First Quarter Report 2018

For the three month periods ended March 31, 2018 and 2017

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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 interim condensed consolidated financial statements for the three month periods ended March 31, 2018 and 2017 and notes thereto and in conjunction with the Corporation's annual MD&A for the year ended December 31, 2017.

PFB's unaudited interim condensed consolidated financial statements for the three month periods ended March 31, 2018 and 2017 have been prepared in accordance with International Accounting Standard ("IAS") 34, *Interim Financial Reporting*.

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

This MD&A has been prepared as of May 10, 2018. 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 May 10, 2018, 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, 2017.

2. Summary of quarterly financial data

	2018	2017				2016		
	Qtr. 1	Qtr. 4	Qtr. 3	Qtr. 2	Qtr. 1	Qtr. 4	Qtr. 3	Qtr. 2
Sales	**$ 21,048**	$ 28,045	$ 28,649	$ 29,376	$ 19,487	$ 25,058	$ 28,838	$ 28,480
Gross profit	**3,659**	6,266	6,645	5,473	2,944	5,932	7,434	7,466
Gross profit margin %	**17.4**	22.3	23.2	18.6	15.1	23.7	25.8	26.2
Operating (loss) income	**(805)**	1,712	2,273	745	(1,212)	2,039	3,104	3,130
Net (loss) income	**(701)**	1,240	1,519	412	(890)	1,145	1,936	1,762
(Loss) earnings per share:								
Basic and diluted	**(0.10)**	0.18	0.23	0.06	(0.13)	0.17	0.29	0.26
Adjusted EBITDA [1]	**131**	2,659	3,240	1,762	32	2,996	4,066	4,088
Adjusted EBITDA per share [1]	**0.02**	0.40	0.48	0.26	-	0.44	0.61	0.61

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

3. Consolidated statements of loss (unaudited)

	Three month periods ended March 31	
	2018	**2017**
Sales	**$ 21,048**	$ 19,487
Cost of sales	**(17,389)**	(16,543)
Gross profit	**3,659**	2,944
Selling expenses	**(2,836)**	(2,695)
Administrative expenses	**(1,580)**	(1,441)
Other losses	**(48)**	(20)
Operating loss	**(805)**	(1,212)
Gain on sale of marketable securities	**-**	275
Investment income	**32**	50
Finance costs	**(179)**	(280)
Loss before taxes	**(952)**	(1,167)
Income taxes recovery	**251**	277
Net loss for the period	**$ (701)**	$ (890)
Loss per share - $ per share		
Basic and diluted	**$ (0.10)**	$ (0.13)

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

4. Consolidated results of operations

Sales

The Corporation adopted IFRS 15, *Revenue from Contracts with Customers,* on January 1, 2018. There were no impacts to sales upon adoption.

Consolidated sales were $21,048, in the current quarter, an increase of $1,561 or 8.0% from sales of $19,487 in Q1/17. Both operating segments contributed to the overall growth in sales, with sales in the USA segment increasing markedly. Price increases initiated during Q1/17 and over the course of 2017, contributed to higher sales in certain regional markets, however sales increases were driven mainly from a large public works geotechnical light-weight fill project in the USA segment during Q1/18.

Gross profit

Consolidated gross profit was $3,659 in the current quarter as compared to $2,944 in Q1/17. Gross profit margin in the current quarter increased to 17.4% of sales as compared to a gross profit margin of 15.1% in Q1/17. The improvement was predominantly driven by higher sales and slightly reduced raw material input costs used in manufacturing, when compared as a percentage of sales, quarter-over-quarter. Improvements in overall labour and overhead costs also contributed to improved gross profit but were offset slightly by increased freight costs. The cost of inventories recognized as an expense in cost of sales during the three month period ended March 31, 2018 was $15,622, contrasted to $14,808 during the 2017 comparative period, an increase of $814 and related primarily to increased sales during the current quarter but decreased slightly when compared as a percentage of sales, quarter-over-quarter.

Operating loss

An operating loss of $805 was incurred in the current quarter, contrasted with operating loss of $1,212 reported in Q1/17 resulting in a positive variance of $407. Higher selling and administrative expenses of $280, when compared to the prior year period, contributed to an operating loss. However, as a percentage of sales, selling and administration costs are in line with prior year periods.

Loss before tax

In the current quarter, a loss before taxes of $952 compared to the loss before taxes of $1,167 reported in the comparative quarter of 2017, a positive variance of $215. The Q1/17 quarter included a gain of $275 relating to the sale of marketable securities, which if excluded would have resulted in a comparable loss before taxes of $1,442. Additionally, in the current quarter, three months of decreased finance costs contrasted with the prior quarter's one month of decreased finance costs, or a favourable reduction of $101.

Income taxes

Income tax recovery in the current quarter was $251, comparable to income tax recovery of $277 in Q1/17. The annual consolidated effective tax rate for 2018 is estimated to be 26.4%. The full utilization of non-capital losses in the USA segment during the course of the year is expected to result in additional taxes payable, at a combined rate of approximately 25%. The actual effective tax rate may be slightly higher than the estimate as it is dependent on the geographical mix of taxable income generated over the balance of the year and any changes to the statutory income tax rates.

Loss and loss per share

A loss of $701 resulted in the current quarter, which improved from a loss of $890 reported in the comparative quarter of 2017, a favourable variance of $189. The Q1/17 quarter included a gain of $275 relating to the sale of marketable securities, which if excluded would have resulted in a comparable loss $1,165.

Basic and diluted loss per common share in the current quarter was $0.10 as compared to a basic and diluted loss per share of $0.13 in Q1/17, a positive variance of $.03 per share.

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 ™

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

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, 2017 and 2016 and Note 3 of the condensed interim consolidated financial statements for the three month period ended March 31, 2018) and its internal controls and reporting systems.

Segment performance predominantly focuses on operating results and the manner in which resources are allocated based on Canadian and USA operations, respectively. The Canadian segment primarily derives its revenues from the sale of expanded polystyrene ("EPS") foam products, which it manufactures at its facilities in Canada. The USA segment primarily derives its revenues from the sale of EPS foam products, customized log and timber structures made at its facilities in the United States which typically include design and installation services that together provide the basis for a bundled sale of its manufactured products.

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 below). There are varying levels of integration between each segment.

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

Information for each reportable operating segment for the three month periods ended March 31 is set out below:

	Sales revenues		Operating loss	
	2018	**2017**	**2018**	**2017**
Canada	**$ 13,733**	$ 13,495	**$ (512)**	$ (673)
USA	**7,315**	5,992	**(421)**	(269)
Total for segments	**$ 21,048**	$ 19,487	**(933)**	(942)
Corporate – income (expense)			**129**	(268)
Foreign exchange loss on inter-segment settlements			**(1)**	(2)
Consolidated operating loss			**$ (805)**	$ (1,212)

(a) Canada

Sales

Sales generated by the Canadian segment increased marginally from $13,495 in the first quarter of 2017 to $13,733 in the current quarter, an increase of 1.8% or $238. Sales exhibited regional differences; however the majority of the increase was led in the provinces of Alberta and Ontario. Overall Canadian sales growth was slowed somewhat due to a longer winter season than is typical in Canada as it relates to construction activities.

Operating loss

The Canadian segment reported an operating loss of $512 for the current quarter compared to operating loss of $673 in Q1/17, an improvement of $161. The improvement was driven by a slight reduction in material costs, as a percentage of revenue, offset by higher selling and administrative costs.

(b) USA

Sales

As reported in Canadian dollars, USA segment sales in the current quarter increased to $7,315 from $5,992 in Q1/17 an increase of $1,323 or 22.1%. Sales to a large public works project in the State of Michigan contributed to the majority of the increase in sales. Shipments are expected to continue into the second quarter until the public works project is completed.

Offsetting sales in the US was the PFB Customs Homes Group and unfavourable foreign currency movements. Project delays due to weather and typical project revisions contributed to reduced sales in the PFB Custom Homes Group from prior year levels. The continued strengthening of the Canadian dollar throughout Q1/18, compared to Q1/17, created an slightly unfavorable currency effect when USA segment sales transacted in USA dollars are converted for consolidation purposes but a favourable effect when purchasing raw materials priced in USA dollars.

