	**$ 24,222**	**$ 48,668**
Net income for the period		-	-	-	-	-	1,607	1,607
Other comprehensive income (loss) for the period, net of tax		-	-	(1,097)	285	-	-	(812)
Total comprehensive income (loss) for the period		-	-	(1,097)	285	-	1,607	795
Payment of dividends	9	-	-	-	-	-	(873)	(873)
Balances at June 30, 2016		**6,716,003**	**$ 20,947**	**$ 2,688**	**$ 30**	**$ (31)**	**$ 24,956**	**$ 48,590**

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

Condensed Interim Consolidated Statements of Cash Flows

For the three and six month periods ended June 30, 2016 and 2015
Thousands of Canadian dollars

	Note	Three month periods ended June 30		Six month periods ended June 30	
		2016	2015	**2016**	2015
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES					
Net income for the period		**$ 1,762**	$ 2,120	**$ 1,607**	$ 2,040
Adjustments for:					
Depreciation expense	7	**935**	898	**1,877**	1,795
Amortization expense		**23**	53	**42**	111
Gain on disposal of property, plant and equipment		**(4)**	(8)	**(69)**	(8)
Gain on sale of real estate		**-**	-	**-**	(63)
Finance costs		**355**	358	**713**	718
Investment income		**(50)**	(47)	**(116)**	(106)
Income tax expense		**1,063**	971	**920**	848
Unrealized foreign exchange (gain) loss		**(18)**	37	**314**	(21)
Funds flow from operations		**4,066**	4,382	**5,288**	5,314
Changes in non-cash working capital	12	**(500)**	(795)	**(4,480)**	(2,573)
Changes in deferred operating lease obligations		**21**	22	**95**	121
Unrealized foreign exchange loss (gain) relating to non-cash working capital		**18**	(11)	**(102)**	(52)
Cash from operating activities		**3,605**	3,598	**801**	2,810
Income taxes paid		**(598)**	(156)	**(2,382)**	(847)
Net cash from (used in) operating activities		**3,007**	3,442	**(1,581)**	1,963
CASH FLOWS USED IN INVESTING ACTIVITIES					
Purchase of property, plant and equipment	7,12	**(750)**	(467)	**(2,168)**	(868)
Purchase of intangible assets		**(32)**	(48)	**(53)**	(107)
Proceeds from disposal of property, plant and equipment		**28**	8	**102**	8
Proceeds from sale of real estate		**-**	-	**-**	63
Interest received		**11**	8	**38**	28
Distributions received from marketable securities		**39**	39	**78**	78
Net cash used in investing activities		**(704)**	(460)	**(2,003)**	(798)
CASH FLOWS USED IN FINANCING ACTIVITIES					
Repayment of finance lease obligations		**(99)**	(83)	**(204)**	(166)
Finance costs paid		**(355)**	(358)	**(713)**	(718)
Dividends paid to shareholders	9	**(470)**	(403)	**(873)**	(806)
Net cash used in financing activities		**(924)**	(844)	**(1,790)**	(1,690)
Effects of exchange rate changes on the balance of cash held in foreign currencies – (loss) gain		**(17)**	(47)	**(336)**	229
Net increase (decrease) in cash and cash equivalents		**1,362**	2,091	**(5,710)**	(296)
Cash and cash equivalents at the beginning of the period		**9,180**	6,546	**16,252**	8,933
Cash and cash equivalents at the end of the period		**$ 10,542**	$ 8,637	**$ 10,542**	$ 8,637

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

1. General information

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

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

2. Statement of compliance

These interim condensed consolidated financial statements for the three and six month periods ended June 30, 2016 and 2015, have been prepared in accordance with International Accounting Standard (IAS) 34, *Interim Financial Reporting*. Accordingly, certain information and footnote disclosure normally included in annual financial statements prepared in accordance with International Financial Reporting Standards (IFRS) have been omitted. These interim condensed consolidated financial statements should be read in conjunction with the Corporation's audited consolidated financial statements for the years ended December 31, 2015 and 2014.

These interim condensed consolidated financial statements were approved and authorized for issue by the board of directors of the Corporation at a meeting held on July 28, 2016.

