



## **2019 Annual Report**

## **PFB Corporation**

### **Letter to shareholders**

Operationally, the year 2019 was successful for PFB Corporation with record revenues, record earnings and record adjusted EBITDA. A complete review of operations is available in the Management's Discussion and Analysis and the Audited Consolidated Financial Statements. The board of directors recognizes the solid performance of management and employees in executing the successful operations during the year.

During the year the management team led by Robert Graham, CEO continued its evolution with the addition of David Carr who was assigned initial responsibility for the Plasti-Fab Division. Additionally, Kim Ball joined the Plasti-Fab Division and was assigned initial responsibility for oversight of all Plasti-Fab manufacturing operations.

Frank Baker did not stand for reelection as a director at the last annual meeting of shareholders leaving a vacancy for an independent director to be filled at the AGM to be held on May 7, 2020. We thank him for his contributions to the success of the Corporation since 2004 and wish him well in his retirement. Matthew Joss CFA has been nominated to become an independent director at the AGM and will join the Audit Committee.

Adherence to the principles of sustainable development and compliance with the Global Reporting Initiative since 2007 reflect our commitment, at the highest level of governance, to conduct our business operations in accordance with the ESG expectations of a modern world. Our core business focus is to manufacture products that reduce greenhouse gas emissions to the environment because our building insulation and insulating building products reduce energy consumption in buildings which account for 40% of energy consumption. We strive for industry leadership with our products and our corporate culture of sustainable operations that we report transparently on our [www.pfbsustainability.com](http://www.pfbsustainability.com) website. Strategically, it is our focus to annually increase revenues and funds flow from our operating activities, while maintaining strong balance sheet integrity and providing a reliable stream of dividends to our shareholders.

In 2019, quarterly dividends were increased to \$0.09 per share and in the fourth quarter a special dividend of \$1.00 per share was paid.

We continue to pursue expansion of our USA based operations and the focus is to expand our revenue base in the United States.

Thank you to all our customers, our employees and our investors for their past and continuing support.



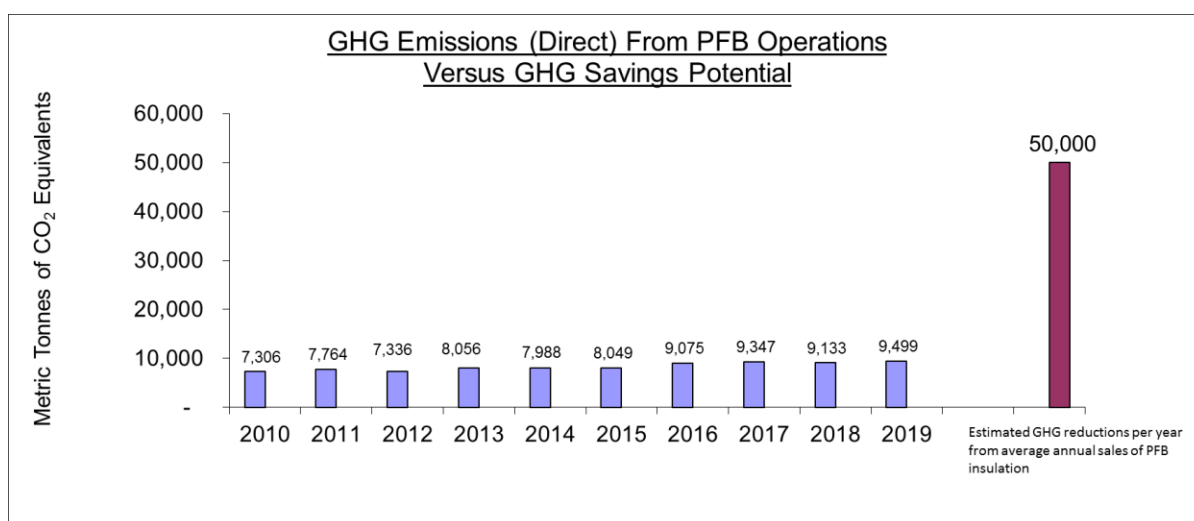
C. Alan Smith  
Executive Chairman

## PFB's Commitment to Sustainability

At PFB Corporation, we are concerned with 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. In 2019 PFB maintained focus on our Health and Safety performance of our operations by continuing with our safety initiatives and focusing on improving our safety culture.

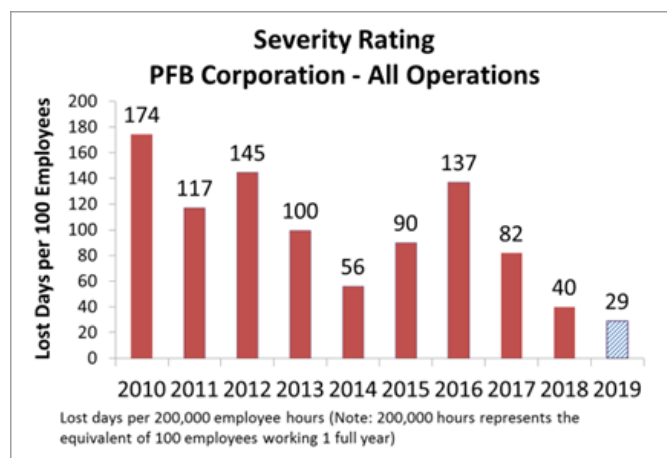
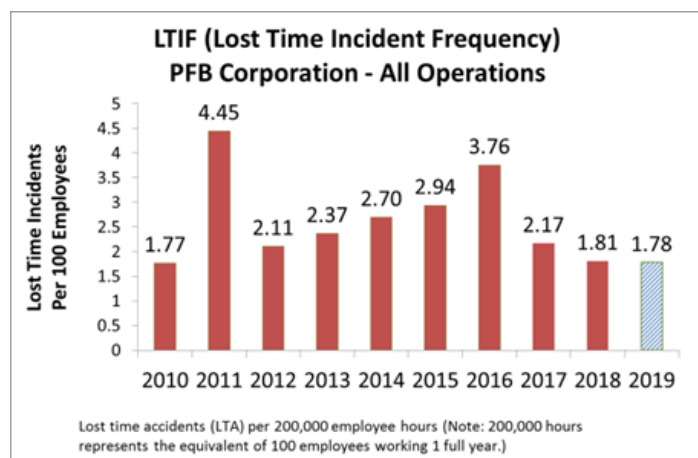
## Environmental Performance

PFB Corporation has taken a transparent approach and reports its performance metrics in the Annual Report. PFB measures and reports inputs including raw materials, energy and water and our outputs; GHG, VOC's and waste. In 2019 PFB launched an updated sustainability website with new interactive charts and a user friendly interface. More detailed information is available on our web site devoted to sustainability at the following address: [www.pfbsustainability.com](http://www.pfbsustainability.com). The following extracts are a brief summary of some of the key metrics that we use to track our performance.



## Health and Safety Performance

Occupational Health and Safety is of paramount importance at PFB Corporation. Starting in 2016, PFB Corporation introduced a new safety program called **Goal:Zero**. Over the past 3 years significant effort was made to implement safety initiatives in line with our **Goal:Zero** objectives targeting a reduction of our injury rates and severity. In 2019 our lost time rate remained the same as 2018 but our severity decreased for the 3 year in a row. Our objective is to establish a sustainable safety culture by encouraging all employees to be active in our safety program and take responsibility for their safety and the safety of others. PFB's call to action and challenge to all our employees continues to be **See It · Own It · Make It Safer**.



## **PFB Corporation**

### **Management's discussion and analysis for 2019**

#### **1. Advisory regarding forward-looking statements**

Securities laws encourage public issuers to disclose forward-looking information in their management's discussion and analysis (MD&A) so that investors can get a better understanding of 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 12, 2020, with respect to future events, and they are subject to certain risks, uncertainties and assumptions that may cause the actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements.

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

#### **2. 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, 2019 and 2018 should be read in conjunction with PFB's audited consolidated financial statements and related notes which is available on SEDAR at [www.sedar.com](http://www.sedar.com) and on PFB's website at [www.pfbcorp.com](http://www.pfbcorp.com). Additionally, PFB maintains a website at [www.pfbsustainability.com](http://www.pfbsustainability.com) that provides our measurement and reporting of sustainable development data in accordance with the Global Reporting Initiative.

The audited consolidated financial statements of PFB, for the years ended December 31, 2019 and 2018, have been prepared in accordance with International Financial Reporting Standards ("IFRS" or "GAAP") as issued by the International Accounting Standards Board ("IASB").

This MD&A was reviewed by the Audit Committee and approved by PFB's Board of Directors on March 12, 2020. Any events occurring after that date may affect the usefulness of the information contained in this document.

The currency presented in this MD&A is Canadian dollars (\$ thousands) unless otherwise stated.

#### **3. Business overview**

PFB Corporation is a Canadian publicly-traded company incorporated under the Alberta Business Corporations Act. PFB's corporate office is located at 300, 2891 Sunridge Way NE, Calgary, Alberta, Canada T1Y 7K7. The principal business activity of PFB is manufacturing insulating building products made from expanded polystyrene materials and marketing those products in North America. We report our results of operations under two segments; Canada and the United States of America ("USA").

Plasti-Fab Ltd., the Corporation's Canadian wholly-owned subsidiary, operates manufacturing and sales facilities in the provinces of British Columbia, Alberta, Saskatchewan, Manitoba, and Ontario in Canada. PFB America Corporation, the Corporation's wholly-owned subsidiary in the USA, operates manufacturing and sales facilities in the states of Nevada, Minnesota, Michigan, Ohio, and Idaho.

Our operations are vertically-integrated in that expandable polystyrene resin is manufactured at PFB's polymer plant located in Crossfield, Alberta, for use exclusively in our downstream expanded polystyrene ("EPS") manufacturing operations. Expandable polystyrene resin is also sourced from other suppliers to supplement internally produced raw materials. Plasti-Fab® EPS Product Solutions® supplies EPS foam cores used to manufacture Insulspan® SIPS (Structural Insulating Panel Systems). The PFB Custom Homes Group provides a complete design, supply and installation capability for Point Zero® Homes, Precision Craft Log & Timber Homes® and Riverbend® Timber Framing structures which are

typically sold with an accompanying Insulspan® SIPS enclosure package and Advantage ICF Systems® (Insulating Concrete Forming System) foundation. Complete design services are provided by M.T.N. DesignSM to compliment the product offering.

Plasti-Fab EPS Product Solutions are products manufactured using EPS as base raw materials, that are delivered to customers' in five market categories: 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 which, by incorporating concrete and steel, are employed to build insulated foundations and walls in both residential and commercial construction markets. Insulspan SIPS are used to create a building's structural wall frame and to replace trusses on roof systems to form an energy-efficient structural envelope.

## 4. Financial information

### 4.1 Financial highlights summary – quarterly

Years ended December 31, 2019 and 2018

\$ thousands, except per share amounts

	Applying IFRS 16							
	2019 Q4	2019 Q3	2019 Q2	2019 Q1	2018 Q4	2018 Q3	2018 Q2	2018 Q1
Sales	\$ 36,824	\$ 36,874	\$ 35,421	\$ 24,113	\$ 35,283	\$ 39,374	\$ 32,640	\$ 21,048
Gross profit	10,461	10,202	9,436	4,729	8,148	9,752	7,520	3,751
Gross profit margin % <sup>1</sup>	28.4	27.7	26.6	19.6	23.1	24.8	23.0	17.8
Operating income (loss)	5,237	4,940	4,255	(952)	3,109	4,789	2,481	(682)
Net income (loss)	3,695	3,442	3,061	(1,172)	2,077	3,263	1,536	(706)
Earnings (loss) per share:								
Basic	0.55	0.51	0.45	(0.17)	0.31	0.48	0.23	(0.10)
Diluted	0.54	0.50	0.44	(0.17)	0.31	0.48	0.23	(0.10)
Adjusted EBITDA <sup>1</sup>	6,363	6,080	5,410	185	4,289	5,965	3,666	522
Adjusted EBITDA per share <sup>1</sup>	\$ 0.95	\$ 0.90	\$ 0.80	\$ 0.03	\$ 0.64	\$ 0.89	\$ 0.55	\$ 0.08

<sup>1</sup> Non-IFRS financial measures do not have any standardized meaning prescribed by IFRS and are therefore unlikely to be comparable to similar measures presented by other issuers. Definitions of non-IFRS measures used in the above table along with relevant other notes are detailed in Section 20 of this MD&A.

PFB's operations exhibit seasonal variations concurrent with those that generally influence the construction industry, including variability in weather patterns. Typically, sales revenues are lowest in the first and fourth quarters and highest in the second and third quarters of the fiscal cycle.