Average foreign exchange rates experienced by the Corporation during the periods reflected the appreciation of the Canadian currency from an average rate of $1.32 per US$1.00 in the 2017 comparative period to an average rate of approximately $1.27 per US$1.00 in the current period. Eliminating the effect of foreign exchange fluctuations, sales increased 27% for the period, in USA dollars and are primarily related to shipments of high density material to a large public works project in Q1/18.

Operating loss

The USA segment reported an operating loss of $421 in the current quarter from a loss of $269 in the comparative quarter of 2017, an unfavourable variance of $152.

A contributing factor of the operating loss was reduced sales in the PFB Custom Homes Group which translated into an operating loss. An operating loss within the Insulspan operations further contributed to the loss in the current quarter. Overall, the impact of the large public works project increased revenues, however this required substantially higher material and freight costs when compared to prior year period revenues. The first quarter in

the annual cycle is typically the slowest from a sales perspective and typically translates into an operating loss, until manufacturing efficiencies become realized in the busier second and third quarter.

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 Mar 31, 2018	As at Dec 31, 2017
Assets		
Segmented assets	**$ 48,570**	$ 41,570
Assets not allocated to segments:		
Cash and cash equivalents	**7,509**	12,268
Freehold land and buildings	**23,257**	23,386
Restricted marketable securities	**1,472**	1,239
Corporate taxes [1]	**247**	308
Total assets	**$ 81,055**	$ 78,771
Liabilities		
Segmented liabilities	**$ 14,120**	$ 15,788
Liabilities not allocated to segments:		
Bank indebtedness	**4,616**	-
Finance lease obligations	**3,256**	3,232
Long-term debt	**8,822**	8,906
Corporate taxes [1]	**-**	20
Total liabilities	**$ 30,814**	$ 27,946
Net segmented assets		
Canada	**$ 25,472**	$ 19,802
USA	**8,978**	5,980

[1] Current and deferred taxes.

5.3 Other segment information

	Three month periods ended March 31	
	2018	**2017**
Additions to non-current assets:		
Canada	**$ 302**	$ 88
USA	**510**	106
Corporate	**-**	7,773
Total	**$ 812**	$ 7,967
Depreciation and amortization:		
Canada	**$ 524**	$ 587
USA	**144**	179
Corporate	**268**	203
Total	**$ 936**	$ 969
Inter-segment sales	**$ 1,335**	$ 1,853

6. Liquidity

Sources of liquidity

The Corporation expects its current cash balances, future cash flows generated by operations, and 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 March 31, 2018 and December 31, 2017 were as follows:

	March 31, 2018	December 31, 2017
Cash held with banks	**$ 7,226**	$ 12,180
Restricted cash	**283**	88
	$ 7,509	$ 12,268

PFB's cash balances typically fluctuate with the seasonality of its business. The reduction in cash balances in the current quarter was primarily used to fund increased non-cash working capital, primarily a seasonal build-up of inventory. Cash held with banks and restricted cash primarily compromises of cash and cash equivalents held by the USA segment.

Bank credit facilities

The Canadian revolving credit facilities were drawn down by $4,616 as at March 31, 2018 to fund working capital requirements in the Canadian segment. Repayment of the credit facility is expected during 2018. The Corporation continues to follow a policy of carrying US dollar balances and borrowing in Canadian dollars rather than executing multiple cross border foreign exchange transactions during the first quarter of seasonal variations in cash requirements.

Summary of cash flows

A summary of cash flows for the three month periods ended March 31, 2018 and 2017 are shown in the following table.

	2018	2017
Net cash flows (used in) from:		
Cash used in operating activities, before income taxes paid	**$ (8,374)**	$ (5,599)
Income taxes paid, net	**(161)**	(238)
Net cash used in operating activities	**(8,535)**	(5,837)
Net cash used in investing activities	**(740)**	(7,917)
Net cash from financing activities	**3,749**	1,401
Effects of exchange rates on cash and cash equivalents held in foreign currencies	**767**	103
Net decrease in cash and cash equivalents	**$ (4,759)**	$ (12,250)
Cash and cash equivalents – beginning of period	**12,268**	17,171
Cash and cash equivalents – end of period	**$ 7,509**	$ 4,921

(a) Operating activities

Cash used in operating activities, before income taxes paid, was $8,374 as compared to $5,599 in the comparative prior quarter, an increase of $2,775. The increase is primarily attributed to changes in non-cash working capital.

The changes in non-cash working capital amounts which occurred in the first quarter of 2018 are as follows:

	Mar 31, 2018	Dec 31, 2017	Change
Trade receivables	**$ 11,144**	$ 9,809	$ 1,335
Inventories	**14,399**	9,998	4,401
Prepaid expenses	**1,064**	474	590
Contract costs	**560**	527	33
Trade and other payables	**(6,410)**	(8,737)	2,327
Contract liabilities	**(5,902)**	(5,158)	(744)
	$ 14,855	$ 6,913	$ 7,942

The increase in non-cash working capital in the current quarter of $7,942 compared to an increase of $5,124, a difference of $2,818.

Inventory values increased in the current quarter and are a normal occurrence as operations begin building work-in-process and finished goods inventories ahead of the seasonal upsurge in sales activities. Additionally, the volume of resin on-hand has increased to meet increased customer demands of higher density material for ongoing delivery shipments, particularly in the USA segment.

Prepaid expenses increased by $590, primarily related to insurance renewals in the Canadian and USA segments and amounts related to the corporate head office relocation.

Contract costs represent the incremental costs of obtaining a contract with a customer on the expectation these costs will be recovered. Contract costs increased by $33 are primarily related to sales commissions in the USA segment on sales of bundled contracts.

The decrease in trade and other payables of $2,327 since the beginning of the year was primarily related to decreased styrene purchases and outstanding letters of credit for outstanding resin purchases, year-end accruals and the timing payments in the normal course of operations.

Contract liabilities represent consideration received prior to delivery of performance obligations and customers' rebates earned, but not yet paid. Contract liabilities increased by $744 during the period, primarily representing increased consideration from customers paid to secure their future deliveries of custom products, mainly in the USA segment. Customers' rebates are generally lower in the first quarter than other times of the year, reflecting amounts paid out and the lower seasonality of sales in the first and fourth quarters.

(b) Investing activities

Cash flows used in investing activities in the current quarter were $740 as compared to cash flows used in investing activities of $7,917 in Q1/17. Removing the effects of Q1/17 cash flows used in investing activities related to the purchase of net leased assets for $7,675, a one-time event, resulted in cash used in investing activities of $242. Purchases of tangible and intangible assets in Q1/18 amounted to $812 as compared to purchases of $292 in Q1/17 and predominantly represent maintenance capital investments in the USA segment. Distributions from marketable securities decreased as the Corporation received two less months of distributions in Q1/18 compared to Q1/17 on the sale of trust units on March 2017.

(c) Financing activities

Cash flows generated from financing activities in the current quarter were $3,749, compared to cash flows of $1,401 used in financing activities in Q1/17. Removing the effects of Q1/17 cash flows used in one-time events related to the extinguishment of finance obligations, new mortgage funding and the disposition of marketable securities, results in net cash from financing activities in Q1/17 of $1,348 which is lower than Q1/18 cash from financing activities of $3,749. Funds from financing activities increased quarter-over-quarter, primarily as a result of additional borrowings from credit facilities with a Canadian chartered bank by $2,441. Repayments on the principal mortgage amounted to $84 during Q1/18 and $330 since initial funding on February 28, 2017. Payments of scheduled principal amounts and finance costs pertaining to finance lease obligations decreased as a result of the extinguished finance lease obligations, resulting from the acquisition of the Crossfield, Alberta property.

7. Capital resources

Capital structure

PFB manages its capital structure to ensure its consolidated operations continue to operate as a going concern, to optimize returns to shareholders, and to safeguard corporate assets.