3. Significant accounting policies

3.1 Presentation

These interim condensed consolidated financial statements have been prepared in accordance with the significant accounting policies set out in the Corporation's audited consolidated financial statements for the years ended December 31, 2015 and 2014.

The Corporation's business is subject to seasonal variations and uncertainties. Sales of the Corporation's products are driven by consumer and industrial demand for insulation and building products. The timing of our customers' construction projects can be influenced by a number of factors including the prevailing economic climate and weather. Seasonality in the construction results in demand for the Corporation's products being stronger in the second and third quarters and less strong in the first and fourth quarters of its fiscal cycle. Accordingly, the results of operations for these reporting periods are not necessarily indicative of the results of operations over a full year cycle.

3.2 Consolidation

The interim condensed consolidated financial statements incorporate the accounts of the Corporation and its subsidiaries (entities controlled by the Corporation). All subsidiaries are wholly-owned by the Corporation.

All intra-group transactions, balances, income and expenses have been eliminated in full upon consolidation.

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

The following amendments to certain accounting standards were effective for annual periods beginning on or after January 1, 2016 and have been adopted by the Corporation, as applicable:

- **Amendments to IAS 1 *Presentation of Financial Statements***
  The amendments clarify guidance on materiality and aggregation, use of subtotals, aggregation and disaggregation of financial statement line items, the order of the notes to the financial statements and disclosure of significant accounting policies.

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  The amendments clarify whether a servicing contract is continuing involvement in a transferred asset for the purpose of determining the disclosures required and the applicability of the amendments to IFRS 7 on offsetting disclosures to condensed interim financial statements.

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  The amendments clarify the requirement relating to information required by IAS 34 that is presented elsewhere within the interim financial report but outside the interim financial statements.

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  The amendments address issues in applying the consolidation exception for investment entities.

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  The minor amendments are related to the Annual Improvement to IFRSs 2012-2014 Cycle.

- **Amendments to IAS 27 *Equity Method in Separate Financial Statements***
  The amendments reinstate the equity method as an accounting option for investments in subsidiaries, joint ventures and associates in an entity's separate financial statements.

- **Amendments to IAS 16 *Property, Plant and Equipment*; IAS 41 *Agriculture***
  The amendments clarify to include bearer plants within the scope of IAS 16 rather than IAS 41.

- **Amendments to IAS 16 *Property, Plant and Equipment*; IAS 38 *Intangible Assets***
  The amendments clarify that revenue-based methods to calculate depreciation of an asset are not appropriate, except in two limited circumstances.

- **Amendments to IFRS 11 *Joint Arrangements: Accounting for Acquisition of Interest in Joint Operations***
  The amendments clarify to add new guidance to IFRS 11 on accounting for the acquisition of an interest in a joint operation.

The Corporation has determined that the amendments had no material impact on the disclosures or on amounts recognized in the interim condensed consolidated financial statements.

3.4 New and revised IFRSs issued in 2016 but not yet effective

- **IAS 16 *Leases***
  In January 2016, the IASB issued IFRS 16 *Leases*, effective for the annual period beginning on or after January 1, 2019. The new standard on lease accounting will result in substantially all lessee leases being recognized on the statement of financial position.

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  In January 2016, the IASB issued amendments to IAS 12 *Income Taxes*, effective for the annual period beginning on or after January 1, 2017. The amendments clarify the recognition of deferred tax assets for unrealized losses.

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  In April 2016, the IASB issued amendments to IFRS 15 *Revenue from Contracts with Customers*, effective for the annual period beginning on or after January 1, 2018. The amendments clarify certain aspects of the standard and provide some transition relief for modified and completed contracts.

Management has not yet evaluated the impact of these new standards on the Corporation's consolidated financial statement measurements and disclosures. The Corporation does not anticipate early adoption.

Thousands of Canadian dollars, except per share amounts

4. Critical accounting estimates and judgments

The preparation of financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported carrying amounts of assets and liabilities and the results of operations.

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

There were no significant changes in how accounting estimates or judgments have been determined in the interim periods presented.

5. Segment information

The Corporation has two reportable operating segments, Canada and the USA, and each segment applies the same accounting policies, internal controls and reporting systems. Segment performance predominantly focuses on the types of goods and services provided and their geographical locations of manufacturing and distribution.