## 4.2 Selected annual financial information for years ended December 31, 2019, 2018, and 2017

\$ thousands except where indicated	Applying IFRS 16		Excluding IFRS 16
	2019	2018	2017
<b>Operating results</b>			
Consolidated results:			
Sales	\$ 133,232	\$ 128,345	\$ 105,557
Gross profit	34,828	29,171	21,328
Operating income	13,480	9,697	3,518
Net income	9,026	6,170	2,281
Adjusted EBITDA <sup>1</sup>	18,038	14,441	7,693
Sales by operating segment:			
Canada	78,152	78,346	68,970
USA	55,080	49,999	36,587
Operating income by segment:			
Canada	7,831	5,009	1,746
USA	5,973	4,105	1,319
<b>Per common share data</b>			
Earnings per share:			
Basic	1.34	0.92	0.34
Diluted	1.31	0.92	0.34
Dividend paid per share – Regular	0.35	0.32	0.29
Dividend paid per share – Special	1.00	-	-
Adjusted EBITDA per share - Basic <sup>1</sup>	2.68	2.16	1.14
Book value <sup>1</sup>	8.32	8.34	7.57
<b>Financial condition</b>			
Total assets	92,703	94,622	78,771
Current assets	44,353	44,053	33,363
Current liabilities	19,264	19,511	14,522
Non-cash working capital <sup>1</sup>	7,033	8,211	6,913
Property, plant and equipment (net)	35,030	36,694	40,099
Right-of-use assets (net)	7,391	8,305	-
Intangible assets (net)	1,540	1,447	1,405
Goodwill	2,275	2,360	2,217
Lease obligations including current portion	9,846	10,609	3,232
Long-term debt including current portion	8,217	8,568	8,906
Other long-term liabilities	1,260	1,397	1,874
Shareholders' equity	55,644	56,009	50,825
<b>Financial ratios</b>			
Gross profit margin <sup>1</sup>	26.1%	22.7%	20.2%
Operating margin <sup>1</sup>	10.1%	7.6%	3.3%
Net income margin <sup>1</sup>	6.8%	4.8%	2.2%
Current ratio <sup>1</sup>	2.30x	2.26x	2.30x
Return on equity <sup>1</sup>	16.1%	12.3%	4.4%

<sup>1</sup> Non-IFRS financial measures do not have any standardized meaning prescribed by IFRS and are therefore unlikely to be comparable to similar measures presented by other issuers. Definitions of non-IFRS measures used in the above table along with relevant other notes are detailed in Section 20 of this MD&A.

## 5. Consolidated results of operations

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 statements.

### Sales

Consolidated sales in 2019 increased by 3.8% or \$4,887 to \$133,232 as compared to sales of \$128,345 in 2018. This was a record high of consolidated sales for the Corporation. Sales in the first and second quarters exhibited growth on a quarter-by-quarter comparative basis, declined slightly in the third quarter, before finishing with a record fourth quarter. Sales growth was driven by increased business activity in the USA operating segment across a broad range of product and service offerings. The Canadian segment sales remained similar to those reported in 2018, recording a very slight year over year decline.

### Gross profit

Consolidated gross profit in 2019 was \$34,828, an increase of 19.4% or \$5,657 as compared to gross profit of \$29,171 reported in 2018. The gross profit margin of 26.1% of sales in 2019 was higher than a gross profit margin of 22.7% of sales reported in 2018. The increase in gross profit margin in the current year was predominantly influenced by two factors; higher sales and lower material costs throughout the year. The increase in sales of \$4,887 contributed to higher gross profit. The cost of inventories recognized as an expense in cost of sales during the year was \$77,842, and contrasted with \$79,805 in the prior year, primarily due to decreased input costs of our principal raw material, styrene monomer, throughout the year. The combined effect of higher sales and lower cost of sales in the year resulted in strong margin performance.

### Selling expenses

Consolidated selling expenses increased to \$12,514 in 2019 from \$11,974 in 2018, an increase of \$540. The increases were mainly related to additional sales staff, commissions, and marketing initiatives intended to drive top line growth. Overall, selling expenses when expressed as a percentage of sales, were 9.4% in 2019 when compared to 9.3% in 2018 and remain in proportion to sales.

### Administrative expenses

Consolidated administrative expenses increased to \$7,742 in 2019 from expenses of \$7,348 reported in 2018, an increase of \$394. The increases were primarily a result of additional administrative staff, increased employee profit sharing and higher corporate office operating costs. Overall, administrative expenses when expressed as a percentage of sales, were 5.8% in 2019 when compared to 5.7% in 2018 and remain in proportion to overall sales.

### Other losses

Other losses in 2019 of \$1,092 versus losses of \$152 in 2018 were related to share-based compensation expenses of \$990 in 2019 versus \$44 in 2018. The recognition and measurement of an RSU award on January 1, 2019 in the amount of \$950 resulted in one-time share based compensation expense. Realized foreign currency losses of \$79 accounted for the majority of the remaining other losses, as over the last twelve months the value of the Canadian dollar versus the U.S. dollar has weakened overall.

A loss of \$11 was realized on the disposals of property, plant and equipment in the current year as compared to a small gain on disposals of \$58 in 2018.

### Investment income

Investment income reported in 2019 was \$119 versus \$67 in 2018. Investment income primarily consisted of \$96 (2018 - \$25) for interest earned on bank balances, and \$23 (2018 - \$23) of interest collected from customers on past due trade receivables.

### Finance costs

Finance costs decreased by \$118 from \$1,281 in the prior year to \$1,163 in the current year and are primarily related to a reduction of draws on the revolving credit facility and a reduction of interest expenses, whereas draws and repayments occurred more frequently in the prior year.

During 2019, operating line usage incurred \$1 in finance costs (2018 - \$77).

### Income before taxes

Income before taxes in 2019 was \$12,436 as compared to income before taxes of \$8,483 in 2018, an increase of \$3,953, and primarily attributable to higher gross margin from record sales and lower material costs during the year.



### Income taxes

Income tax expense in the current year was \$3,410 as compared to income tax expense of \$2,313 in 2018. The effective tax rate in 2019 was 27.4% (2018 – 27.3%) and is comparable to prior year. The current tax expense increased from \$2,027 in 2018 to \$3,661 in 2019 as a result of record sales and higher taxable income in Canada and the USA.

In 2019, the Government of Alberta enacted a reduction in the provincial corporate tax rate from 12 percent to eight percent over four years and as a result the deferred tax expense decreased by \$537 from an expense of \$286 in 2018 to a recovery of \$251 in 2019.

The current year effective tax rate approximates the full effect of the tax reductions, tax rates of subsidiaries operating in other jurisdictions and other adjustments that are reflected in the current and deferred income taxes.

### Net income and earnings per share

Consolidated net income in 2019 was \$9,026 as compared to consolidated net income of \$6,170 in 2018. Basic earnings per share of \$1.34 and diluted earnings per share of \$1.31 in 2019 compared to basic and diluted earnings per share of \$0.92 in 2018. Increased sales from higher volumes and lower raw material input costs contributed to higher net income and earnings per share in the current year.

The weighted average number of basic and diluted common shares outstanding in the current year was 6,720,859 (2018 – 6,716,003) and 6,907,535 (2018 – 6,732,470).

## 6. Reportable operating segments

The Corporation has two reportable operating segments:

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

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

Each operating segment mirrors the Corporation’s accounting policies (as described in Note 2 to the audited consolidated financial statements for the years ended December 31, 2019 and 2018) and its internal controls and reporting systems.

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

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



## 6.1 Segment sales revenues and operating income

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

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

Prior year segment information has been restated for the application of IFRS 16 – *Leases*, see Note 4 of the audited consolidated financial statements.

Information regarding each reportable operating segment for years ended December 31, 2019 and 2018 is set out below:

	Sales revenues		Operating income	
	2019	2018	2019	2018
Canada	\$ 78,152	\$ 78,346	\$ 7,831	\$ 5,009
USA	55,080	49,999	5,973	4,105
Total for segments	\$ 133,232	\$ 128,345	13,804	9,114
Corporate – (loss) income			(330)	585
Foreign exchange gain (loss) on inter-segment settlements			6	(2)
Consolidated operating income			\$ 13,480	\$ 9,697

### Canada

#### Sales

Sales reported by the Canadian operating segment decreased to \$78,152 in 2019 from \$78,346 in 2018, a slight decrease of \$194 or 0.2%. Canadian segment sales were softer in the second half of the year on a comparative basis. Sales growth of our core EPS insulating and building products were robust across most regions, with the exception of the oil-producing regions in Canada and were offset by lower sales of our structural insulated panel systems due to reduced residential construction sector activity.

In the fourth quarter of 2019, the Canadian segment sales decreased to \$18,140 compared to \$19,312 in the comparative quarter, a decrease of 6.1%. Canadian sales were weakest in the oil producing markets, reflective of challenging economic conditions. Sales of building systems' products decreased in the fourth quarter as compared to the fourth quarter of 2018.

#### Operating income

Operating income generated by the Canadian segment in the current year was \$7,831, an increase of \$2,822 or 56% from operating income of \$5,009 in 2018. Margins remained strong throughout the year as a result of significantly lower raw material input costs. Higher labour, overhead and freight costs throughout the year had a slightly unfavourable impact on margins.

### USA

#### Sales

Operations in the USA were strong throughout all operations for the year. Sales growth was largely driven by our Custom Homes Group project based business and supported by our core EPS insulation and building products. As reported in Canadian dollars, sales in the current year were \$55,080 versus sales of \$49,999 in 2018, an increase of \$5,081 over prior year or 10.2%. These figures are stated in Canadian dollars and a weaker Canadian dollar in 2019 created a favourable currency effect when USA segment sales transacted in U.S. dollars are converted into the reporting currency.

Eliminating the marginal effect of foreign exchange fluctuations, sales, expressed in USA dollars, were \$41,534 for the 2019 year or 8.3% higher than sales of \$38,366 in the comparative 2018 year.

In the fourth quarter of 2019, the USA segment sales showed strong growth with sales of \$18,684 compared with \$15,971 in the three month period of 2018, an increase of approximately 17.0%. These figures are stated in Canadian dollars and during the fourth quarter of 2019 and 2018, currency movements were comparable at \$1.32 per US \$1.00 in both periods. Sales, expressed in USA dollars, were \$14,154 in the fourth quarter or 17.2% higher than sales of \$12,080 in the comparative quarter. The primary sales growth in the fourth quarter was related to the sale and delivery of bundled products within the Custom Homes Group.

### Operating income

The USA segment generated operating income in the current year of \$5,973, compared to operating income of \$4,105 in 2018, an increase of \$1,868 on a year-over-year basis. Operating income increased due to lower raw material input costs and improvements in labour, overhead and freight expenses when expressed as a percent of sales.

## 6.2 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, 2019	As at Dec 31, 2018
<b>Assets</b>	Segment assets	\$ 49,198	\$ 53,156
	Assets not allocated to segments:		
	Cash and cash equivalents	20,129	16,944
	Restricted marketable securities	1,483	1,483
	Freehold land and buildings	21,567	22,750
	Corporate taxes <sup>1</sup>	326	289
	<b>Total assets</b>	<b>\$ 92,703</b>	<b>\$ 94,622</b>
<b>Liabilities</b>	Segment liabilities	\$ 18,996	\$ 19,436
	Liabilities not allocated to segments:		
	Lease obligations	9,846	10,609
	Long-term debt	8,217	8,568
	<b>Total liabilities</b>	<b>\$ 37,059</b>	<b>\$ 38,613</b>
<b>Net segment assets</b>	Canada	\$ 22,889	\$ 25,341
	USA	7,313	8,379

<sup>1</sup> Deferred taxes.

### 6.3 Other segment information

	2019	2018
<b>Additions to non-current assets:</b>		
Canada	\$ 1,172	\$ 795
USA	917	1,007
Corporate	113	31
Total	\$ 2,202	\$ 1,833
<b>Additions to right-of-use assets:</b>		
Canada	\$ 351	\$ 269
USA	126	28
Total	\$ 477	\$ 297
<b>Depreciation and amortization:</b>		
Canada	\$ 2,526	\$ 2,752
USA	973	919
Corporate	1,059	1,073
Total	\$ 4,558	\$ 4,744
<b>Inter-segment sales</b>	<b>\$ 8,202</b>	<b>\$ 7,052</b>

### 7. Results of operations - fourth quarters ended December 31, 2019 and 2018

\$ thousands except where indicated	2019	2018
Consolidated results:		
Sales	\$ 36,824	\$ 35,283
Gross profit	10,461	8,148
Operating income	5,237	3,109
Net income	3,695	2,077
Earnings per share:		
Basic	0.55	0.31
Diluted	0.54	0.31
Weighted average number of shares outstanding		
Basic	6,720,859	6,716,003
Diluted	6,907,535	6,732,470
Sales by operating segment:		
Canada	18,140	19,312
USA	18,684	15,971
Operating income by segment:		
Canada	1,339	954
USA	3,763	2,025

#### Sales

Consolidated sales in the fourth quarter of 2019 were \$36,824, an increase of \$1,541 or 4.4% as compared to sales of \$35,283 reported in the fourth quarter of 2018. All of the growth in fourth quarter sales came from the USA segment, which reported a 17.0% increase, compared with sales in Q4/18.

### Gross profit

Gross profit, expressed as a percentage of sales was 28.4% in the current year quarter, an increase from 23.1% in the fourth quarter of 2018. The higher gross profit in the fourth quarter of 2019 is reflective of the trend experienced throughout the year of significantly lower material costs. Improvements in labour, overhead and freight expenses also contributed to higher gross profit, when expressed as a percent of sales, compared to the prior year period.

### Operating income

Increased sales and better-quality margins factored into much improved operating income results in the current quarter versus Q4/18. Operating income was \$5,237 in the current quarter as compared to \$3,109 in Q4/18, a favourable variance of \$2,128, with the USA segment operating income contributing to the majority of the increase.