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

PFB's capital structure, net of bank indebtedness, cash and cash equivalents, as at March 31, 2018 and December 31, 2017, is as outlined in the following table:

	As at March 31, 2018	As at December 31, 2017
Debt	**$ 8,822**	$ 8,906
Bank indebtedness	**4,616**	-
Less: cash and cash equivalents	**7,509**	12,268
Deficit (surplus) cash	**$ 5,929**	$ (3,362)
Shareholders' equity	**$ 50,241**	$ 50,825

Share capital

A summary of the Corporation's share capital position as at March 31, 2018 and December 31, 2017, is set forth in the following table:

	March 31, 2018 (Three Months)		December 31, 2017 (Twelve Months)	
	No. of Shares	Amount	No. of Shares	Amount
Balance, beginning of period	**6,716,003**	**$ 20,947**	6,716,003	$ 20,947
Balance, end of period	**6,716,003**	**$ 20,947**	6,716,003	$ 20,947

Share-based options

The Corporation granted 400,000 share-based options in the three month period ended March 31, 2018, and no share options were exercised in the period.

Dividends

During the first quarter of 2018, the Corporation's board of directors declared a regular quarterly dividend of $0.08 (2017 - $0.07) per common share which was paid in the month of February in each year.

Dividends paid by the Corporation qualify as eligible dividends and satisfy the enhanced gross-up and dividend tax credit enacted under Canadian tax law.

Normal course issuer bid

In January 2018, the Corporation obtained approval from the Toronto Stock Exchange to commence a normal course issuer bid program for a 12-month period which commenced on January 10, 2018 and ends no later than January 9, 2019. The issuer bid allows the Corporation to purchase up to a maximum of 50,000 common shares representing 0.74% of the Corporation's 6,716,003 issued and outstanding shares as at January 10, 2018, 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 mean of open market transactions during the period the issuer bid is in place.

In the three month period ended March 31, 2018, the Corporation did not purchase any common shares for cancellation.

Comprehensive loss

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

The Corporation adopted IFRS 9 and opted an irrevocable election to account for changes in the fair value of the marketable securities – restricted, through other comprehensive income, until derecognition.

A summary of comprehensive loss for the three month periods ended March 31, 2018 and 2017 is as follows:

	2018	2017
Loss for the period	**$ (701)**	$ (890)
Other comprehensive income (loss)	**652**	(220)
Comprehensive loss for the period	**$ (49)**	$ (1,110)

In the first quarter of 2018, other comprehensive income was $652 as compared to other comprehensive loss of $220 in the comparative quarter of 2017. Other comprehensive income in the current quarter consisted of $483 gains (2017 – loss of $162) attributed to foreign currency translation when consolidating PFB's USA operations, and gains of $169 (2017 – loss of $58), representing an unrealized gains on restricted marketable securities, net of tax.

Included in accumulated comprehensive income at March 31, 2018, were foreign currency translation adjustments totaling $2,634, gains from marking-to-market available securities for sale of $398 and gains of $68 related to defined benefit valuation changes, net of tax, for total accumulated other comprehensive income of $3,100.

Long-term debt

Total long-term debt of $8,822 as at March 31, 2018 compares to long-term debt of $9,152 as at March 31, 2017, a reduction of $330. The reduction in long-term debt in the current period was a result of scheduled repayments. There were no prepayments or additional increases in long-term debt in the current period.

The terms of the long-term debt are a fixed interest rate of 3.25% from a Canadian bank, a 20 year amortization period and an option to renew in 5 years. The long-term debt is eligible for prepayment privilege, subject to certain prepayment penalties and is supported by a first mortgage on the Corporation's property in the Canadian segment.

The Corporation is subject to an annual covenant calculation on the long-term debt, tested on an annual, year-end basis. The financial covenant specifies a Debt Service Coverage Ratio of not less than 1.25:1. The Debt Service Coverage Ratio is defined as adjusted EBITDA for the current year, less dividends, divided by the sum of all principal and interest payments during the course of the year. The most recently calculated covenant test of 4.41:1 was performed on December 31, 2017 and exceeded the minimum requirement of 1.25:1.

8. Commitments and contractual obligations

8.1 Long-term debt, lease obligations and commitments for PP&E and intangible assets

PFB's contractual obligations and commitments as at March 31, 2018 and December 31, 2017, 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 March 31, 2018					
Long-term debt	**$ 8,822**	**$ 341**	**$ 717**	**$ 765**	**$ 6,999**
Finance lease obligations	**7,319**	**663**	**1,058**	**852**	**4,746**
Operating lease obligations	**12,068**	**1,234**	**2,537**	**2,408**	**5,889**
Letters of credit	**2,891**	**2,891**	**-**	**-**	**-**
Commitments for PP&E and intangible assets	**310**	**310**	**-**	**-**	**-**
Total contractual obligations	**$ 31,410**	**$ 5,439**	**$ 4,312**	**$ 4,025**	**$ 17,634**
As at December 31, 2017					
Long-term debt	$ 8,906	$ 339	$ 711	$ 758	$ 7,098
Finance lease obligations	7,398	648	1,045	854	4,851
Operating lease obligations	10,855	1,217	1,969	1,846	5,823
Commitments for PP&E and intangible assets	273	273	-	-	-
Total contractual obligations	$ 27,432	$ 2,477	$ 3,725	$ 3,458	$ 17,772

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

8.2 Performance bonds

As at March 31, 2018, the Canadian segment did not have any contracts secured by a performance bonds (December 31, 2017 - $nil). In the USA, performance bonds in the amount of $615 were pledged to various government agencies as at March 31, 2018 (December 31, 2017 - $598).

8.3 Letters of credit

As at March 31, 2018, letters of credit in the amount of $2,891 were outstanding for inventory purchases expected to settle in the second quarter of 2018. The Corporation did not post any cash to collateralize its letters of credit (2017 - $nil).

9. Financial instruments and leases

The Corporation adopted IFRS 9 and opted an irrevocable election to account for changes in the fair value of marketable securities through other comprehensive income, until derecognition. This irrevocable election is made on an instrument-by-instrument basis to present in other comprehensive income changes in the fair value of an investment in an equity investment not held for trading. The effect of adoption of these new standards is outlined in more detail in Note 3 to our interim consolidated financial statements as at March 31, 2018.

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 were pledged, at inception of the leases, as security for minimum rent obligations for a period of ten years during which time they will be held in an escrow account.

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 statements of loss.

On February 28, 2017, upon closing of the purchase of leased assets from a Canadian REIT, the Corporation received from escrow 318,421 trust units. During the first quarter of 2017, the Corporation sold 318,421 trust units for gross proceeds of $1,883, resulting in a gain on items that have been reclassified from the statement of comprehensive income to the statement of income for $275. The remaining 183,084 trust units remain in escrow and continue to result in monthly distributions.

Under the new IFRS 9 accounting standards, gains and losses presented in other comprehensive income cannot be subsequently transferred to profit or loss. However, upon derecognition, the Corporation may transfer the cumulative gain or loss within equity. As a result of accounting changes on January 1, 2018, the Corporation will not realize any gains or losses on the disposition of trust units through the statement of income and any gains or losses remain in the statement of comprehensive income, which upon derecognition, be transferred as a reclassification adjustment directly to equity.

In January 2018 an offer to acquire all units of the Canadian REIT, at an all-cash transaction price of $8.10, was proposed by an acquiring entity. The unitholders approved the transaction in March 2018 and regulatory approval was obtained in April 2018. The transaction is expected to close in the second quarter of 2018. The Corporation has 183,084 trust units remaining in an escrow account, which will result in the conversion of cash proceeds of approximately $1,483. Under the terms of the sale-leaseback agreement a security deposit shall remain in escrow until March 15, 2023, upon which the cash will be released. Based on the quoted price of the units at the end of the first quarter of 2018, unrealized gains recorded in other comprehensive income in the amount of $398, net of tax, will remain in the statement of other comprehensive income upon disposition and subsequently transferred as a reclassification adjustment directly to equity.

