2011 Annual Report

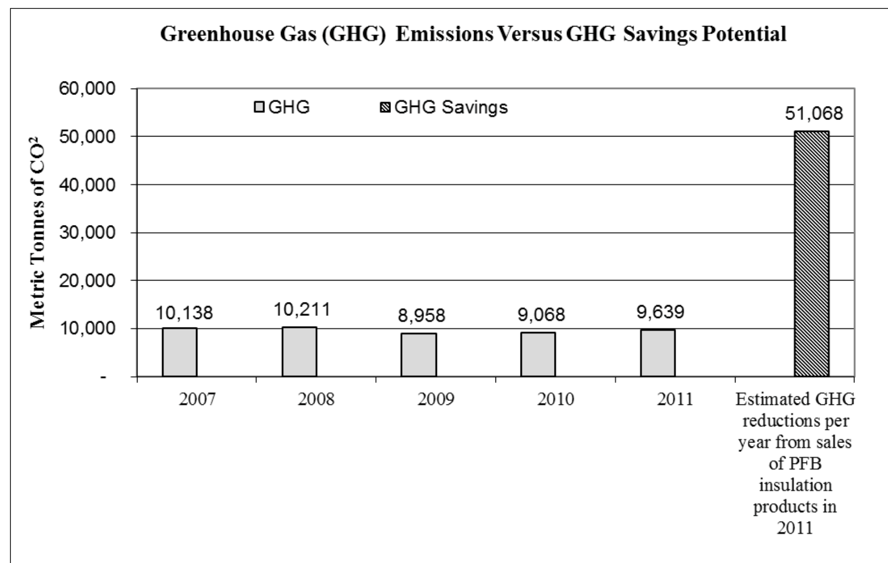
PFB's Commitment to Sustainability

At PFB Corporation, we are concerned about the future of the planet and the effects that modern life styles may be having on climate change. PFB Corporation is committed to conducting its operations responsibly, mindful of the **economic**, **environmental** and **social** impacts of its operations. Environmental protection has always been placed at the highest level of importance in our products, our processes and our practices. We intend to focus on improving our performance-related to conversion of inputs, such as materials, energy, and water, into outputs, such as products, emissions, effluents and waste, through a process of continuous improvement.

PFB has taken a transparent approach and reports its performance metrics in the annual report. More detailed information is available on our web site devoted to sustainability at the following address: www.pfbsustainability.com

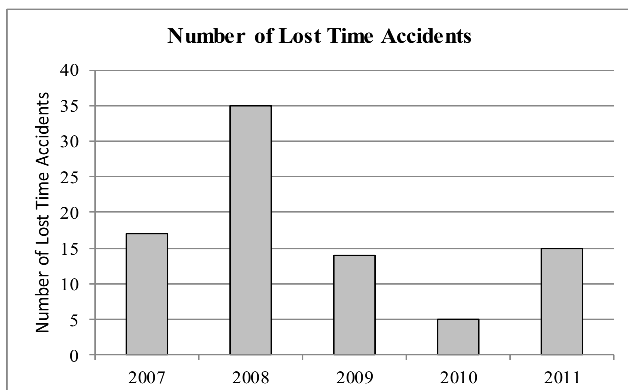
The following extracts are a brief summary of some of the key metrics that we use to track our performance.

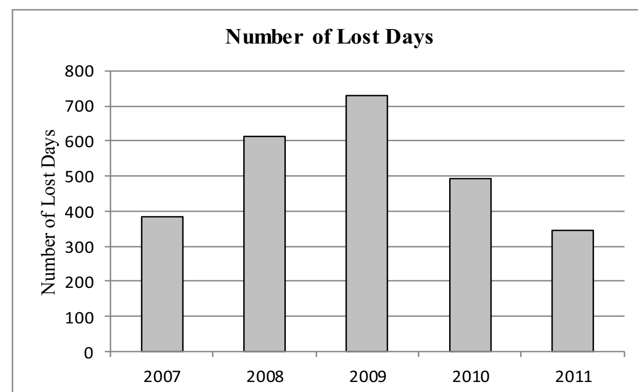
Environmental



Health and Safety

Occupational Health and Safety is of paramount importance at PFB Corporation. We have incorporated safety initiatives into everything we do. We recognize that our employees are our most valuable resource so we provide them with the training, tools and environment to maximize their performance in the safest manner possible.





PFB Corporation

2011 Management's discussion and analysis

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 the company's future prospects and make informed investment decisions.

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

All forward-looking statements reflect management's current views as at March 15, 2012, 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.

You will find a more detailed assessment of the risks that could cause actual results to materially differ from our current expectations in the Risk Management and Assessment section of this MD&A.

Other advisories regarding this MD&A

The following MD&A of the operating results and financial condition of PFB Corporation ("PFB" or the "Corporation") for the years ended December 31, 2011 and 2010 should be read in conjunction with the audited consolidated financial statements and related notes included in PFB's 2011 Annual Report.

The consolidated financial statements of PFB for the years ended December 31, 2011 and 2010, have been prepared in accordance with International Financial reporting Standards ("IFRS" or "GAAP") as issued by the International Accounting Standards Board ("IASB").

Business overview

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

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

Expandable polystyrene resin is manufactured at PFB's polymer plant located in Crossfield, Alberta, for use exclusively in downstream EPS manufacturing operations. Expandable polystyrene resin is also sourced from other suppliers to supplement internally produced raw materials. Plasti-Fab EPS Product Solutions supply the EPS foam core material used to manufacture Insulspan SIPS (Structural Insulating Panel Systems). Riverbend Timber Framing structures are typically sold with an accompanying Insulspan SIPS enclosure package.

Plasti-Fab, EPS Product Solutions® are products, manufactured using expanded polystyrene (EPS) as base raw materials, that are delivered to customers in five market channels: rigid insulation board; insulating building systems; geotechnical engineered applications; buoyancy, and products for packaging and display applications.

Advantage ICF Systems® are insulating concrete forming systems that are employed to build insulated foundations and walls from concrete in both residential and commercial markets. Insulspan® Structural Insulating Panels Systems (SIPS) are used to create a building's structural wall frame and to replaces trusses on roof systems to form an energy-efficient structural envelope. Riverbend® Timber Framing manufactures and sells precision-cut, custom-crafted solid timbers to exacting standards which are delivered to customer's jobsites as ready-to-assemble building packages in conjunction with Insulspan SIPS for the walls and roof, and Advantage ICF for building foundations. Precision Craft® manufactures timber frame and log structures that are designed by Mountain Architects LLC, and installed by PC Design Build LLC.

Non-GAAP financial measures

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

(a) **Gross profit** – represents sales less cost of sales.

(b) **Gross profit margin** – represents gross profit expressed as a percentage of sales.

(c) **Operating income** – represents the income from operations before investment income, finance costs, the revaluation of contingent shares, and insurance claim gain.

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

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

Financial highlights summary - annual

Years ended December 31, 2011, 2010, 2009, 2008, and 2007

(Thousands of dollars except per share data and selected financial ratios)

	2011 [1]	2010 [1]	2009 [1]	2008 [1]	2007 [1]
Operating results					
Sales	**$ 89,165**	$ 69,962	$ 65,930	$ 79,810	$ 82,918
Gross profit	**18,473**	16,359	19,847	17,849	22,731
Operating income	**4,163**	2,521	5,654	1,666	5,718
Income	**3,202**	1,378	3,690	700	3,903
Cash provided by operations [2]	**5,979**	5,255	8,131	4,189	6,790
Per common share data					
Earnings per share – Basic	**0.48**	0.21	0.56	0.11	0.61
Earnings per share – Diluted	**0.47**	0.21	0.56	0.11	0.60
Dividend paid per share – Regular	**0.24**	0.24	0.24	0.24	0.24
Cash provided by operations [3]	**0.91**	0.80	1.24	0.64	1.17
Book value [4]	**6.66**	6.58	6.79	6.45	6.57
Financial condition					
Total assets	**67,529**	62,345	63,252	61,668	58,272
Working capital [5]	**13,973**	15,673	15,167	11,946	12,093
Property, plant and equipment (net)	**37,127**	36,543	31,580	32,915	25,594
Intangible assets (net)	**1,459**	150	260	303	361
Goodwill	**1,731**	580	5,887	5,887	5,887
Long-term debt and obligations under capital leases (including current portion)	**7,587**	8,883	9,663	10,206	3,487
Shareholders' equity	**45,032**	43,531	44,587	42,375	43,204
Selected financial ratios					
Gross profit margin [6]	**20.7%**	23.4%	30.1%	22.4%	27.4%
Operating margin [7]	**4.7%**	3.6%	8.6%	2.1%	6.9%
Income margin [8]	**3.6%**	2.0%	5.6%	0.9%	4.7%
Current ratio [9]	**2.15x**	2.82x	2.61x	2.22x	1.93x
Return on equity [10]	**7.4%**	3.2%	8.7%	1.6%	10.2%

[1] The figures in the above table for years 2011 and 2010 have been prepared in accordance with IFRS. Figures presented for years 2009, 2008 and 2007 were prepared in accordance with previous Canadian GAAP before the transition to IFRS.

Non-GAAP financial measures do not have any standardized meaning prescribed by GAAP and are therefore unlikely to be comparable to similar measures presented by other issuers. Definitions of non-GAAP measures used in the above table along with relevant other notes are as follows:

[2] Cash provided by operations is defined as cash provided by operations before changes in non-cash working capital, long-term trade receivables, and unrealized foreign exchange gains or losses relating to non-cash working capital.
[3] Cash provided by operations per share is defined as cash provided by operations as described in note 2. above divided by the weighted average number of shares issued and outstanding.
[4] Book value per share is defined as shareholders' equity divided by the actual number of common shares outstanding as at December 31 each year.
[5] Working capital is defined as current assets less current liabilities.
[6] Gross profit margin is defined as gross profit divided by sales.
[7] Operating margin is defined as gross profit less selling and administrative expenses less other losses plus other gains divided by sales.
[8] Net income margin is defined as net income divided by sales.
[9] Current ratio is defined as current assets divided by current liabilities.
[10] Return on equity is defined as income for the year divided by opening shareholders' equity.

Financial highlights summary - quarterly

Years ended December 31, 2011 and 2010

(Thousands of dollars, except gross profit percentage and per share amounts)

	2011				2010			
	Q4	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**
Sales	**$ 23,374**	**$ 28,920**	**$ 21,298**	**$ 15,573**	$ 17,859	$ 21,794	$ 18,567	$ 11,742
Gross profit	**4,962**	**6,803**	**4,459**	**2,249**	4,437	6,036	3,876	2,010
Gross profit %	**21.2%**	**23.5%**	**20.9%**	**14.4%**	24.8%	27.7%	20.9%	17.1%
Operating income (loss)	**1,581**	**3,226**	**827**	**(1,471)**	886	2,413	559	(1,337)
Income (loss)	**972**	**2,870**	**581**	**(1,221)**	509	1,568	354	(1,053)
Earnings (loss) per share:								
Basic	**0.14**	**0.44**	**0.09**	**(0.18)**	0.08	0.24	0.05	(0.16)
Diluted	**0.14**	**0.44**	**0.08**	**(0.18)**	0.08	0.24	0.05	(0.16)

PFB's business exhibits seasonal variations concurrent with those that influence the construction industry, including the variability in weather patterns. Typically, reported sales revenues are lowest in the first quarter and highest in the second or third quarters.

Consolidated financial highlights

Years ended December 31, 2011 and 2010

(Thousands of dollars, except gross profit percentage and per share amounts)

	2011	2010
Sales	**$ 89,165**	$ 69,962
Cost of sales	**(70,692)**	(53,603)
Gross profit	**18,473**	16,359
Selling expenses	**(8,966)**	(8,710)
Administrative expenses	**(5,460)**	(4,882)
Other gains and (losses)	**116**	(246)
Operating income	**4,163**	2,521
Revaluation of contingent shares – gain	**12**	-
Insurance claim – gain	**726**	65
Investment income	**44**	41
Finance costs	**(494)**	(502)
Income before taxes	**4,451**	2,125
Income taxes expense	**(1,249)**	(747)
Income for the period	**3,202**	$ 1,378
Other comprehensive income, net of income tax		
Exchange differences on translating foreign operations (net of tax $nil)	**9**	45
Total comprehensive income for the year	**$ 3,211**	$ 1,422
Earnings per share - $ per share		
Basic	**$ 0.48**	$ 0.21
Diluted	**0.47**	0.21
Weighted average number of common shares outstanding	**6,605,223**	6,598,703

Consolidated results of operations

Upon the adoption of IFRS, effective the first quarter of 2011, all comparative figures for 2010 that were previously reported in the consolidated financial statements prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP") have been restated to comply with the new standards adopted. See Note 26 of the Corporation's audited consolidated financial statements for the year ended December 31, 2011 for further information on the transition to IFRS and its impact on the Corporation's performance and financial position.

Upon transition to IFRS, the Corporation has determined that it has two reportable operating segments:

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

All figures in this MD&A are stated in thousands of Canadian dollars except number of shares and per share amounts. The results of the Corporation's operations in the United States of America are translated into Canadian dollars on a periodic basis for inclusion in the consolidated financial results.

Acquisition

The Corporation completed the acquisition of the Precision Craft Group located in Idaho, USA, with an effective date of February 1, 2011. Total purchase consideration was $3,445 consisting of cash of $2,447 and contingent consideration of $968. Contingent consideration consisted of the issuance of 166,667 common shares of the Corporation initially valued at $5.81 per share and held in an escrow account with their release from escrow conditional on the achievement of an earn-out agreement with the vendor over a maximum period of five years. See Note 20 to the consolidated financial statements for the year ended December 31, 2011, for additional information concerning the acquisition. The results of the acquired companies have been included in the consolidation financial statements of the Corporation since the acquisition date.

Sales

Consolidated sales in 2011 increased by 27.4% or $19,203 to $89,165 as compared to sales of $69,962 in 2010. This was record high consolidated sales for the Corporation. The year-over-year improvement in consolidated sales was predominantly attributed to increased EPS foam sales in Canada where all regions in which the Corporation operates reporting increased EPS foam sales as compared to sales in 2010.

Gross profit

Gross profit increased by 12.9% or $2,114 to $18,473 as compared to gross profit of $16,359 in 2010. In 2011, the gross profit margin was 20.7% as compared to 23.4% in 2010. The decrease in gross profit margin in the current year was chiefly influenced by elevated raw material input costs used in manufacturing along with year-over-year variations in product mix.

It should be noted that, under IFRS reporting, freight expenses are included in cost of sales whereas under Canadian GAAP reporting sales were reported net of freight expenses. This change had the effect of diluting the gross profit margin calculation under IFRS as compared to the equivalent calculation under Canadian GAAP.

Selling expenses

Consolidated selling expenses increased slightly to $8,966 in the current year as compared to $8,710 in 2010, an increase of $256 or 2.9%. A net increase in selling expenses in the USA operations resulted from the inclusion of the Precision Craft operations, partially offset by selling expense reductions in other USA operations which resulted from various cost realignment initiatives. Consolidated selling expenses included $95 of non-recurring restructuring costs incurred in the USA operations.

Administrative expenses
Consolidated administrative expenses increased to $5,460 in the current year as compared to $4,882 in 2010, an increase of $578 or 11.8%. The increase in expenses arose partly from the inclusion of the Precision Craft companies administrative expenses together with non-recurring costs of $108 attributed to direct acquisition costs and $94 attributed to restructuring costs in the USA operations.

Other gains and losses
Other gains in the current year of $116 consisted of currency related items. A realized foreign exchange loss of $36 was offset by an unrealized gain of $152 arising on the mark-to-market revaluation of a Canadian dollar denominated inter-segment loan payable by the Corporation's USA operations. In 2010, a net loss of $246 included a realized gain of $145 on U.S. dollar denominated monetary assets held by Canadian operations and an unrealized loss of $342 arising on the inter-segment loan. In addition, a gain of $18 was realized on disposal of property, plant and equipment in 2010.

Revaluation of contingent shares
The consideration for the Precision Craft acquisition in 2011 consisted of cash and contingent shares. The contingent shares are held in an escrow account and their release is conditional on the achievement of an earn-out formula with the vendor (see note 20 to the audited consolidated financial statements for 2011). The contingent shares are marked-to-market at the end of each reporting period. A revaluation gain of $12 resulted in 2011 which is reflective of a small decline in the market price of the Corporation's shares as at December 31, 2011, as compared to the market price of $5.81 on the date the shares were originally issued.

Insurance claim
A significant insurance gain of $726, net of expenses, was recorded in the current year arising from a claim made following a fire which occurred in October 2010 that partially damaged a building in one of the Corporation`s USA operations. Accordingly, the carrying costs of the restored building have been increased by $908 less write-downs of $217 attributed to derecognizing the proportional carrying costs of various components of the building compromised in the fire. In addition, other gains arising from the claim amounted to $35. In 2010, a gain of $65 was reported under the claim with respect to replacing material handling equipment necessary to maintain continuity of operations.

Interest income and finance costs
In the current year, interest income earned on cash and short-term investments marginally increased to $44 from an amount of $41 in 2010. Cash balances throughout 2011 were similar to those in 2010 and there were no discernible change in interest rates.

Finance costs on bank borrowing and finance leases in the current year decreased marginally from $502 in 2010 to $494 in the current year.

Income tax expense
A consolidated effective income tax rate of 28.1% resulted in 2011 as compared to an effective income tax rate of 35.2% in 2010. Corporate tax rates in Canada have been on a decreasing trend over recent years and the reduction in the blended tax rate applicable to PFB's Canadian operations in 2011 was 1.4%. In 2010, the comparative effective tax rate was elevated above normal as it included prior-year adjustments affecting the USA operations.

Income and earnings per share
Consolidated income in the current year was $3,202 as compared with net income of $1,378 reported in fiscal 2010, an increase of $1,824. Accordingly, basic earnings per common share increased from $0.21 in 2010 to $0.48 in the current year based on the weighted average number of basic common shares outstanding in each year, respectively.

The insurance claim gain $726 ($462 after tax) was a non-recurring event during the current year which represented approximately $0.07 per share of the total reported earnings per share of $0.48.

The weighted average number of basic common shares outstanding increased marginally in the current year to 6,605,223, up from 6,598,703 in 2010. The small increase was attributed to the net effect of issuing 50,000 common shares in the first half of 2010 as a result of exercising of stock options less shares purchased for cancellation under a normal course issuer bid in the second half of 2010 and during the current year.

In the current year, 166,667 contingent shares issued as part of the acquisition of the Precision Craft Group and held in an escrow account are considered to be dilutive. The weighted average number of diluted common shares outstanding in 2011 was 6,771,890 as compared to 6,598,703 in 2010. Accordingly, diluted earnings per share in 2011 was $0.47 as compared to $0.21 in 2010.

Reportable operating segments

The Corporation has two reportable operating segments, Canada and the USA, and each segment mirrors the Corporation's accounting policies (as described in note 2 to the audited consolidated financial statements for 2011) and its internal controls and reporting systems. Segment performance predominantly focuses on the types of goods and services provided and their geographical locations of manufacturing and distribution.

The chief operating decision makers' of each operating segment evaluate performance for which they are responsible on the basis of operating income or loss, as reported to them on a periodic basis. This performance measure is considered to be the most relevant in evaluating the results of each operating segment.

Segment revenues and income

Segment sales in the table below represent sales revenues generated from income includes items directly attributable to each segment as well as items that can be allocated on a reasonable basis external customers. Inter-segment sales in the current year have been eliminated (see supplemental disclosure in the other segment information table below). There are varying levels of integration between each segment.

Segment operating income represents income earned by each segment without allocation of central administration costs, revaluation of contingent shares, insurance claim gain, interest income, and finance costs.