### Net income and earnings per share

Net income in the current quarter was \$3,695 as compared to a net income of \$2,077 in the comparative quarter of 2018, a favourable variance of \$1,618.

Basic and diluted earnings per share in the current quarter were \$0.54 and \$0.55, respectively as compared to \$0.31 and \$0.31, respectively, reported for the fourth quarter of 2018.

## 8. Liquidity and capital resources

### Sources of liquidity

PFB maintained a strong liquidity position, which increased from the beginning of the current year reflecting strong sales and an efficient cash conversion cycle from both operating segments. PFB ended 2019 with cash and cash equivalents of \$20,129, or a \$3,185 increase from the prior year. The net cash from operating activities increased by \$5,839 compared to the prior year. Future liquidity depends on PFB being able to sustain cash flows from operating activities in conjunction with the availability of bank credit facilities. The Corporation's credit facilities and long-term debt contain certain covenants, with which the Corporation was in compliance as at December 31, 2019 and 2018. PFB anticipates that future liquidity will be adequate to fund its ongoing business activities including anticipated changes in non-cash working capital, capital expenditures, payment of financial obligations, and payment of regular dividends over the next twelve months.

PFB's revolving credit facility in Canada and the USA were unused as at December 31, 2019.

### Cash and cash equivalents

Cash and cash equivalent balances as at December 31, 2019 and 2018 were as follows:

	December 31, 2019	December 31, 2018
Cash held with banks	\$ 18,629	\$ 13,744
Short-term investments	1,500	3,200
	<b>\$ 20,129</b>	<b>\$ 16,944</b>

As at December 31, 2019, PFB held net cash balances of \$20,129, an increase from the cash position as at December 31, 2018, which was \$16,944. A significant proportion of the cash on hand, resides in the USA segment.

### Cash - restricted

Restricted cash amounted to \$924, a decrease of \$423 from \$1,347 in 2018 as cash was applied towards contractual performance obligations. Restricted cash comprises cash collected from certain customers of the USA segment that is contractually segregated from other cash and not comingled, as it is held exclusively for disbursements to suppliers and service providers specific to those individual customer contracts.

PFB's cash and restricted cash balances typically fluctuate throughout the year in line with seasonality and contracts with customers for bundled construction contracts.

### Borrowings

During 2019, there were no additional borrowings of long-term debt. During 2017, the Corporation obtained long-term debt in a form of a mortgage in the amount of \$9,152 from a Canadian bank to fund the purchase of a real estate transaction. The terms of the debt are a fixed interest rate of 3.25% for a 5-year period, with a 20-year amortization.

The Corporation is subject to certain covenants on its outstanding long-term debt, one of which is a financial covenant to maintain a Debt Service Coverage Ratio of not less than 1.25:1. The Debt Service Coverage Ratio is defined as adjusted EBITDA for the current year, less dividends, divided by the sum of all principal and interest payments during the course of the year. The calculated Debt Service Coverage Ratio at December 31, 2019 and 2018 exceeded the minimum requirement of 1.25:1.

Total balance of current and non-current portions of long-term debt was \$8,217 as at December 31, 2019, which has decreased by \$351 for principal repayments.

### Bank credit facilities

#### Canada

In January 2019, the Corporation increased its credit facility arrangements from \$10,000 to \$17,000. The revolving facility continues to be secured by a first ranking security interest in trade receivables and inventories of the Canadian subsidiary. The Corporation provides a guarantee and postponement of claim to the bank in the amount of \$17,000.

The interest rate applicable on draws made against the facility is the Canadian bank's prime rate and the facility carries a nominal maintenance fee. The credit facility was not drawn as at December 31, 2019 and 2018.

#### USA

In December 2018, the Corporation's USA subsidiary renewed credit facility arrangements with a US bank for a variable rate revolving facility in the amount of \$1,250. The revolving facility is secured by all inventory and equipment of the USA subsidiary. The interest rate applicable on draws made against the facility is a variable rate based on an index plus 0.25%.

Under the facility, the USA subsidiary is subject to certain covenants, including financial covenants to maintain an Operating Cash Flow to Fixed Charge Coverage ratio of not less than 1.20:1 and to maintain a Total Debt to Tangible Net Worth Ratio of less than 3.00 to 1.00. The credit facility was not drawn as at December 31, 2019 and 2018.

### Change in non-cash working capital

The balance sheet changes in the principal components of non-cash working capital in 2019 and 2018 are highlighted in the following table.

	2019	2018	Change
Trade receivables	\$ 10,746	\$ 13,082	\$ (2,336)
Inventories	11,598	11,638	(40)
Prepaid expenses	469	374	95
Contract cost	487	475	12
Trade and other payables	(10,324)	(10,894)	570
Contract liabilities	(5,943)	(6,464)	521
	<b>\$ 7,033</b>	<b>\$ 8,211</b>	<b>\$ (1,178)</b>

In 2019, non-cash working capital decreased by an amount of \$1,178 to \$7,033 at the end of the current year from \$8,211 in 2018.

Trade receivables decreased on the balance sheet by \$2,336 in 2019 and reflective of decreased sales in the final month of the fourth quarter compared to Q4/18. The value of actual trade receivables written-off in the current year increased to \$46 from \$13 in 2018.

Inventory carrying costs at the end of 2019 decreased slightly from the prior year. The overall carrying cost of inventories at the end of 2019 was \$11,598 as compared to \$11,638 at the end of 2018, an increase of \$40. Raw materials and finished goods were at higher levels, while work-in-process decreased slightly, however are in line with seasonal activity.

Trade and other payables were \$570 lower at the end 2019 as compared to at the end of 2018, consistent with a general decrease in trading activities in the latter part of the fourth quarter.

Customer deposits collected, mainly in the USA segment, represent future contract liabilities to transfer goods or services to a customer for which consideration has been received and the Corporation remains obligated to perform. Contract liabilities decreased by \$521 in 2019 as a result of strong performance by the Custom Homes Group delivering on performance obligations in the fourth quarter.

## Summary of cash flows

A summary of cash flows for the years ended December 31, 2019 and 2018 are included in the following table:

	2019	2018
Net cash flows from (used in):		
Cash from operating activities, before income taxes	\$ 20,190	\$ 13,010
Income taxes paid, net	(2,653)	(1,312)
Net cash from operating activities	17,537	11,698
Net cash used in investing activities	(1,613)	(2,943)
Net cash used in financing activities	(12,038)	(4,794)
Effects of exchange rates on cash and cash equivalents, and restricted cash held in foreign currencies	(701)	803
Net increase in cash and cash equivalents	3,185	4,764
Cash and cash equivalents – beginning of the year	16,944	12,180
Cash and cash equivalents – end of the year	\$ 20,129	\$ 16,944

### (a) Operating activities

In 2019, cash from operating activities before income taxes paid, was \$20,190 as compared to \$13,010 in the comparative year, an increase of \$7,180. The year-over-year increase was primarily due to higher net income in the current year from record sales. Income taxes paid of \$2,653 in the current compared to \$1,312 in the prior year as a result of higher taxable income in the USA segment, resulting in net cash from operating activities of \$17,537 in 2019 compared to \$11,698 in 2018.

### (b) Investing activities

Net cash used in investing activities in 2019 was \$1,613 as compared to cash used in investing activities of \$2,943 in 2018, a decrease of \$1,330. Investing activities decreased primarily due to decreases in restricted cash resulting on the delivery of performance obligations in the Custom Homes Group.

In the current year, purchases of property plant and equipment (PP&E) were \$1,885 and purchases of intangible assets were \$317 compared to PP&E purchases of \$1,769 and intangible purchases of \$64 in 2018, an overall net change of \$369. PP&E expenditures were mainly directed at maintenance of business operations, while intangible expenditures were mainly directed at future optimization and efficiency of operations.

### (c) Financing activities

Cash used in financing activities in 2019 was \$12,038 as compared to \$4,794 in 2018, an increase of \$7,244.

Repayment of lease obligations in 2019, reflect the adoption of the lease accounting standard, for leased property of vehicles, trucks and trailers, office equipment, machinery and equipment, which amounted to \$1,157 as compared to lease repayments of \$1,025 in 2018. Comparative amounts for 2018 have been restated for the application of the new lease accounting standard. Finance costs reflect the adoption of the new lease standard, and prior comparative amounts have been restated. A decrease in finance costs from \$1,281 in 2018 to \$1,163 in 2019 reflect lower lease obligations related to property.

During 2019, the Corporation paid a regular quarterly dividend of \$0.08 per common share in February. The Corporation increased the dividend in the second quarter of 2019 and paid an increased regular quarterly dividend of \$0.09 per common share in May, August and November. Additionally, in the fourth quarter of 2019, PFB paid a one-time, special dividend of \$1.00 per common share which increased total dividends paid in 2019 to an aggregate amount of \$9,044 as compared to dividends paid in 2018 of \$2,150.

In 2019, PFB purchased shares for cancellation under a Normal Course Issuer Bid. In 2019, the purchased shares cost \$525 with respect to 50,000 common shares cancelled (see the normal course issuer bid section below for more details).

### Outstanding share data

The issued and outstanding number of common shares as at March 12, 2020 was 6,691,003.

### Capital structure and capital management

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

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

PFB's capital structure, net of cash and cash equivalents, as at December 31, 2019 and 2018, is as outlined in the following table:

	As at December 31, 2019	As at December 31, 2018
Long-term debt (excluding lease obligations)	\$ 8,217	\$ 8,568
Less: cash and cash equivalents	20,129	16,944
Net debt (surplus cash)	\$ (11,912)	\$ (8,376)
Shareholders' equity	\$ 55,656	\$ 56,009
Net borrowings to equity ratio	N/A %	N/A %

PFB considers the amount of capital it requires in proportion to the associated risks. Adjustments may be made to PFB'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 change, including: adjusting the amount of dividends paid to shareholders; purchasing shares for cancellation (under Normal Course Issuer Bids); issuing new shares; and increasing or repaying debt financing.

PFB 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.

### Share-based options

PFB granted 100,000 share options in the year ended December 31, 2019. In the year ended December 31, 2018, PFB granted 400,000 share options, of which 25,000 were exercised in Q2/19.

### Restricted share units

PFB granted 100,000 restricted share units on January 1, 2019. Each restricted share unit is entitled to dividend equivalent payments to be paid at the time regular and special dividends are paid. Dividend equivalent payments paid in 2019 amounted to \$135.

### Share capital

The Corporation has one class of publicly traded voting common shares. A summary of the Corporation's share capital position as at December 31, 2019 and 2018, is set forth in the following table:

	December 31, 2019		December 31, 2018	
	No. of Shares	Amount	No. of Shares	Amount
Balance, beginning of the year	6,716,003	\$ 20,947	6,716,003	\$ 20,947
Exercise of stock options	25,000	222	-	-
Repurchased pursuant to normal course issuer bid	(50,000)	(157)	-	-
Balance, end of the year	6,691,003	\$ 21,012	6,716,003	\$ 20,947



## Dividends

During 2019, The Board of Directors increased the quarterly dividend per common share to \$0.09. The Board of Directors declared a regular quarterly dividend of \$0.08 per common share in February, and \$0.09 per common share in May, August and November of 2019.

PFB declared a one-time, special dividend of \$1.00 per common share which was paid in November of 2019. Aggregate dividends paid in the year ended December 31, 2019, amounted to \$9,044 (2018 - \$2,150).

Dividends paid by PFB 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 August 2019, the Corporation obtained approval from the Toronto Stock Exchange to renew its Normal Course Issuer Bid (the “Bid”) program for a twelve month period, which commenced on September 3, 2019 and ends no later than September 2, 2020. The renewal allows the Corporation to purchase up to a maximum of 50,000 of its common shares, representing 0.74% of the Corporation’s 6,741,003 issued and outstanding common shares as at August 29, 2019, subject to daily maximum purchases of 1,000 common shares and other normal terms and limitations of such bids. 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.

During 2019, the Corporation purchased for cancellation 50,000 of its common shares for an aggregate price of \$525, of which \$368 was charged to retained earnings as a premium on redemption of the common shares. In the comparative year 2018, the Corporation did not purchase any of its common shares.

## Comprehensive income

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

On January 1, 2018, the Corporation adopted IFRS 9 and adopted an irrevocable election to account for changes in the fair value of the marketable securities – restricted, through other comprehensive income, until derecognition through the completion of the plan of arrangement or the release of the trust units held in escrow.

A summary of comprehensive income for the three and twelve month periods ended December 31, 2019 and 2018 is as follows:

	Three month periods ended December 31		Twelve month periods ended December 31	
	2019	2018	2019	2018
Net income for the period	\$ 3,695	\$ 2,077	\$ 9,026	\$ 6,170
Other comprehensive (loss) income	(339)	989	(1,014)	1,704
Comprehensive income for the period	\$ 3,356	\$ 3,066	\$ 8,012	\$ 7,874

In the fourth quarter of 2019, comprehensive income was \$3,356 as compared to a comprehensive income of \$3,066 in the comparative quarter of 2018. Other comprehensive loss of \$339 (Q4/18 – income of \$989) in the current quarter consisted of losses of \$505 (Q4/18 – income of \$1,127) attributed to foreign currency translation when consolidating PFB’s USA operations and a gain of \$166 (Q4/18 – loss of \$138) from pension plan valuation changes.