10. Current Outlook

As occurred in Q1 2017, Q1 2018 has seen a sharp increase in our principal raw material costs caused by unplanned manufacturing disruptions and extended maintenance turnarounds in the upstream styrene monomer supply chain. Pricing levels have in fact exceeded those experienced in the first quarter of 2017. Styrene spot prices in United States dollars rose by 36% over the period from November 2017 until the end of February 2018. The spot price increases have now started to reverse as prices fell materially in March 2018, however will likely stay above the lowest levels of 2017. This longer term trend is due primarily to the effects of current oil price upward trends and overall macro-economic inflationary trends. North American (NA) resin prices have also started to reduce with recently announced price reductions coming off falling styrene prices.

In response, the Corporation last year implemented a price increase in April 2017 and has followed up with another price increase announced April 2018 in an effort to offset rising raw material input costs as well as inflationary impacts on other

cost drivers. There are timing delays with price increase implementation and the beneficial financial effects of this most recent increase will take hold in stages over the balance of the year.

Based on late 2017 industry feedback that a material spike was likely, management implemented a proactive two stage resin strategy during Q1 2018, limiting our internal resin production when styrene levels peaked and purchasing external low-cost resin as both a substitute and to build a low-cost resin inventory. As a result, working capital increased as well as short-term bank indebtedness required to fund the external resin purchases, while using our typical cash reserves to build manufactured product inventory, a common approach during the seasonally slow first quarter. The resin strategy helped mitigate our exposure to both high priced NA resin and high priced NA styrene. As a result our gross margin for Q1 2018 was 17.4%, which represents a 2.4% increase over the same period last year, driven in part by a 1% reduction of material costs over the prior year period. The Corporation will blend our NA resin production with our low-cost external resin inventory through Q2 and into Q3 as a weighted average cost of inventory.

The influence of world crude oil prices on the economies of NA are the largest driver in the outlook for the Corporation. Since the dramatic fall in crude oil prices, which began in the fourth quarter of 2014, our input costs in the manufacture of our key raw material reduced, providing the opportunity for our business to return to normalized gross margin levels. This was our experience throughout 2015 and 2016. At the same time, a weakening Canadian dollar exchange rate versus the U.S. dollar partly counteracted the benefits of reducing costs. Additionally, the lower oil prices had the potential effect of adverse economic consequences of slowing construction demand and therefore demand for our products in some of our regional markets. In general, the oil effect has overall been positive for the general economy that we operate in and in our continuing cost structure. The devaluation of the Canadian currency has restricted the ability of competitors to import their products into Canada, a positive outcome for PFB. During the fourth quarter of 2017 and continuing in 2018, crude oil prices have been rising. This may have contributed to the volatility in raw material costs that we have experienced in November and December 2017 as well as contributing to the spikes the Corporation has seen in the first quarter of 2018.

PFB continues to build strong order books for our core EPS product lines in both US and Canadian segments well into the second and third quarters of 2018. Infrastructure activity in the US and Canada continue to present good opportunities for growth as both governments invest and create jobs. Generally speaking, the oil producing regions of Canada continue to recover as construction activity increases pulling increased demand for our nationally branded insulation and building products. Our focus on growth continues to be in the United States and we remain cautiously optimistic after strong Q4 2017 and Q1 2018 revenue performance. Interest in our nationally branded products that are manufactured in the USA continue to gain traction. Growth in the USA housing market as well as a strong US economy has positive effects on our custom homes business, offset slightly by the potential for contractor scarcity and increasing build costs. The custom home business continues to build a strong order book positioning it well for 2018. Additionally, we continue to search for suitable acquisitions to expand our USA initiatives.

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 are designed to provide reasonable assurance that all relevant information is gathered and reported to management, including the chief executive officer (CEO) and the chief financial officer (CFO), on a timely basis so that appropriate decisions can be made regarding public disclosure.

An evaluation of our DC&P was conducted, as at March 31, 2018, by management under the supervision of the CEO and the CFO. Based on this evaluation, the CEO and the CFO have concluded that, as at March 31, 2018, our DC&P, as defined in National Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings (NI 52-109), was effective.

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

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 IFRS.

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 March 31, 2018, 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 estimates and judgements to be made. The estimates and judgments are based on historical experience, current trends, and all information deemed relevant at the time financial statements are prepared.

Except for the accounting standards that become effective January 1, 2018, the Corporation's annual audited consolidated financial statements for the year ended December 31, 2017 and its 2017 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 events

On April 12, 2018, a third-party offer affecting the trust units held in escrow received final approval for a planned arrangement. No further regulatory or shareholder approvals are required and the transaction is expected to complete in the second quarter. The expected proceeds from the conversion of restricted marketable securities into restricted cash are $1,483.

As at April 30, 2018, all outstanding letters of credit to guarantee payments for inventory purchases settled. Additional costs of inventories incurred in bringing inventory to their present location and condition amounted to $27 and will be expensed in future periods as cost of sales.

16. Related party transactions

There have been no material changes in related party transactions in the first quarter of 2018. See note 19 of the condensed interim consolidated financial statements.

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 2017. There have been no material changes in the uncertainties and material risk factors facing the Corporation since December 31, 2017.

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

Effective January 1, 2018 the Corporation adopted new IFRS standards – IFRS 15, *Revenue from Contracts with Customers*, IFRS 9, *Financial Instruments* and IFRS 2, *Share-based payments*. The effect of adoption of these new standards is outlined in more detail in Note 3 of the interim consolidated financial statements as at March 31, 2018, which also discloses the restated comparative financial statements for the impacts of adopting new accounting standards for the periods ended January 1, 2017, December 31, 2017 and March 31, 2017.

In January 2016, the IASB issued *IFRS 16 - Leases*, which supersedes *IAS 17 - Leases*. IFRS 16 establishes principles for the recognition, measurement, presentation and disclosure of leases. The standard establishes a single model for lessees to bring leases on-balance sheet while lessor accounting remains largely unchanged and retains the finance and operating

lease distinctions. The standard requires the lessees to recognize a lease liability reflecting discounted future lease payments and a "right-of-use asset" for all lease contracts, and record it on the balance sheet, except with respect to lease contracts that meet limited exception criteria. IFRS 16 is effective for annual periods beginning on or after January 1, 2019 with earlier adoption permitted.

The Corporation intends to adopt IFRS 16 at its effective date for annual period beginning on January 1, 2019. The Corporation is currently assessing and quantifying the effect of this standard on the consolidated financial statements, information systems and internal controls. During the first quarter the Corporation initiated a review of the new standard and expects to continue this analysis throughout 2018. On the transition date of January 1, 2019, the Corporation expects to recognize additional leases on the consolidated balance sheet and expects changes to the cost of sales as operating expenses will be presented as depreciation and finance costs.

19. Non-IFRS Financial Measures

The Corporation uses measurements primarily based on IFRS as issued by the IASB and also certain secondary non-IFRS measurements.

The non-IFRS measures used by the Corporation are considered to be useful as complimentary measures in assessing financial performance. Non-IFRS 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-IFRS measurements used in this MD&A can be found in the section below:

Measure	Definition
Adjusted EBITDA	Represents earnings before interest, taxes, depreciation and amortization. Adjusted 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.
Adjusted EBITDA per share	Adjusted EBITDA divided by the basic weighted average number of shares outstanding in the period.

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

	2018 Q1	2017 Q4	2017 Q3	2017 Q2	2017 Q1	2016 Q4	2016 Q3	2016 Q2
Net (loss) income (As per financial statements)	**$ (701)**	$ 1,240	$ 1,519	$ 412	$ (890)	$ 1,145	$ 1,936	$ 1,762
Add back (deduct):								
Income (recovery) taxes	**(251)**	323	592	156	(277)	602	870	1,063
Finance costs	**179**	173	183	196	280	354	354	355
Investment income	**(32)**	(24)	(21)	(19)	(50)	(62)	(56)	(50)
Depreciation	**900**	912	934	981	941	932	939	935
Amortization	**36**	35	33	36	28	25	23	23
Adjusted EBITDA	**131**	2,659	3,240	1,762	32	2,996	4,066	4,088
Adjusted EBITDA per share	**$ 0.02**	$ 0.40	$ 0.48	$ 0.26	$ -	$ 0.44	$ 0.61	$ 0.61

Adjusted EBITDA was $131 in the three month period March 31, 2018, an increase of $99 from $32 in the comparative three month period of 2017. The increased adjusted EBITDA is primarily related to a decreased net loss from the comparative quarter. Significant one-time events in 2017 have had the impact to reduce the finance costs and investment income, on a permanent basis, resulting in an unfavorable adjusted EBITDA when compared to comparable periods.