Information regarding each reportable operating segment for years ended December 31, 2011 and 2010 is set out below:

	Segment sales revenues		Segment operating income	
	2011	**2010**	**2011**	**2010**
Canada	**$ 73,978**	$ 60,552	**$ 3,994**	$ 3,719
USA	**15,187**	9,410	**(476)**	(616)
Total	**$ 89,165**	$ 69,962	**3,518**	3,103
Central administration – property income			**1,314**	-
Central administration – expenses			**(669)**	(582)
Revaluation of contingent shares - gain			**12**	-
Insurance claim - gain			**726**	65
Interest income			**44**	41
Finance costs			**(494)**	(502)
Income before tax			**$ 4,451**	$ 2,125

(a) Canada

Sales

Sales generated by the Canadian operations increased 22.2% or $13,426 in the current year to $73,978 as compared to sales of $60,552 in 2010. Increased sales of EPS foam products were the principle driver of growth with most sales channels in the commercial sector recording year-over-year gains. The gains mostly came in the second half of the year as product shipments in the first half of the year were adversely affected by prolonged periods of inclement weather across the country. In the current year, shipments to a large public works project in the West were a significant feature in the sales growth achieved and sales to the project included shipments originally delayed by the customer in the previous year.

Sales of building systems products decreased slightly in the current year as compared to sales in 2010 which was symptomatic of continuing weak activity levels in the residential sector where competitor activities remained very active.

Operating income
Operating income increased by $275 or 7.4% in the current year to $3,994 as compared to $3,719 in 2010.

Throughout the year, average input costs of the Corporation's key raw material, styrene monomer, were higher than in the comparative year which increased the cost of sales overall. The full impact of increased input costs was slightly lessened by a stronger Canadian dollar versus the US dollar for most of the year. The net effect of input cost increases and currency appreciation resulted in gross profit margins being weaker in the current year. Negligible appetite existed in the markets served for accepting selling price increases. Product mix also played a role in lowering average gross margins in the current year. Notwithstanding, the year-over-year sales growth delivered incremental gross profit in the Canadian operations.

Increased sales volumes in 2011 allowed many plants to improve their operating labour efficiencies and reduce their unit costs for manufacturing overheads.

Selling and administrative expenses in the Canadian operations increased marginally but at a much lower rate than the increase in sales revenues, thereby reducing the expense to sales ratio.

(b) USA

Sales
Sales by the USA operations increased 61.3% or $5,768 in the current year to $15,187 as compared to sales of $9,410 in 2010. USA sales included $6,565 of revenues generated by the Precision Craft group of companies since February 1, 2011, which accounted for more than the net increase in the year. Combined Insulspan and Riverbend Timber Framing sales decreased by 8.5% in the current year as challenging market conditions persisted. Year-over-year comparisons of USD sales revenues when translated into Canadian dollars for reporting purposes are impacted by currency movements. In 2011, the CAD was trading above par with the USD for a major part of the year which results in lower reported U.S. sales revenues when translated into Canadian dollars as compared to in the comparative year when the Canadian dollar was generally weaker.

Sales by the USA operations in the fourth quarter of 2011 were particularly encouraging and they accounting for 38.4% of total sales in the year. The timing of shipping customized orders is driven by customer jobsite readiness.

Sales in the United States are mostly sold into the residential channel where new construction starts have remained slumped at their lowest levels in decades. Accordingly, the market and economic challenges faced in the USA continue to adversely impact customer lead generation and the closing of contracts. The recovery of the general construction market is expected to be slow and gradual. However, quoting interest from the premium niche markets into which Riverbend Timber Framing and Precision Craft homes are sold is exhibiting some optimism.

Operating loss
The operating loss decreased by $140 or 22.7% in the current year to a loss of $476 as compared to a loss of $616 in 2010. Gross profit margins were slightly weaker in the current year and were influenced by a changing product mix which included increased sales of service related activities and a continuing competitive pricing environment for manufactured products.

Selling and administrative (S&A) expenses increased in the current year as a result of the inclusion of the expenses of the Precision Craft companies. A significant cost-realignment program was initiated in 2011 which resulted in non-recurring restructuring costs of $189 which have been included in S&A expenses. The program was aimed at simplifying the overhead structure and reducing costs in the USA operations by consolidating functional departments, increasing accountability and simplifying transaction processing. The action taken was necessary to align operating cost structures with the challenging sales environment and realize synergies from the acquisition.

(c) Central administration income and expenses

Property income
Commencing January 1, 2011, the properties owned by the Corporation were transferred out of the Canadian and USA operations to a separate wholly-owned subsidiary. The two operating segments of the Corporation are charged a market-equivalent rent for use of the properties. Segment operating income is calculated inclusive of property rent.

Central administration expenses in 2011 were $669 as compared to $582 in 2010. Included in 2011 were direct acquisition costs of $108 which were not a feature in the comparative year.

Segment assets and liabilities

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

	As at Dec 31, 2011	As at Dec 31, 2010	As at Jan 1, 2010
Assets			
Segmented assets	**$ 35,493**	$ 52,644	$ 52,734
Assets not allocated to segments:			
Cash and cash equivalents	**9,504**	9,701	10,896
Property	**22,532**	-	-
Total assets	**$ 67,529**	$ 62,345	$ 63,630
Liabilities			
Segmented liabilities	**$ 13,611**	$ 10,134	$ 10,697
Liabilities not allocated to segments:			
Contingent consideration	**957**	-	-
Borrowings	**7,586**	8,883	9,663
Central services deferred taxes[1]	**343**	(203)	(122)
Total liabilities	**$ 22,497**	$ 18,814	$ 20,238
Net segmented assets			
Canada	**$ 19,256**	$ 39,802	$ 39,203
USA	**2,626**	2,708	2,834

[1] The December 31, 2010, amount is an asset that was netted against the Canadian operations deferred tax liability as the assets and liability balances relate to the same tax jurisdiction.

Other segment information

	2011	2010
Additions to non-current assets:		
Canada	**$ 1,585**	$ 1,752
USA	**2,424**	125
Total	**$ 4,009**	$ 1,877
Depreciation and amortization:		
Canada	**$ 1,856**	$ 2,707
USA	**489**	234
Total	**$ 2,345**	$ 2,941
Inter-segment sales	**$ 5,599**	$ 5,455

Information about major customers

Included in the sales revenues of the Canadian operating segment are sales revenues of $13,552 (2010 - $1,664) to the Corporation's largest single customer. No other single customer represented 10% or more of the Corporation's consolidated sales in the twelve month periods ended December 31, 2011 and 2010.

Results of operations - fourth quarter ended December 31, 2011

The following table discloses the consolidated results of operations of PFB for the fourth quarters ended December 31, 2011 and 2010:

Consolidated Statement of Comprehensive Income

Three Months Ended December 31, 2011 and 2010 (Unaudited)

	2011	2010
Sales	**$ 23,374**	$ 17,859
Cost of sales	**(18,412)**	(13,422)
Gross profit	**4,962**	4,437
Selling expenses	**(2,011)**	(2,053)
Administrative expenses	**(1,328)**	(1,351)
Other losses	**(42)**	(148)
Operating income	**1,581**	885
Revaluation of contingent shares - loss	**(123)**	-
Insurance claim - gain	**-**	65
Interest income	**24**	12
Finance costs	**(117)**	(117)
Income before tax	**1,365**	845
Income tax expense	**(393)**	(337)
Income	**972**	508
Other comprehensive income, net of income tax	**2**	30
Total comprehensive income for the quarter	**$ 974**	$ 538
Earnings per common share – $ per share		
Basic	**$ 0.14**	$ 0.08
Diluted	**$ 0.14**	$ 0.08
Weighted average number of common shares outstanding	**6,597,635**	6,619,975

Sales
Consolidated sales in the fourth quarter of 2011 were $23,374, an increase of $5,515 or 30.9% as compared to sales of $17,859 reported in the comparative quarter of 2010. The increase in sales was attributed to both the Canadian and USA operating segments, which both delivered robust sales in the final quarter of the year. Mild weather with low precipitation was a positive factor in extending the construction season.

Gross profit
Gross profit, expressed as a percentage of sales, decreased from 24.8 % in the fourth quarter of 2010 to 21.2% in the current quarter. The lower gross profit margin in the fourth quarter of 2011 is reflective of the trend experienced throughout the year, impacted by elevated raw material costs compared to those in the previous year and the business mix of products and services which fluctuates.

Selling and administrative expenses
Selling and administrative expenses in the fourth quarter of 2011 were marginally lower than in the comparative quarter of 2010. Expenses in the current year are inclusive of overhead expenses of the acquired companies in the USA where incremental operating costs attributed to the acquired companies were offset by cost reduction measures.

Other losses
Other losses mainly comprised unrealized currency losses on an inter-segment loan denominated in Canadian dollars. Unrealized losses in the current quarter were lower than in the comparative quarter of 2010 due to fluctuations in exchange rates.

Interest income and finance costs
Interest income in the fourth quarter of 2011was $24 as compared to interest income of $12 in the comparative period of 2010. Finance costs in the current quarter were $117, exactly the same as in the comparative quarter. Finance costs related to interest paid on bank borrowings and finance leases.

Income and earnings per share
Income in the current quarter increased by $464 to $972as compared to income of $508 in the fourth quarter of 2010.

Income in the fourth quarter of 2011 generated basic and diluted earnings per share of $0.13 as compared to basic and diluted earnings per share of $0.08 reported in the fourth quarter of 2010.

The weighted average number of issued and outstanding shares in the fourth quarter of 2011 was 6,597,635 as compared to 6,616,975 in the prior year quarter. The small decrease was attributed to shares purchased for cancellation under a Normal Course Issuer Bid.

Liquidity and capital resources

Sources of liquidity

PFB ended 2011 with a strong balance sheet which included cash and cash equivalents of $9,504 which exceeded total borrowing obligations of $7,587. PFB's cash balances fluctuate with the seasonality of its business.

The Corporation expects that cash balances, future operating cash flows, and amounts available to be drawn against approved credit facilities will enable it to fund ongoing business requirements including changes in non-cash working capital, changes in long-term receivables, repayment of financial obligations, and regular dividend payments over the next twelve months. The Corporation's credit facilities contain certain covenants with which the Corporation was in compliance as at December 31, 2011 and 2010.

PFB generated positive cash flow from operations in the current year which were principally used to fund capital expenditures, repay debt, fund an acquisition, and pay regular quarterly dividends. The Corporation maintained significant bank lines which were unused at December 31, 2011 and 2010.

Cash

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

	December 31, 2011	**December 31, 2010**
Cash	**$ 4,995**	$ 6,699
Cash equivalents	**4,509**	3,002
	$ 9,504	$ 9,701

In the year ended December 31, 2011, $2,063 of cash (net of cash paid less cash acquired) was used to fund the acquisition of the Precision Craft Group. The cash was paid out of working capital with no increase in borrowings.

Borrowings

Total long-term debt of $7,587 as at December 31, 2011, compares to long-term debt of $8,883 as at December 31, 2010, a reduction of $1,296 in the current year. A summary of borrowings by currency is shown in the following table:

		December 31, 2011	December 31, 2010
Payable in Canadian dollars:	Long-term debt	**$ 6,532**	$ 7,780
	Finance lease obligations	**425**	402
Payable in U.S dollars:	Long-term debt	**622**	676
	Finance lease obligations	**8**	25
	Total borrowings	**7,587**	8,883
	Less: current portion	**(942)**	(948)
		$ 6,645	$ 7,935

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

The reduction in long-term debt in the current year was reduced as a result of normal scheduled repayments in the amount of $804 (2010 - $780) plus a prepayment that was made in December 2011 in the amount of $593 (2010 - $Nil) bringing total repayments in the current year to $1,397. The prepayment amount was applied to the fixed-rate term loans which carry interest rates that are higher than the current floating rate loans. There were no increases in long-term debt in the current year.

New finance leases of $277 (2010 - $258) were entered into in the current year for replacement automobiles. Combined repayments of long-term debt and finance lease payments in the current year were $1,587 (2010 - $997).

Change in non-cash working capital

The changes in non-cash working capital amounts in 2011 and 2010 are shown in the following table.

	2011	2010	Change
Trade receivables	**$ 8,348**	$ 6,784	$ 1,564
Inventories	**7,766**	6,976	790
Income taxes receivable	**-**	167	(167)
Prepaid expenses	**556**	664	(108)
Trade and other payables	**(8,309)**	(6,137)	(2,172)
Deferred revenue	**(2,349)**	(1,534)	(815)
Income taxes payable	**(601)**	-	(601)
Total non-cash working capital	**$ 5,411**	$ 6,920	$ (1,509)

Note: The December 31, 2011, amounts are inclusive of non-cash working capital acquired with the Precision Craft Group (See Note 20 to the audited consolidated financial statements for 2011).

Non-cash working capital reduced in 2011 by $1,509 with increases in current liabilities exceeding decreases in current assets.

Trade receivables balances increased by $1,564 which was commensurate with the sales growth experienced in the Canadian operations. The aging profile of trade receivables remained in solid with minimal bad debt write-offs in the year. Inventories increased in the current year by $790 as a result of higher raw material input costs, product mix changes, the inclusion of inventories of the acquired companies, and a planned increase in raw materials inventories which occurred during the final quarter of the year to taken advantage of favourable pricing trends.

Trade and other payables increased by $2,172 in 2011 which was a function of increased trading activities, the inclusion of the trade and other payables of the acquired companies, and the timing of raw material purchases. Deferred revenues increased by $815 with almost all of the change due to the inclusion deferred revenues of the acquired companies which typically collect payments from their customers in advance of performing work.

In 2011, taxable income of the Canadian operations increased over taxable income in the comparative year of 2010. Tax installment payments made during 2011 were calculated based on 2010 taxable income and resulted in an outstanding tax payable as at December 31, 2011, which will be settled by the end of February 2012.

At December 31, 2011, the Corporation was a material supplier to a contract which contains a holdback clause. Contractual holdbacks will be released upon fulfillment of the contract, which is expected to be in the first half of 2013. The holdback amount is classified on the balance sheet as a long-term trade receivable. The long-term trade receivables balance increased by $544 in the current year to an amount of $621 (2010 - $77).

Summary of cash flows

A summary of cash flows for the twelve month periods ended December 31, 2011 and 2010 are shown in the following table.

	2011	**2010**
Net cash flows provided by (used in):		
Cash provided by operations	**$ 5,979**	$ 5,255
Change in non-cash working capital (including foreign exchange)	**597**	(2,452)
Operating activities	**6,576**	2,803
Investing activities	**(3,351)**	(1,501)
Financing activities	**(3,297)**	(2,348)
Effect of foreign exchange on cash held in foreign currency - loss	**(125)**	(149)
Net decreases in cash and cash equivalents	**$ (197)**	$ (1,195)

(a) Operating activities

Cash provided by operations in 2011 was $5,979 as compared to cash provided by operations of $5,255 in 2010.

The individual components of cash provided by operations before changes in non-cash working capital are outlined in the table below:

	2011	**2010**	**Change**
Income for the year	**$ 3,202**	$ 1,378	$ 1,824
Adjustments for items not affecting cash and cash equivalents:			
Depreciation and amortization	**3,258**	2,941	317
Gain on disposal of capital assets	**-**	(18)	18
Accrued benefit asset	**(83)**	(76)	(7)
Stock-based compensation	**-**	67	(67)
Revaluation of contingent consideration	**(12)**	-	(12)
Insurance claim - gain	**(726)**	(65)	(661)
Deferred income tax	**492**	686	(194)
Unrealized foreign exchange (gain) loss	**(152)**	342	(494)
Cash provided by operations [1]	**$ 5,979**	$ 5,255	$ 724

[1] Cash provided by operations is before changes in non-cash working capital, changes in long-term trade receivables and unrealized foreign exchange gains and losses on non-cash working capital.

The construction industry in Canada and the USA is seasonal in nature with a significant portion of work performed by customers' buying the Corporation's products being performed outdoors. Accordingly, a larger portion of work is generally undertaken when weather conditions are conducive to working outdoors, typically during the second and third quarters of the Corporation's fiscal cycle, which is typically reflected in higher reported sales in those periods compared to other periods.

Consolidated depreciation and amortization expense increased by $317 in 2011. Incremental depreciation and amortization expense attributed to the inclusion of the acquired companies was $345.

Income in 2011 included a non-recurring gain in the amount of $726 which was realized upon on closing out an insurance claim in the USA, which is the most significant of the non-cash adjustments in the current year. In the comparative year of 2010, a gain arising from the insurance claim amounted to $65.

An unrealized foreign exchange gain of $152 arose in the current year on an interest-bearing inter-segment loan denominated in Canadian dollars. In 2010, the currency change effect on the loan was an unrealized loss of $342. When the Canadian dollar strengthens, the value of the loan in Canadian dollars in the borrowing operations books reduces in value thereby creating an unrealized foreign exchange gain.

(b) Investing activities

Cash used in investing activities in 2011 was $3,351 as compared to $1,566 in 2010. Purchases of property, plant and equipment (PP&E) and purchases of intangible assets in the current year were $1,281 (2010 - $1,570) and $108 (2010 - $50), respectively. PP&E purchases consisted of new manufacturing and I.T. equipment. Purchases of intangible assets consisted of application software development and associated implementation services. Proceeds from disposals of PP&E in the current year amounted to $101 (2010 - $54).

Effective February 1, 2011, the Corporation acquired the Precision Craft Group of companies based in Idaho, USA. Cash paid on acquisition net of cash acquired was $2,063 (2010 - $nil).

(c) Financing activities

Cash used in financing activities in 2011 was $3,297 as compared to $2,348 in 2010. The Corporation paid regular quarterly dividends of $0.06 per common share in both 2011 and 2010 paid in the months of February, May, August, and November. Aggregate dividend payments were $1,625 in 2011 and $1,583 in 2010. The small increase in payments in 2011 was as a result of paying dividends on the contingent shares issued to effect the acquisition.

Regular repayments of borrowings (combined long-term debt and finance lease obligations) were $994 (2010 - $997) in the current year. A majority of the Corporation's long-term debt comprises fixed rate loans where the applicable interest rates are higher than current market. In December 2011, the Corporation made a prepayment of $593 (2010 - $Nil) to reduce borrowings under the fixed rate loans which brought total repayment of borrowings in the current year up to $1,587.

Shares purchased under a Normal Course Issuer Bid in the current year cost $85 to acquire (2010 - $33). See normal course issuer bid section below for more details.

Share capital

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

	December 31, 2011		**December 31, 2010**	
	No. of Shares	**Amount**	**No. of Shares**	**Amount**
Balance, beginning of year	**6,612,836**	**$ 20,110**	6,568,736	$ 19,815
Issued as contingent consideration for acquisition [1]	**166,667**	**-**	-	-
Exercise of stock options	**-**	**-**	50,000	313
Repurchased pursuant to a Normal Course Issuer Bid	**(15,300)**	**(46)**	(5,900)	(18)
Balance, end of year	**6,764,203**	**$ 20,064**	6,612,836	$ 20,110

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

The individual components making up shareholders' equity as at December 31, 2011 and 2010 are summarized in the table below:

	2011	**2010**	**Change**
Share capital	**$ 20,064**	$ 20,110	$ (46)
Contributed surplus	**384**	384	-
Foreign currency translation reserve	**54**	45	9
Retained earnings	**24,530**	22,992	1,538
Total Shareholders' Equity	**$ 45,032**	$ 43,531	1,501

A summary of transactions making up the changes in the various components of shareholders' equity in the twelve month period ended December 31, 2011, are outlined in the table below:

Activity	Balance Sheet Account	Amount
Shares purchased for cancellation under a Normal Course Issuer Bid	Share Capital	**$ (46)**
Translation of foreign operations	Translation Reserve	**$ 9**
Change in retained earnings resulting from:		
Income	Retained Earnings	$ 3,202
Dividends paid	Retained Earnings	(1,625)
Premium on redemption of common shares	Retained Earnings	(39)
Total Change in Retained Earnings		**$ 1,538**

Share-based options

The Corporation did not grant any share options in the year ended December 31, 2011 and 2010. No share options were exercised in the current year whereas 50,000 share options were exercised in the comparative year. In each of years 2011 and 2010, share option grantees each with 20,000 share options left the Corporation and forfeited their options.