Included in accumulated comprehensive income at December 31, 2019, were foreign currency translation adjustments totalling \$1,180, and \$166 of defined benefit valuation changes, net of tax, for total accumulated other comprehensive loss of \$1,014. The foreign currency translation adjustments throughout 2019, reflect a slightly weakened Canadian dollar throughout 2019 when retranslating USA segment from US dollars into Canadian dollars, resulting in the currency translation adjustment of \$1,180. The \$166 gain in pension plan valuation changes in December 31, 2019 from a loss of \$138 at December 31, 2018, reflects re-measurements of the net defined benefit liability through accumulated other comprehensive income, effected for tax.

## 9. Contractual obligations and commitments

In the normal course of business, PFB is obligated to make future contractual payments. As at December 31, 2019, PFB's contractual obligations and commitments are as outlined in the following table:

<b>Contractual obligations</b> <sup>1</sup> (Payment due periods)	<b>Total</b>	<b>Within 1 year</b>	<b>2-3 years</b>	<b>4-5 years</b>	<b>Over 5 years</b>
Long-term debt (principal & interest)	\$ 10,746	\$ 623	\$ 1,246	\$ 1,246	\$ 7,631
Lease obligations	16,672	2,024	3,599	3,084	7,965
Commitments for PP&E and intangible assets	1,086	1,086	-	-	-
Other long-term obligations	999	218	436	345	-
Fixed-price utility contracts	1,505	355	710	440	-
<b>Total contractual obligations</b>	<b>\$ 31,008</b>	<b>\$ 4,306</b>	<b>\$ 5,991</b>	<b>\$ 5,115</b>	<b>\$ 15,596</b>

<sup>1</sup> Long-term debt and lease obligations in the above table represent the aggregate outstanding principal amounts and related finance costs.

Long-term debt obligations are a result of significant one-time events in 2017 and represent a mortgage on the purchase of certain leased assets in 2017. Lease obligations have increased as a result of new lease accounting standards with respect to finance obligations for property (land, office space, manufacturing and storage facilities), vehicles, truck and trailers office equipment, machinery and equipment.

From time-to-time, under the terms of certain sales contracts, PFB's subsidiaries may be required to provide performance bonds as security. Performance bonds are considered normal practice for suppliers and contractors participating in larger construction projects, usually of a public nature. In the USA, government agencies in certain states have requirements for bonds to be posted when certain types of licensing applications are made in those states. As at December 31, 2019, the USA, performance bonds in the amount of \$620 (2018 - \$651) were pledged to various government agencies.

## 10. Financial instruments and financial risks

### Fair value of financial instruments

PFB's financial assets and liabilities that are recorded at fair value on a recurring basis have been classified into one of three categories based upon the following fair value hierarchy:

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

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

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

A summary of the categories and fair values of financial instruments held by PFB as at December 31, 2019 and 2018, are stated in the following table. The carrying costs of each financial instrument for each year in the consolidated balance sheets are equal to their fair values.

<b>Financial instrument</b>	<b>Category</b>	<b>Measurement</b>	<b>Hierarchy</b>	<b>2019 Fair Value</b>	<b>2018 Fair Value</b>
Cash and cash equivalents	Assets at amortized cost	Amortized cost	Level 1	\$ 20,129	\$ 16,944
Cash - restricted	Assets at amortized cost	Amortized cost	Level 1	924	1,347
Restricted marketable securities	FVOCI	Fair value	Level 2	1,483	1,483
Trade receivables	Assets at amortized cost	Amortized cost	N/A	10,746	13,082
Trade and other payables	Financial liabilities at amortized cost	Amortized cost	N/A	(10,324)	(10,894)
Long-term debt	Financial liabilities at amortized cost	Amortized cost	Level 2	(8,217)	(8,568)

## **Credit risk**

Credit risk is defined as the risk that PFB's counterparties in a transaction fail to meet or discharge their obligation to PFB.

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

The Corporation's subsidiaries provide trade credit to their customers in the normal course of business and PFB's credit policy is universally adopted across all its 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 PFB's customer base and product offering combine to minimize overall exposures to credit risks.

Customers ordering highly-customized manufactured products are required to make advance payments at various predefined stages of a sales contract. All payments received in advance of invoicing are reported as contract liabilities 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 trade receivables 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 trade receivables reserve are expensed or credited, as applicable, to selling expenses in the consolidated statement of income.

PFB believes that credit risk associated with its trade receivables is limited for the following reasons:

- Trade receivables balances are spread amongst a broad customer base which is dispersed across a wide geographic range;
- The aging profile of trade receivables balances are systematically monitored by management;
- Larger customers are offered a discount off invoice for prompt payment which is strictly enforced; and
- Payments for highly-customized orders are received in advance of products being shipped.

Potential credit risk associated with contractual holdback amounts pertaining to certain large projects is considered to be low as the customers involved are required to provide bonding to the owners of the projects. The credit risk on cash balances is limited because the counterparties are large commercial banks in Canada and the United States.

Payments of interest collected from customers on past due trade receivables balances is included as part of investment income in the consolidated statement of income.

## **Foreign currency risk**

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

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

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. The Corporation did not hold any foreign exchange contracts as at December 31, 2019.

Historically, the Corporation has mainly financed its USA operations from internal resources with demand loans denominated in Canadian dollars on which the USA operations is exposed to currency risk. As the exchange rate between the Canadian and U.S. dollars fluctuated, unrealized gains and losses arising on the loans were recorded in the consolidated statement of income in accordance with IFRS. Foreign exchange gain or losses on inter-segment settlements represent transactions between the Canadian and USA segment are settled on a monthly basis and involve foreign currency risk.

### Interest rate risk

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

The Corporation's interest rate risk is mitigated with a fixed rate of interest at 3.25% on its long-term debt until renewal in March 2022. 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, 2019, the Corporation's Canadian subsidiary had access to a revolving credit facility with a Canadian bank. The revolving credit facility has a limit of \$17,000 based on marginable trade receivables and inventories and the revolving credit facility was unused. The Corporation's USA subsidiary had access to a revolving credit facility with a US bank. The revolving credit facility has a limit of \$1,250, based on all inventory and equipment. The revolving credit facility was unused at December 31, 2019.

### Liquidity risk

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

The Corporation's liquidity risk is that it is not able to settle 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 by 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.

## 11. Off-balance sheet arrangements

The Corporation does not believe it has any off balance sheet arrangements that have, or are reasonably likely to have, a current or future material effect on its financial condition, results of operations, or liquidity, other than those disclosed in the balance sheet as the available portion of credit facilities.

## 12. Related party transactions

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

Balances and transactions between the Corporation and its subsidiaries, which are related parties of the Corporation, have been eliminated on consolidation.

In the years ended December 2019 and 2018, the Corporation had the following transactions with related parties:

Related party	Nature of transactions	2019	2018
E. Carruthers Trucking	Transportation services	\$ 2,168	\$ 2,163
Aeonian Capital Corporation	Management services	350	350
		\$ 2,518	\$ 2,513

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

Related party	Nature of transactions	2019	2018
E. Carruthers Trucking	Transportation services	\$ 75	\$ 81

Aeonian Capital Corporation (“Aeonian”), and its affiliates, owned 2,972,168 (2018 - 2,991,168) common shares of the Corporation representing 44.4% (2018 – 44.5%) of the 6,691,003 issued and outstanding shares as at December 31, 2019. Aeonian is controlled by C. Alan Smith, President and Chairman of PFB. The Corporation is charged fees by Aeonian for management services including those provided by Mr. Smith. The fees are reported under administrative expenses in the consolidated statement of income.

E. Carruthers Trucking is owned by a sibling of a member of the Board of PFB. The transactions have occurred in the normal course of operations at arm’s length and are based on standard commercial terms.

### 13. Subsequent events

#### Declaration of regular quarterly dividend

On February 3, 2020, the Board of Directors declared a regular quarterly dividend of \$0.09 per common share, which was paid on February 28, 2020, to shareholders of record at the close of business on February 14, 2020.

### 14. Outlook

Strong performance in the fourth quarter of 2019 by the Corporation generated record Q4/19 sales, strong margin performance and record adjusted EBITDA. USA segment sales were aligned with our strategic initiatives intended to increase USA segment sales as a proportion of total consolidated sales. Canadian segments sales were softer than expected, however margin performance significantly improved on a year-over-year basis.

As a result, the Corporation experienced record consolidated sales of \$133,232 in 2019 as compared to \$128,345 in 2018, recording year over year sales growth in three out of four quarters during the year. In 2019, overall sales were led by the USA segment while the Canadian segment maintained similar sales levels to those experienced in 2018. Sales growth and activity were very strong in our Custom Homes Group and in our core EPS insulation and building product sales. Sales in our Structural Insulated Panel systems were softer due to residential construction sector headwinds in Canada. Management is focused on sustaining current performance and continuing to grow the business into 2020, in line with our strategic initiatives intended to drive top line growth.

The Corporation set a record adjusted EBITDA of \$6,363 in Q4/19 and a record adjusted EBITDA of \$18,038 in 2019 as compared to 2018 adjusted EBITDA of \$14,441, a 24.9% year over year increase. Favourably consistent raw material input costs along with stable product pricing and stable operating efficiencies resulted in gross margins of 26.1% for 2019 as compared to 22.7% for 2018, an increase of 3.4% of sales. Uncertainty related to styrene monomer, our principal raw material input, as a result of continued trade and tariff disputes between the United States and China persist, however the impact has contributed to lower and more stable pricing.

The longer-term devaluation of the Canadian dollar against the U.S. dollar limits the ability of competitors to import their products into Canada and increases the USA segment sales when expressed in Canadian dollars. The majority of our raw materials are priced and purchased in U.S. dollars and a weaker Canadian dollar results in an increase in the cost of sales. Continued volatility of the Canadian dollar is possible based on geo-political environments and ongoing global trade and tariff disputes.

The influence of lower world crude oil prices on the economies of North America continues to be a positive macro driver of the outlook for the Corporation. In general, although the oil effect can impact regions within North America differently, the Corporation continues to perform well in both Canada and the USA.

The Corporation continues to experience sustained demand for EPS product lines in both Canada and the USA operating segments. Infrastructure activity in Canada and the USA continue to present good opportunities for growth, however can distort quarter comparative sales based on project timing. Generally speaking, the Canadian economy remains stable and there continues to be sustained demand for our nationally branded insulation and building products across the country. The United States expansion continues to be a strategic objective and we remain optimistic as increased interest in our branded products that are manufactured in the USA continue to gain traction with customers. The Corporation continues to search for suitable acquisitions to expand our strategic footprint with focus on USA initiatives.

Although the USA and Canadian residential construction sectors slowed in 2019, the commercial construction sectors remained active which had an offsetting effect. Residential construction is showing signs of improving into 2020. The Corporation remains cautiously optimistic for the first quarter of 2020 as order books are building toward spring and summer construction seasons, with the caveat that the potential effects of the unfolding coronavirus are unknown.

## 15. Disclosure controls and procedures (DC&P)

DC&P are designed to provide reasonable assurance that all relevant information is gathered and reported to management, including, the Chief Executive Officer (CEO) and the Chief Financial Officer (CFO) on a timely basis so that appropriate decisions can be made regarding public disclosures.

An evaluation of our DC&P was conducted, as at December 31, 2019, by management under the supervision of the CEO and the CFO. Based on this evaluation, the CEO and the CFO have concluded that, as at December 31, 2019, our DC&P, as defined in National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings (NI 52-109), was effective.

Notwithstanding the foregoing, no absolute assurances can be made that 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.

## 16. Internal controls over financial reporting

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

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

As at December 31, 2019, the CEO and CFO, assessed the effectiveness of the Corporation's internal controls over financial reporting and concluded that it was effective and that no material weaknesses in the Corporation's internal controls over financial reporting has been identified.

## 17. 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 general and specific risks do not include all possible risks, as there may be other risks existing of which the Corporation is currently unaware.

### 17.1 Raw material price and supply

The price of raw materials, specifically, styrene monomer, expandable polystyrene resin, polypropylene copolymers, oriented strand board, and raw timbers combined represent a significant portion of manufacturing costs in PFB's businesses. Historically, there have been considerable cyclical and other causes of volatility in the price of these materials which is outside the control of PFB. There are no futures markets for these materials available to PFB, which limits the ability to lock in prices for fixed periods of time.

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 certain 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 also due to an inability to match costs to selling prices.

Management continues to explore opportunities to minimize the impact that price swings in purchasing raw materials has on PFB's earnings. The changing dynamics in the petrochemical industry, primarily driven by world oil prices, refining capacity, petrochemical manufacturing capacity, reliability of transportation infrastructure 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.

### **17.2 Economic and market conditions**

PFB's business is affected by fluctuating economic conditions, consumer confidence and spending, and both the demand for and prices of its EPS products and insulating building systems in those geographical areas in which it operates. Volatile economic conditions generally including but not limited to factors affecting the construction industry (residential and commercial) such as; the impact of changing mortgage rates and other interest rates may translate into lower demand for PFB's products. Such effects may also adversely affect the financial condition and credit risk of PFB's customers, including their ability to obtain credit to finance their businesses, which could create uncertainty over the collectability of trade receivables.