Condensed Interim Consolidated Financial Statements (Unaudited)

Notice of non-auditor review of condensed interim consolidated financial statements for the three month periods ended March 31, 2018 and 2017

The accompanying unaudited condensed interim consolidated financial statements of PFB Corporation for the three month periods ended March 31, 2018 and 2017 are the responsibility of the Corporation's management.

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

Dated: May 10, 2018

Condensed Interim Consolidated Statements of Loss

For the three month periods ended March 31, 2018 and 2017
Thousands of Canadian dollars, except per share amounts

	Note	2018	2017
Sales	5	**$ 21,048**	$ 19,487
Cost of sales	7	**(17,389)**	(16,543)
Gross profit		**3,659**	2,944
Selling expenses		**(2,836)**	(2,695)
Administrative expenses		**(1,580)**	(1,441)
Other losses		**(48)**	(20)
Operating loss		**(805)**	(1,212)
Gain on sale of marketable securities		**-**	275
Investment income		**32**	50
Finance costs		**(179)**	(280)
Loss before taxes		**(952)**	(1,167)
Income taxes recovery		**251**	277
Loss for the period		**$ (701)**	$ (890)
Loss per share - $ per share			
Basic		**$ (0.10)**	$ (0.13)
Diluted		**$ (0.10)**	$ (0.13)
Weighted average number of common shares outstanding			
Basic		**6,716,003**	6,716,003
Diluted		**6,716,003**	6,716,003

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

Condensed Interim Consolidated Statements of Comprehensive Loss

For the three month periods ended March 31, 2018 and 2017
Thousands of Canadian dollars

	Note	2018	2017
Loss for the period		**$ (701)**	$ (890)
Other comprehensive income (loss):			
Items that may subsequently be reclassified to income:			
Foreign currency translation adjustments			
Exchange differences on translating foreign operations, net of tax		**483**	(162)
Restricted available for sale financial assets			
Unrealized gain (loss) on available for sale financial assets, net of tax	17	**169**	(58)
Other comprehensive income (loss) for the period		**652**	(220)
Comprehensive loss for the period		**$ (49)**	$ (1,110)

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

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

Condensed Interim Consolidated Balance Sheets

As at March 31, 2018 and 2017, December 31, 2017 and January 1, 2017
Thousands of Canadian dollars

	Note	Mar 31, 2018	Mar 31, 2017	Dec 31, 2017	Jan 1, 2017
ASSETS					
Current assets					
Cash and cash equivalents	17	**$ 7,509**	$ 4,921	$ 12,268	$ 17,171
Trade receivables	17	**11,144**	9,741	9,809	7,643
Inventories	7	**14,399**	13,419	9,998	10,010
Income taxes recoverable		**436**	743	287	505
Prepaid expenses	3	**1,064**	939	474	714
Contract costs	3, 8	**560**	418	527	397
Total current assets		**35,112**	30,181	33,363	36,440
Non-current assets					
Marketable securities - restricted	17	**1,472**	1,115	1,239	2,803
Property, plant and equipment	11	**40,253**	41,914	40,099	35,041
Intangible assets		**1,465**	1,554	1,405	1,496
Goodwill		**2,262**	2,317	2,217	2,332
Accrued defined benefit pension plan		**91**	10	91	10
Deferred income tax assets		**400**	1,046	357	715
Total non-current assets		**45,943**	47,956	45,408	42,397
Total assets		**$ 81,055**	$ 78,137	$ 78,771	$ 78,837
LIABILITIES					
Current Liabilities					
Bank indebtedness	15, 17	**$ 4,616**	$ 2,175	$ -	$ -
Trade and other payables	3, 17	**6,410**	6,960	8,737	7,359
Contract liabilities	3, 9	**5,902**	4,873	5,158	3,845
Income taxes payable		**28**	-	39	-
Long-term debt	12, 15, 17	**341**	330	339	-
Finance lease obligations	13, 15	**270**	181	249	316
Total current liabilities		**17,567**	14,519	14,522	11,520
Non-current liabilities					
Long-term debt	12, 15, 17	**8,481**	8,822	8,567	-
Finance lease obligations	13, 15	**2,986**	3,000	2,983	13,904
Deferred operating lease obligations		**565**	424	506	498
Deferred income tax liabilities		**1,215**	1,306	1,368	1,269
Total non-current liabilities		**13,247**	13,552	13,424	15,671
Total liabilities		**30,814**	28,071	27,946	27,191
SHAREHOLDERS' EQUITY					
Common shares		**20,947**	20,947	20,947	20,947
Equity-settled employee benefits reserve		**3**	-	-	-
Accumulated other comprehensive income		**3,100**	3,382	2,448	3,602
Retained earnings		**26,191**	25,737	27,430	27,097
Shareholders' equity		**50,241**	50,066	50,825	51,646
Total liabilities and shareholders' equity		**$ 81,055**	$ 78,137	$ 78,771	$ 78,837

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

Condensed Interim Consolidated Statements of Changes in Equity

As at March 31, 2018 and 2017, and December 31, 2017
Thousands of Canadian dollars, except number of shares

		Common shares			Accumulated other comprehensive income				
	Note	Number of shares	Share capital	Equity-settled employee benefits reserve	Foreign currency translation adjustments, net of taxes	Unrealized gain (loss) on available for sale assets, net of taxes	Defined benefit pension plan valuation change, net of taxes	Retained earnings	Total
Balances at January 1, 2017		**6,716,003**	**$ 20,947**	**-**	**$ 3,360**	**$ 190**	**$ 52**	**$ 27,097**	**$ 51,646**
Loss for the period		-	-	-	-	-	-	(890)	(890)
Other comprehensive loss for the period, net of tax		-	-	-	(162)	(58)	-	-	(220)
Total comprehensive loss for the period		-	-	-	(162)	(58)	-	(890)	(1,110)
Payment of dividends	16	-	-	-	-	-	-	(470)	(470)
Balances at March 31, 2017		**6,716,003**	**20,947**	**-**	**3,198**	**132**	**52**	**25,737**	**50,066**
Net income for the period		-	-	-	-	-	-	3,171	3,171
Other comprehensive (loss) income for the period, net of tax		-	-	-	(1,047)	97	16	-	(934)
Total comprehensive income (loss) for the period		-	-	-	(1,047)	97	16	3,171	2,237
Payment of dividends		-	-	-	-	-	-	(1,478)	(1,478)
Balances at December 31, 2017		**6,716,003**	**20,947**	**-**	**2,151**	**229**	**68**	**27,430**	**50,825**
Loss for the period		-	-	-	-	-	-	(701)	(701)
Other comprehensive income for the period, net of tax		-	-	-	483	169	-	-	652
Total comprehensive (loss) income for the period		-	-	-	483	169	-	(701)	(49)
Payment of dividends	16	-	-	-	-	-	-	(538)	(538)
Share-based payment		-	-	3	-	-	-	-	3
Balances at March 31, 2018		**6,716,003**	**$ 20,947**	**$ 3**	**$ 2,634**	**$ 398**	**$ 68**	**$ 26,191**	**$ 50,241**

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

Condensed Interim Consolidated Statements of Cash Flows

For the three month periods ended March 31, 2018 and 2017
Thousands of Canadian dollars