The following table sets forth all outstanding stock options as of December 31, 2011 and 2010:

	2011		**2010**	
	Number of Options	**Weighted Average Exercise Price**	**Number of Options**	**Weighted Average Exercise Price**
Outstanding, beginning of year	**130,000**	**$9.50**	200,000	$8.45
Granted	**-**	**-**	-	-
Exercised	**-**	**-**	(50,000)	(5.30)
Cancelled	**-**	**-**	-	-
Expired	**-**	**-**	-	-
Forfeited	**(20,000)**	**(9.50)**	(20,000)	(9.50)
Outstanding, end of year	**110,000**	**$9.50**	130,000	$9.50

Dividends

In 2011, the Corporation's Board of Directors declared regular quarterly dividends of $0.06 (2010 - $0.06) per common share which were paid on February 28, 2011, May 31, 2011, August 31, 2011, and November 30, 2011 respectively. Dividends paid by the Corporation qualify as eligible dividends and satisfy the enhanced gross-up and dividend tax credit change enacted under Canadian tax law.

Normal course issuer bid

In September 2011, 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 September 6, 2011 and ends no later than September 5, 2012. The renewal allows the Corporation to purchase, no later than September 5, 2012, up to a maximum of 338,505 of its common shares representing 5% of the Corporation's 6,770,103 issued and outstanding common shares as at August 22, 2011, subject to daily maximum purchases of 1,000 common shares. The Corporation will purchase from time-to-time its common shares at market prices by means of open market transactions on the Toronto Stock Exchange.

In 2011, the Corporation purchased for cancellation 15,300 (2010 – 5,900) of its common shares under the Bid for an aggregate price of $85 (2010 - $33), of which, $39 (2010 - $15) was charged to retained earnings as premium on redemption of the shares.

Commitments and contractual obligations

As at December 31, 2011, PFB's long-term contractual obligations of $9,862 are as outlined in the table below:

	Payment Due by Period					
Contractual Obligations	**Total**	**2012**	**2013**	**2014**	**2015**	**2016 and Later**
Long-term debt	**$ 7,154**	$ 733	$ 739	$ 4,929	$ 174	$ 579
Finance lease obligations	**433**	209	142	82	-	-
Operating leases	**2,011**	730	501	378	352	50
Commitments for capital assets and intangible assets	**264**	264	-	-	-	-
Other long-term obligations [1]	**-**	-	-	-	-	-
Total Contractual Obligations	**$ 9,862**	$ 1,936	$ 1,382	$ 5,389	$ 526	$ 629

[1] Other long-term obligations exclude deferred tax liabilities as the exact timing of realizing these obligations is not readily determinable.

Capital lease obligations are for automobiles and materials handling equipment. At December 31, 2011, there was an outstanding commitment for capital expenditures in the amount of $264 (2010 - $337) for projects approved in 2011 but expected to be completed in the first half of 2012.

Under the terms of certain sales contracts, PFB is required to provide performance bonds to ensure that it performs under such contracts. In the current year, an additional performance bond rider in the amount of $1,041 was put in place to reflect a change order issued for an existing contract. The change brings the aggregate amount of active performance bonds to $25,719 (2010 - $24,678) as at December 31, 2011.

Financial Instruments

Capital management

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

The capital structure of the Corporation consists of net debt (borrowings, as detailed in note 16 to the audited consolidated financial statements for 2011, offset by cash and cash equivalents) and equity of the Corporation (comprising issued capital, reserves, and retained earnings, as detailed in note 17 to the audited consolidated financial statements for 2011).

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

	December 31, 2011	**December 31, 2010**
Borrowings	**$ 7,587**	$ 8,883
Less: Cash and cash equivalents	**9,504**	9,701
Net debt (surplus cash)	**(1,917)**	(818)
Shareholders' equity	**$ 45,032**	$ 43,531
Net debt to equity ratio	**N/A %**	N/A %

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

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

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

Entities within PFB's consolidated group have non-capital tax losses carried forward to be utilized against future taxable income expected to be generated by those entities.

Categories of financial instruments

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

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

	As at Dec 31, 2011		**As at Dec 31, 2010**		**As at Jan 1, 2010**	
	Carrying Value	**Fair Value**	**Carrying Value**	**Fair Value**	**Carrying Value**	**Fair Value**
Financial assets						
FVTPL:						
Cash	**$ 4,995**	**$ 4,995**	$ 6,699	$ 6,699	$ 4,394	$ 4,394
Cash equivalents	**4,509**	**4,509**	3,002	3,002	6,502	6,502
Financial liabilities						
FVTPL:						
Contingent consideration	**$ 956**	**$ 956**	$ -	$ -	$ -	$ -

As at December 31, 2011, the cash balance of $4,995 included cash of $299 which is controlled separate from regular cash balances used in operations. The $299 represents cash collected from certain customers in the USA which is used to pay suppliers and sub-contractors which supply goods and or services to those specific customer contracts.

The fair value of cash and cash equivalents and bank indebtedness approximate their carrying value due to the short-term maturity of those instruments. Contingent consideration is marked-to-market at each year end. There have been no changes in accounting policies in the current year.

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

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

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

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

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

	As at Dec 31, 2011	**As at Dec 31, 2010**	**As at Jan 1, 2010**
FVTPL			
Financial assets:			
Cash and cash equivalents			
Level 1	**$ 9,504**	$ 9,701	$ 10,896
Level 2	**-**	-	-
Level 3	**-**	-	-
Financial liabilities:			
Contingent consideration			
Level 1	**$ 956**	$ -	$ -
Level 2	**-**	-	-
Level 3	**-**	-	-

Credit risk management

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

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

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

Customers ordering highly-customized manufactured products, usually involving detailed design work, are required to make advance payments at various predefined stages of a sales contract. All payments received in advance are reported as customer deposits under the current liability section of the balance sheet. Final contract balances are typically required to be paid in full before products are shipped.

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

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

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

In the year ended December 31, 2011, sales to a single external customer accounted for 15.2% (2010 – 2.4%) of total consolidated sales for the year.

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

Interest collected from customers on payment of past due accounts receivable balances is included in investment income in the consolidated statement of operations and comprehensive income.

Foreign currency risk management and sensitivity analysis

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

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

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

	As at December 31, 2011			As at December 31, 2010		
	USD values held	**Assumed change in currency**	**Effect on after tax income (loss)**	**USD values held**	**Assumed change in currency**	**Effect on after tax income (loss)**
Net monetary assets	**$ 2,347**	**5.0%**	**$ 117**	$ 5,023	5.0%	$ 251
Net monetary liabilities	**(3,518)**	**5.0%**	**(176)**	(2,314)	5.0%	(116)

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

The Corporation does not enter into currency driven derivative financial instruments for speculative purposes. As at December 31, 2011 and 2010, the Corporation did not hold any foreign exchange contracts. In January 2012, the Corporation entered into a series of foreign exchange contracts to purchase USD $9,500 for settlement at various times between February and July 2012 at a blended exchange rate of CAD 1.0000 – USD 0.9938.

Interest rate risk management and sensitivity analysis

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

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

As at December 31, 2011, the Corporation has in place a combination of revolving and non-revolving credit facilities with banks in Canada and the USA. In Canada, as at December 31, 2011, none of a revolving credit facility limit of $8,000 was used (December 31, 2010 - $8,000 unused). In the USA, a revolving credit facility limit of USD $1,500 (subject to eligible trade receivables and inventories) was unused as at December 31, 2011 (December 31, 2010 – USD $1,500 unused). As at December 31, 2011, the unused portion of the non-revolving credit facility in Canada was $4,275 (December 31, 2010 - $4,230). The unused amount represented an approved limit of $4,300 less amounts outstanding on capital leases financed by the Canadian bank.

Liquidity risk management

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

The Corporation's objective is to maintain sufficient liquidity to meet its liabilities when due or that it can do so only at an abnormally high cost. Accordingly, one of management's primary goals is to maintain an optimum level of liquidity by actively managing assets, liabilities and cash flows generated from operations. The Corporation's future strategies can be financed through a combination of cash flows generated by operations, borrowing under existing credit facilities, and the issuance of equity. Management prepares regular budgets and cash flow forecasts to help predict future changes in liquidity.

Based on the Corporation's aggregate liquid assets as compared to its liabilities and commitments, management assesses the Corporation's liquidity risk to be low.

The Corporation has financial liabilities with the following maturities:

As at Dec 31, 2011	Total	Current less than 12 months	Due within 12 to 24 months	Due within 25 to 36 months	Due within 37 to 48 months	Due after 48 months
Trade and other payables	**$ 8,309**	**$ 8,309**	**$ -**	**$ -**	**$ -**	**$ -**
Borrowings	**7,587**	**942**	**881**	**5,011**	**174**	**579**
Total	**$ 15,896**	**$ 9,251**	**$ 881**	**$ 5,011**	**$ 174**	**$ 579**
As at Dec 31, 2010						
Trade and other payables	$ 6,137	$ 6,137	$ -	$ -	$ -	$ -
Borrowings	8,883	948	894	5,681	242	1,118
Total	$ 15,020	$ 7,085	$ 894	$ 5,681	$ 242	$ 1,118

Off-balance sheet arrangements and operating leases

As a regular part of its business, PFB's subsidiaries enter into operating lease agreements to use facilities and materials handling equipment. The Corporation has no other off-balance sheet arrangements. Future operating lease commitments as at December 31, 2011 and 2010 were as follows:

	2011	2010
Not later than 1 year	**$ 730**	$ 720
Later than 1 year and not later than 5 years	**1,281**	1,471
Later than 5 years	**-**	-
	$ 2,011	$ 2,191

Related party transactions

In fiscal 2011 and 2010, PFB had transactions with three related parties all of which are summarized in the table below. 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 PFB's Board of Directors.

Related party	Nature of transaction	2011	2010	Change
Aeonian Capital Corporation	Management services	**$ 200**	$ 200	$ -
Baker Investments, LLC	Stipend and travel expenses	**109**	114	(5)
McCarthy Tetrault LLP	Legal services	**-**	40	(40)
William H. Smith Professional Corp.	Legal services	**23**	9	14
Totals		**$332**	$ 363	$ (31)

As at December 31, 2011, Aeonian Capital Corporation ("Aeonian") and its affiliates owned 2,921,668 or 43.2% (2010 – 2,921,668 or 44.2%) of PFB's issued and outstanding common shares. Aeonian is controlled by C. Alan Smith, President, Chief Executive Officer, and a Director of the Corporation. PFB is charged fees by Aeonian for management services including those provided by Mr. Smith. The fees for management services are reported under selling and administrative expenses. As at December 31, 2011 and 2010 all fees had been paid in full in each respective year.

Mr. Frank Baker, a director of PFB, receives an annual stipend of USD $85 plus a travel and subsistence allowance to a maximum of USD $25 per annum for representing and promoting PFB's interests, including representation at various industry and trade organizations. As at December 31, 2011, there was an account payable outstanding to Mr. Baker in the amount of $21 with respect to the fourth quarter stipend and expenses which were settled in January 2012.

McCarthy Tetrault LLP provides legal services to PFB at which William H. Smith, QC, Corporate Secretary and a director of PFB, was Counsel to the firm until July 1, 2010, at which time, McCarthy Tetrault LLP ceased to be a related party.

Effective July 1, 2010, William H. Smith Professional Corporation became a related party. As at December 31, 2011, there was no payable was outstanding to the professional corporation (2010 - $9).

Outlook

PFB's operations in Canada continue to reflect a stronger economic environment than which persists in the United States. Customer orders in Canada strengthened in the second half of 2011 and management remains cautiously optimistic that the trend will be maintained through 2012. Notwithstanding, the timing of when orders are required to be shipped can be unpredictable. As a result, variability in reported sales can arise as numerous factors can influence job-site readiness which is outside the Corporation's control. Planned shipments to the large public works contract in Western Canada are scheduled to be lower in 2012 than in 2011.

No significant improvement in USA sales is expected in 2012 as the residential construction market is not expected to rebound at a fast pace. However, some modest growth may emerge. The Corporation's USA operations began 2012 with a lower operating cost base than in 2011 which is one of several steps taken to turnaround the USA operations in what remains a challenging market for all participants.

The pricing of the Corporation's key raw material is trending upwards once again as we progress through the first quarter of 2012 unfolds. Selling price increases have been announced by PFB and other industry players in an effort to recoup higher input costs which have been absorbed during the economic downturn. It is not clear at this time whether price increases will hold firm.

PFB continues to have a net overall exposure to the U.S. dollar as major raw materials are priced in that currency.

Management is confident that its growth strategy focused on EPS-based insulating building products will achieve its objectives of increasing shareholder value, increasing sales revenues and earnings per share over time, and generating acceptable rates of return on capital invested. Achieving these goals will allow future cash flows to be generated to fund new product developments, increase manufacturing capacity as required, repay contractual obligations, and continue paying regular dividends. Management remains focused on increasing market share in our markets and entering new markets while ensuring that our financial integrity remains intact.

Cash flow provided by operations, together with existing unused credit facilities, is considered adequate to meet all anticipated liquidity requirements in 2012.

Disclosure controls and procedures

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

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

Subject to the limitation described in the previous paragraph, an evaluation of the effectiveness of the design and operation of the Corporation's disclosure controls and procedures was conducted as of December 31, 2011, under the supervision of the CEO and CFO. Based on this evaluation, the CEO and CFO have concluded that the Corporation's disclosure controls

and procedures, as defined in National Instrument 52-109, *Certification of Disclosure in Issuers' Annual and Interim Filings*, have been designed to provide reasonable assurance that material information relating to the Corporation, including its consolidated subsidiaries, is made known to them by others in those entities, and to provide reasonable assurance that accurate and complete disclosures in annual and interim filings is completed within the time periods specified.

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

Internal controls over financial reporting

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

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

Except as noted in the next paragraph, as at December 31, 2011, the CEO and CFO assessed the effectiveness of the Corporation's internal control over financial reporting and concluded that it was effective and that no material weaknesses in the Corporation's internal control over financial reporting had been identified.
The Corporation continues to review the processes and controls of Precision Craft. The CEO and CFO excluded Precision Craft from their assessment of the effectiveness of the Corporation's internal control over financial reporting for the year ended December 31, 2011, as permitted by NI 52-109 Part 14 and applicable rules with respect to newly acquired businesses. Precision Craft will be included within the scope of the design and assessment of the effectiveness of the Corporation's internal controls over financial reporting within a maximum of one year from the date of acquisition.

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

Risk management and assessment

PFB is subject to risks and uncertainties inherent in the operation of its business. Management defines risk as the possibility that an event might happen in the future that could negatively affect the financial condition and/or results of operations of the Corporation. The following section describes specific and general risks that could affect PFB. The Audit Committee and the Board of Directors play an important role in developing risk management programs and reviewing and monitoring them on a quarterly basis. As it is difficult to predict whether any risk will happen or its related consequences, the actual effect of any risk on PFB's business could be materially different from anticipated. The following descriptions of risk do not include all possible risks as there may be other risks of which PFB is unaware.

Raw material price and supply
The price of raw materials, in particular, styrene monomer, expandable polystyrene resin, polypropylene copolymers, oriented strand board, and raw timbers represent a significant portion of the manufacturing costs in PFB's businesses. Historically, there has been considerable volatility in the price of these products which is outside the control of PFB. There is no futures market for these products available to the Corporation, which limits the ability to lock in prices for fixed periods of time.

Nevertheless, PFB may from time to time build inventories of both raw materials and finished goods which can lead to the assumption of risk due to an inability to match carrying costs to selling prices under fixed price sales contracts. Conversely, from time to time, PFB may be short of inventory that has been contracted to be delivered under fixed price sales contracts that can lead to the assumption of risk due to an inability to match costs to selling prices.

Hexabromocyclododecane (HBCD) is a brominated flame retardant used in EPS resin by manufacturers to ensure insulation products meet strict building code fire performance requirements when used as a component in building assemblies (see environmental section below). Commercially available alternatives to HBCD have been developed for EPS foam and they are expected to be readily accessible in 2012. PFB has been successfully tested one of the alternative compounds throughout fiscal 2011. HBCD availability is diminishing and should the availability of the alternative compound be adversely impacted then this may pose a risk to future raw material supply.

Management continues to explore opportunities to minimize the impact of price swings of raw materials on earnings. The changing dynamics in the petrochemical industry, primarily driven by world oil prices and other global events, and changing dynamics affecting other industries are difficult to predict. Such changes may create the potential for raw material supply disruptions or shortages which would be detrimental to PFB's operations.

Economic and market conditions

PFB's business is affected by prevailing general economic conditions, consumer confidence and spending, and both the demand for and prices of its EPS products and insulating building systems. Weaker economic conditions, the impact of changing mortgage rates and other interest rates potentially affecting the construction industry, and the possibility of a slowdown in residential and/or commercial construction activity, typically evidenced by the change in the number of building permits issued, may translate into lower demand for PFB's products. Such effects may also adversely affect the financial condition and credit risk of its customers, including their ability to obtain credit to finance their businesses, which could create uncertainty over the collectability of receivables.

Competition

As a market leader in its industry, PFB faces intense and growing competition from other manufacturers of all sizes located in both Canada and the United States, new entrants in the markets we serve, along with manufacturers of competing substitute products. Competition can affect PFB's pricing strategies and lower its sales revenues and net income. Competition can also affect PFB's ability to retain existing customers and attract new ones. A competitive business climate increases the resolve to provide exceptional customer service, quality products, and the need to be price competitive. Management continues to identify ways to reduce costs, grow revenues, manage expenses and increase productivity. This requires anticipating and responding quickly to the constant changes in its businesses and markets.

Currency

PFB has a net exposure to the U.S. dollar which makes it vulnerable to fluctuations in the foreign exchange rate between the Canadian dollar and the U.S. dollar. The timing of foreign exchange rate fluctuations between the Canadian dollar and the U.S. dollar can have a significant effect on PFB's operating results, the effect and magnitude of which depends on the product mix of sales and raw material purchases.

From time to time, management may commit to utilizing derivative financial instruments in the normal course of business as a means of management of its foreign currency exposure. Management attempts to make informed judgements in such transactions but there is the possibility that markets may respond in ways not predicted. To the extent that PFB does not fully hedge its foreign currency exposure and exchange rate risk, or PFB's subsidiaries are not able or do not raise their selling prices accordingly when exchange rates are moving in an unfavourable direction, the profitability of the business could be adversely affected.

Acquisitions

PFB's growth strategy includes making strategic acquisitions when possible. There is no assurance that it will find suitable companies to acquire or that it will have the financial resources needed to complete any acquisition. There could also be challenges integrating the operations of any acquired company with existing operations.

Funding

In developing business operations to their full potential, significant capital and operating expenditures are incurred on an ongoing basis. PFB has historically generated sufficient cash flow from its operations to fund capital expenditures and maintain regular dividend payments. Future development of new products and the growth of PFB's business through internal expansion or by acquisitions may depend on access to external funding. PFB's cash position and existing debt facilities are considered adequate to meet its current and medium-term needs. There is no guarantee that funding for future expansion of PFB's operations will be available on acceptable terms if required.