### **17.3 International Trade**

PFB exports some of its products to customers outside Canada and the USA and imports some of its raw materials so that some inputs are affected by global commodity prices. PFB's operations are subject to inherent risks, including: changes in the free flow of goods between countries; fluctuations in currency values; discriminatory fiscal policies; unexpected changes in local regulations and laws; and the uncertainty of enforcement of remedies in foreign jurisdictions. In addition, trade agreements between Canada, the United States and foreign jurisdictions could change with unpredictable results and foreign jurisdictions could impose tariffs, quotas, trade barriers, and other similar restrictions on the PFB's international sales. Seemingly unrelated events such as pandemics or regional health concerns can interrupt the supply of goods and materials or reduce demand for goods. All of these risks could result in increased costs, decreased revenues, increased competition, reduced demand or supply chain disruptions any of which could have a material adverse effect on the Company's financial condition and results of operations.

### **17.4 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 into the markets we serve, along with manufacturers of substitute competitive 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 grow revenues, manage expenses and increase productivity. This requires anticipating and responding quickly to the constant changes in its businesses and markets.

### **17.5 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.

### **17.6 Acquisitions**

PFB's growth strategy includes making strategic acquisitions when possible. There is no assurance that PFB will find suitable businesses or assets 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

### **17.7 Financing and liquidity**

In developing business operations to their full potential, significant capital and operating expenditures may be required on an ongoing basis. PFB has historically generated sufficient cash flow from its operations to fund its capital expenditure requirements, repay financing obligations, 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 financing. PFB's cash position and existing credit facilities are considered adequate to meet its current and medium-term needs. There is no guarantee that financing for future expansion of PFB's operations will be available on acceptable terms, if required.

### **17.8 Reputation**

Negative publicity regarding PFB's business practices and products, regardless of whether true or false, could adversely affect PFB's reputation which could affect its operations, customers, and share value. PFB manages reputational 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. PFB's board of directors and its board committees have been formed to competently perform the role of overseeing the appropriate management of PFB's affairs with the objective of maximizing the long-term value of PFB. A detailed summary outlining PFB's corporate governance practices can be found in the most recent Management Information Circular.

### **17.9 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 trade 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.

### **17.10 Environmental considerations**

Environmental issues are gaining in importance globally including PFB's stakeholders and customers. PFB is committed to responsibly managing the direct and indirect impact it has on the environment, including in its manufacturing processes, disposal and reuse of waste, transportation of products and raw materials. The insulating properties of PFB's products contribute to reducing energy use and reduce greenhouse gas emissions. PFB believes that it is in substantial compliance with applicable environmental laws in jurisdictions where it has operations. PFB takes custody of hazardous materials when the goods physically arrive at its facilities.

### **17.11 Information technology**

PFB relies on information technology in conducting its businesses. This involves web-based connections, access to secure, centrally located servers and databases, and maintaining existing applications and implementing new applications. The security and safeguarding of information technology assets and protocols will continue to be increasingly important to PFB. PFB manages 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 offsite location, and hiring and training specialist employees with respect to the protection and use of I.T. assets and related intellectual property. Failure in the completeness, accuracy, availability or security of PFB's information systems or a breach of data security could adversely affect its operations and financial results. Correspondingly, computer viruses, cyber-attacks, security breaches, unforeseen natural disasters and related events or disruptions could result in information systems failures that may adversely affect PFB's operations and financial results.

### **17.12 Cyber Security**

PFB relies on information technology and information systems in all area of operations. These systems are subject to an increasing number of sophisticated cyber threats. The methods used to obtain unauthorized access, disable or degrade service or sabotage systems are constantly evolving. A successful incursion or cyber-attack may result in a breach of sensitive information or systems being disrupted, possibly negatively affecting PFB's financial position, brand and/or its ability to achieve strategic objectives.

### **17.13 Seasonality and climatic factors affecting the construction industry**

Due to the seasonal nature of the construction industry, PFB's sales exhibit variations when viewed on a quarter-by-quarter basis. Typically, sales are weakest in the first and fourth quarters of the year and strongest in the second or third quarters. Sales in any quarter can be significantly influenced by weather patterns, particularly the timing of when winter begins and ends and its severity.

### **17.14 Plant and facilities**

PFB 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, interferences with access or egress, or other events, could have a material impact on PFB and its business operations.

#### **17.15 Employee future benefits**

A defined benefit 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 accounting valuation of the Plan calculated in accordance with IAS 19 was completed as at December 31, 2019, and it identified that the Plan had a net asset arising from a defined benefit asset of \$304 when compared to defined benefit asset of \$10 at the end of the 2018 comparative year. Throughout 2019 and 2018, PFB made both normal service and special payment contributions to the Plan. 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.

PFB operates group 401K plans for all qualifying employees located in Minnesota, Michigan, Nevada, Ohio and Idaho, USA, in which qualifying employees may elect to defer current wages for retirement. PFB has the option to match employee contributions to the plans. The assets of the plan are held separately from those of PFB by a trust company that is governed by a custodial agreement (ERISA). PFB also utilizes the services of registered investment brokers and third party administrators in the fulfilment of its actuarial and fiduciary responsibilities with respect to the plans.

#### **17.16 Human resources**

PFB’s success depends on the abilities, experience, engagement, and succession of its management teams. The loss of key employees through either attrition or retirement could adversely impact the Company’s future business and financial results. PFB attempts to mitigate these risks by offering competitive compensation and benefits packages, training, succession planning, and providing a positive and diverse cultural environment.

#### **17.17 Off-Balance Sheet Arrangements and Operating Leases**

PFB does not believe it has any off balance sheet arrangements that have, or are reasonably likely to have, a current or future material effect on its financial condition, results of operations, or liquidity, other than those disclosed in the balance sheet as the available portion of credit facilities.

#### **17.18 Internal and Disclosure Controls**

Ineffective internal controls over financial reporting or inadequate disclosure controls could result in an increased risk of a material misstatement in financial reporting and public disclosures. In accordance with guidelines adopted for publicly-traded companies in Canada, PFB assesses the effectiveness of its internal and disclosure controls using a top-down, risk-based approach in which both qualitative and quantitative measures are considered. An internal control system, no matter how well conceived and operated, can provide only reasonable, but not absolute, assurance to management and the Board of Directors regarding the achievement of results. PFB’s current systems of internal and disclosure controls places reliance on key personnel across the Company to perform a variety of control functions which include performing reviews, analysis, reconciliations and monitoring. The undetected failure of individuals performing such functions or implementing controls as designed could adversely impact PFB’s financial results.

#### **17.19 Volatility of Market Share Price**

The market price of PFB’s common shares may be volatile and could be subject to fluctuations in response to quarterly variations in financial results, general market conditions and other unpredictable events or factors. Consequently, broad market fluctuations or the failure of PFB’s financial results to meet expectations in a particular reporting period may adversely affect the market price of its common shares.

### **18. Critical accounting judgements and estimates**

In the application of the Corporation’s accounting policies, as described in Note 2 to the consolidated financial statements for the years ended December 31, 2019 and 2018, management is required to make judgments, 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 these 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.

### **18.1 Revenue Recognition**

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

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

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

### **18.2 Remaining performance obligations**

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

### **18.3 Cash-generating unit (“CGU”)**

Determination of which assets constitutes a CGU is subject to management judgements. Also, the asset composition of a CGU can directly impact the recoverability of assets included therein. The recoverable amount of a CGU is assessed at the CGU level and is the higher of the CGU’s fair value less costs of disposal and its value in use. A CGU may be impaired when its carrying amount exceeds its recoverable amount. Key assumptions used for the value in use calculations are set out in Note 17 of the audited consolidated financial statements for the year ended December 31, 2019.

### **18.4 Impairment of goodwill**

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating unit(s) 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.

In the years ended December 31, 2019 and 2018, no impairment of goodwill was recognized. Notwithstanding, reasonable changes in one or more of the variable assumptions or the discount rate used to estimate the present value of future cash flows could have a bearing on the valuation outcomes and conclusions.

### **18.5 Impairment of tangible and intangible assets**

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

In the years ended December 31, 2019 and 2018, no impairment of tangible and intangible assets was recognized. Notwithstanding, reasonable changes in one or more of the variable assumptions or the discount rate used to estimate the present value of future cash flows could have a bearing on the valuation outcomes and conclusions.

## **18.6 Valuation of inventories**

Management reviews the carrying amount of finished goods inventories at the end of each reporting year 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.

## **18.7 Allowance for doubtful accounts**

Amounts included in allowance for doubtful accounts reflect the lifetime expected credit losses for trade receivables. Management determines allowances based on best estimates of future expected credit losses, considering historical credit loss experience, current economic conditions, and forecasts of future economic conditions. Significant or unanticipated changes in economic conditions could impact the magnitude of future expected credit losses. 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.

## **18.8 Income taxes**

The Corporation is subject to income taxes in both Canada and the USA. When preparing current and future tax expense at the end of each reporting year, 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 year to the next and thereby affect the consolidated financial statements.

## **18.9 Measurement of retirement benefits**

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.

## **18.10 Property, plant and equipment**

The Corporation estimates the useful life of property plant and equipment that it owns or is held under a 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 as closely aligned.

## **18.11 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. Fair value of assets acquired and liabilities assumed in a business combination is estimated based on information available at the date of acquisition and involves considerable judgment in determining the fair values assigned to acquired intangible assets, land, property, plant and equipment, and other assets, and the liabilities assumed on acquisition. Unknown future events and changes in assumptions and estimates may impact future cash flows and materially impact the valuation of each business combination.

## **18.12 Share-based payment arrangements**

The compensation costs relating to share-based payment arrangements are based on estimates of how many common shares will actually vest and be exercised.

## **18.13 Leases**

IFRS 16 - *Leases*, requires management to make judgements and estimates in order to determine the value of the right-of-use assets and the lease liabilities. Judgements may relate to the identification of a lease in a contract and the determination of the lease term and whether an extension or termination option in a lease will be exercised.

Estimates may relate to the lease term, separation of lease and non-lease components and the determination of the appropriate discount rates.

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

Effective January 1, 2019 the Corporation adopted new IFRS standard – IFRS 16 - *Leases*, using the retrospective approach by restatement of each prior reporting period presented in accordance with IAS 8 - *Accounting Policies, Changes in Accounting Estimates and Errors*. The effect of adoption of the new standard is outlined in more detail in Note 4 of the audited consolidated financial statements as at December 31, 2019, which also discloses the restated comparative financial statements for the impacts of adopting new accounting standard as at January 1, 2018 and for the year ended December 31, 2018.

## 20. Non-IFRS Financial Measures

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

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

The definitions of non-IFRS measurements used in this MD&A can be found in the section below:

Measure	Definition
Adjusted EBITDA	Represents earnings before interest, taxes, depreciation and amortization. Adjusted EBITDA is an absolute measure of our operating performance and provides an indication of the results generated by our business activities prior to how the activities are financed, how assets are depreciated and amortized, or how results are taxed.
Adjusted EBITDA per share	Adjusted EBITDA divided by the basic weighted average number of shares outstanding in the period.
Non-cash working capital	A financial measure to monitor how much capital we have committed to the day-to-day operations of our business. Non-cash working capital represents current assets (excluding cash or cash equivalents, restricted cash and income taxes recoverable) less current liabilities (excluding income taxes payable, current portions of lease obligations and current portion of long-term debt).
Book value	Shareholders' equity divided by the actual number of common shares outstanding as at December 31 each year.
Gross profit margin	Gross profit divided by sales, expressed as a percentage.
Operating margin	Gross profit less selling expenses, administrative expenses and other gains (losses) divided by sales.
Net income margin	Net income divided by sales.
Current ratio	Current assets divided by current liabilities.
Return on equity	A financial measure used to assist in analyzing shareholder value. Net income for the year divided by opening shareholders' equity.

The following table shows the reconciliation of net income to adjusted EBITDA and related per share amounts for the years ended December 31:

	Applying IFRS 16		Excluding IFRS 16
	2019	2018	2017
Net income	\$ 9,026	\$ 6,170	\$ 2,281
Add back (deduct):			
Income taxes	3,410	2,313	794
Finance costs	1,163	1,281	832
Investment income	(119)	(67)	(114)
Depreciation	4,400	4,612	3,768
Amortization	158	132	132
Adjusted EBITDA	\$ 18,038	\$ 14,441	\$ 7,693
Adjusted EBITDA per share	\$ 2.68	\$ 2.15	\$ 1.14

The following table shows the reconciliation of quarterly net income to quarterly adjusted EBITDA and related per share amounts for each of the quarters in 2019 and 2018:

	2019 Q4	2019 Q3	2019 Q2	2019 Q1	2018 Q4	2018 Q3	2018 Q2	2018 Q1
Net income (loss) (As per financial statements)	\$ 3,695	\$ 3,442	\$ 3,061	\$ (1,172)	\$ 2,077	\$ 3,263	\$ 1,536	\$ (706)
Add back (deduct):								
Income taxes (recovery)	1,302	1,254	906	(52)	751	1,211	604	(254)
Finance costs	287	288	293	295	300	319	354	310
Investment income	(47)	(44)	(5)	(23)	(18)	(4)	(13)	(32)
Depreciation	1,080	1,095	1,119	1,106	1,149	1,145	1,150	1,168
Amortization	46	45	36	31	30	31	35	36
Adjusted EBITDA	6,363	6,080	5,410	185	4,289	5,965	3,666	522
Adjusted EBITDA per share	\$ 0.95	\$ 0.90	\$ 0.80	\$ 0.03	\$ 0.64	\$ 0.89	\$ 0.55	\$ 0.08

The results of adjusted EBITDA reflect the adoption of new accounting standards, leases on January 1, 2019. Adjusted EBITDA was \$6,363 in the three month period ended December 31, 2019, an increase of \$2,074 from \$4,289 in the comparative three-month period of 2018. Adjusted EBITDA for the twelve month period of \$18,038 compared to the restated adjusted EBITDA of \$14,441 in the 2018 comparative year, or an increase of \$3,597. As reported in Q1/19, the adoption of new lease accounting standard had the impact of slightly decreasing comparative net income and significantly increasing depreciation and finance cost, resulting in a favourable impact to the comparative adjusted EBITDA.