	Note	2018	2017
CASH FLOWS USED IN OPERATING ACTIVITIES			
Loss for the period		**$ (701)**	$ (890)
Adjustments for:			
Depreciation expense	11	**900**	941
Amortization expense		**36**	28
Gain on disposal of property, plant and equipment		**(28)**	(5)
Gain on sale of marketable securities		**-**	(275)
Finance costs		**179**	280
Investment income		**(32)**	(50)
Income tax recovery		**(251)**	(277)
Share-based payment expense		**3**	-
Unrealized foreign exchange gain		**(639)**	(83)
Changes in non-cash working capital	20	**(7,942)**	(5,124)
Changes in deferred operating lease obligations		**59**	(74)
Unrealized foreign exchange loss (gain) relating to non-cash working capital		**42**	(70)
Cash used in operating activities, before income taxes		**(8,374)**	(5,599)
Income taxes paid, net		**(161)**	(238)
Net cash used in operating activities		**(8,535)**	(5,837)
CASH FLOWS USED IN INVESTING ACTIVITIES			
Purchase of leased assets	14	**-**	(18,800)
Reclassification of lease obligations related to purchase of leased assets	14	**-**	10,982
Non-cash deferred operating lease obligations related to purchase of leased assets	14	**-**	143
Purchase of property, plant and equipment	11	**(750)**	(194)
Purchase of intangible assets		**(62)**	(98)
Proceeds from disposal of property, plant and equipment		**40**	-
Interest received		**18**	19
Distributions received on marketable securities		**14**	31
Net cash used in investing activities		**(740)**	(7,917)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of finance lease obligations	15	**(66)**	(77)
Settlement of finance lease obligations related to purchase of leased assets	14	**-**	(10,982)
Changes in long-term debt, net	12, 15	**(84)**	9,152
Proceeds from bank indebtedness		**4,616**	2,175
Proceeds from disposal of marketable securities		**-**	1,883
Finance costs paid		**(179)**	(280)
Dividends paid to shareholders	16	**(538)**	(470)
Net cash from financing activities		**3,749**	1,401
Effects of exchange rate changes on cash and cash equivalents held in foreign currencies		**767**	103
Net decrease in cash and cash equivalents		**(4,759)**	(12,250)
Cash and cash equivalents at the beginning of the period		**12,268**	17,171
Cash and cash equivalents at the end of the period		**$ 7,509**	$ 4,921

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

1. General information

PFB Corporation ("PFB" or the "Corporation") is a Canadian public company incorporated under the Alberta Business Corporations Act and has its head office in Calgary, Alberta, Canada. The Corporation's corporate office is located at 300, 2891 Sunridge Way NE, Calgary, Alberta, Canada T1Y 7K7. The Corporation's shares are publicly traded on the Toronto Stock Exchange ("TSX") under the symbol PFB. The principal business activity of the Corporation is manufacturing insulating building products made from expanded polystyrene materials and marketing these products in North America.

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

2. Statement of compliance

These condensed interim consolidated financial statements for the three month periods ended March 31, 2018 and 2017, have been prepared in accordance with International Accounting Standard (IAS) 34, *Interim Financial Reporting*. Accordingly, certain information and footnote disclosure normally included in annual financial statements prepared in accordance with International Financial Reporting Standards (IFRS) have been omitted. These condensed interim consolidated financial statements should be read in conjunction with the Corporation's audited consolidated financial statements for the years ended December 31, 2017 and 2016.

These condensed interim consolidated financial statements were approved and authorized for issue by the board of directors of the Corporation at a meeting held on May 10, 2018.

3. Significant accounting policies

3.1 Presentation

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

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

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

3.2 Consolidation

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

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

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

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

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

Impacts to previously reported results

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

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

	January 1, 2017		
	As reported	Adjustments under IFRS 15	Adjusted
Prepaid expenses	$ 1,111	$ (527)	$ 714
Contract costs	-	527	397
	$ 1,111	$ -	$ 1,111
Trade and other payables	$ 8,383	$ (1,024)	$ 7,359
Deferred revenue	2,821	(2,821)	-
Contract liabilities	-	3,845	3,845
	$ 11,204	$ -	$ 11,204

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

	March 31, 2017		
	As reported	Adjustments under IFRS 15	Adjusted
Prepaid expenses	$ 1,357	$ (418)	$ 939
Contract costs	-	418	418
	$ 1,357	$ -	$ 1,357
Trade and other payables	$ 7,382	$ (422)	$ 6,960
Deferred revenue	4,451	(4,451)	-
Contract liabilities	-	4,873	4,873
	$ 11,833	$ -	$ 11,833

Impacts of changes in revenue recognition accounting policy

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

Manufactured goods

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

Rendering of services

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

Freight

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

Construction contracts

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

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

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

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

Other revenue types

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

Contract costs

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

Contract liabilities

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

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

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

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

- **IFRS 9 -** ***Financial Instruments***

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

Impacts of previously reported results

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

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

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

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

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

Impacts of changes in financial instruments accounting policy

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

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

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

(i) The asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and

(ii) The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

- **IFRS 2 – *Share-based payment***

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

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

3.4 New and revised accounting standards and interpretations, not yet effective

The International Accounting Standards Board ("IASB") and International Financial Reporting Interpretations Committee ("IFRIC") have issued a number of new standards, amendments and interpretations that have not been applied in preparing these consolidated financial statements as their effective dates fall within annual periods beginning subsequent to the current reporting period. The new standard and amendments applicable to the Corporation are as follows:

IFRS 16 – Leases

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

The Corporation intends to adopt IFRS 16 at its effective date for annual period beginning on January 1, 2019. The Corporation is currently assessing and quantifying the effect of this standard on the consolidated financial statements, information systems and internal controls. During the first quarter we initiated a review of the new standard and expect to continue our analysis throughout 2018. On the transition date of January 1, 2019, the Corporation expects to recognize additional leases on the consolidated balance sheet and expect changes to our cost of sales as operating expenses will be presented as depreciation and finance costs.

4. Critical accounting estimates and judgments

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

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

Revenue recognition

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

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

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

Remaining performance obligations

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

5. Segment information

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

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

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

5.1 Segment sales and operating loss

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

The Canadian segment primarily derives its revenues from the sale of expanded polystyrene (“EPS”) foam products, which it manufactures at its facilities in Canada. The USA segment primarily derives its revenues from the sale of EPS foam products, customized log and timber structures made at its facilities in the United States which typically include design and installation services that together provide the basis for a bundled sale of its manufactured products.

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

Information regarding each reportable operating segment for three month periods ended March 31 is set out below:

	Sales revenues		Operating loss	
	2018	**2017**	**2018**	**2017**
Canada	**$ 13,733**	$ 13,495	**$ (512)**	$ (673)
USA	**7,315**	5,992	**(421)**	(269)
Total for segments	**$ 21,048**	$ 19,487	**(933)**	(942)
Corporate – income (expense)			**129**	(268)
Foreign exchange loss on inter-segment settlements			**(1)**	(2)
Consolidated operating loss			**$ (805)**	$ (1,212)

5.2 Segment assets and liabilities

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

	As at Mar 31, 2018	**As at Dec 31, 2017**
Assets		
Segmented assets	**$ 48,570**	$ 41,570
Assets not allocated to segments:		
Cash and cash equivalents	**7,509**	12,268
Freehold land and buildings	**23,257**	23,386
Restricted marketable securities	**1,472**	1,239
Corporate taxes[1]	**247**	308
Total assets	**$ 81,055**	$ 78,771
Liabilities		
Segmented liabilities	**$ 14,120**	$ 15,788
Liabilities not allocated to segments:		
Bank indebtedness	**4,616**	-
Finance lease obligations	**3,256**	3,232
Long-term debt	**8,822**	8,906
Corporate taxes[1]	**-**	20
Total liabilities	**$ 30,814**	$ 27,946
Net segmented assets		
Canada	**$ 25,472**	$ 19,802
USA	**8,978**	5,980

[1] Current and deferred taxes.