Reputation

Negative publicity regarding PFB's business practices regardless of whether true or false could adversely affect PFB's reputation which could in turn affect its operations, customers, and share value. PFB manages this risk by placing the utmost importance on corporate governance and full and fair disclosure. Good corporate governance practice emanates from an

effective board of directors. The majority of PFB's board of directors consists of independent directors and the board and its committees have been shaped to competently perform the role of overseeing the appropriate management of PFB's affairs with the objective of maximizing the long-term value of the Corporation. A detailed summary outlining PFB's corporate governance practices can be found in PFB's Management Information Circular.

Trade credit
PFB's subsidiaries provide trade credit to their customers in the normal course of business. PFB's credit policy is universally adopted across its businesses. The policy requires the credit history of each new customer to be closely examined before credit is granted, which may include performing solvency tests if a particular account is expected to become significant. Management diligently reviews past due receivables on a weekly basis which helps minimize credit risk. The diversity of PFB's activities and customer base also helps minimize the credit risk to which it may be exposed.

Environmental considerations
Environmental issues are gaining in importance for PFB's stakeholders. PFB is committed to responsibly manage the direct and indirect impact it has on the environment. PFB believes that it is in compliance with applicable environmental laws in jurisdictions where it has operations. All construction materials must adhere to fire safety requirements during their manufacture, transportation and storage. Hexabromocyclododecane (HBCD) is a brominated flame retardant used in EPS resin by manufacturers to ensure insulation products meet strict building code fire performance requirements when used as a component in building assemblies. In 2011, Environment Canada and Health Canada published a Screening Assessment Report on HBCD. The report concluded that HBCD is not entering the environment in a quantity or under conditions that constitute or may constitute a risk in Canada to human life or health but that HBCD meets the criteria to be labeled as toxic to the environment. PFB will continue to work with Environment Canada and other industry partners to develop a risk management strategy for HBCD. Commercially available alternatives to HBCD for EPS foam are becoming available but it may be several years before a full transition occurs.

Information technology
PFB makes extensive use of information technology in conducting its businesses. This involves web-based connections, access to secure centralized databases, and maintaining existing and implementing new business software applications. The security and safeguarding of information technology assets and protocols will continue to be increasingly important to PFB. PFB minimizes its exposure to I.T. risks by continuously reviewing its access and application controls, performing disaster recovery testing, locating its backbone I.T. assets in an industry-leading secure location, and hiring and training specialist employees with respect to the protection and use of I.T. assets and related intellectual property.

Seasonality and climatic factors in the construction industry
Due to the seasonal nature of the construction industry, PFB's actual reported sales show variations when viewed on a quarter-by-quarter basis. Typically, sales are weakest in the first quarter of the year and strongest in the third quarter. Sales in any quarter can be significantly influenced by weather, specifically when winter begins and ends and its severity.

Plant and facilities
The Corporation operates a number of manufacturing facilities across North America, most of which operate at or near capacity for significant portions of the year. Any disruption to operations at any plant and facility arising from natural or man-made causes such as fire, flood, labour disputes, disruption to access or egress, or other events, could have a material impact on the Corporation and its business operations.

Employee future benefits
A defined benefits pension plan (the "Plan") exists for certain Ontario-based employees who are members of the United Steel, Paper and Forestry, Rubber, Manufacturing, Energy, Allied industrial and Service Workers International union. The latest valuation of the Plan was completed as at December 31, 2011, and it identified that the Plan had a deficit of $359 (2010 - $90). As a result, throughout 2011 and 2010, PFB made regular service and special payment contributions to the Plan. In fiscal 2011, total contributions to the Plan amounted to $123 (2010 - $122) and PFB expects future annual contributions to continue at similar levels until the deficits are eliminated. However, the actual rate of return on plan assets and changes in interest rates and other variables could result in changes in PFB's funding requirements for the Plan. The Plan assets are not immune to market fluctuations and, as a result, PFB may be required to make additional cash contributions in future.

The Corporation operates group 401K plans for all qualifying employees located in Michigan and Idaho, USA, in which qualifying employees may elect to defer current wages for retirement. The Corporation has the option to match employee contributions to the plans. The plans are being consolidated into a single plan effective January 1, 2012. The assets of the plans are held separately from those of the Corporation by a trust company and governed by a custodial agreement (ERISA).

The Corporation also utilizes the services of registered investment brokers and third party administrators in the fulfillment of its actuarial and fiduciary responsibilities with respect to the plans.

Off-balance sheet arrangements and operating leases
PFB enters into operating lease contracts for certain properties and for its materials handling equipment requirements. The total non-discounted operating lease commitments as at December 31, 2011, total $2,011 as disclosed in Note 21 to the audited consolidated financial statements for 2011. In the case of property leases, PFB's subsidiaries are also responsible for their share of operating costs. The Corporation has no other off-balance sheet arrangements.

Human resources
PFB's ability to attract and retain qualified employees is an area of risk and uncertainty. PFB attempts to mitigate this risk by offering a competitive compensation and benefits package, training, and a positive cultural environment.

Critical accounting judgements and estimates

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

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

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

Impairment of goodwill
Determining whether goodwill is impaired requires and estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires management to estimate the future cash flows expected to arise from the cash-generating unit and determining a suitable discount rate in order to calculate present value.

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

During the year ended December 31, 2011 no impairment has been recognized (2010 - $Nil).

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

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

Allowance for doubtful accounts
Management reviews the aging profile of trade receivables on a customer-by-customer basis at least at the end of each reporting period and an allowance for doubtful accounts reserve is maintained. The amount of reserve is generally determined by, firstly, updating the reporting period end aged receivables listing by customer for cash collected in the first ten days of the subsequent month and, secondly, creating an allowance for doubtful accounts reserve equivalent to 50% of all adjusted account balances between 31 and 90 days past due, and a reserve of 100% of all adjusted account balances over 90-days past due. The value of the allowance for doubtful accounts reserve typically tracks the seasonality trend of trade

receivables. Specific reserves may be created for individual customers in exceptional circumstances. Bad debts are written off against the reserve.

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

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

Property, plant and equipment
The Corporation makes judgments, estimates and assumptions regarding the useful life of property plant and equipment that ii owns. The actual useful lives of assets and components of assets could vary significantly from the estimated useful lives used in determining periodic depreciation expense. Management reviews the useful lives of the assets at least annually to ensure that expected and actual lives are closely aligned.

Revenue recognition
The Corporation uses the percentage of completion method for recognizing a portion of its sales revenues in its USA operating segment. The percentage of completion method is used when contracts include installation and/or design build services. In determining the timing and appropriate amount of revenue to recognize, management estimates the actual amount of work performed and the associated costs incurred to-date in relation to the total contract revenues and costs for each project. The proportion of consolidated revenues which are determined using the percentage of completion method is not materially significant. However, estimates of completion may be incorrect and the amount of revenues recognized could be materially misstated on an individual project basis.

Valuations performed during a business combination
The Corporation makes judgments, estimates and assumptions that affect the quantitative and qualitative valuation of business combinations. These may include: estimates of future cash flows and working capital requirements; potential acquisition synergies; costs to complete the transaction; the value of contingent consideration; strategic direction; management effectiveness, and operating efficiencies. Unknown future events and changes in assumptions and estimates may impact future cash flows and materially impact the valuation of each business combination.

Recent changes to accounting standards

IFRS 7 (Amendments) Financial Instruments: Disclosures – The amendments will allow users of financial statements to improve their understanding of transfer transactions of financial assets (e.g. securitizations), including understanding the possible risks that may remain with the entity that transferred the assets. Additional disclosures are required if a disproportionate amount of transfer transactions are undertaken around the end of the reporting period. IFRS 7 (Amendments) is effective for annual years beginning on or after July 1, 2011, with earlier application permitted.

Future changes to accounting standards

The International Accounting Standards Board ("IASB") has issued a number of new and revised International Accounting Standards, International Financial Reporting Standards, amendments and related interpretations which are effective for the Corporation's financial year beginning on or after January 1, 2012 or later.

- IAS 1 (Amended) *Presentation of Financial Statements* – The amendment requires entities preparing financial statements in accordance with IFRS to group together items within other comprehensive income (OCI) that may be reclassified to the profit or loss section of the income statement and to separately group together items that will not be

reclassified to the profit or loss section of the income statement.. IAS 1 (Amended) is effective for financial years beginning on or after July 1, 2012.

- IAS 12 (Revised) *Income Taxes* – The amendment introduces a rebuttable presumption that an investment property measured using the fair value model is recovered entirely through sale unless the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits over time. Recovery of underlying deferred income tax assets. IAS 12 (Revised) is effective for annual years beginning on or after January 1, 2012.
- IAS 19 (Amendments) *Post-employment Benefits* – The amendments make important improvements by: (1) eliminating the option to defer the recognition of gains and losses known as the "corridor" method; (2) streamlining the presentation of changes in assets and liabilities arising from defined benefit plans, including requiring re-measurements to be presented in OCI, thereby separating those changes from changes that many perceive to be the result of an entity's day-to-day operations; and (3) enhancing the disclosure requirements for defined benefit plans, providing better information about the characteristics of defined benefit plans and the risks that entities are exposed to through participating in those plans. IAS 19 (Amended) is effective for annual years beginning on or after January 1, 2013, with earlier application permitted.
- IAS 27 (Amended) *Separate Financial Statements*- IAS 27 has the objective of setting standards to be applied in accounting for investments in subsidiaries, joint ventures, and associates when an entity elects, or is required by local regulations, to present separate (non-consolidated) financial statements. IAS 27 is effective for annual years beginning on or after January 1, 2013.
- IAS 28 (Revised) *Investments in Associates and Joint Ventures* – Prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. This standard is required to be applied for accounting years beginning on or after January 1, 2013, with early adoption permitted.
- IFRS 9 *Financial Instrument: Classification and Measurement* - This is the first part of a new standard that will replace IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 has two measurement categories, amortized cost and fair value. All equity instruments are measured at fair value. IFRS 9 also includes guidance on financial liabilities and Derecognition of financial instruments which is similar to the guidance included in IAS 39. IFRS 9 is effective for annual years beginning on or after January 1, 2015, with earlier application permitted.
- IFRS 10 *Consolidated Financial Statements* – This standard replaces the consolidation requirements in IAS 27, *Consolidated and Separate Financial Statements*, and SIC-12 *Consolidation - Special Purpose Entities*. It is effective for annual years beginning on or after January 1, 2013. Earlier application is permitted, provided IFRS 11, IFRS 12 and the related amendments to IAS 27 and IAS 31 are adopted at the same time. IFRS 10 builds on existing principles for the presentation of consolidated financial statements when an entity controls one or more other entities. The new standard defines the principle of control and establishes control as the basis for determining which entities should be included in the consolidated financial statements of the parent company.
- IFRS 11 *Joint Arrangements* – This standard requires a party to a joint arrangement to determine the type of joint arrangement in which it is involved by assessing its rights and obligations arising from the arrangement. The standard also addresses inconsistencies in the reporting of joint arrangements by requiring a single method to account for interests in jointly controlled entities, namely the equity method. IFRS 11 is effective for annual years beginning on or after January 1, 2013, with earlier application permitted.
- IFRS 12 *Disclosure of Interest in Other Entities* – A new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates, and unconsolidated structured entities. IFRS 12 is effective for annual years beginning on or after January 1, 2013. Early application is permitted provided IFRS 11, IFRS 12 and the related amendments to IAS 27 and IAS 31 are adopted at the same time.
- IFRS 13 *Fair Value Measurement* – The new standard defines fair value, sets out in a single IFRS a framework for measuring fair value and requires disclosures about fair value measurements. IFRS 13 does not determine when an asset, a liability or an entity's own equity instruments is measured at fair value. Rather, the measurement and disclosure requirements apply when another IFRS requires or permits the item to be measure at fair value (with limited exceptions). IFRS 13 is effective for annual years beginning on or after July 1, 2013, with early application permitted.

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

First time adoption of IFRS

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

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

Elected exemptions from full retrospective application

(a) Property, plant and equipment (PP&E)

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

(b) Share-based payments

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

(c) Business combinations

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

(d) Employee benefits

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

(e) Cumulative translation differences

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

Mandatory exceptions to retrospective application

(a) Estimates

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

(b) Reconciliation of Canadian GAAP to IFRS

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

Consolidated balance sheets
Canadian GAAP to IFRS reconciliation

	As at Jan 1, 2010			As at Dec 31, 2010		
	Canadian GAAP	Effect of transition to IFRS	IFRS	Canadian GAAP	Effect of transition to IFRS	IFRS
ASSETS						
Current assets						
Cash and cash equivalents	$ 10,896	$ -	$ 10,896	$ 9,701	$ -	$ 9,701
Trade receivables	5,892	-	5,892	6,784	-	6,784
Inventories	6,257	-	6,257	6,976	-	6,976
Current taxes recoverable	276	-	276	167	-	167
Prepaid expenses	648	-	648	664	-	664
Deferred income tax asset	637	(637)	-	310	(310)	-
Total current assets	24,606	(637)	23,969	24,602	(310)	24,292
Non-current assets						
Long-term trade receivable	-	-	-	77	-	77
Property, plant and equipment	31,580	6,122	37,702	31,016	5,527	36,543
Intangible assets	260	(15)	245	167	(17)	150
Goodwill	5,887	(5,307)	580	5,887	(5,307)	580
Accrued benefit asset	475	(421)	54	538	(408)	130
Deferred income tax assets	444	636	1,080	573	-	573
Total non-current assets	38,646	1,015	39,661	38,258	(205)	38,053
Total assets	$ 63,252	$ 378	$ 63,630	$ 62,860	$ (515)	$ 62,345
LIABILITIES						
Current Liabilities						
Trade and other payables	$ 7,016	$ -	$ 7,016	$ 6,137	$ -	$ 6,137
Deferred revenue	1,504	-	1,504	1,534	-	1,534
Borrowings	919	-	919	948	-	948
Total current liabilities	9,439	-	9,439	8,619	-	8,619
Non-current liabilities						
Borrowings	8,744	-	8,744	7,935	-	7,935
Deferred income tax liabilities	482	1,573	2,055	1,129	1,131	2,260
Total non-current liabilities	9,226	1,573	10,799	9,064	1,131	10,195
Total liabilities	18,665	1,573	20,238	17,683	1,131	18,814
EQUITY						
Capital and reserves						
Common shares	19,815	-	19,815	20,110		20,110
Equity-settled employee benefits reserve	365	-	365	384	-	384
Foreign currency translation reserve	-	-	-	-	45	45
Retained earnings	24,407	(1,195)	23,212	24,683	(1,691)	22,992
Shareholders' equity	44,587	(1,195)	43,392	45,177	(1,646)	43,531
Total liabilities and equity	$ 63,252	$ 378	$ 63,630	$ 62,860	$ (515)	$ 62,345

Consolidated statement of operations

Canadian GAAP to IFRS reconciliation

	Twelve month period ended December 31, 2010		
	Canadian GAAP	**Effect of transition to IFRS**	**IFRS**
Sales	$ 65,580	$ 4,382	$ 69,962
Cost of sales	(48,781)	(4,822)	(53,603)
Gross profit	16,799	(440)	16,359
Selling expenses	(8,710)	-	(8,710)
Administrative expenses	(4,951)	69	(4,882)
Other gains (losses)	3	(249)	(246)
Operating income	3,141	(620)	2,521
Insurance claim - gain	65	-	65
Interest income	41	-	41
Finance cost	(502)	-	(502)
Income before taxes	2,745	(620)	2,125
Income taxes expense	(871)	124	(747)
Income for the year	**1,874**	**(496)**	**1,378**
Other comprehensive income, net of income tax			
Exchange differences on translating foreign operations (net of tax $nil)	-	45	45
Total comprehensive income for the year	**$ 1,874**	**$ (452)**	**$ 1,422**
Earnings per share - $ per share			
Basic	$ 0.28	$ (0.07)	$ 0.21
Diluted	$ 0.28	$ (0.07)	$ 0.21

Notes to the IFRS reconciliation tables above:

(a) Consolidated Balance sheet as at December 31, 2010 and January 1, 2010:

Adjustment to PP&E

Under IAS 16 Property, plant and equipment, when a fixed asset consists of a number of individual components for which different depreciation methods or rates are appropriate, each component is accounted for separately. The major assets making up the asset classes of buildings and machinery and equipment were componentized and the expected lives of individual assets and components were revised. The changes were applied retrospectively to the date of acquisition of each asset and/or component which resulted in lower accumulated depreciation expense under IFRS than was reported under previous Canadian GAAP. As a result of these changes, the effect on transition to IFRS as at January 1, 2010, resulted in an increase of $6,387 in the carrying amount of property, plant and equipment and an increase of $5,671 as at December 31, 2010.

Upon adopting IAS 21, the Effects of Changes in Foreign Exchange, the carrying amounts of PP&E held in the Corporation's foreign operations in their functional currency of U.S. dollars were translated to the Corporation's functional currency of Canadian dollars at the closing exchange rate as of January 1, 2010. Under previous Canadian GAAP, PP&E cost and accumulated depreciation held in foreign operations was translated to Canadian dollars at historical exchange rates. As a result of these changes, the carrying amount of PP&E was reduced by $265 at January 1, 2010 and reduced by $144 as at December 31, 2010.

The net change to the carrying amount of PP&E on transition to IFRS as at January 1, 2010 was an increase of $6,122 ($6,387 - $265). The corresponding increase to the carrying amount of PP&A as at December 31, 2010, was $5,527 ($5,671 - $144).

Adjustment to intangible assets

Upon adopting IAS 21 the effects of changes in foreign exchange, the carrying amounts of intangible assets held in the Corporation's foreign operations in their functional currency of U.S. dollars were translated to the Corporation's functional currency of Canadian dollars at the closing exchange rate as of January 1, 2010. Under Canadian GAAP, intangible assets cost and accumulated amortization held in foreign operations was translated at historical exchange rates. As a result of these changes, the carrying amount of intangible assets was reduced by $15. As at December 31, 2010, the carrying costs of intangible assets under IFRS was reduced by $17.

Adjustment to goodwill

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

As at the date of transition, it was determined that goodwill allocated to one of the two CGU's was impaired and, accordingly, the carrying amount of goodwill was reduced by $5,307 to reflect the impairment loss. The same difference of $5,307 existed as at December 31, 2010.

Adjustment to accrued benefit asset

The Corporation has a defined benefits pension plan for certain of its employees in Ontario, Canada. Under IFRS 1, the Corporation elected not to recognize cumulative actuarial gains and losses up to the date of transition. It elected to reset the corridor to zero as at the date of transition. Gains and losses post-transition date are recognized using the corridor approach. As at the date of transition the carrying amount of the accrued benefit asset of $475 under previous Canadian GAAP reduced to $54 under IFRS. The effect of transition also creates a deferred tax liability. As at December 31, 2010, the accrued benefit asset under previous Canadian GAAP was $538 as compared to $130 under IFRS, a difference of $403.

Adjustment to deferred tax asset and liability

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

The adjustments to the change in carrying values of PP&E and accrued benefit asset as a result of transitioning to IFRS created temporary difference for tax. Accordingly, as at January 1, 1010, the deferred tax liability was adjusted by a net $1,573 under IFRS and attributed to the temporary differences, an adjustment of $1,681 to the deferred tax liability on the PP&E adjustment, and a $108 deferred tax asset change attributed to the accrued benefit asset adjustment. As at December 31, 1010, the deferred tax liability was adjusted by a net $1,131under IFRS attributed to the temporary differences, an adjustment of $1,545 to the deferred tax liability on the PP&E adjustment, and a $104 deferred tax asset change attributed to the accrued benefit asset adjustment. Also, as at December 31, 2010, the current deferred tax asset of $310 was reclassified to long-term.