For the year ended December 31, 2019, adjusted EBITDA was \$18,038, an increase of \$3,597 from \$14,441 in 2018. The increased adjusted EBITDA is reflective of higher net income from record sales during 2019 from higher volumes and lower raw material input costs.

**Robert Graham**  
Chief Executive Officer  
March 12, 2020

**Mirko Papuga**  
Chief Financial Officer  
March 12, 2020



## Management's Report

The accompanying consolidated financial statements of PFB Corporation and all information included therein is the responsibility of the management of the Corporation and has 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 (“IFRS”) as issued by the International Accounting Standards Board (“IASB”). 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 judgments 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 organization 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 four unrelated and independent directors, meets with management and its responsibilities include reviewing the consolidated financial statements. 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 LLP, Chartered Professional Accountants, have audited the consolidated financial statements as at and for the years ended December 31, 2019 and 2018, in accordance with Canadian Generally Accepted Auditing Standards. Their independent report outlines the scope of their examination and opinion on the consolidated financial statements and is presented herein.



**Robert Graham**  
Chief Executive Officer  
March 12, 2020

Calgary, Alberta



**Mirko Papuga**  
Chief Financial Officer  
March 12, 2020

Calgary, Alberta





## Independent Auditor's Report

To the Shareholders and Board of Directors of PFB Corporation

### Opinion

We have audited the consolidated financial statements of PFB Corporation (the "Company"), which comprise the consolidated balance sheets as at December 31, 2019 and 2018 and January 1, 2018, and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the years ended December 31, 2019 and 2018, and notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2019 and 2018 and January 1, 2018, and its financial performance and its cash flows for the years ended December 31, 2019 and 2018 in accordance with International Financial Reporting Standards ("IFRS").

### Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards ("Canadian GAAS"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Other Information

Management is responsible for the other information. The other information comprises:

- Management's Discussion and Analysis
- The information, other than the financial statements and our auditor's report thereon, in the Annual Report.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

The Annual Report is expected to be made available to us after the date of the auditor's report. If, based on the work we will perform on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact to those charged with governance.

### Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

### **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Brian Ralofsky.

*Deloitte LLP*

Chartered Professional Accountants  
March 12, 2020  
Calgary, Alberta

# Consolidated Balance Sheets

As at December 31, 2019 and 2018 and January 1 2018

Thousands of Canadian dollars



	Note	December 31, 2019	December 31, 2018	January 1, 2018
<b>ASSETS</b>				
<b>Current assets</b>				
Cash and cash equivalents	9	\$ 20,129	\$ 16,944	\$ 12,180
Cash – restricted	9	924	1,347	88
Trade receivables	10	10,746	13,082	9,809
Inventories	11	11,598	11,638	9,998
Income taxes recoverable	7	-	193	287
Prepaid expenses		469	374	474
Contract costs	12	487	475	527
<b>Total current assets</b>		<b>44,353</b>	<b>44,053</b>	<b>33,363</b>
<b>Non-current assets</b>				
Marketable securities - restricted	21, 24	1,483	1,483	1,239
Property, plant and equipment	14	35,030	36,694	37,427
Right-of-use assets	15	7,391	8,305	9,328
Intangible assets	16	1,540	1,447	1,405
Goodwill	17	2,275	2,360	2,217
Accrued defined benefit pension plan	18	304	10	91
Deferred income tax assets	7	327	270	451
<b>Total non-current assets</b>		<b>48,350</b>	<b>50,569</b>	<b>52,158</b>
<b>Total assets</b>		<b>\$ 92,703</b>	<b>\$ 94,622</b>	<b>\$ 85,521</b>
<b>LIABILITIES</b>				
<b>Current liabilities</b>				
Trade and other payables	24	\$ 10,324	\$ 10,894	\$ 8,737
Contract liabilities	19	5,943	6,464	5,158
Income taxes payable	7	1,469	681	39
Long-term debt	20	361	350	339
Lease obligations	21	1,167	1,122	1,011
<b>Total current liabilities</b>		<b>19,264</b>	<b>19,511</b>	<b>15,284</b>
<b>Non-current liabilities</b>				
Long-term debt	20	7,856	8,218	8,567
Lease obligations	21	8,679	9,487	10,180
Deferred income tax liabilities	7	1,260	1,397	1,249
<b>Total non-current liabilities</b>		<b>17,795</b>	<b>19,102</b>	<b>19,996</b>
<b>Total liabilities</b>		<b>37,059</b>	<b>38,613</b>	<b>35,280</b>
<b>SHAREHOLDERS' EQUITY</b>				
Common shares	23	21,012	20,947	20,947
Equity-settled employee benefits reserve		1,014	44	-
Accumulated other comprehensive income		3,138	4,152	2,448
Retained earnings		30,480	30,866	26,846
<b>Shareholders' equity</b>		<b>55,644</b>	<b>56,009</b>	<b>50,241</b>
<b>Total liabilities and shareholders' equity</b>		<b>\$ 92,703</b>	<b>\$ 94,622</b>	<b>\$ 85,521</b>

Commitments and contingencies (Note 26).

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

Approved by the Board of Directors

C. Alan Smith  
Executive Chairman & Director

Gordon G. Tallman  
Director

## Consolidated Statements of Income

For the years ended December 31, 2019 and 2018

Thousands of Canadian dollars, except per share amounts

	Note	2019	2018
Sales		\$ 133,232	\$ 128,345
Cost of sales	11	(98,404)	(99,174)
<b>Gross profit</b>		<b>34,828</b>	29,171
Selling expenses		(12,514)	(11,974)
Administrative expenses		(7,742)	(7,348)
Other losses	6	(1,092)	(152)
<b>Operating income</b>		<b>13,480</b>	9,697
Investment income		119	67
Finance costs		(1,163)	(1,281)
<b>Income before taxes</b>		<b>12,436</b>	8,483
Income tax expense	7	(3,410)	(2,313)
<b>Net income for the year</b>		<b>\$ 9,026</b>	\$ 6,170
<b>Earnings per share - \$ per share</b>			
Basic	8	\$ 1.34	\$ 0.92
Diluted	8	\$ 1.31	\$ 0.92
<b>Weighted average number of common shares outstanding</b>			
Basic	8	6,720,859	6,716,003
Diluted	8	6,907,535	6,732,470

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

# Consolidated Statements of Comprehensive Income

For the years ended December 31, 2019 and 2018

Thousands of Canadian dollars



	Note	2019	2018
<b>Net income for the year</b>		<b>\$ 9,026</b>	<b>\$ 6,170</b>
<b>Other comprehensive (loss) income:</b>			
<b>Items that may subsequently be reclassified to income:</b>			
Foreign currency translation adjustments			
Exchange differences on translating foreign operations, net of tax		(1,180)	1,665
Restricted financial assets			
Unrealized gain on restricted financial assets, net of tax	21, 24	-	177
		<b>(1,180)</b>	<b>1,842</b>
<b>Items that will not be subsequently reclassified to income:</b>			
Defined benefit pension plan valuation change			
Unrealized gain (loss) on valuation change, net of tax		166	(138)
		<b>166</b>	<b>(138)</b>
Other comprehensive (loss) income for the year		<b>(1,014)</b>	<b>1,704</b>
<b>Comprehensive income for the year</b>		<b>\$ 8,012</b>	<b>\$ 7,874</b>

All comprehensive income in each year is attributable to the shareholders of the Corporation.

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

## Consolidated Statements of Changes in Equity

As at December 31, 2019 and 2018 and January 1, 2018

Thousands of Canadian dollars, except number of shares

	Common shares			Accumulated other comprehensive income					Total
	Note	Number of shares	Share capital	Equity-settled employee benefits reserve	Foreign currency translation adjustments, net of taxes	Unrealized gain on financial assets, net of taxes	Defined benefit pension plan valuation change, net of taxes	Retained earnings	
<b>Balances at January 1, 2018</b>		<b>6,716,003</b>	<b>\$ 20,947</b>	<b>\$ -</b>	<b>\$ 2,151</b>	<b>\$ 229</b>	<b>\$ 68</b>	<b>\$ 27,430</b>	<b>\$ 50,825</b>
IFRS 16, impact of change in accounting policy	4	-	-	-	-	-	-	(584)	(584)
<b>Restated balance at January 1, 2018</b>		<b>6,716,003</b>	<b>20,947</b>	<b>-</b>	<b>2,151</b>	<b>229</b>	<b>68</b>	<b>26,846</b>	<b>50,241</b>
Restated net income for the year		-	-	-	-	-	-	6,170	6,170
Restated other comprehensive income for the year, net of tax		-	-	-	1,665	177	(138)	-	1,704
Restated total comprehensive income for the year		-	-	-	1,665	177	(138)	6,170	7,874
Payment of dividends	23	-	-	-	-	-	-	(2,150)	(2,150)
Share-based payment		-	-	44	-	-	-	-	44
<b>Restated balance at December 31, 2018</b>		<b>6,716,003</b>	<b>20,947</b>	<b>44</b>	<b>3,816</b>	<b>406</b>	<b>(70)</b>	<b>30,866</b>	<b>56,009</b>
Net income for the year		-	-	-	-	-	-	9,026	9,026
Other comprehensive loss for the year, net of tax		-	-	-	(1,180)	-	166	-	(1,014)
Total comprehensive income for the year		-	-	-	(1,180)	-	166	9,026	8,012
Payment of dividends	23	-	-	-	-	-	-	(9,044)	(9,044)
Share-based payment		-	-	990	-	-	-	-	990
Shares repurchased pursuant to normal course issuer bid	23	(50,000)	(157)	-	-	-	-	(368)	(525)
Shares issued on exercise of stock options	23	25,000	222	(20)	-	-	-	-	202
<b>Balance at December 31, 2019</b>		<b>6,691,003</b>	<b>\$ 21,012</b>	<b>\$ 1,014</b>	<b>\$ 2,636</b>	<b>\$ 406</b>	<b>\$ 96</b>	<b>\$ 30,480</b>	<b>\$ 55,644</b>

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

# Consolidated Statements of Cash Flows

For the years ended December 31, 2019 and 2018

Thousands of Canadian dollars



	Note	2019	2018
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net income for the year		\$ 9,026	\$ 6,170
Adjustments for:			
Depreciation expense	14, 15	4,400	4,612
Amortization expense	16	158	132
Loss (gain) on disposal of property, plant and equipment	6, 14	11	(58)
Defined benefit pension plan		(50)	(79)
Finance costs		1,163	1,281
Investment income		(119)	(67)
Income tax expense	7	3,410	2,312
Share-based payment expense		990	44
Unrealized foreign exchange losses (gains)	6	12	(56)
Changes in non-cash working capital	27	1,178	(1,298)
Unrealized foreign exchange relating to non-cash working capital		11	17
Cash from operating activities, before income taxes		20,190	13,010
Income taxes paid, net		(2,653)	(1,312)
<b>Net cash from operating activities</b>		<b>17,537</b>	<b>11,698</b>
<b>CASH FLOWS USED IN INVESTING ACTIVITIES</b>			
Decrease (increase) in restricted cash balance		423	(1,259)
Purchase of property, plant and equipment	14	(1,885)	(1,769)
Purchase of intangible assets	16	(317)	(64)
Proceeds from disposal of property, plant and equipment		47	82
Interest received		119	48
Distributions received from marketable securities		-	19
<b>Net cash used in investing activities</b>		<b>(1,613)</b>	<b>(2,943)</b>
<b>CASH FLOWS USED IN FINANCING ACTIVITIES</b>			
Repayment of lease obligations	21	(1,157)	(1,025)
Changes in long-term debt	20, 22	(351)	(338)
Finance costs		(1,163)	(1,281)
Proceeds from exercise of stock options		202	-
Payment for buy-back of common shares		(525)	-
Dividends paid to shareholders	23	(9,044)	(2,150)
<b>Net cash used in financing activities</b>		<b>(12,038)</b>	<b>(4,794)</b>
Effects of exchange rate changes on cash and cash equivalents, and restricted cash held in foreign currencies		(701)	803
<b>Net increase in cash and cash equivalents</b>		<b>3,185</b>	<b>4,764</b>
Cash and cash equivalents at the beginning of the year		16,944	12,180
<b>Cash and cash equivalents at the end of the year</b>	9	<b>\$ 20,129</b>	<b>\$ 16,944</b>

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



# Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

Thousands of Canadian dollars



## 1. General information

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

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

### 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 accounting policies set out below have been applied consistently in the preparation of the consolidated financial statements for all years presented.