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

5.1 Segment revenues and income

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

The Canadian segment primarily derives its revenues from the sale of expanded polystyrene (“EPS”) foam products, which it manufactures at its facilities in Canada. The USA segment primarily derives its revenues from the sale of EPS foam products, customized log and timber structures made at its facilities in the United States, along with providing design and installation services for its manufactured products.

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

Information regarding each reportable operating segment for three and six month periods ended June 30, 2016 and 2015 are set out below:

Three month periods ended June 30	**Sales revenues**		**Operating income**	
	2016	**2015**	**2016**	**2015**
Canada	**$ 18,565**	$ 21,587	**$ 1,746**	$ 3,372
USA	**9,915**	5,729	**1,380**	32
Totals for segments	**$ 28,480**	$ 27,316	**3,126**	3,404
Corporate – expense			**(36)**	(1)
Foreign exchange gain (loss) on inter-segment loan			**40**	(1)
Consolidated operating income			**$ 3,130**	$ 3,402

Six month periods ended June 30	**Sales revenues**		**Operating income (loss)**	
	2016	**2015**	**2016**	**2015**
Canada	**$ 30,987**	$ 34,933	**$ 2,195**	$ 4,205
USA	**16,650**	9,915	**1,025**	(694)
Totals for segments	**$ 47,637**	$ 44,848	**3,220**	3,511
Corporate – expense			**(82)**	(66)
Foreign exchange loss on inter-segment loan			**(14)**	(8)
Consolidated operating income			**$ 3,124**	$ 3,437

Thousands of Canadian dollars, except per share amounts

5.2 Segment assets and liabilities

Management measures capital employed using net segmented assets. The reconciliation of segmented assets and segmented liabilities in relation to total consolidated assets and liabilities is set out in the table below:

	As at June 30, 2016	As at Dec 31, 2015
Assets		
Segmented assets	**$ 57,648**	$ 52,362
Assets not allocated to segments:		
Cash and cash equivalents	**10,542**	16,252
Freehold land and buildings	**7,310**	8,003
Restricted marketable securities	**2,583**	2,192
Corporate – income taxes recoverable	**13**	35
Total assets	**$ 78,096**	$ 78,844
Liabilities		
Segmented liabilities	**$ 15,103**	$ 15,703
Liabilities not allocated to segments:		
Finance lease obligations	**14,285**	14,471
Corporate – deferred income tax liability	**118**	2
Total liabilities	**$ 29,506**	$ 30,176
Net segmented assets		
Canada	**$ 35,301**	$ 27,713
USA	**7,244**	8,946

5.3 Other segment information

	Three month periods ended June 30		Six month periods ended June 30	
	2016	**2015**	**2016**	**2015**
Additions to non-current assets:				
Canada	**$ 623**	$ 270	**$ 2,008**	$ 642
USA	**159**	245	**213**	333
Total	**$ 782**	$ 515	**$ 2,221**	$ 975
Depreciation and amortization:				
Canada	**$ 631**	$ 648	**$ 1,258**	$ 1,297
USA	**185**	175	**373**	350
Total	**$ 816**	$ 823	**$ 1,631**	$ 1,647
Inter-segment sales	**$ 1,233**	$ 1,108	**$ 2,316**	$ 1,839

Thousands of Canadian dollars, except per share amounts

6. Inventories

	As at June 30, 2016	As at Dec 31, 2015
Raw materials	**$ 4,832**	$ 4,834
Work in progress	**2,922**	2,580
Finished goods	**3,302**	2,655
	$ 11,056	$ 10,069

The cost of inventories recognized as an expense in cost of sales during the three and six month periods ended June 30, 2016 was $18,694 and $32,549 (2015 - $17,393 and $30,041), respectively.

The cost of inventories recognized as an expense during the three and six month periods ended June 30, 2016, includes $103 and $231, respectively, (2015 - $158 and $273) in respect of write-downs of inventory to net realizable value.

There were no reversals of any cost to net realizable value write-downs in the three and six month periods ended June 30, 2016 or 2015.

Eligible inventories held by the Corporation’s Canadian and USA subsidiaries have been pledged as security with a bank in support of revolving credit facilities. The revolving credit facilities were unused as at June 30, 2016 and 2015.