Adjustment to opening retained earnings

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

Balance sheet account	Nature of adjustment	As at January 1, 2010	As at December 31, 2010
PP&E	Change in accumulated depreciation	$ 6,387	$ 5,671
	Foreign exchange revaluation of NBV held in foreign operations	(265)	(144)
Intangible assets	Foreign exchange revaluation of NBV held in foreign operations	(15)	(17)
Goodwill	Impairment loss	(5,307)	(5,307)
Accrued benefit asset	Change in accrued benefit asset	(421)	(408)
Deferred tax liability	Temporary differences on PP&E adjustment	(1,682)	(1,545)
	Temporary differences on accrued benefit asset adjustment	108	104
	Foreign currency translation reserve	-	(45)
Opening retained earnings		**$ (1,195)**	**$ (1,691)**

(b) Consolidated statement of comprehensive income as at December 31, 2010:

Adjustment to sales and cost of sales

Under previous Canadian GAAP, sales were reported net of freight expenses. Under IFRS, freight expenses are included in cost of sales. Freight expense in the year ended December 31, 2010 was $4,382, respectively. The effect of the reclassification increased both sales and cost of sales in the year by $4,382.

Adjustment to cost of sales

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

Accordingly, depreciation expense in the year ended December 31, 2010 was $440 higher than under previous Canadian GAAP.

Adjustment to other gains and losses

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

Under IFRS, all assets and liabilities held in the Corporation's foreign operations, with the exception of equity, are translated using the current exchange rate. Under IFRS, the outcome of translating the Corporation's foreign operations is all reported in other comprehensive income. Accordingly, the translation change effect in the year ended December 31, 2010, resulted in other gains and (losses) and other comprehensive income being $180 lower and $45 higher, respectively, under IFRS than under previous Canadian GAAP.

Under IFRS, share-based payment expense has been reclassified from selling and administrative expenses to other gains and losses. The result of the reclassification in the year ended December 31, 2010 was a decrease to other gains and (losses) of $69, and a decrease to selling and administrative expenses of the same amount.

Adjustment to income tax recovery

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

(c) Consolidated statement of cash flows for the year ended December 31, 2010:

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

Stephen P. Hardy
Vice President and Chief Financial Officer
March 15, 2012

P·F·B CORPORATION Better building ideas

Management's Report

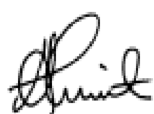
The accompanying consolidated financial statements of PFB Corporation and all information included in this annual report are the responsibility of the management of the Corporation and have been reviewed and approved by the Board of Directors upon recommendation by the Audit Committee.

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

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

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

The shareholders' auditor, Deloitte & Touche LLP, Chartered Accountants, have audited the consolidated financial statements as at and for the year ended December 31, 2011 and 2010, in accordance with International Financial Reporting Standards. Their independent report outlines the scope of their examination and opinion on the consolidated financial statements and is presented herein.



C. Alan Smith

Chairman, President
and Chief Executive Officer
March 15, 2012

Calgary, Alberta

Stephen P. Hardy

Vice President
and Chief Financial Officer
March 15, 2012

Calgary, Alberta

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of PFB Corporation:

We have audited the accompanying consolidated financial statements of PFB Corporation, which comprise the consolidated balance sheets as at December 31, 2011, December 31, 2010 and January 1, 2010, and the consolidated statements of comprehensive income, consolidated statements of changes in equity, and consolidated statements of cash flows for the years ended December 31, 2011 and 2010, and the notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of PFB Corporation as at December 31, 2011, December 31, 2010 and January 1, 2010, and its financial performance and its cash flows for the years ended December 31, 2011 and 2010 in accordance with International Financial Reporting Standards.

Deloitte & Touche LLP

Chartered Accountants
March 15, 2012
Calgary, Alberta

Consolidated Balance Sheets

As at December 31, 2011 and 2010, and January 1, 2010
Thousands of Canadian dollars

	Note	December 31, 2011	December 31, 2010	January 1, 2010
ASSETS				
Current assets				
Cash and cash equivalents	18	**$ 9,504**	$ 9,701	$ 10,896
Trade receivables	9	**8,348**	6,784	5,892
Inventories	10	**7,766**	6,976	6,257
Income taxes recoverable		**-**	167	276
Prepaid expenses		**556**	664	648
Total current assets		**26,174**	24,292	23,969
Non-current assets				
Long-term trade receivables	9	**621**	77	-
Property, plant and equipment	11	**37,127**	36,543	37,702
Intangible assets	12	**1,459**	150	245
Goodwill	13	**1,731**	580	580
Accrued benefit asset	14	**213**	130	54
Deferred income tax assets	7	**204**	573	1,080
Total non-current assets		**41,355**	38,053	39,661
Total assets		**$ 67,529**	$ 62,345	$ 63,630
LIABILITIES				
Current Liabilities				
Trade and other payables		**$ 8,309**	$ 6,137	$ 7,016
Deferred revenue	15	**2,349**	1,534	1,504
Income taxes payable	7	**601**	-	-
Borrowings	16	**942**	948	919
Total current liabilities		**12,201**	8,619	9,439
Non-current liabilities				
Borrowings	16	**6,645**	7,935	8,744
Contingent consideration	17	**956**	-	-
Deferred income tax liabilities	7	**2,695**	2,260	2,055
Total non-current liabilities		**10,296**	10,195	10,799
Total liabilities		**22,497**	18,814	20,238
SHAREHOLDERS' EQUITY				
Common shares	17	**20,064**	20,110	19,815
Equity-settled employee benefits reserve		**384**	384	365
Foreign currency translation reserve		**54**	45	-
Retained earnings		**24,530**	22,992	23,212
Shareholders' equity		**45,032**	43,531	43,392
Total liabilities and shareholders' equity		**$ 67,529**	$ 62,345	$ 63,630

Commitments (Note 22); operating leases (Note 21); and Canadian GAAP to IFRS reconciliations (Note 26).

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

Approved by the Board of Directors **C. Alan Smith, Director** **John K. Read, Director**

Consolidated Statement of Comprehensive Income

For the years ended December 31, 2011 and 2010
Thousands of Canadian dollars, except number of shares

	Note	2011	2010
Sales		**$ 89,165**	$ 69,962
Cost of sales		**(70,692)**	(53,603)
Gross profit		**18,473**	16,359
Selling expenses		**(8,966)**	(8,710)
Administrative expenses		**(5,460)**	(4,882)
Other gains (losses)	6	**116**	(246)
Operating income		**4,163**	2,521
Revaluation of contingent shares – gain	17	**12**	-
Insurance claim – gain	11	**726**	65
Interest income		**44**	41
Finance costs		**(494)**	(502)
Income before tax		**4,451**	2,125
Income tax expense	7	**(1,249)**	(747)
Income for the year		**3,202**	1,378
Other comprehensive income, net of income tax			
Exchange differences on translating foreign operations (net of tax $nil)		**9**	45
Total comprehensive income for the year		**$ 3,211**	$ 1,423
Earnings per share - $ per share			
Basic	8	**$ 0.48**	$ 0.21
Diluted	8	**$ 0.47**	$ 0.21
Weighted average number of common shares outstanding	8	**6,605,223**	6,598,703

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

Consolidated Statement of Changes in Equity

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

Thousands of Canadian dollars, except number of shares

	Note	Common shares No. of Shares	Common shares Share capital	Equity-settled employee benefits reserve	Foreign currency translation reserve	Retained earnings	Total
Balance at January 1, 2010		6,568,736	$ 19,815	$ 365	$ -	$ 23,212	$ 43,392
Income for the year		-	-	-	-	1,378	1,378
Other comprehensive income for the year, net of tax		-	-	-	45	-	45
Total comprehensive income for the year		-	-	-	45	1,378	1,423
Payment of dividends		-	-	-	-	(1,583)	(1,583)
Share-based payment expense		-	-	67	-	-	67
Exercise of share options		50,000	313	(48)	-	-	265
Repurchased pursuant to normal course issuer bid		(5,900)	(18)	-	-	(15)	(33)
Balance at December 31, 2010		6,612,836	20,110	384	45	22,992	43,531
Income for the year		-	-	-	-	3,202	3,202
Other comprehensive income for the year, net of tax		-	-	-	9	-	9
Total comprehensive income for the year		-	-	-	9	3,202	3,211
Payment of dividends	17	-	-	-	-	(1,625)	(1,625)
Issued as contingent consideration for acquisition [1]	17	166,667	-	-	-	-	-
Repurchased pursuant to normal course issuer bid	17	(15,300)	(46)	-	-	(39)	(85)
Balance at December 31, 2011		**6,764,203**	**$ 20,064**	**$ 384**	**$ 54**	**$ 24,530**	**$ 45,032**

[1] 166,667 common shares were issued in February 2011 as contingent consideration for an acquisition. The issued common shares are held in an escrow account and will be released upon achievement by the vendor of an earn-out formula (see Notes 17 and 20).

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

Consolidated Statement of Cash Flows

For the years ended December 31, 2011 and 2010
Thousands of Canadian dollars

	Note	2011	2010
CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES			
Income for the year		**$ 3,202**	$ 1,378
Adjustments for items not affecting cash and cash equivalents:			
Depreciation and amortization expense:			
Cost of sales	11,12	**2,746**	2,491
Selling and administrative expense	11,12	**512**	450
Gain on disposal of property, plant and equipment	6	**-**	(18)
Change in accrued pension asset	14	**(83)**	(76)
Share-based payment expense	6	**-**	67
Revaluation of contingent consideration - gain		**(12)**	-
Insurance claim – gain	11	**(726)**	(65)
Deferred income tax expense		**492**	686
Unrealized foreign exchange (gain) loss		**(152)**	342
		5,979	5,255
Changes in non-cash working capital	23	**1,092**	(2,367)
Changes in long-term trade receivables	9	**(544)**	(77)
Unrealized foreign exchange gain (loss) relating to non-cash working capital		**49**	(8)
Net cash provided by operating activities		**6,576**	2,803
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES			
Purchase of property, plant and equipment	11	**(1,281)**	(1,505)
Purchase of intangible assets	12	**(108)**	(50)
Cash paid on acquisition (net of cash acquired)	20	**(2,063)**	-
Proceeds from disposal of property, plant and equipment		**101**	54
Net cash used in investing activities		**(3,351)**	(1,501)
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES			
Repayment of long-term debt	16	**(1,587)**	(997)
Dividends paid	17	**(1,625)**	(1,583)
Exercise of stock options	17	**-**	265
Repurchase of common shares	17	**(85)**	(33)
Net cash used in financing activities		**(3,297)**	(2,348)
Effects of exchange rate changes on the balance of cash held in foreign currencies – loss		**(125)**	(149)
Net decrease in cash and cash equivalents		**(197)**	(1,195)
Cash and cash equivalents at the beginning of the year		**9,701**	10,896
Cash and cash equivalents at the end of the year	18	**$ 9,504**	$ 9,701

Supplementary cash flow information - cash flows for interest and taxes		
Cash interest paid	**$ 494**	$ 502
Cash interest received	**44**	41
Income tax paid	**4**	40

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

1. General information

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

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

2. Significant accounting policies

2.1 Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

2.2 Basis of preparation

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

The consolidated financial statements are presented in Canadian dollars.

The accounting policies set out below have been applied consistently in the preparation of the consolidated financial statements for all years presented, including the presentation of the opening balance sheet as at January 1, 2010, except for certain mandatory exceptions and optional exemptions taken pursuant to IFRS 1 – First-time adoption of International Financial Reporting Standards ("IFRS 1") as described in Note 26. Standards and guidelines not effective in the current reporting year are described in Note 4 below.

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

2.3 Basis of consolidation

The 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 are eliminated in full on consolidation.

Income and expenses of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate.

2.4 Business combinations

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

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

When the consideration transferred by the Corporation in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and is included as part of the consideration transferred.. Measurement year adjustments are adjustments that arise from additional

information obtained during the 'measurement year' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement year adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not re-measured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is re-measured at subsequent reporting dates in accordance with IAS 39 Financial Instruments: Recognition and measurement, or IAS 37 Provisions, Contingent Liabilities and Contingent Assets, as appropriate, with the corresponding gain or loss being recognized in profit or loss.

If the initial accounting for a business combination is incomplete by the end of the reporting year in which the combination occurs, the Corporation reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement year (see above), or additional assets or liabilities are recognized, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognized at that date.

The policy described above is applied to all business combinations that take place on or after January 1, 2010.

2.5 Revenue Recognition

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

2.5.1 Sale of goods

Revenue from the sale of goods is recognized when the goods are delivered and titles have passed, at which time all of the following conditions are satisfied:

- The Corporation has transferred to the buyer the significant risks and rewards of ownership of the goods;
- The Corporation retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- The amount of revenue can be measured reliably;
- It is probable that the economic benefits associated with the transaction will flow to the Corporation; and
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

2.5.2 Rendering of services

Revenue from a contract to provide services is recognized by reference to the stage of completion of the contract which is determined as follows:

- Design fees are recognized when the performance obligations of each design contract with a customer is fulfilled;
- Advisory fees are recognized when the performance obligations of each advisory contract with a customer is fulfilled; and
- Installation and design build revenues are recognized by reference to the stage of completion of each installation, determined as the elapsed time as a proportion of the total time expected to complete each installation.

2.5.3 Construction contracts

When the outcome of a construction contract can be estimated reliably, revenues and costs are recognized by reference to the stage of completion of the contract activity at the end of the reporting period, measured based on the proportion of contract costs incurred for work performed to date relative to the estimated total contract costs, except where this would not be representative of the stage of completion.

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognized to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognized as expenses in the period in which they are incurred.

When it is probable that total costs will exceed contract revenue, the expected loss is recognized as an expense immediately.

Amounts received before work is performed are included in the consolidated balance sheet as deferred revenue. Amounts billed for work performed but not yet paid by the customer are included in the consolidated balance sheet under trade receivables.

2.5.4 Interest income

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

2.6 Cash and cash equivalents

Cash and cash equivalents consist of liquid marketable investments with an original maturity date of 90 days or less. Cash equivalents are designated at fair value through profit or loss (see Note 18).

2.7 Inventories

Inventories, which comprise raw materials and supplies, work-in-progress, and finished products, are stated at the lower of cost and net realizable value. Costs of inventories are predominantly determined using the weighted average cost method and includes the cost of purchase, the cost of conversion (labour and overhead) and other costs required to bring the inventories to their present location and condition. Customized work-in-progress and finished goods product inventories are held at actual cost and segregated by customer job number. Net realizable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale. The cost of work-in-process and finished product inventories include the cost of materials, the cost of direct labour, and a systematic allocation of manufacturing overheads based on a normal range of capacity for each production facility.

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

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

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

Depreciation commences when the assets are available for use and is recognized on a straight-line basis to depreciate the capitalized cost of assets to their estimated residual values over their estimated useful lives. When significant parts of an asset have different expected useful lives, they are accounted for as separate components of the asset and depreciated over their estimated useful lives and depreciation method.

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

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

2.9 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial amount of time which is defined as more than one year to get ready for their intended use, are added to the cost of those assets until the dates the asset(s) are available for their intended use. All other borrowing costs are recognized in profit or loss in the year in which they are incurred. No borrowing costs have been capitalized in PP&E in the years ended December 31, 2011 or 2010.

2.10 Leasing

Leases are classified as either finance or operating leases. Leases that transfer substantially all of the risks and benefits of ownership to the Corporation are capitalized as finance leases within PP&E and long-term debt. All other leases are recorded as operating leases and recognized as an expense on a straight-line basis over the lease term.

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

2.11 Intangible assets

Intangible assets with finite useful lives that are acquired separately are measured at cost less accumulated amortization and any accumulated impairment losses. Amortization is recognized on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each reporting year and the effect of any changes in estimate being accounted for on a prospective basis.

Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses and the carrying amounts are tested for impairment at least annually or whenever there is an indication that an asset may be impaired. In the case of impairment, the recoverable amount of an asset is estimated in order to determine the extent of the impairment loss, if any (see Note 2.13 for policy on impairment of non-financial assets).

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

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

2.12 Goodwill

Goodwill arising in a business combination is carried at cost as established at the date of acquisition of the business (see note 2.4 above) less accumulated impairment losses, if any. Goodwill is not amortized.

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

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

2.13 Impairment of tangible and intangible assets other than goodwill

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

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

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

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

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

2.14 Foreign currency translation

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

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

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

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

2.15 Provisions

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

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

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

2.16 Financial instruments

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

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

Financial instruments are classified into one of the following categories:

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

Realized and unrealized gains and losses from financial assets and liabilities carried at FVTPL are recognized in profit or loss in the years such gains and/or losses arise.

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

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

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

2.17 Derivative financial instruments

The Corporation's contingent shares are recorded as a non-current liability at fair value on the consolidated balance sheet. The contingent shares were issued in a business combination.

Derivatives are initially recognized at fair value at the date derivative contracts are entered into and subsequently re-measured to their fair value at the end of each reporting year. The resulting gain or loss is recognized in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

The Corporation's policies prohibit the use of any derivative instruments for trading or speculative purposes.

2.18 Impairment of financial assets

The Corporation assesses its financial assets, other than those at FVTPL, for indicators of impairment at the end of each reporting year.

Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected. Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty;
- breach of contract;
- it becoming probable that the borrower will enter bankruptcy or financial reorganization; or
- the disappearance of an active market for financial assets because of financial difficulties.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence for a portfolio of receivables could include the Corporation's past experience in collecting payments, an increase in the number of delayed payments in the portfolio past the average credit terms allowed, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent years.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectable, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

For financial assets measured at amortized cost, if, in a subsequent year, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognized, the previously recognized impairment is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

2.19 Taxation

Income tax expense represents the sum of the tax currently payable or deferred tax.

Current and deferred tax are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity respectively. When current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

2.19.1 Current Tax

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

2.19.2 Deferred Tax

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

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, except where the Corporation is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable income against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the year in which the liability is settled or the asset is realized, based on tax rates (and tax laws) that have been substantively enacted by the end of the reporting year.

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

2.20 Share-based payment arrangements

The Corporation has a share option plan for directors, officers, employees and consultants. Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date using a Black-Scholes option pricing model. The fair value determined at the grant date is expensed on a straight-line basis over the vesting year, based on the Corporation's estimate of equity instruments that will eventually vest, with a corresponding increase in equity.

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

The Corporation does not have any equity-settled share-based payment transactions with parties other than employees.

2.21 Employee retirement benefit plan

The Corporation has a defined benefit plan (the "Plan") providing pension benefits to certain eligible employees who are members of a Union which is their certified bargaining agent. The Plan is registered with the Financial Services Commission of Ontario and with the Canada Revenue Agency and is funded in accordance with applicable legislation. Commencing April 1, 2011, the defined benefit plan was closed to all new hires.

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

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

2.22 Earnings per share

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

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

3. Critical accounting judgements and estimates

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

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

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

3.1 Impairment of goodwill

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

3.2 Impairment of tangible and intangible assets

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

During the year ended December 31, 2011, no impairment has been recognized (2010 - $Nil).

3.3 Valuation of inventories

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

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

3.4 Allowance for doubtful accounts

Management reviews the aging profile of trade receivables on a customer-by-customer basis at least at the end of each reporting period and an allowance for doubtful accounts reserve is maintained. The amount of reserve is generally determined by, firstly, updating the reporting period end aged receivables listing by customer for cash collected in the first ten days of the subsequent month and, secondly, creating an allowance for doubtful accounts reserve equivalent to 50% of all adjusted account balances between 31 and 90 days past due, and a reserve of 100% of all adjusted account balances over 90-days past due. The value of the allowance for doubtful accounts reserve typically tracks the seasonality trend of trade receivables. Specific reserves may be created for individual customers in exceptional circumstances. Bad debts are written off against the reserve.