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

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

Subsidiaries are all entities over which the Corporation has control. The Corporation controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. 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 (Note 29).

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

### 2.4 Revenue Recognition

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

#### 2.4.1 Manufactured goods

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

# Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

Thousands of Canadian dollars



A portion of the Corporation's sales take place on a consignment basis, where the Corporation will deliver inventory to customer locations that has not yet been purchased. The revenue from these sales is recognized when the customer purchases the inventory.

## 2.4.2 Rendering of services

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

## 2.4.3 Freight

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

## 2.4.4 Construction contracts

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

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

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

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

## 2.4.5 Other revenue types

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

## 2.4.6 Contract costs

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

## 2.4.7 Contract liabilities

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

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

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

Refer to Note 12 – Contract costs, Note 19 – Contract liabilities and Note 13 – Remaining performance obligations, for further information.

# Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

Thousands of Canadian dollars



## 2.4.8 Investment income

Dividend income from investments is recognized when the Corporation's right to receive payment has been established (provided that it is probable that the economic benefits will flow to the Corporation and the amount of income can be measured reliably).

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.

## 2.5 Cash and cash equivalents, and restricted cash

Cash and cash equivalents consist of cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of 90 days or less.

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

## 2.6 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. Some customized work-in-progress and finished product inventories are held at actual cost using the First-in, First-out ("FIFO") method and are segregated by customer job number. Inventories which have costs determined using the FIFO method represent a small portion of the Corporation's inventories on hand at any point in time and such inventories turn frequently. 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 includes 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.

## 2.7 Property, plant and equipment ("PP&E")

PP&E are carried at cost less accumulated depreciation and any impairment losses. The cost includes expenditures directly attributable to the acquisition of the property, plant and equipment. Assets acquired under leases are recognized at an amount equal to fair value or, if lower, the present value of the minimum lease payments, less accumulated depreciation and any impairment losses. Gains and losses, determined as the difference between net 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.

PP&E in the course of construction for production are carried at cost, less any recognized impairment loss. Such properties are classified to the appropriate categories of PP&E when completed and ready for intended use.

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 when practical. Freehold land is not depreciated.

# Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

Thousands of Canadian dollars



<u>Asset class:</u>	<u>Useful life:</u>
Freehold land	Unlimited useful life, not depreciated
Buildings	15 to 40 years
Plant and equipment	3 to 20 years
Assets under construction	Depreciation commences when the asset is constructed and placed in use

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 derecognizing an item of PP&E is measured as the difference between the net sales proceeds and the carrying amount of the asset and 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.

## 2.8 Leases and right-of-use assets

The Corporation recognizes a right-of-use asset and the corresponding lease obligation at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease prepayments less any lease incentives received. The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term.

The lease obligation is initially measured at the present value of the minimum lease payments discounted using the rate implicit in the lease when readily available, otherwise Corporation's incremental borrowing rate. Interest expense is recognized on the lease obligation using the effective interest rate method and payments are applied against the lease obligation.

The Corporation expenses the lease payments associated with short-term leases of duration of less than twelve months and leases of low-value assets.

Right-of-use asset 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 derecognizing an item of the right-of-use asset is measured as the difference between the net sales proceeds and the carrying amount of the right-of-use asset and is recognized in profit or loss.

Right-of-use assets are 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 Intangible assets

Intangible assets with finite useful lives that are acquired separately are carried 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 estimates is accounted for on a prospective basis. A summary of estimated useful life by asset class is as follows:

<u>Class:</u>	<u>Useful life:</u>
Patents	17 years
Product development costs	3 years
Software	3 to 5 years
Registered trade names	Indefinite life – not amortized
Order backlog	Lives of individual contracts (max. 3 years)
Non-compete agreements	1 to 1.5 years

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 (Note 2.11).

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

# Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

Thousands of Canadian dollars



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 de-recognition 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.

## 2.10 Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business 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 cash-generating units ("CGU") that are expected to benefit from the synergies of the combination.

A CGU 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 CGU 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 loss for goodwill is recognized directly in the consolidated statement of income. An impairment loss recognized for goodwill is not reversed in subsequent years.

## 2.11 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.

The recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a 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.

## 2.12 Foreign currency translation

The Corporation's primary economic environment in which it operates its businesses is Canada. The consolidated financial statements are presented in Canadian dollars, which is the Corporation's functional and 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 that are measured at their historical cost in a foreign currency are not retranslated.

# Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

Thousands of Canadian dollars



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 applicable to the years when recorded. 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 assumed through 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 other comprehensive income.

## 2.13 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 the Corporation 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.

## 2.14 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 (Note 24).

Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial asset or financial liabilities, as appropriate, on initial recognition. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

## 2.15 Financial assets

Financial assets are classified and measured based on three categories: (i) assets at amortized cost; (ii) fair value through profit or loss ("FVTPL"); or (iii) fair value through other comprehensive income ("FVOCI"). The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

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

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

- (i) The asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- (ii) The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

### 2.15.1 Impairment of financial assets

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



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## 2.16 Financial liabilities

Financial liabilities are recognized initially at fair value and subsequently measured at either fair value or amortized cost. The Corporation's financial liabilities are classified as 'financial liabilities at amortized cost' and include any borrowings and trade and other payables and are subsequently measured at amortized cost using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant year. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability. The Corporation does not hold any financial liabilities designated at fair value through profit or loss.

## 2.17 Taxation

Income tax expense represents the sum of the tax currently payable, deferred tax and prior year adjustments.

### 2.17.1 Current tax

The tax currently payable is based on taxable income for the year. Taxable income differs from 'income before tax' as reported in the consolidated statements of 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 current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting year.

### 2.17.2 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 tax assets and liabilities are not recognized if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable income nor the accounting income. In addition, deferred tax liabilities are not recognized if the temporary difference arises from the initial recognition of goodwill.

The carrying amount of deferred tax assets is 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 deferred tax assets 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 that have been enacted or substantively enacted by the end of the reporting year. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Corporation expects, at the end of the reporting year, to recover or settle the carrying amount of its assets and liabilities.

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

### 2.17.3 Current and deferred tax for the year

Current, deferred and prior period tax adjustments 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, deferred and prior year tax adjustments are also recognized in other comprehensive income or directly in equity, respectively.

## 2.18 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, 2012, the defined benefit plan was closed to all new hires.

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The cost of providing benefits under the Plan is determined using the projected unit credit method prorated based on service, with actuarial valuations being carried out at the end of each annual reporting period. Re-measurement, comprising actuarial gains and losses, the effect of the changes to the asset ceiling, and the return on plan assets (excluding interest), is reflected immediately in the consolidated balance sheet with a charge or credit recognized in other comprehensive income in the year in which they occur. Re-measurement recognized in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss. Past service cost is recognized in profit or loss in the period of a plan amendment. Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset. Defined benefit costs are categorized as follows:

- Service cost (including current and past service cost, as well as gains and losses on curtailments and settlements);
- Net interest expense or income; and
- Re-measurement.

The Corporation presents service costs in the consolidated statements of income in the line item cost of sales.

The retirement benefit obligation recognized in the consolidated balance sheets represents the actual deficit or surplus in the Corporation's defined benefit plan.

## 2.19 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 the 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.

## 2.20 Share-based payment arrangements

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.

The fair value determined at the grant date is expensed on a straight-line basis over the vesting period, 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.

## 3. Critical accounting judgments and estimates

In the application of the Corporation's accounting policies, as described in Note 2, management is required to make judgments, 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 these 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.



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## 3.1 Revenue recognition

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

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

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

## 3.2 Remaining performance obligations

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

## 3.3 Cash-generating unit (“CGU”)

Determination of which assets constitute a CGU is subject to management judgments. Also, the asset composition of a CGU can directly impact the recoverability of assets included therein. The recoverable amount of a CGU is assessed at the CGU level and is the higher of the CGU’s fair value less costs of disposal and its value in use. A CGU may be impaired when its carrying amount exceeds its recoverable amount. Key assumptions used for the value in use calculations are set out in Note 17.

## 3.4 Impairment of goodwill

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

## 3.5 Impairment of tangible and intangible assets

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

## 3.6 Valuation of inventories

Management reviews the carrying amount of finished goods inventories at the end of each reporting year 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.

## 3.7 Allowance for doubtful accounts

Amounts included in allowance for doubtful accounts reflect the lifetime expected credit losses for trade receivables. Management determines allowances based on best estimates of future expected credit losses, considering historical credit loss experience, current economic conditions, and forecasts of future economic conditions. Significant or unanticipated changes in economic conditions could impact the magnitude of future expected credit losses. The value

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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.

### 3.8 Income taxes

The Corporation is subject to income taxes in both Canada and the USA. When preparing current and deferred tax expense at the end of each reporting year, 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 year to the next and thereby affect the consolidated financial statements.

### 3.9 Measurement of retirement benefits

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.

### 3.10 Property plant and equipment

The Corporation estimates the useful life of property, plant and equipment that it owns or is held under a 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.

### 3.11 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. Fair value of assets acquired and liabilities assumed in a business combination is estimated based on information available at the date of acquisition and involves considerable judgment in determining the fair values assigned to acquired intangible assets, land, property, plant and equipment, and other assets, and the liabilities assumed on acquisition. Unknown future events and changes in assumptions and estimates may impact future cash flows and materially impact the valuation of each business combination.

### 3.12 Share-based payment arrangements

The compensation costs relating to share-based payment arrangements are based on estimates of how many common shares will actually vest and be exercised.

### 3.13 Leases

IFRS 16 - *Leases*, requires management to make judgements and estimates in order to determine the value of the right-of-use assets and the lease liabilities. Judgements may relate to the identification of a lease in a contract and the determination of the lease term and whether an extension or termination option in a lease will be exercised.

Estimates may relate to the lease term, separation of lease and non-lease components and the determination of the appropriate discount rates.

## 4. Application of new and revised International Financial Reporting Standards ("IFRSs")

The Corporation has adopted the following accounting standards effective for annual periods beginning on or after January 1, 2019:

- **IFRS 16 - *Leases***

The Corporation applied IFRS 16 - *Leases*, using the retrospective approach by restatement of each prior reporting period presented in accordance with IAS 8 - *Accounting Policies, Changes in Accounting Estimates and Errors*.

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Under IFRS 16 - *Leases*, at inception of a contract, the Corporation assesses whether a contract is a lease or contains a lease. A contract is a lease or contains a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Corporation considers the following:

- The Corporation has the right to obtain substantially all of the economic benefits; and
- The Corporation has the right to direct the use of the identified asset.

The Corporation recognizes a right-of-use asset and the corresponding lease obligation at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease prepayments less any lease incentives received. The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term.

The finance lease obligation is initially measured at the date of the transition as the present value of the remaining lease payments discounted using the rate implicit in the lease when readily available, otherwise Corporation's incremental borrowing rate.

The Corporation recorded a right-of-use asset for certain property and other leases, and a corresponding lease obligation. The previously recorded rent and operating lease expense will now be included in the Statement of Income (Loss) as depreciation and finance costs. As at January 1, 2019, the Corporation recognized right-of-use assets in the amount of \$6,656, net of accumulated depreciation, and an additional lease liability of \$7,958 upon initial adoption using the retrospective approach.

On transition to IFRS 16 - *Leases*, the Corporation elected not to separate non-lease components from lease components for vehicles, truck and trailers and office equipment, and instead account for each lease component and any associated non-lease component as a single lease component. The Corporation has also elected not to recognize right-of-use assets and lease liabilities for short-term leases with duration of less than twelve months and leases of low-value assets. The Corporation expenses the lease payments associated with these leases over the lease term.

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## Impacts to previously reported results

Select adjusted financial statement information, which reflects the adoption of IFRS 16 - Leases, is presented below. Line items that were not affected have not been included. As a result, the sub-totals and totals disclosed cannot be recalculated from the numbers provided. The following tables present the impact of adoption to IFRS 16 - Leases, on the Corporation's consolidated financial statements.