7. Property, plant and equipment

Cost	Freehold land	Buildings	Plant and equipment	Assets under finance lease	Assets under construction	Total
Balance at January 1, 2015	**$ 2,197**	**$ 10,492**	**$ 36,657**	**$ 15,582**	**$ 410**	**$ 65,338**
Additions	-	-	6	52	862	920
Disposal of PP&E assets	-	-	(90)	-	-	(90)
Transfers between asset classes	-	1	644	-	(645)	-
Effect of foreign currency changes	73	454	414	18	13	972
Balance at June 30, 2015	**2,270**	**10,947**	**37,631**	**15,652**	**640**	**67,140**
Additions	-	-	-	312	1,298	1,610
Business combinations	822	184	148	-	-	1,154
Disposal of PP&E assets	-	-	(30)	(30)	-	(60)
Transfers between asset classes	-	446	854	-	(1,300)	-
Effect of foreign currency changes	116	691	650	36	32	1,525
Balance at December 31, 2015	**3,208**	**12,268**	**39,253**	**15,970**	**670**	**71,369**
Additions	-	-	19	49	2,149	2,217
Disposal of PP&E assets	-	-	(156)	(251)	-	(407)
Transfers between asset classes	-	9	624	29	(662)	-
Effect of foreign currency changes	(131)	(485)	(475)	(29)	-	(1,120)
Balance at June 30, 2016	**$ 3,077**	**$ 11,792**	**$ 39,265**	**$ 15,768**	**$ 2,157**	**$ 72,059**

Thousands of Canadian dollars, except per share amounts

Accumulated Depreciation						
Balance at January 1, 2015	**$ -**	**$ 4,911**	**$ 24,119**	**$ 1,824**	**$ -**	**$ 30,854**
Depreciation expense	-	323	1,000	472	-	1,795
Disposal of PP&E assets	-	-	(90)	-	-	(90)
Effect of foreign currency changes	-	145	212	4	-	361
Balance at June 30, 2015	**-**	**5,379**	**25,241**	**2,300**	**-**	**32,920**
Depreciation expense	-	347	1,026	480	-	1,853
Disposal of PP&E assets	-	-	(30)	(24)	-	(54)
Transfers between asset classes	-	-	-	-	-	-
Effect of foreign currency changes	-	257	360	11	-	628
Balance at December 31, 2015	**-**	**5,983**	**26,597**	**2,767**	**-**	**35,347**
Depreciation expense	-	364	1,011	502	-	1,877
Disposal of PP&E assets	-	-	(138)	(236)	-	(374)
Effect of foreign currency changes	-	(193)	(264)	(10)	-	(467)
Balance at June 30, 2016	**$ -**	**$ 6,154**	**$ 27,206**	**$ 3,023**	**$ -**	**$ 36,383**
Net book values						
June 30, 2015	$ 2,270	$ 5,568	$ 12,390	$ 13,352	$ 640	$ 34,220
December 31, 2015	3,208	6,285	12,656	13,203	670	36,022
June 30, 2016	**3,077**	**5,638**	**12,059**	**12,745**	**2,157**	**35,676**

Assets under construction as at June 30, 2016 are expected to be available for use in 2016.

Depreciation expense for the three and six month periods ended June 30, 2016, in the amounts of $814 and $1,639 (2015 - $792 and $1,580) is included in cost of sales, with amounts of $89 and $175 (2015 - $69 and $138) included in selling expenses, and amounts of $32 and $63 (2015 - $37 and $77) included in administrative expenses, respectively.

8. Finance lease obligations

The Corporation's finance lease obligations as at June 30, 2016, and December 31, 2015, are as stated in the following table:

	Minimum lease payments	
	Jun 30, 2016	**Dec 31, 2015**
No later than one year	**$ 1,739**	$ 1,803
Later than one year and not later than five years	**6,766**	6,771
Later than five years	**21,948**	22,773
Total minimum lease payments	**30,453**	31,347
Less: amounts representing finance costs	**16,168**	16,876
Present value of minimum lease payments	**$ 14,285**	$ 14,471

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

	Jun 30, 2016	**Dec 31, 2015**
Current	**$ 331**	$ 384
Long-term	**13,954**	14,087
Total	**$ 14,285**	$ 14,471

Thousands of Canadian dollars, except per share amounts

9. Issued capital

9.1 Normal Course Issuer Bid

In the three and six month periods ended June 30, 2016 and 2015, the Corporation did not purchase any of its common shares for cancellation under a normal course issuer bid.