3.5 Income taxes

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

3.6 Measurement of post-employment obligations

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

3.7 Property plant and equipment

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

3.8 Revenue recognition

The Corporation uses the percentage of completion method for recognizing a portion of its sales revenues in its USA operating segment. The percentage of completion method is used when contracts include installation and/or design build services. In determining the timing and appropriate amount of revenue to recognize, management estimates the actual amount of work performed and the associated costs incurred to-date in relation to the total contract revenues and costs for each project. The proportion of consolidated revenues which are determined using the percentage of completion method is not materially significant. However, estimates of completion may be incorrect and the amount of revenues recognized could be materially misstated on an individual project basis.

3.9 Valuations performed during a business combination

The Corporation makes judgements, estimates and assumptions that affect the quantitative and qualitative valuation of business combinations. These may include: estimates of future cash flows and working capital requirements; potential acquisition synergies; costs to complete the transaction; the value of contingent consideration; strategic direction; management effectiveness, and operating efficiencies. Unknown future events and changes in assumptions and estimates may impact future cash flows and materially impact the valuation of each business combination.

4. Future accounting changes

The IASB has issued a number of revised International Accounting Standards, International Financial Reporting Standards, amendments and related interpretations which are effective for the Corporation's financial year beginning on or after January 1, 2012 or later.

- IAS 1 (Amended) *Presentation of Financial Statements* – The amendment requires entities preparing financial statements in accordance with IFRS to group together items within other comprehensive income ("OCI") that may be reclassified to the profit or loss section of the income statement and to separately group together items that will not be reclassified to the profit or loss section of the income statement.. IAS 1 (Amended) is effective for financial years beginning on or after July 1, 2012.
- IAS 12 (Revised) *Income Taxes* – The amendment introduces a rebuttable presumption that an investment property measured using the fair value model is recovered entirely through sale unless the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits over time. Recovery of underlying deferred income tax assets. IAS 12 (Revised) is effective for annual years beginning on or after January 1, 2012.
- IAS 19 (Amendments) *Post-employment Benefits* – The amendments make important improvements by: (1) eliminating the option to defer the recognition of gains and losses known as the "corridor" method; (2) streamlining the presentation of changes in assets and liabilities arising from defined benefit plans, including requiring re-measurements to be presented in OCI, thereby separating those changes from changes that many perceive to be the result of an entity's day-to-day operations; and (3) enhancing the disclosure requirements for defined benefit plans, providing better information about the characteristics of defined benefit plans and the risks that entities are exposed to through participating in those plans. IAS 19 (Amended) is effective for annual years beginning on or after January 1, 2013, with earlier application permitted.
- IAS 27 (Amended) *Separate Financial Statements* - IAS 27 has the objective of setting standards to be applied in accounting for investments in subsidiaries, jointly ventures, and associates when an entity elects, or is required by local regulations, to present separate (non-consolidated) financial statements. IAS 27 is effective for annual years beginning on or after January 1, 2013.
- IAS 28 (Revised) *Investments in Associates and Joint Ventures* – Prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. This standard is required to be applied for accounting years beginning on or after January 1, 2013, with early adoption permitted.
- IFRS 9 *Financial Instrument: Classification and Measurement* - This is the first part of a new standard that will replace IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 has two measurement categories, amortized cost and fair value. All equity instruments are measured at fair value. IFRS 9 also includes guidance on financial liabilities and Derecognition of financial instruments which is similar to the guidance included in IAS 39. IFRS 9 is effective for annual years beginning on or after January 1, 2015, with earlier application permitted.
- IFRS 10 *Consolidated Financial Statements* – This standard replaces the consolidation requirements in IAS 27, *Consolidated and Separate Financial Statements*, and SIC-12 *Consolidation - Special Purpose Entities*. It is effective for annual years beginning on or after January 1, 2013. Earlier application is permitted, provided IFRS 11, IFRS 12 and the related amendments to IAS 27 and IAS 31 are adopted at the same time. IFRS 10 builds on existing principles for the presentation of consolidated financial statements when an entity controls one or more other entities. The new standard defines the principle of control and establishes control as the basis for determining which entities should be included in the consolidated financial statements of the parent company.
- IFRS 11 *Joint Arrangements* – This standard requires a party to a joint arrangement to determine the type of joint arrangement in which it is involved by assessing its rights and obligations arising from the arrangement. The standard also addresses inconsistencies in the reporting of joint arrangements by requiring a single method to account for interests in jointly controlled entities, namely the equity method. IFRS 11 is effective for annual years beginning on or after January 1, 2013, with earlier application permitted.
- IFRS 12 *Disclosure of Interest in Other Entities* – A new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates, and unconsolidated structured entities. IFRS 12 is effective for annual years beginning on or after January 1, 2013. Early application is permitted provided IFRS 11, IFRS 12 and the related amendments to IAS 27 and IAS 31 are adopted at the same time.

- IFRS 13 *Fair Value Measurement* – The new standard defines fair value, sets out in a single IFRS a framework for measuring fair value and requires disclosures about fair value measurements. IFRS 13 does not determine when an asset, a liability or an entity's own equity instruments are measured at fair values. Rather, the measurement and disclosure requirements apply when another IFRS requires or permits the item to be measure at fair value (with limited exceptions). IFRS 13 is effective for annual years beginning on or after July 1, 2013, with early application permitted.

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

5. Segment information

The Corporation has two reportable operating segments, Canada and the USA, and each segment mirrors the Corporation's accounting policies (as described in Note 2) and its internal controls and reporting systems. Segment performance predominantly focuses on the types of goods and services provided and their geographical locations.

The Corporation's chief operating decision makers' evaluate segment performance for which they are responsible on the basis of operating income or loss, as reported to them on a periodic basis. This performance measure is considered to be the most relevant in evaluating the results of each operating segment.

5.1 Segment revenues and income

Segment sales represent sales revenues directly attributable to each segment. Inter-segment sales in the current year have been eliminated (see supplemental disclosure below). There are varying levels of integration between each segment.

Segment operating income represents income earned by each segment without allocation of central administration costs, revaluation of contingent shares, insurance claim gain, interest income, and finance costs.

Information regarding each reportable operating segment for years ended December 31, 2011 and 2010 is set out below:

	Segment sales revenues		Segment operating income	
	2011	**2010**	**2011**	**2010**
Canada	**$ 73,978**	$ 60,552	**$ 3,994**	$ 3,719
USA	**15,187**	9,410	**(476)**	(616)
Total	**$ 89,165**	$ 69,962	**3,518**	3,103
Central administration – property income			**1,314**	-
Central administration – expenses			**(669)**	(582)
Revaluation of contingent shares - gain			**12**	-
Insurance claim - gain			**726**	65
Interest income			**44**	41
Finance costs			**(494)**	(502)
Income before tax			**$ 4,451**	$ 2,125

5.2 Segment assets and liabilities

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

	As at Dec 31, 2011	As at Dec 31, 2010	As at Jan 1, 2010
Assets			
Segmented assets	**$ 35,493**	$ 52,644	$ 52,734
Assets not allocated to segments:			
Cash and cash equivalents	**9,504**	9,701	10,896
Property	**22,532**	-	-
Total assets	**$ 67,529**	$ 62,345	$ 63,630
Liabilities			
Segmented liabilities	**$ 13,611**	$ 10,134	$ 10,697
Liabilities not allocated to segments:			
Contingent consideration	**956**	-	-
Borrowings	**7,586**	8,883	9,663
Central services deferred taxes[1]	**344**	(203)	(122)
Total liabilities	**$ 22,497**	$ 18,814	$ 20,238
Net segmented assets			
Canada	**$ 19,256**	$ 39,802	$ 39,203
USA	**2,626**	2,708	2,834

[1] The December 31, 2010, amount is an asset that was netted against the Canadian operations deferred tax liability as the assets and liability balances relate to the same tax jurisdiction.

5.3 Other segment information

	Year ended Dec 31, 2011	Year ended Dec 31, 2010
Additions to non-current assets:		
Canada	**$ 1,585**	$ 1,752
USA	**2,424**	125
Total	**$ 4,009**	$ 1,877
Depreciation and amortization:		
Canada	**$ 1,856**	$ 2,707
USA	**489**	234
Total	**$ 2,345**	$ 2,941
Inter-segment sales	**$ 5,599**	$ 5,455

5.4 Information about major customers

Included in sales revenues in the Canadian operating segment are sales revenues of approximately $13,552 (2010 - $1,664) to the Corporation's largest single customer. No other single customer represented 10% or more of the Corporation's consolidated sales in the twelve month periods ended December 31, 2011 and 2010.

6. Other gains (losses)

	Year ended Dec 31, 2011	Year ended Dec 31, 2010
Foreign exchange gain (loss)	**$ 116**	$ (197)
Share-based payment expense	**-**	(67)
Gain (loss) on disposal of property, plant and equipment	**-**	18
	$ 116	$ (246)

7. Income taxes

7.1 Income taxes recognized in income for the year

	Year ended Dec 31, 2011	Year ended Dec 31, 2010
Current tax expense	**$ 757**	$ 61
Deferred tax expense	**492**	686
Income tax expense	**$ 1,249**	$ 747

In the years ended December 31, 2011 and 2010, no income tax has been recognized directly in either equity or other comprehensive income.

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

	Year ended Dec 31, 2011	Year ended Dec 31, 2010
Income before tax	**$ 4,451**	$ 2,125
Income tax expense calculated at 27.1% (2010 – 28.8%)	**1,206**	612
Effect of different tax rates of subsidiaries operating in other jurisdictions	**9**	(43)
Expenses not deductible in determining taxable income	**33**	48
Effective change in tax rates	**26**	(65)
Prior year adjustments	**(7)**	161
Other	**(18)**	34
Income tax expense	**$ 1,249**	$ 747

The tax rates used for the 2011 and 2010 reconciliations in the table above is the blended Canadian federal and provincial tax rates of 27.1% and 28.8% respectively, which were determined based on the taxable income of operations in Canada.

7.2 Current tax assets and liabilities

	As at Dec 31, 2011	As at Dec 31, 2010	As at Jan 1, 2010
Current tax assets			
Tax refund receivable	**$ -**	$ 167	$ 276
Current tax liabilities			
Income tax payable	**$ 601**	$ -	$ -

7.3 Deferred tax balances

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

	As at Dec 31, 2011	As at Dec 31, 2010	As at Jan 1, 2010
Deferred tax assets			
Property, plant and equipment	**$ (697)**	$ (122)	$ (72)
Intangible assets	**70**	11	7
Non-capital losses carried forward	**285**	155	127
Reserves	**147**	169	133
Other	**399**	360	885
	$ 204	$ 573	$ 1,080
Deferred tax liabilities			
Property, plant and equipment	**(2,594)**	(2,385)	(1,869)
Intangible assets	**(31)**	(33)	(45)
Reserves	**54**	39	77
Non-capital losses carried forward	**93**	172	316
Other	**(217)**	(53)	(534)
	$ (2,695)	$ (2,260)	$ (2,055)

Non-capital losses carried forward expire in years 2027 through 2031.

8. Earnings per share

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

	2011	2010
Income for the year	**$ 3,202**	$ 1,378
Weighted average number of common shares outstanding - basic	**6,605,223**	6,597,703
Effect of:		
Dilutive stock options [1]	**-**	-
Contingent consideration [2]	**166,667**	-
Weighted average number of common shares outstanding - diluted	**6,771,890**	6,598,703
Earnings per share:		
Basic	**$ 0.48**	$ 0.21
Diluted	**$ 0.47**	$ 0.21

[1] 150,000 stock options granted in the third quarter of 2007 were anti-dilutive as at December 31, 2011 and 2010. Therefore, they have not been included in the calculation of diluted shares in the above table.

[2] In February 2011, 166,667 common shares were issued as contingent consideration as part of the acquisition of the Precision Craft companies and the contingent shares are held in an escrow account and subject to an earn-out agreement. In the year ended December 31, 2011, the contingent shares are deemed to be dilutive and are included in the calculation of diluted shares in the above table.

9. Trade receivables

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

See Note 18 for discussion of the Corporation's credit risk.

9.1 Current trade receivables

Aging profile	As at Dec 31, 2011	As at Dec 31, 2010	As at Jan 1, 2010
Current and past due for less than 30 days	**$ 5,772**	$ 4,912	$ 4,031
Past due for between 31and 90 days	**2,649**	1,875	2,053
Past due for 91 days or longer	**477**	545	282
Total gross current trade receivables	**8,898**	7,332	6,336
Allowance for doubtful accounts	**(550)**	(548)	(474)
Current trade receivables, net	**$ 8,348**	$ 6,784	$ 5,892

The average trade credit allowed on the sale of goods is between 45 and 60 days from the date of shipment. For sales of customized products and services, deposits and/or payment installments are typically incorporated into contract terms to mitigate the potential for default. Deposits and instalments received on individual accounts which exceed the value of goods and/or services invoiced are recorded as deferred revenue on the consolidated balance sheets.

The Corporation has recognized an allowance for doubtful trade receivables on accounts that are past due by more than 60 days based on estimated irrecoverable amounts determined by reference to past experiences. As at December 31, 2011 and 2010, the allowance for doubtful accounts reserve includes amounts to cover continuing exposure with several long-standing customers in the USA which have trade receivables which are in the past due for 91 days or longer category.

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

9.2 Long-term trade receivables

	As at Dec 31, 2011	As at Dec 31, 2010	As at Jan 1, 2010
Long-term trade receivables	**$ 621**	$ 77	$ 0

The Corporation is a material supplier to a contract which is subject to a holdback clause. The holdback amounts will be released upon fulfillment of the contract, which is expected in the first half of 2013.

9.3 Change in allowance for doubtful accounts

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

	Year ended Dec 31, 2011	Year ended Dec 31, 2010
Balance at beginning of year	**(548)**	$ (474)
(Additional amounts provided for) / unused amounts reversed during the year	**(19)**	(85)
Trade receivables written off during the year	**17**	11
Balance at end of year	**$ (550)**	$ (548)

10. Inventories

	As at Dec 31, 2011	As at Dec 31, 2010	As at Jan 1, 2010
Raw materials	**$ 3,974**	$ 3,323	$ 3,510
Work in progress	**1,304**	1,293	1,068
Finished goods	**2,488**	2,360	1,679
	$ 7,766	$ 6,976	$ 6,257

The cost of inventories recognized as an expense in cost of sales during the year ended December 31, 2011, was $63,556 (2010 - $47,811), respectively.

The cost of inventories recognized as an expense during the year ended December 31, 2011, includes $81 (2010 - $183) in respect of write-downs of inventory to net realizable value. There were no reversals of any cost to net realizable write-downs in either of the years ended December 31, 2011 or 2010.

Eligible inventories held by the Corporation's subsidiaries in both Canada and the USA has been pledged as security with banks in both countries in support of revolving credit facilities. The revolving credit facilities were unused as at December 31, 2011 and 2010.

11. Property, plant and equipment

Asset class	Useful life	As at Dec 31, 2011	As at Dec 31, 2010	As at Jan 1, 2010
Carrying amounts of:				
Freehold land	Unlimited useful life, not depreciated	**$ 5,170**	$ 5,160	$ 5,185
Buildings	15 to 40 years	**17,947**	17,746	16,891
Plant and equipment	3 to 20 years	**12,936**	13,106	14,618
Equipment under finance lease	Lesser of the expected useful life and the term of the lease	**541**	479	469
Assets under construction	Depreciation commences when the asset is available for use as intended by management	**533**	52	539
		$ 37,127	$ 36,543	$ 37,702

Cost	Freehold land	Buildings	Plant and equipment	Equipment under finance lease	Assets under construction	Total
Balance at January 1, 2010	**$ 5,185**	**$ 24,775**	**$ 31,415**	**$ 610**	**$ 539**	**$ 62,524**
Additions	-	6	9	258	1,554	1,827
Disposal of PP&E assets	-	(2)	(904)	(105)	-	(1,011)
Transfer between asset groups	-	1,853	182	6	(2,041)	-
Effect of foreign currency exchange differences	(25)	(116)	(80)	(2)	-	(223)
Balance at December 31, 2010	**5,160**	**26,516**	**30,622**	**767**	**52**	**63,117**
Additions	-	973	53	277	1,228	2,531
Disposal of PP&E assets	-	(297)	(663)	(162)	-	(1,122)
Acquisition through business combination (Note 20)	-	301	959	-	-	1,260
Transfer between asset groups	-	-	748	-	(748)	-
Effect of foreign currency exchange differences	10	95	61	1	1	168
Balance at December 31, 2011	**$ 5,170**	**$ 27,588**	**$ 31,780**	**$ 883**	**$ 533**	**$ 65,954**

Accumulated Depreciation	Freehold land	Buildings	Plant and equipment	Equipment under finance lease	Assets under construction	Total
Balance at January 1, 2010	**$ -**	**$ 7,884**	**$ 16,797**	**$ 141**	**$ -**	**$ 24,822**
Depreciation expense	-	910	1,670	217	-	2,797
Disposal of PP&E assets	-	-	(899)	(70)	-	(969)
Effect of foreign currency exchange differences	-	(24)	(52)	-	-	(76)
Balance at December 31, 2010	**-**	**8,770**	**17,516**	**288**	**-**	**26,574**
Depreciation expense	-	943	1,887	190	-	3,020
Disposal of PP&E assets	-	(80)	(588)	(136)	-	(804)
Effect of foreign currency exchange differences	-	8	29	-	-	37
Balance at December 31, 2011	**$ -**	**$ 9,641**	**$ 18,844**	**$ 342**	**$ -**	**$ 28,827**

Depreciation commences when assets are available for use. Depreciation expense for the year ended December 31, 2011, in the amount of $2,609 (2010 - $2,400) is included in cost of sales, with an amount of $278 (2010 - $281), included in selling expenses, and an amount of $133 (2010 - $116) included in administrative expenses.

In October 2010, The Corporation's Riverbend Timber Framing facility in Michigan, USA, was partially damaged by a fire. The full restoration of the building was completed in the third quarter of 2011, and the associated restoration costs were covered by a replacement cost insurance policy. Costs of $908 attributed to the restoration of the building have been recorded as an addition to the carrying amount of buildings in the cost table above. A net amount of $217 attributed to derecognizing the carrying costs of the various components of the building compromised in the fire is recorded in the above tables as part of disposal of PP&E assets. In addition, other gains arising from the insurance claim amounted to $35 bring the total insurance claim gain to $726 (2010 - $65).

Freehold land and buildings in the USA with a carrying amount of $2,736 (2010 - $1,996) have been pledged as security for a bank loan under a mortgage.

The Corporation's obligations under finance leases (see note 16) are secured by the lessors' title to the leased assets which have a carrying amount of $541 (2010 - $479).

12. Intangible assets

	Useful life	As at Dec 31, 2011	As at Dec 31, 2010	As at Jan 1, 2010
Carrying amounts of:				
Patents	17 years	**$ 41**	$ 46	$ 50
Product development costs	3 years	**21**	51	132
Software	3 to 5 years	**361**	53	63
Registered trade name	Indefinite life – not amortized	**961**	-	-
Order backlog	Over the lives of the contracts (up to 3 years)	**46**	-	-
Non-compete agreement	2 years commencing in 2013 when contract becomes active	**29**	-	-
		$ 1,459	$ 150	$ 245

Cost	Patents	Product development costs	Software	Registered trade names	Order backlog	Non-compete agreement	Total
Balance at January 1, 2010	**$ 70**	**$ 915**	**$ 1,825**	**$ -**	**$ -**	**$ -**	**$ 2,810**
Additions	-	-	50	-	-	-	50
Disposal of intangible assets	-	-	-	-	-	-	-
Effect of foreign currency exchange	-	(13)	(3)	-	-	-	(16)
Balance at December 31, 2010	**70**	**902**	**1,872**	**-**	**-**	**-**	**2,844**
Additions	-	-	108	-	-	-	108
Acquisitions through business combinations (Note 20)	-	-	297	934	147	28	1,406
Disposal of intangible assets	-	-	(201)	-	-	-	(201)
Effect of foreign currency exchange	-	3	9	27	4	1	44
Balance at December 31, 2011	**$ 70**	**$ 905**	**$ 2,085**	**$ 961**	**$ 151**	**$ 29**	**$ 4,201**

Accumulated Amortization	Patents	Product development costs	Software	Registered trade names	Order backlog	Non-compete agreement	Total
Balance at January 1, 2010	**$ 20**	**$ 783**	**$ 1,762**	**$ -**	**$ -**	**$ -**	**$ 2,565**
Amortization expense	4	80	60	-	-	-	144
Disposal of intangible assets	-	-	-	-	-	-	-
Effect of foreign currency exchange	-	(12)	(3)	-	-	-	(15)
Balance at December 31, 2010	**24**	**851**	**1,819**	**-**	**-**	**-**	**2,694**
Amortization expense	5	28	103	-	102	-	238
Disposal of intangible assets	-	-	(201)	-	-	-	(201)
Effect of foreign currency exchange	-	5	3	-	3	-	11
Balance at December 31, 2011	**$ 29**	**$ 884**	**1,724**	**$ -**	**$ 105**	**$ -**	**$ 2,742**

Amortization expense for the years ended December 31, 2011, in the amount of $137 (2010 - $91) is included in cost of goods sold, an amount of $73 (2010 - $4) is included in selling expenses, and an amount of $28 (2010 - $49) is included in administrative expenses.