5.3 Other segment information

	Three month periods ended March 31	
	2018	**2017**
Additions to non-current assets:		
Canada	**$ 302**	$ 88
USA	**510**	106
Corporate	**-**	7,773
Total	**$ 812**	$ 7,967
Depreciation and amortization:		
Canada	**$ 524**	$ 587
USA	**144**	179
Corporate	**268**	203
Total	**$ 936**	$ 969
Inter-segment sales	**$ 1,335**	$ 1,853

6. Loss per share

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

	Three month period ended March 31	
	2018	**2017**
Loss for the period	**$ (701)**	$ (890)
Weighted average number of common shares outstanding – basic	**6,716,003**	6,716,003
Effect of:		
Dilutive stock options [1]	**-**	N/A
Weighted average number of common shares outstanding - diluted	**6,716,003**	6,716,003
Loss per share:		
Basic	**$ (0.10)**	$ (0.13)
Diluted	**$ (0.10)**	$ (0.13)

[1] 400,000 stock options granted in the first quarter of 2018 were anti-dilutive as at March 31, 2018 and therefore, they have not been included in the calculation of diluted shares in the above table.

7. Inventories

	As at Mar 31, 2018	As at Dec 31, 2017
Raw materials	**$ 7,131**	$ 5,186
Work in progress	**3,078**	1,979
Finished goods	**4,190**	2,833
	$ 14,399	$ 9,998

The cost of inventories recognized as an expense in cost of sales during the three month period ended March 31, 2018 was $15,622 (2017 - $14,808).

The cost of inventories recognized as an expense during the three month period ended March 31, 2018, includes $117 (2017 - $50) 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 each of the three month periods ended March 31, 2018 or 2017.

Eligible inventories held by the Corporation's Canadian and USA subsidiaries have been pledged as security with a bank in support of revolving credit facilities. The Canadian revolving credit facilities were drawn down by $4,616 as at March 31, 2018 and were unused as at December 31, 2017.

8. Contract costs

Contract costs represent the incremental costs of obtaining a contract with a customer on the expectation these costs will be recovered. Contract costs are comprised of sales commissions paid or payable to obtain certain contracts. These costs are amortized on a proportionate basis as a selling expense over the life of the contract, as this reflects the period over which goods or services are transferred to the customer. Amortization recognized in selling expenses during the three month period ended March 31, 2018 was $7 (2017- $40). Amortization of contract costs follows the seasonality of operations and is typically higher in the second and third quarter upon completion of performance obligations. Contract costs remaining to be amortized as selling expenses are $560 (2017 - $418).

9. Contract liabilities

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

	Contract liabilities
Balance at January 1, 2017	**$ 3,845**
Increase	4,480
Transfer to revenue from new contracts	(1,263)
Transfer to revenue from opening balance	(1,585)
Rebates, net	(601)
Foreign exchange	(3)
Balance at March 31, 2017	**4,873**
Increase	15,105
Transfer to revenue from new contracts	(7,182)
Transfer to revenue from opening balance	(8,543)
Rebates, net	1,067
Foreign exchange	(162)
Balance at December 31, 2017	**5,158**
Increase	4,070
Transfer to revenue from new contracts	(736)
Transfer to revenue from opening balance	(1,857)
Rebates, net	(772)
Foreign exchange	39
Balance at March 31, 2018	**$ 5,902**

10. Remaining performance obligations

Performance obligations for certain goods manufactured, construction and design contracts generally include deposits which are initially recorded as contract liabilities and represent obligations of work that has not yet been completed. Revenue from unsatisfied performance obligations is recognized when services are rendered and control of the goods is transferred to the customers. For contracts that include deposits, the total remaining performance obligations, as at March 31, 2018 were $19,973. The Corporation expects to recognize approximately $15,685 of revenue from the unsatisfied performance obligations upon completion of those performance obligations over the next twelve months and $4,288 after twelve months.

11. Property, plant and equipment

Cost	Freehold land	Buildings	Plant and equipment	Assets under finance lease	Assets under construction	Total
Balance at January 1, 2017	**$ 3,149**	**$ 12,100**	**$ 40,266**	**$ 15,770**	**$ 2,081**	**$ 73,366**
Additions	-	30	10	22	154	216
Purchase of leased assets	5,432	2,243	-	-	-	7,675
Transfer of leased assets	-	11,745	-	(11,745)	-	-
Disposal of PP&E assets	-	-	(13)	-	-	(13)
Transfers between asset classes	-	-	378	-	(378)	-
Effect of foreign currency exchange	(17)	(61)	(61)	(4)	-	(143)
Balance at March 31, 2017	**8,564**	**26,057**	**40,580**	**4,043**	**1,857**	**81,101**
Additions	-	22	33	222	1,233	1,510
Disposal of PP&E assets	-	(77)	(278)	(160)	-	(515)
Transfers between asset classes	-	96	2,270	-	(2,366)	-
Effect of foreign currency exchange	(107)	(396)	(408)	(28)	(26)	(965)
Balance at December 31, 2017	**8,457**	**25,702**	**42,197**	**4,077**	**698**	**81,131**
Additions	-	7	8	94	735	844
Disposal of PP&E assets	-	-	(36)	(106)	-	(142)
Transfers between asset classes	-	-	-	-	-	-
Effect of foreign currency exchange	49	182	191	15	13	450
Balance at March 31, 2018	**$ 8,506**	**$ 25,891**	**$ 42,360**	**$ 4,080**	**$ 1,446**	**$ 82,283**

Accumulated Depreciation	Freehold land	Buildings	Plant and equipment	Assets under finance lease	Assets under construction	Total
Balance at January 1, 2017	**$ -**	**$ 6,636**	**$ 28,268**	**$ 3,421**	**$ -**	**$ 38,325**
Depreciation expense	-	240	511	190	-	941
Transfer of leased assets	-	2,318	-	(2,318)	-	-
Disposal of PP&E assets	-		(13)	-	-	(13)
Effect of foreign currency exchange	-	(27)	(37)	(2)	-	(66)
Balance at March 31, 2017	**-**	**9,167**	**28,729**	**1,291**	**-**	**39,187**
Depreciation expense	-	946	1,593	288	-	2,827
Disposal of PP&E assets	-	(77)	(274)	(157)	-	(508)
Effect of foreign currency exchange	-	(199)	(258)	(17)	-	(474)
Balance at December 31, 2017	**-**	**9,837**	**29,790**	**1,405**	**-**	**41,032**
Depreciation expense		298	498	104	-	900
Disposal of PP&E assets	-	-	(36)	(94)	-	(130)
Effect of foreign currency exchange	-	94	125	9	-	228
Balance at March 31, 2018	**$ -**	**$ 10,229**	**$ 30,377**	**$ 1,424**	**$ -**	**$ 42,030**

Net book values	Freehold land	Buildings	Plant and equipment	Assets under finance lease	Assets under construction	Total
March 31, 2017	$ 8,564	$ 16,890	$ 11,851	$ 2,752	$ 1,857	$ 41,914
December 31, 2017	8,457	15,865	12,407	2,672	698	40,099
March 31, 2018	**8,506**	**15,662**	**11,983**	**2,656**	**1,446**	**40,253**

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

Depreciation expense for the three month period ended March 31, 2018, in the amount of $776 (2017 - $822) is included in cost of sales, with an amount of $91 (2017 - $85) included in selling expenses, and an amount of $33 (2017 - $34) included in administrative expenses.

12. Long-term debt

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

	Mar 31, 2018	**Dec 31, 2017**
Balance at beginning of period	**$ 8,906**	$ -
Borrowings	**-**	9,152
Repayments	**(84)**	(246)
Balance at end of period	**$ 8,822**	$ 8,906

As at February 28, 2017, the Corporation obtained long-term debt from a Canadian bank to fund the purchase of a real estate transaction completed at a fixed interest rate of 3.25%. The long-term debt is being amortized over a 20 year amortization period and subject to renewal within 5 years. The long-term debt is eligible for prepayment privilege, subject to certain prepayment penalties and is supported by the Corporation's property. Borrowing and closing costs were expensed as incurred.