9.2 Dividends

In the first quarter of 2016, the Corporation's board of directors declared a regular quarterly dividend of $0.06 (2015 - $0.06) per common share which was paid in February of each year, respectively. The dividend payment in February 2016 amounted to $403 (2015 - $403).

In the second quarter of 2016, the Corporation's board of directors declared a regular quarterly dividend of $0.07 (2015 - $0.06) per common share which was paid in May of each year, respectively. The dividend payment in May 2016 amounted to $470 (2015 - $403).

10. Financial instruments

10.1 Fair Value Hierarchy

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

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

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

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

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

The carrying amounts of the financial instruments are a reasonable approximation of their fair value. A summary of the classifications and carrying values of financial instruments held by the Corporation as at June 30, 2016 and December 31, 2015, are stated in the following table:

Financial instrument	Category	Measurement	Hierarchy	Jun 30, 2016 Carrying Amount	Dec 31, 2015 Carrying Amount
Cash and cash equivalents	FVTPL	Fair value	Level 1	**$ 10,542**	$ 16,252
Restricted marketable securities	Available for sale	Fair value	Level 1	**2,583**	2,192
Trade receivables	Loans and receivables	Amortized cost	N/A	**11,753**	7,535
Trade and other payables	Other financial liabilities	Amortized cost	N/A	**(8,204)**	(8,903)
Finance lease obligations	Other financial liabilities	Amortized cost	N/A	**(14,285)**	(14,471)
Deferred operating lease obligations	Other financial liabilities	Amortized cost	Level 2	**(436)**	(341)

During the second quarter of 2016, there were no transfers between level 1 and level 2 fair value measurements.

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

- The carrying amount of cash and cash equivalents, trade receivables, and trade and other payables approximate fair value due to the short-term maturity of those instruments.
- Marketable securities – restricted, consist of units of a publicly-traded Canadian REIT which are marked-to-market based on the quoted price of the units on the Toronto Stock Exchange at the end of each reporting period.

Thousands of Canadian dollars, except per share amounts

- The fair value of the obligations related to buildings and equipment under finance leases is comparable to their carrying amount given that rent is generally at market value.
- Deferred operating lease obligations consist of contracts that specify certain lease incentives and reflect timing differences between amounts expensed on a straight-line basis and when amounts are contractually paid to the lessors. The liability approximates the undiscounted, fair value of lease incentives reversing in the future.

11. Commitments and contingencies

11.1 Performance bonds

From time to time, under the terms of certain sales contracts, the Corporation's subsidiaries may be required to provide a performance bond as security should, in the unlikely event, the subsidiary not fulfil its contractual obligations. Performance bonds are considered normal practice for suppliers and contractors participating in larger construction projects, usually of a public nature. In the USA, government agencies in certain states have requirements for bonds to be posted when certain types of licensing applications are made in any of those states.

As at June 30, 2016, the Canadian segment did not have any performance bonds outstanding (December 31, 2015 - $ none). In the USA, performance bonds in the amount of $616 were pledged to various government agencies as at June 30, 2016 (December 31, 2015 - $608).

11.2 Expenditures for property, plant and equipment

As at June 30, 2016, the Corporation had commitments of $635 for purchasing property, plant and equipment.

12. Supplementary cash flow information

12.1 Changes in non-cash working capital

	Three month periods ended June 30		Six month periods ended June 30	
Increase (decrease) in:	**2016**	2015	**2016**	2015
Trade receivables	**$ 3,726**	$ 3,986	**$ 4,218**	$ 4,276
Inventories	**(906)**	(566)	**987**	1,082
Prepaid expenses	**54**	11	**277**	182
Trade and other payables	**(1,787)**	(1,656)	**699**	(1,290)
Deferred revenue	**(587)**	(980)	**(1,701)**	(1,677)
	$ 500	$ 795	**$ 4,480**	$ 2,573

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

	Three month period ended June 30		Six month period ended June 30	
	2016	2015	**2016**	2015
Property, plant and equipment acquired with finance lease obligations	**$ 24**	$ 52	**$ 49**	$ 52

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