13. Goodwill

Cost	As at Dec 31, 2011	As at Dec 31, 2010	As at Jan 1, 2010
Balance at beginning of year	**$ 580**	$ 580	$ 580
Additional amounts recognized from business combinations occurring during the year (Note 20)	**1,121**	-	-
Effect of foreign currency exchange differences	**30**	-	-
Balance at end of year	**$ 1,731**	$ 580	$ 580

There have been no goodwill impairment losses recognized in either 2011 or 2010.

13.1 Allocation of goodwill to cash-generating units

The carrying amount of goodwill was allocated to the following cash-generating units:

Cost	As at Dec 31, 2011	As at Dec 31, 2010	As at Jan 1, 2010
Canada	**$ 580**	$ 580	$ 580
USA	**1,151**	-	-
	$ 1,731	$ 580	$ 580

The goodwill allocated to the Canadian cash-generating unit arose in 2003 when the Corporation acquired Advantage Wallsystems Inc., a marketer and patent holder of the Advantage Insulating Concrete (ICF) system.

The goodwill allocated to the USA cash-generating unit was recognized in 2011 when the Corporation acquired the Precision Craft Group (see Note 20).

14. Retirement benefits plans

14.1 Group registered retirement savings plan

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

14.2 Group 401K plan

The Corporation operates group 401K plans for all qualifying employees located in Michigan and Idaho, USA, in which qualifying employees may elect to defer current wages for retirement. The Corporation has the option to match employee contributions to the plans. The plans are being consolidated into a single plan effective January 1, 2012.

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

14.3 Defined benefit pension plan

The Corporation operates a funded defined benefits pension plan for qualifying Ontario-based employees who are members of the United Steel, Paper and Forestry, Rubber, Manufacturing, Energy, Allied Industrial and Service Workers International union. Under the plan, retiring employees receive on a monthly basis a fixed benefit amount multiplied by the number of years of eligible service. No other post-retirement benefits are provided to these employees except for minimal amount of life insurance coverage.

The most recent actuarial valuation of plan assets and the present value of defined benefit obligation was determined as at March 31, 2011, and subsequently updated to December 31, 2011.

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

	2011	**2010**
	%	%
Discount rate	**4.5**	5.5
Expected return on plan assets	**4.0**	6.0
Expected rate of salary increase	**-**	-

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

	Year ended Dec 31, 2011	**Year ended Dec 31, 2010**
Current service cost	**$ 34**	$ 28
Interest cost on obligation	**60**	56
Expected return on plan assets	**(62)**	(47)
Amortization of losses	**8**	-
Non-vested past service costs	**-**	9
	$ 40	$ 46

The expense for the year is included in cost of sales in the consolidated statement of comprehensive income.

The amounts included in the consolidated balance sheets arising from the Corporation's obligation in respect of its defined benefit plan are as follows:

	As at Dec 31, 2011	**As at Dec 31, 2010**	**As at Jan 1, 2010**
Present value of funded benefit obligation	**$ 1,356**	$ 1,080	N/A
Fair value of plan assets	**997**	990	N/A
Plan deficit	**(359)**	(90)	N/A
Net actuarial losses not recognized	**572**	220	N/A
Net asset arising from defined benefit obligation	**$ 213**	$ 130	$ 54

Movements in the present value of the defined benefit obligation in 2011 and 2010 were as follows:

	Year ended Dec 31, 2011	**Year ended Dec 31, 2010**
Opening defined benefit obligation	**$ 1,080**	$ 872
Current service cost	**34**	28
Interest cost on obligation	**60**	56
Benefit payments	**(45)**	(78)
Actuarial loss	**227**	202
Closing defined benefit obligation	**$ 1,356**	$ 1,080

Movements in the present value of the plan assets in 2011 and 2010 were as follows:

	2011	2010
Opening fair value of plan assets	**$ 990**	$ 917
Expected return on plan assets	**62**	47
Actuarial loss	**(133)**	(18)
Employer contributions	**123**	122
Benefits paid	**(45)**	(78)
Closing fair value of plan assets	**$ 997**	$ 990

The major investment mix for the plan assets as at December 31, 2011 and 2010 are as follows:

	Distribution of plan assets	
	Dec 31, 2011	Dec 31, 2010
	%	%
Equity instruments	**62**	-
Fixed income securities	**37**	95
Other	**1**	5
Total	**100**	100

To the best of management's knowledge, none of the plan assets are invested in the Corporation's shares.

The Corporation expects to make contributions of $127 to the defined benefit plan in the next financial year.

15. Deferred revenue

As at December 31, 2011, the Corporation held deposits collected from customers of $2,349 (December 31, 2010 - $1,534 and January 1, 2010 - $ 1,504) for work to be performed at a future date. The Corporation expects all customer deposit amounts to be recognized as revenue within 12 months of their collection.

16. Borrowings

16.1 Operating credit facilities

The Corporation has operating credit facilities in both Canada and the USA.

Canada

The Corporation's subsidiary in Canada has a revolving demand credit facility with a major Canadian bank which has a maximum approved limit of $8,000 (December 31, 2010 - $8,000). The interest rate on the revolving credit facility is the Canadian bank's prime rate plus 0.5%. There is a minimal monthly standby fee associated with the facility.

The revolving credit facility is secured by a first ranking security interest in trade receivables and inventories of the Canadian subsidiary. The Canadian subsidiary is subject to certain covenants on the credit facilities, one of which is a financial covenant to maintain a Fixed Charge Coverage Ratio of not less than 1.25:1. The financial covenant was in compliance at December 31, 2011, and 2010. PFB Corporation has provided a guarantee and postponement of claim to the bank in the amount of $10,000 (2010 - $10,000).

As at December 31, 2011 and 2010, and January 1, 2010, the revolving credit facility was unused.

USA

The Corporation's main subsidiary in the USA has a revolving line of credit with a U.S. bank, whose parent company is a major Canadian bank. The maximum borrowing limit under the facility is USD $1,500. The interest rate on bank

indebtedness under the facility is subject to a minimum interest rate of 4.0% or, if the bank's prime rate plus 0.25% exceeds 4.0%, the latter rate will be in effect. There is a minimal monthly standby fee associated with the facility.

The revolving loan is margined on a quarterly basis on eligible trade receivables and inventories as defined by the bank. PFB Corporation has provided a guarantee to the bank for the revolving line of credit. As at December 31, 2011, and 2010, the revolving line of credit in the USA was unused.

16.2 Long-term debt and finance leases

	2011	**2010**
Balance at beginning of year	**$ 8,883**	$ 9,663
Additional borrowings – finance leases	**277**	258
Repayments	**(1,587)**	(997)
Effect of foreign currency exchange differences	**14**	(41)
Balance at end of year	**$ 7,587**	$ 8,883

Canada

As at December 31, 2011, the aggregate outstanding amount of term loans under a non-revolving credit facility with a major Canadian bank was $6,532 (December 31, 2010 - $7,780). At that date, the unused portion of the non-revolving facility was $4,275 (December 31, 2010 - $4,230) and represented an approved limit of $4,300 less principal amounts outstanding on capital leases financed by the bank.

The Corporation's Canadian subsidiary is subject to certain covenants on its credit facilities, one of which is a financial covenant to maintain a Fixed Charge Coverage of not less than 1.25:1. As at December 31, 2011 and 2010, and January 1, 2010, the financial covenant ratio was in compliance.

The individual loans are a combination of prime plus and fixed rate term loans and each is being amortized over a 15-year period since inception. The variable rate loans attract interest at the bank's prime rate plus 0.85%. Interest rates on the fixed rate loans are in the range of 5.55% to 6.05% over five-year terms which commenced in 2009 and 2010 (see table below). The fixed rate term loans are eligible for prepayment once each year in the amount of 10% of the outstanding principal balance at the time the prepayment is made. The Corporation made a combined pre-payment in the amount of $593 in December 2011 on the two fixed rate term loans.

During the year ended December 31, 2011, new capital lease agreements with a specialized auto leasing company in the total amount of $277 (2010 - $258), were entered into by the Corporation's subsidiaries for replacement automobiles.

USA

The Corporation's USA subsidiary has a term loan with a U.S. bank, whose parent company is a major Canadian bank. The term loan is secured by manufacturing properties located in Michigan, USA. At December 31, 2011, the outstanding principal amount of the term loan was USD $611 (December 31, 2010 – USD $679). The term loan bears an interest rate of U.S. prime rate plus 0.25%. PFB Corporation has provided a guarantee to the bank for the term loan.

The Corporation's long-term debt and finance lease commitments as at December 31, 2011 and 2010, and January 1, 2010 were as follows:

	Type of loan rate	Interest rate	As at Dec 31, 2011	As at Dec 31, 2010	As at Jan 1, 2010
Payable in Canadian dollars:					
Term loan	Variable	Prime + 0.85%	**$ 607**	$ 679	$ 755
Term loan	Variable	Prime + 0.85%	**628**	701	773
Term loan	Fixed	6.05%	**3,760**	4,545	4,909
Term loan	Fixed	5.50%	**1,537**	1,855	2,000
Finance leases		5.50% to 7.25%	**425**	402	402
Payable in U.S. dollars:					
Term loan	Variable	Prime + 0.25%	**622**	676	785
Finance leases		3.70% to 7.50%	**8**	25	39
Total borrowings			**7,587**	8,883	9,663
Less: Current portion			**(942)**	(948)	(919)
Long-term portion			**$ 6,645**	$ 7,935	$ 8,744

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

As at December 31, 2011, the Canadian bank's prime interest rate was 3.00% (2010 – 3.0%) and the USA bank's prime interest rate was 3.25% (2010 – 3.25%).

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

	Term loans	Finance leases	Total
Current within 12 months	$ 733	$ 209	$ 942
Due within 12 to 24 months	739	142	881
Due within 25 to 36 months	4,929	82	5,011
Due within 37 to 48 months	174	-	174
Due after 48 months	579	-	579
Total	**$ 7,154**	**$ 433**	**$ 7,587**

17. Issued capital

17.1 Authorized

The Corporation's authorized share capital represents:

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

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

17.2 Contingent shares

In February 2011, the Corporation issued 166,667 common shares as contingent consideration to partially fund the acquisition of the Precision Craft Group (see Notes 18 and 20). The issued and outstanding contingent shares are held in a trust account under an escrow agreement between the Corporation, the vendor of the acquired group, and the Corporation's transfer agent.

The escrowed shares will be released upon the achievement by the vendor of a pre-defined earn-out formula. The earn-out formula has a maximum term of five years and the shares can be released on a graduated basis within the term based on the

formula. The Corporation's regular quarterly dividends have been paid on the contingent shares since issuance, with such dividends being held in the escrow account until those respective shares are released. Any contingent shares which remain unreleased at the expiry date will be cancelled and cumulative quarterly dividends paid on those shares will be returned to the Corporation. Management expects that the earn-out provisions will be achieved.

At the effective date of the acquisition (February 1, 2011), the contingent shares had a fair value of $5.81 per share (aggregate value of $968). The contingent shares are marked-to-market at the end of each reporting period based on the closing market price of the Corporation's shares. As at December 31, 2011, the mark-to-market value of the contingent shares was $5.74 per share (aggregate value of $956). The contingent shares will continue to be marked-to-market at the end of each reporting period until released from escrow or cancelled. The revaluation is recorded in the consolidated statement of comprehensive income as a gain or loss.

17.3 Share-based payments

The Corporation has a stock option plan under which the maximum number of shares issuable is equal to 10% of the number of issued and outstanding common shares. A stock option allows the grantee of the option to acquire common shares of the Corporation, at the strike price established at the time of grant. Options may be exercised at any time from the vesting date to the date of expiry which is the fifth anniversary of the effective date of grant. The strike price of each stock option is determined as the weighted average market price of the Corporation's common shares established two business days preceding the effective date of grant.

Each employee share option converts into one ordinary share of the Company upon exercising. No amounts are paid or payable by the recipient on initial receipt of the option. The options carry neither rights to dividends nor voting rights until exercised.

No share options were granted under the Corporation's share option plan in the year ended December 31, 2011 and 2010. In the year ended December 31, 2010, 50,000 share options were exercised at a strike price of $5.30 per option (aggregate price of $265). The market price of PFB's common shares at the date of exercise was $6.27 per share.

Share options outstanding as at December 31, 2011 and 2010 are set out in the table below:

	As at Dec 31, 2011		As at Dec 31, 2010	
	Number of options	**Weighted average exercise price**	**Number of options**	**Weighted average exercise price**
Balance at beginning of year	**130,000**	**$ 9.50**	200,000	$ 8.45
Forfeited during the year	**(20,000)**	**(9.50)**	(20,000)	(9.50)
Exercised during the year	**-**	**-**	(50,000)	(5.30)
Balance at end of year	**110,000**	**$ 9.50**	130,000	$ 9.50

The weighted average remaining contract life of the stock options outstanding as at December 31, 2011 was 7.0 months (2010 – 19 months).

17.4 Normal Course Issuer Bid

In September 2011, the Corporation obtained approval from the Toronto Stock Exchange to renew its Normal Course Issuer Bid program for a 12-month period which commenced on September 6, 2011 and ends no later than September 5, 2012. The renewal allows the Corporation to purchase, no later than September 5, 2012, up to a maximum of 338,505 of its common shares representing 5% of the Corporation's 6,770,103 issued and outstanding common shares as at August 22, 2011, subject to daily maximum purchases of 1,000 common shares. The Corporation will purchase from time to time its common shares at market prices by means of open market transactions on the Toronto Stock Exchange.

In the year ended December 31, 2011, the Corporation purchased and cancelled 15,300 (2010 – 5,900) of its common shares under the Normal Course Issuer Bid for an aggregate price of $85 (2010 - $33), of which $39 (2010 - $15) was charged to retained earnings as premium on redemption of the common shares. The shares purchased were immediately cancelled.

17.5 Dividends

In the years ended December 31, 2011 and 2010, the Corporation's Board of Directors declared regular quarterly dividends of $0.06 (2010 – $0.06) per common share which were paid in the months of February, May, August and November of each year.

18. Financial instruments

18.1 Capital management

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

The capital structure of the Corporation consists of net debt (borrowings as detailed in Note 16 offset by cash and cash equivalents) and equity of the Corporation (comprising issued capital, reserves, and retained earnings as detailed in the consolidated statement of changes in equity).

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

	Dec 31, 2011	**Dec 31, 2010**
Borrowings	**$ 7,587**	$ 8,883
Less: cash and cash equivalents	**9,504**	9,701
Net debt (surplus cash)	**(1,917)**	(818)
Shareholders' equity	**$ 45,032**	$ 43,531
Net debt to equity ratio	**N/A**	N/A

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

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

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

18.2 Categories of financial instruments

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

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

	As at Dec 31, 2011		As at Dec 31, 2010		As at Jan 1, 2010	
	Carrying Value	Fair Value	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets						
FVTPL:						
Cash	**$ 4,995**	**$ 4,995**	$ 6,699	$ 6,699	$ 4,394	$ 4,394
Cash equivalents	**4,509**	**4,509**	3,002	3,002	6,502	6,502
Financial liabilities						
FVTPL:						
Contingent consideration	**956**	**956**	-	-	-	-

As at December 31, 2011, the cash balance of $4,995 included cash of $299 which is controlled separate from regular cash balances used in operations. The $299 represents cash collected from certain customers in the USA which is used to pay suppliers and sub-contractors which supply goods and or services to those specific customer contracts.

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

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

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

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

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

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

	As at Dec 31, 2011	As at Dec 31, 2010	As at Jan 1, 2010
FVTPL			
Financial assets:			
Cash and cash equivalents			
Level 1	**$ 9,504**	$ 9,701	$ 10,896
Level 2	**-**	-	-
Level 3	**-**	-	-
Financial liabilities:			
Contingent consideration			
Level 1	**$ 956**	$ -	$ -
Level 2	**-**	-	-
Level 3	**-**	-	-

18.3 Credit risk management

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

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

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

Customers ordering highly-customized manufactured products, usually involving detailed design work, are required to make advance payments at various predefined stages of a sales contract. All payments received in advance are reported as customer deposits under the current liability section of the balance sheet. Final contract balances are typically required to be paid in full before products are shipped.

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

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

- Trade receivable balances are spread amongst a broad customer base which is geographically dispersed.
- The aging profile of accounts receivables balances is systematically monitored by management.
- Larger customers are offered a discount of 1% off invoice value if full payment is received by an agreed date in the month following the month of sale.
- Payments for highly-customized orders are received in advance of products being shipped.

In the year ended December 31, 2011, sales to a single external customer accounted for 15.2% (2010 – 2.4%) of total consolidated sales for the year.

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

Interest collected from customers on payment of past due accounts receivable balances is included in investment income in the consolidated statement of comprehensive income.

18.4 Foreign currency risk management and sensitivity analysis

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

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

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

	As at Dec 31, 2011			As at Dec 31, 2010		
	USD values held	**Assumed change in currency**	**Effect on after tax income (loss)**	**USD values held**	**Assumed change in currency**	**Effect on after tax income (loss)**
Net monetary assets	**$ 2,347**	**5.0%**	**$ 117**	$ 5,023	5.0%	$ 251
Net monetary liabilities	**(3,518)**	**5.0%**	**(176)**	(2,314)	5.0%	(116)

Periodically, management may commit to entering into foreign exchange contracts to attempt to protect earnings against relatively short-term fluctuations in exchange rates. In such cases, management attempts to make informed judgements in entering such transactions but there is a possibility that markets may not respond in ways predicted. To the extent that the Corporation does not fully hedge its foreign currency exposure and exchange rate risk, or the Corporation's subsidiaries are not able to or do not raise their selling prices accordingly when exchange rates are moving in an unfavourable direction, the profitability of the business could be adversely affected. The Corporation does not enter into currency driven derivative financial instruments for speculative purposes. As at December 31, 2011 and 2010, the Corporation did not hold any foreign exchange contracts. In January 2012, the Corporation entered into a series of foreign exchange contracts to purchase USD $9,500 for settlement at various times between February and July 2012 at a blended exchange rate of CAD 1.0000 – USD 0.9938.

18.5 Interest rate risk management and sensitivity analysis

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

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

As at December 31, 2011, the Corporation has in place a combination of revolving and non-revolving credit facilities with banks in Canada and the USA. In Canada, as at December 31, 2011, none of a revolving credit facility limit of $8,000 was used (December 31, 2010 - $8,000 unused). In the USA, a revolving credit facility limit of USD $1,500 (subject to eligible account receivables and inventory) was unused as at December 31, 2011 (December 31, 2010 – USD $1,500 unused) - See Note 16. As at December 31, 2011, the unused portion of the non-revolving credit facility with a Canadian bank was $4,275 (December 31, 2010 - $4,230) which represents an approved limit of $4,300 less amounts outstanding on capital leases which are financed by the Canadian bank (see Note 16).