The Corporation is subject to certain covenants on its long-term debt, one of which is a financial covenant to maintain a Debt Service Coverage Ratio of not less than 1.25:1. The financial covenant ratio is tested on an annual, year-end basis. The Corporation was in compliance with the financial covenant as at the prior annual reporting period. A test of Debt Service Coverage compliance will be performed as at December 31, 2018.

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

	Mar 31, 2018
Current within 12 months	$ 341
Due within 12 to 24 months	353
Due within 25 to 36 months	364
Due within 37 to 48 months	376
Due within 49 to 60 months	389
Due after 60 months	6,999
Total	**$ 8,822**

13. Finance lease obligations

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

	Minimum lease payments	
	Mar 31, 2018	**Dec 31, 2017**
No later than one year	**$ 663**	$ 648
Later than one year and not later than five years	**1,911**	1,899
Later than five years	**4,745**	4,851
Total minimum lease payments	**7,319**	7,398
Less: amounts representing finance costs	**4,063**	4,166
Present value of minimum lease payments	**$ 3,256**	$ 3,232

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

	Mar 31, 2018	Dec 31, 2017
Current	**$ 270**	$ 249
Long-term	**2,986**	2,983
Total	**$ 3,256**	$ 3,232

14. Purchase of leased property

On February 28, 2017, the Corporation purchased, under a Right of First Offer ("ROFO") a property which was previously leased from a Canadian real estate income trust ("Canadian REIT"). The lease interest in the property was recorded as an operating lease of land and a finance lease of the buildings. The gross purchase price for the property was $18,822, of which $9,670 was paid in cash and $9,152 was funded through a mortgage on the property obtained from a Canadian financial institution (see Note 12). The Corporation expensed $22 direct costs related to the transaction as incurred.

The transaction resulted in the elimination of all leasing obligations related to the purchased property. In determining the transaction price allocated to land, the Corporation engaged assistance of third party specialists, to determine the fair value related as $5,432.

For accounting purposes, the deferred operating lease obligations on the balance sheet, were eliminated in the amount of $143.

The cost and accumulated depreciation of amounts previously classified as leasehold improvements, for property enhancements installed from March 2013 to February 2017 were reclassified from leasehold improvements to buildings in the amounts of $398 and $343, respectively.

At March 15, 2013, the present value of minimum lease payments relating to the finance lease asset was recorded as the finance lease obligation in the amount of $14,220. This balance, through lease payments, decreased to $10,982 on February 28, 2017 and was extinguished on the transaction date.

The land and building assets, along with the mortgage for buildings, have been allocated to the Corporate reportable segment.

15. Reconciliation of liabilities arising from financing activities

The following table provides a reconciliation between the opening and closing balances for financing activities, including cash and non-cash flows changes:

		Cash changes		Non-cash changes			
	Dec 31, 2017	Borrowings	Repayments	Additions	Disposal	Foreign exchange	Mar 31, 2018
Bank indebtedness	$ -	$ 4,616	$ -	$ -	$ -	$ -	**$ 4,616**
Long-term debt	8,906	-	(84)	-	-	-	**8,822**
Finance lease obligations	3,232	-	(66)	94	(12)	8	**3,256**
Total	**$ 12,138**	**$ 4,616**	**$ (150)**	**$ 94**	**(12)**	**$ 8**	**$ 16,694**

16. Issued capital

16.1 Normal course issuer Bid

In January 2018, the Corporation obtained approval from the Toronto Stock Exchange to renew its Normal Course Issuer Bid (the "Bid") program for a 12-month period, which commenced on January 10, 2018 and ends no later than January 11, 2019. The renewal allows the Corporation to purchase, up to a maximum of 50,000 of its common shares representing 0.74% of the Corporation's 6,716,003 issued and outstanding common shares as at December 31, 2017, subject to a daily maximum purchase of 1,000 common shares. The Corporation will purchase from time-to-time its common shares at market prices by means of open markets of the Toronto Stock Exchange as well as through alternate trading systems in Canada upon which the common shares are traded.

In the three month periods ended March 31, 2018 and 2017, the Corporation did not purchase any of its common shares for cancellation under the Normal Course Issuer Bid.

16.2 Dividends

In the three month periods ended March 31, 2018 and 2017, the Corporation's Board of Directors declared a regular quarterly dividend of $0.08 and $0.07 per common share paid in the month of February in each year, respectively.

The dividend payment in February 2018 amounted to $538 (2017 - $470).

17. Financial instruments

Fair Value Hierarchy

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

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

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

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

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

The carrying amounts of the financial instruments are a reasonable approximation of their fair value. A summary of the classifications and carrying values of financial instruments held by the Corporation as at March 31, 2018 and December 31, 2017, are stated in the following table:

		Mar 31, 2018	**Dec 31, 2017**
Financial instrument	**Hierarchy**	**Carrying amount**	**Carrying amount**
Cash and cash equivalents	Level 1	**$ 7,509**	$ 12,268
Restricted marketable securities	Level 1	**1,472**	1,239
Trade receivables	N/A	**11,144**	9,809
Bank indebtedness	Level 1	**(4,616)**	-
Trade and other payables	N/A	**(6,410)**	(8,737)
Long Term debt	Level 2	**(8,822)**	(8,906)

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

- The carrying amount of cash and cash equivalents, trade receivables, bank indebtedness and trade and other payables approximate fair value due to the short-term maturity of those instruments.
- Marketable securities – restricted, consist of units of a 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.
- Long-term debt is carried at amortized cost. The estimated fair value of long-term borrowings has been estimated to approximate the amortized cost.

18. Commitments and contingencies

18.1 Performance bonds

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

As at March 31, 2018, the Canadian segment did not have any contracts secured by performance bonds (December 31, 2017 - $nil). In the USA, performance bonds in the amount of $615 (December 31, 2017 - $598) were pledged to various government agencies as at March 31, 2018.

18.2 Expenditures for property, plant and equipment

As at March 31, 2018, the Corporation had commitments of $310 (March 31, 2017 - $905) for purchasing property, plant and equipment.

19. Related party transactions

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

Balances and transactions between the Corporation and its subsidiaries, which are related parties of the Corporation, have been eliminated on consolidation and are not disclosed in this note (see Note 5.3). Details of transactions between the Corporation and other related parties are disclosed below.

Trading transactions

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

In the three months ended March 31, 2018 and 2017, the Corporation had the following trading transactions with related parties:

Related party	Nature of transactions	2018	2017
E. Carruthers Trucking	Transportation services	**$ 337**	$ 337
Aeonian Capital Corporation	Management services	**87**	87
		$ 424	$ 424

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

Related party	Nature of transactions	2018	2017
E. Carruthers Trucking	Transportation services	**$ 45**	$ 19

20. Supplementary cash flow information

20.1 Changes in non-cash working capital

	Three month periods ended March 31	
	2018	**2017**
Trade receivables	**$ 1,335**	$ 2,098
Inventories	**4,401**	3,409
Prepaid expenses	**590**	225
Contract costs	**33**	21
Trade and other payables	**2,327**	399
Contract liabilities	**(744)**	(1,028)
	$ 7,942	$ 5,124

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

	Three month periods ended March 31	
	2018	**2017**
Property, plant and equipment acquired with finance lease obligations	**$ 66**	$ 22

20.3 Letters of credit

The Corporation has drawn letters of credit from its bank to guarantee payments for inventory purchases expected to settle in the second quarter. The Corporation did not post any cash to collateralize its letters of credit. Letters of credit outstanding as at March 31, 2018 were $2,891 (2017 - $nil).

21. Subsequent events

21.1 Marketable securities - restricted

On April 12, 2018, a third-party offer affecting the trust units held in escrow received final approval for a planned arrangement. No further regulatory or shareholder approvals are required and the transaction is expected to complete in the second quarter. The expected proceeds from the conversion of restricted marketable securities into restricted cash are $1,483.

21.2 Letters of credit

As at April 30, 2018, all outstanding letters of credit to guarantee payments for inventory purchases settled. Additional costs of inventories incurred in bringing inventory to their present location and condition amounted to $27 and will be expensed in future periods as cost of sales.

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