18.6 Liquidity risk management

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

The Corporation's objective is to maintain sufficient liquidity to meet its liabilities when due or that it can do so only at an abnormally high cost. Accordingly, one of management's primary goals is to maintain an optimum level of liquidity by actively managing assets, liabilities and cash flows generated from operations. The Corporation's future strategies can be financed through a combination of cash flows generated by operations, borrowing under existing credit facilities, and the issuance of equity. Management prepares regular budgets and cash flow forecasts to help predict future changes in liquidity. Based on the Corporation's aggregate liquid assets as compared to its liabilities and commitments, management assesses the Corporation's liquidity risk to be low.

The Corporation has financial liabilities with the following maturities:

As at Dec 31, 2011	Total	Current less than 12 months	Due within 12 to 24 months	Due within 25 to 36 months	Due within 37 to 48 months	Due after 48 months
Trade and other payables	**$ 8,309**	**$ 8,309**	**$ -**	**$ -**	**$ -**	**$ -**
Borrowings	**7,587**	**942**	**881**	**5,011**	**174**	**579**
Total	**$ 15,896**	**$ 9,251**	**$ 881**	**$ 5,011**	**$ 174**	**$ 579**
As at Dec 31, 2010						
Trade and other payables	$ 6,137	$ 6,137	$ -	$ -	$ -	$ -
Borrowings	8,883	948	894	5,681	242	1,118
Total	$ 15,020	$ 7,085	$ 894	$ 5,681	$ 242	$ 1,118
As at Jan 1, 2010						
Trade and other payables	$ 7,016	$ 7,016	$ -	$ -	$ -	$ -
Borrowings	9,663	919	1,525	708	5,534	977
Total	$ 16,679	$ 7,935	$ 1,525	$ 708	$ 5,534	$ 977

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

19.1 Trading transactions

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

In the years ended December 31, 2011 and 2010, the Corporation had the following trading transactions with related parties:

	Nature of transactions	Year ended Dec 31, 2011	Year ended Dec 31, 2010
Aeonian Capital Corporation	Management services	**$ 200**	$ 200
McCarthy Tetrault, LLP [1]	Legal services	**-**	40
William H. Smith Professional Corporation	Legal services	**23**	9
Baker Investments LLC	Stipend and travel expenses	**109**	114
		$ 332	$ 363

[1] Effective July 1, 2010, McCarthy Tetrault, LLP was no longer considered a related party.

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

	Amounts owed by related parties		Amounts owed to related parties	
	As at Dec 31, 2011	As at Dec 31, 2010	As at Dec 31, 2011	As at Dec 31, 2010
Aeonian Capital Corporation	**$ -**	$ -	**$ -**	$ -
William H. Smith Professional Corporation	**-**	-	**-**	9
Baker Investments, LLC	**-**	-	**21**	26
	$ -	$ -	**$ 21**	$ 35

19.2 Compensation of key management personnel

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

	2011	2010
Short-term benefits [1]	**$ 1,032**	$ 787
Post-employments benefits	**-**	-
Other long-term benefits	**-**	-
Share-based payments	**-**	-
Termination benefits	**-**	-
	$ 1,032	$ 787

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

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

20. Business combinations

20.1 Subsidiaries acquired

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

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

Historically, the Precision Craft group has experienced similar seasonality patterns to that of the Corporation's existing businesses. In the eleven month period since the date of acquisition, the Precision Craft Group generated sales of $6,565 and income of $6 which is included in the consolidated statement of comprehensive income (loss) in the current reporting year.

20.2 Consideration transferred and goodwill arising on acquisition

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

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

Acquisition costs in the amount of $108 have been expensed in administrative expenses in the year ended December 31, 2011.

20.3 Assets acquired and liabilities recognized at the date of acquisition

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

20.4 Net cash outflow on acquisition of subsidiaries

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

20.5 Impact of acquisitions on the results of the Corporation

If the acquisition of the Precision Craft Group had been completed effective January 1, 2011 (one month earlier than the actual completion date), the Corporation's consolidated sales and income for the year ended December 31, 2011 would have increased by $1,300 and $236, respectively, based on information gathered during the Corporation's due diligence period. The financial performance of the Precision Craft Group for the month of January 2011 was not representative of a typical month's performance as they recognized revenue and profit on a significantly large contract which was completed in that month.

21. Operating lease arrangements

Operating leases relate to leases of certain properties and office equipment with lease terms of between three and five years. All operating lease contracts over five years contain clauses for five-yearly market rental reviews. The Corporation is obligated to pay its share of the operating costs for properties being leased.

The operating leases for properties do not contain an option to purchase those properties at the expiry of the lease periods. Some minor equipment operating leases do include a purchase option.

Annual operating lease commitments are as follows:

	2011	**2010**
Not later than one year	**$ 730**	$ 720
Later than one year and not later than five years	**1,281**	1,471
Later than five years	**-**	-
	$ 2,011	$ 2,191

22. Commitments

22.1 Performance bonds

From time to time, under the terms of certain sales contracts, the Corporation is required to issue performance bonds that ensure it performs as a material supplier under such contracts. As at December 31, 2011, the aggregate value of performance bonds was $25,719 (2010 - $24,678).

22.2 Expenditures for property, plant and equipment and intangible assets

The Corporation had the following commitments for property, plant and equipment and intangible assets as at December 31, 2011 and 2010:

	As at Dec 31, 2011	**As at Dec 31, 2010**
Property, plant and equipment	**$ 252**	$ 337
Intangible assets	**12**	-
	$ 264	$ 337

22.3 Contingent liabilities

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

22.4 Environment

The Corporation’s subsidiaries are subject to various laws, regulations, and government policies relating to health and safety, production operations, storage and transportation of goods, disposal and environmental emissions of various substances and materials, and to the protection of the environment in general. It is the opinion of management that the Corporation and its subsidiaries are in compliance with such laws, regulations and government policies in all material respects.

23. Supplementary cash flow information

23.1 Changes in non-cash working capital (inclusive of the Precision Craft acquisition - see note 22)

Decrease (increase) in:	Year ended Dec 31, 2011	Year ended Dec 31, 2010
Trade receivables	**$ (872)**	$ (892)
Inventories	**(552)**	(719)
Income taxes receivable	**167**	109
Prepaid expenses	**336**	(16)
Trade and other payables	**1,716**	(879)
Income taxes payable	**601**	-
Deferred revenue	**(304)**	30
	$ 1,092	$ (2,367)

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

	2011	2010
Property, plant and equipment under finance leases	**$ (277)**	$ (258)
Building restoration paid directly by insurance	**908**	-

24. Subsidiaries

Subsidiary	Principal activities	Place of incorporation and operation	Proportion of ownership interest and voting power held by the Corporation	
			Dec 31, 2011	Dec 31, 2010
Canada				
PFB Corporation	Public holding company	Alberta, Canada	**-**	-
Plasti-Fab Ltd.	Manufacturing	Alberta, Canada	**100%**	100%
USA				
PFB America Corporation	Holding company	Delaware, USA	**100%**	N/A
Precision Craft, LLC	Manufacturing	Delaware, USA	**100%**	N/A
Mountain Architects, LLC	Design services	Delaware, USA	**100%**	N/A
PC Design Build, LLC	Construction services	Delaware, USA	**100%**	N/A
Insulspan, LLC	Manufacturing	Delaware, USA	**100%**	100%
Riverbend Timber Framing, LLC	Manufacturing	Delaware, USA	**100%**	100%
PFB America Real Estate, LLC	Real estate holdings	Delaware, USA	**100%**	N/A

25. Approval of financial statements

The financial statements were approved by the Board of Directors and authorized for issue on March 15, 2012.

26. First time adoption of IFRS

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

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

26.1 Elected exemptions from full retrospective application

26.1.1 Property, plant and equipment (PP&E)

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

26.1.2 Share-based payments

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

26.1.3 Business combinations

IFRS 1 provides the option to apply IFRS 3 Business Combinations prospectively from the transition date or from a specific date prior to the transition date. The Corporation elected to not restate business combination recorded in accordance with previous Canadian generally accepted accounting principles ("GAAP") that took place prior to the transition date.

26.1.4 Employee benefits

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

26.1.5 Cumulative translation differences

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

26.2 Mandatory exceptions to retrospective application

26.2.1 Estimates

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

26.2.2 Reconciliation of previous Canadian GAAP to IFRS

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

	As at Jan 1, 2010			As at Dec 31, 2010		
	Previous Canadian GAAP	Effect of transition to IFRS	IFRS	Previous Canadian GAAP	Effect of transition to IFRS	IFRS
ASSETS						
Current assets						
Cash and cash equivalents	$ 10,896	$ -	$ 10,896	$ 9,701	$ -	$ 9,701
Trade receivables	5,892	-	5,892	6,784	-	6,784
Inventories	6,257	-	6,257	6,976	-	6,976
Income taxes recoverable	276	-	276	167	-	167
Prepaid expenses	648	-	648	664	-	664
Deferred income tax asset	637	(637)	-	310	(310)	-
Total current assets	24,606	(637)	23,969	24,602	(310)	24,292
Non-current assets						
Long-term trade receivable	-	-	-	77	-	77
Property, plant and equipment	31,580	6,122	37,702	31,016	5,527	36,543
Intangible assets	260	(15)	245	167	(17)	150
Goodwill	5,887	(5,307)	580	5,887	(5,307)	580
Accrued benefit asset	475	(421)	54	538	(408)	130
Deferred income tax assets	444	636	1,080	573	-	573
Total non-current assets	38,646	1,015	39,661	38,258	(205)	38,053
Total assets	$ 63,252	$ 378	$ 63,630	$ 62,860	$ (515)	$ 62,345
LIABILITIES						
Current Liabilities						
Trade and other payables	$ 7,016	$ -	$ 7,016	$ 6,137	$ -	$ 6,137
Deferred revenue	1,504	-	1,504	1,534	-	1,534
Borrowings	919	-	919	948	-	948
Total current liabilities	9,439	-	9,439	8,619	-	8,619
Non-current liabilities						
Borrowings	8,744	-	8,744	7,935	-	7,935
Deferred income tax liabilities	482	1,573	2,055	1,129	1,131	2,260
Total non-current liabilities	9,226	1,573	10,799	9,064	1,131	10,195
Total liabilities	18,665	1,573	20,238	17,683	1,131	18,814
EQUITY						
Capital and reserves						
Common shares	19,815	-	19,815	20,110		20,110
Equity-settled employee benefits reserve	365	-	365	384	-	384
Foreign currency translation reserve	-	-	-	-	45	45
Retained earnings	24,407	(1,195)	23,212	24,683	(1,691)	22,992
Shareholders' equity	44,587	(1,195)	43,392	45,177	(1,646)	43,531
Total liabilities and equity	$ 63,252	$ 378	$ 63,630	$ 62,860	$ (515)	$ 62,345

	Year ended Dec 31, 2010		
	Canadian GAAP	Effect of transition to IFRS	IFRS
Sales	$ 65,580	$ 4,382	$ 69,962
Cost of sales	(48,781)	(4,822)	(53,603)
Gross profit	16,799	(440)	16,359
Selling expenses	(8,710)	-	(8,710)
Administrative expenses	(4,951)	69	(4,882)
Other gains (losses)	3	(249)	(246)
Operating income	3,141	(620)	2,521
Insurance claim – gain	65	-	65
Investment income	41	-	41
Finance cost	(502)	-	(502)
Income before taxes	2,745	(620)	2,125
Income taxes expense	(871)	124	(747)
Income for the year	**1,874**	**(496)**	**1,378**
Other comprehensive income, net of income tax			
Exchange differences on translating foreign operations (net of tax $nil)	-	45	45
Total comprehensive income for the year	**$ 1,874**	**$ (451)**	**$ 1,423**
Earnings per share - $ per share			
Basic	$ 0.28	$ (0.07)	$ 0.21
Diluted	$ 0.28	$ (0.07)	$ 0.21

26.3 Notes to the IFRS reconciliation tables above:

26.3.1 Consolidated Balance sheet as at December 31, 2010 and January 1, 2010:

- Adjustment to PP&E

Under IAS 16 Property, plant and equipment, when a fixed asset consists of a number of individual components for which different depreciation methods or rates are appropriate, each component is accounted for separately. The major assets making up the asset classes of buildings and machinery and equipment were componentized and the expected lives of individual assets and components were revised. The changes were applied retrospectively to the date of acquisition of each asset and/or component which resulted in lower accumulated depreciation expense under IFRS than was reported under previous Canadian GAAP. As a result of these changes, the effect on transition to IFRS as at January 1, 2010, resulted in an increase of $6,387 in the carrying amount of property, plant and equipment and an increase of $5,671 as at December 31, 2010.

Upon adopting IAS 21, the Effects of Changes in Foreign Exchange, the carrying amounts of PP&E held in the Corporation's foreign operations in their functional currency of U.S. dollars were translated to the Corporation's functional currency of Canadian dollars at the closing exchange rate as of January 1, 2010. Under previous Canadian GAAP, PP&E cost and accumulated depreciation held in foreign operations was translated to Canadian dollars at historical exchange rates. As a result of these changes, the carrying amount of PP&E was reduced by $265 at January 1, 2010 and reduced by $144 as at December 31, 2010.

The net change to the carrying amount of PP&E on transition to IFRS as at January 1, 2010 was an increase of $6,122 ($6,387 - $265). The corresponding increase to the carrying amount of PP&A as at December 31, 2010, was $5,527 ($5,671 - $144).

- Adjustment to intangible assets

  Upon adopting IAS 21 the effects of changes in foreign exchange, the carrying amounts of intangible assets held in the Corporation's foreign operations in their functional currency of U.S. dollars were translated to the Corporation's functional currency of Canadian dollars at the closing exchange rate as of January 1, 2010. Under previous Canadian GAAP, intangible assets cost and accumulated amortization held in foreign operations was translated at historical exchange rates. As a result of these changes, the carrying amount of intangible assets was reduced by $15. As at December 31, 2010, the carrying costs of intangible assets under IFRS was reduced by $17.

- Adjustment to goodwill

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

  As at the date of transition, it was determined that goodwill allocated to one of the two CGU's was impaired and, accordingly, the carrying amount of goodwill was reduced by $5,307 to reflect the impairment loss. The same difference of $5,307 existed as at December 31, 2010.

- Adjustment to accrued benefit asset

  The Corporation has a defined benefits pension plan for certain of its employees in Ontario, Canada. Under IFRS 1, the Corporation elected not to recognize cumulative actuarial gains and losses up to the date of transition. It elected to reset the corridor to zero as at the date of transition. Gains and losses post-transition date are recognized using the corridor approach. As at the date of transition the carrying amount of the accrued benefit asset of $475 under previous Canadian GAAP reduced to $54 under IFRS. The effect of transition also creates a deferred tax liability. As at December 31, 2010, the accrued benefit asset under previous Canadian GAAP was $538 as compared to $130 under IFRS, a difference of $408.

- Adjustment to deferred tax asset and liability

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

  The adjustments to the change in carrying values of PP&E and accrued benefit asset as a result of transitioning to IFRS created temporary difference for tax. Accordingly, as at January 1, 1010, the deferred tax liability was adjusted by a net $1,573 under IFRS and attributed to the temporary differences, an adjustment of $1,681 to the deferred tax liability on the PP&E adjustment, and a $108 deferred tax asset change attributed to the accrued benefit asset adjustment. As at December 31, 1010, the deferred tax liability was adjusted by a net $1,131under IFRS attributed to the temporary differences, an adjustment of $1,545 to the deferred tax liability on the PP&E adjustment, and a $104 deferred tax asset change attributed to the accrued benefit asset adjustment. Also, as at December 31, 2010, the current deferred tax asset of $310 was reclassified to deferred income tax liability.

- Adjustment to opening retained earnings

  Upon transition to IFRS, the offset to the aggregate balance sheet adjustments in the amount of $1,195 was a reduction in retained earnings as at January 1, 2010 (December 31, 2010 - $1,691 reduction). A summary of the adjustments was as follows:

Balance sheet account	Nature of adjustment	As at January 1, 2010	As at December 31, 2010
PP&E	Change in accumulated depreciation	$ 6,387	$ 5,671
	Foreign exchange revaluation of net book value held in foreign operations	(265)	(144)
Intangible assets	Foreign exchange revaluation of net book value held in foreign operations	(15)	(17)
Goodwill	Impairment loss	(5,307)	(5,307)
Accrued benefit asset	Change in accrued benefit asset	(421)	(408)
Deferred tax liability	Temporary differences on PP&E adjustment	(1,682)	(1,545)
	Temporary differences on accrued benefit asset adjustment	108	104
	Foreign currency translation reserve	-	(45)
Retained earnings Change		**$ (1,195)**	**$ (1,691)**

26.3.2 Consolidated statement of comprehensive income as at December 31, 2010:

- Adjustment to sales and cost of sales

  Under previous Canadian GAAP, sales were reported net of freight expenses. Under IFRS, freight expenses are included in cost of sales. Freight expense in the year ended December 31, 2010 was $4,382, respectively. The effect of the reclassification increased both sales and cost of sales in the year by $4,382.

- Adjustment to cost of sales

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

  Accordingly, depreciation expense in the year ended December 31, 2010 was $440 higher than under previous Canadian GAAP.

- Adjustment to other gains and losses

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

  Under IFRS, all assets and liabilities held in the Corporation's foreign operations, with the exception of equity, are translated using the current exchange rate. Under IFRS, the outcome of translating the Corporation's foreign operations is all reported in other comprehensive income. Accordingly, the translation change effect in the year ended December 31, 2010, resulted in other gains and (losses) and other comprehensive income being $180 lower and $45 higher, respectively, under IFRS than under previous Canadian GAAP.

  Under IFRS, share-based payment expense has been reclassified from selling and administrative expenses to other gains and losses. The result of the reclassification in the year ended December 31, 2010 was a decrease to other gains and (losses) of $69, and a decrease to selling and administrative expenses of the same amount.

- Adjustment to income tax recovery

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

26.3.3 Consolidated statement of cash flows for the year ended December 31, 2010:

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

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Director

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Chief Operating Officer
PFB Corporation

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United Communities Inc.

Edward H. Kernaghan
Executive Vice President
Kernaghan Securities Ltd.

John K. Read
President
John K. Read Investments Ltd.

C. Alan Smith
President
Aeonian Capital Corporation

William H. Smith, Q.C.
Executive VP, Mosaic Capital Corporation;
Principal, William H. Smith Professional Corp.

Gordon G. Tallman
Corporate Director

OFFICERS

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Chairman, President and
Chief Executive Officer

Stephen P. Hardy
Vice President and
Chief Financial Officer

Bruce M. Carruthers
Chief Operating Officer

William H. Smith, Q.C.
Corporate Secretary

OPERATIONS

Plasti-Fab Ltd.
Delta, British Columbia
Calgary, Alberta
Crossfield, Alberta
Edmonton, Alberta
Saskatoon, Saskatchewan
Winnipeg, Manitoba
Kitchener, Ontario
Ajax, Ontario

Insulspan Division
Delta, British Columbia

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Precision Craft, LLC
Mountain Architects, LLC
PC Design Build, LLC
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www.insulspan.com
www.pfbsustainability.com
www.mtnarchitects-loghomes.com

SOCIAL MEDIA

Landing page for social media links:
www.pfbcorp.com/socialmedia

BANKERS

Royal Bank of Canada

TRANSFER AGENT AND REGISTRAR

Alliance Trust Company

AUDITORS

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