Balance Sheets	As at January 1, 2018			As at December 31, 2018		
	As reported	Effect of IFRS 16	Adjusted	As reported	Effect of IFRS 16	Adjusted
<b>ASSETS</b>						
<b>Non-current assets</b>						
Property, plant and equipment	\$ 40,099	\$ (2,672)	\$ 37,427	\$ 39,209	\$ (2,515)	\$ 36,694
Right-of-use assets	-	9,328	9,328	-	8,305	8,305
Deferred income tax assets	357	94	451	270	-	270
	\$ 40,456	\$ 6,750	\$ 47,206	\$ 39,479	\$ 5,790	\$ 45,269
<b>LIABILITIES</b>						
<b>Current Liabilities</b>						
Lease obligations	\$ 249	\$ 762	\$ 1,011	\$ 255	\$ 867	\$ 1,122
<b>Non-current liabilities</b>						
Lease obligations	2,983	7,197	10,180	2,984	6,503	9,487
Deferred operating lease obligations	506	(506)	-	719	(719)	-
Deferred income tax liabilities	1,368	(119)	1,249	1,631	(234)	1,397
	4,857	6,572	11,429	5,334	5,550	10,884
<b>SHAREHOLDERS' EQUITY</b>						
Accumulated other comprehensive income	2,448	-	2,448	4,176	(24)	4,152
Retained earnings	27,430	(584)	26,846	31,469	(603)	30,866
	29,878	(584)	29,294	35,645	(627)	35,018
	\$ 34,984	\$ 6,750	\$ 41,734	\$ 41,234	\$ 5,790	\$ 47,024

Income Statement	For the year ended December 31, 2018		
	As reported	Effect of IFRS 16	Adjusted
Sales	\$ 128,345	\$ -	\$ 128,345
Cost of sales	(99,544)	370	(99,174)
<b>Gross profit</b>	28,801	370	29,171
Selling expenses	(11,985)	11	(11,974)
Administrative expenses	(7,452)	104	(7,348)
Other losses	(152)	-	(152)
<b>Operating income</b>	9,212	485	9,697
Investment income	67	-	67
Finance costs	(766)	(515)	(1,281)
<b>Income before taxes</b>	8,513	(30)	8,483
Income taxes expense	(2,324)	11	(2,313)
<b>Income for the year</b>	\$ 6,189	\$ (19)	\$ 6,170

# Notes to the Consolidated Financial Statements

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Statement of Comprehensive Income	For the year ended December 31, 2018		
	As reported	Effect of IFRS 16	Adjusted
<b>Net income for the year</b>	\$ 6,189	\$ (19)	\$ 6,170
<b>Other comprehensive income:</b>			
<b>Items that may subsequently be reclassified to income:</b>			
Exchange differences on translating foreign operations, net	1,689	(24)	1,665
Unrealized gain on restricted financial assets, net	177	-	177
<b>Items that will not be subsequently reclassified to income:</b>			
Unrealized loss on valuation change, net	(138)	-	(138)
Other comprehensive income for the year	1,728	(24)	1,704
<b>Comprehensive income for the year</b>	<b>\$ 7,917</b>	<b>\$ (43)</b>	<b>\$ 7,874</b>
<b>Earnings per share - \$ per share</b>			
Basic	\$ 0.92	\$ -	\$ 0.92
Diluted	\$ 0.92	\$ -	\$ 0.92

Statement of Cash Flows	For the year ended December 31, 2018		
	As reported	Effect of IFRS 16	Adjusted
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net income for the year	\$ 6,189	\$ (19)	\$ 6,170
Adjustments for:			
Depreciation expense	3,634	978	4,612
Amortization expense	132	-	132
Gain on disposal of assets	(58)	-	(58)
Defined benefit pension plan	(79)	-	(79)
Finance costs	766	515	1,281
Investment income	(67)	-	(67)
Income tax expense	2,324	(12)	2,312
Share-based payment expense	44	-	44
Unrealized foreign exchange gain	(69)	13	(56)
Changes in non-cash working capital	(1,298)	-	(1,298)
Changes in deferred operating lease obligations	214	(214)	-
Unrealized foreign exchange loss relating to non-cash working capital	17	-	17
Cash from operating activities, before income taxes	11,749	1,261	13,010
Income taxes paid, net	(1,312)	-	(1,312)
<b>Net cash from operating activities</b>	<b>10,437</b>	<b>1,261</b>	<b>11,698</b>
<b>CASH FLOWS USED IN FINANCING ACTIVITIES</b>			
Repayment of lease obligations	(279)	(746)	(1,025)
Changes in long-term debt	(338)	-	(338)
Changes in bank indebtedness, net	-	-	-
Finance costs	(766)	(515)	(1,281)
Dividends paid to shareholders	(2,150)	-	(2,150)
<b>Net cash used in financing activities</b>	<b>\$ (3,533)</b>	<b>\$ (1,261)</b>	<b>\$ (4,794)</b>

# Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

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## 5. Segment information

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

The Corporation has two reportable operating segments, Canada and the USA, and each segment applies the same accounting policies (Note 2), internal controls and reporting systems. Segments are based on the way management organizes the operations. Segments are identified and managed by the geographic and regulatory environment they operate within because they require compliance with different regulations. Segment performance predominantly focuses on operating results and the manner in which resources are allocated based on Canadian and USA operations, respectively.

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

### 5.1 Segment sales and operating income

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

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

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

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

Prior year segment information has been restated for the application of IFRS 16 – Leases; see Note 4.

Information regarding each reportable operating segment for years ended December 31, 2019 and 2018 are set out below:

	Sales revenues		Operating income	
	2019	2018	2019	2018
Canada	\$ 78,152	\$ 78,346	\$ 7,831	\$ 5,009
USA	55,080	49,999	5,973	4,105
Total for segments	\$ 133,232	\$ 128,345	13,804	9,114
Corporate – (loss) income			(330)	585
Foreign exchange gain (loss) on inter-segment settlements			6	(2)
Consolidated operating income			\$ 13,480	\$ 9,697

### 5.2 Segment assets and liabilities

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

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	2019	2018
<b>Assets</b>		
Segment assets	\$ 49,198	\$ 53,156
Assets not allocated to segments:		
Cash and cash equivalents	20,129	16,944
Restricted marketable securities	1,483	1,483
Freehold land and buildings	21,567	22,750
Corporate taxes <sup>1</sup>	326	289
<b>Total assets</b>	<b>\$ 92,703</b>	<b>\$ 94,622</b>
<b>Liabilities</b>		
Segment liabilities	\$ 18,996	\$ 19,436
Liabilities not allocated to segments:		
Lease obligations	9,846	10,609
Long-term debt	8,217	8,568
<b>Total liabilities</b>	<b>\$ 37,059</b>	<b>\$ 38,613</b>
<b>Net segment assets</b>		
Canada	\$ 22,889	\$ 25,341
USA	7,313	8,379

<sup>1</sup> Deferred taxes.

## 5.3 Other segment information

	2019	2018
<b>Additions to non-current assets:</b>		
Canada	\$ 1,172	\$ 795
USA	917	1,007
Corporate	113	31
<b>Total</b>	<b>\$ 2,202</b>	<b>\$ 1,833</b>
<b>Additions to right-of-use assets:</b>		
Canada	\$ 351	\$ 269
USA	126	28
<b>Total</b>	<b>\$ 477</b>	<b>\$ 297</b>
<b>Depreciation and amortization:</b>		
Canada	\$ 2,526	\$ 2,752
USA	973	919
Corporate	1,059	1,073
<b>Total</b>	<b>\$ 4,558</b>	<b>\$ 4,744</b>
<b>Inter-segment sales</b>	<b>\$ 8,202</b>	<b>\$ 7,052</b>



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## 6 Other losses

	2019	2018
Unrealized foreign exchange (losses) gains	\$ (12)	\$ 69
Realized foreign exchange losses	(79)	(235)
(Loss) gain on disposals of property, plant and equipment	(11)	58
Share-based payment expense	(990)	(44)
	<b>\$ (1,092)</b>	<b>\$ (152)</b>

## 7 Income taxes

### 7.1 Income taxes recognized in the year

	2019	2018
Current tax expense	\$ 3,661	\$ 2,027
Deferred tax (recovery) expense	(251)	286
Income tax expense	<b>\$ 3,410</b>	<b>\$ 2,313</b>

In the year ended December 31, 2019, deferred income tax expense of \$78 (2018 - \$44) was recognized directly in other comprehensive income.

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

	2019	2018
Income before taxes	<b>\$ 12,436</b>	\$ 8,483
Income tax expense calculated at 26.9% (2018 – 27.4%)	<b>\$ 3,345</b>	\$ 2,322
Effect of different tax rates of subsidiaries operating in other jurisdictions	<b>(102)</b>	(90)
Enacted rate changes	<b>(88)</b>	-
Expenses not deductible in determining taxable income	<b>306</b>	57
Prior period adjustments and reassessments	<b>(63)</b>	19
Other	<b>12</b>	5
Income tax expense	<b>\$ 3,410</b>	<b>\$ 2,313</b>

The statutory tax rate in the table above is the combined USA and Canadian federal and blended provincial and state corporate income tax rate of approximately 26.9% (2018 – 27.4%).

### 7.2 Current tax assets and liabilities

	As at Dec 31, 2019	As at Dec 31, 2018
<b>Current tax assets</b>		
Income taxes recoverable	\$ -	\$ 193
<b>Current tax liabilities</b>		
Income taxes payable	<b>1,469</b>	681

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## 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 and liabilities presented in the consolidated balance sheets is as follows:

	As at Dec 31, 2019	As at Dec 31, 2018
<b>Deferred tax assets</b>		
Property, plant and equipment	\$ 588	\$ 570
Land	(97)	(112)
Other	(164)	(188)
	<b>\$ 327</b>	<b>\$ 270</b>
<b>Deferred tax liabilities</b>		
Property, plant and equipment	\$ (1,826)	\$ (2,099)
Intangible assets	(140)	(141)
Other	(46)	29
Reserves	164	183
Lease items	588	623
Non-capital tax losses carried forward	-	8
	<b>\$ (1,260)</b>	<b>\$ (1,397)</b>

## 8 Earnings per share

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

	2019	2018
Net income for the year	\$ 9,026	\$ 6,170
Weighted average number of common shares outstanding – basic	6,720,859	6,716,003
Effect of:		
Dilutive stock options	186,676	16,467
Weighted average number of common shares outstanding - diluted	6,907,535	6,732,470
Earnings per share:		
Basic	\$ 1.34	\$ 0.92
Diluted	\$ 1.31	\$ 0.92

## 9 Cash and cash equivalents

	As at Dec 31, 2019	As at Dec 31, 2018
Cash held with banks	\$ 18,629	\$ 13,744
Short-term investments	1,500	3,200
	<b>\$ 20,129</b>	<b>\$ 16,944</b>

Interest income earned on bank balances and short-term investments is reported as investment income in the consolidated statements of income.

# Notes to the Consolidated Financial Statements

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	As at Dec 31, 2019	As at Dec 31, 2018
Cash - restricted	\$ 924	\$ 1,347

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

## 10 Trade receivables

Eligible trade receivables held by the Corporation's subsidiaries in Canada have been pledged as security with a bank in support of a revolving credit facility. The revolving credit facility was unused as at December 31, 2019.

### 10.1 Current trade receivables

Aging profile	As at Dec 31, 2019	As at Dec 31, 2018
Current and past due for less than 30 days	\$ 10,019	\$ 11,800
Past due for between 31 and 90 days	1,127	1,343
Past due for 91 days or longer	327	487
Total gross current trade receivables	11,473	13,630
Allowance for doubtful accounts	(727)	(548)
<b>Current trade receivables, net</b>	<b>\$ 10,746</b>	<b>\$ 13,082</b>

The average trade credit allowed on the sale of goods is between 30 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 installments received on individual accounts which exceed the value of goods and/or services invoiced are recorded as contract liabilities on the consolidated balance sheets.

The Corporation has recognized an allowance for doubtful trade receivables on accounts that are past due by more than 31 days based on best estimates of future expected credit losses and estimated irrecoverable amounts determined by reference to past experiences. As at December 31, 2019 and 2018, the allowance for doubtful accounts reserve includes amounts to cover new accounts in the Canadian segment and continuing exposure with several long-standing customers in the USA segment, both of which have trade receivables included 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 year. The concentration of credit risk is limited due to the fact that the customer base is large and diversified.

### 10.2 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:

	2019	2018
<b>Balance at beginning of year</b>	<b>\$ (548)</b>	<b>\$ (413)</b>
Additional amounts provided for during the year	(225)	(148)
Trade receivables written off during the year	46	13
<b>Balance at end of year</b>	<b>\$ (727)</b>	<b>\$ (548)</b>

# Notes to the Consolidated Financial Statements

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## 11. Inventories

	As at Dec 31, 2019	As at Dec 31, 2018
Raw materials	\$ 6,046	\$ 5,907
Work in progress	2,156	2,404
Finished goods	3,396	3,327
	<b>\$ 11,598</b>	<b>\$ 11,638</b>

Eligible inventories held by each of the Corporation's Canadian and USA subsidiaries have been pledged as security with a bank in support of revolving credit facilities. The revolving credit facilities were unused as at December 31, 2019.

The cost of inventories recognized as an expense in cost of sales in the year ended December 31, 2019, was \$77,842 (2018 - \$79,805). Included in the cost of inventories recognized as an expense were write-downs from full cost to net realizable value in the amount of \$633 (2018 - \$799). There were no reversals of any write-downs in either 2019 or 2018.

## 12. Contract costs

Contract costs represent the incremental costs of obtaining a contract with a customer on the expectation these costs will be recovered. Contract costs are comprised of sales commissions paid or payable to obtain certain contracts. These costs are amortized on a proportionate basis as a selling expense over the life of the contract, as this reflects the period over which goods or services are transferred to the customer. Amortization recognized in selling expenses during the year was \$515 (2018- \$377). Amortization of contract costs follows the seasonality of operations and is typically higher in the second and third quarter upon completion of performance obligations. Contract costs remaining to be amortized as selling expenses are \$487 (2018 - \$475).

## 13. Remaining performance obligations

Performance obligations for certain goods manufactured, construction and design contracts generally include deposits which are initially recorded as contract liabilities and represent obligations of work that has not yet been completed. Revenue from unsatisfied performance obligations is recognized when services are rendered and control of the goods is transferred to the customers. For contracts that include deposits, the total remaining performance obligations as at year end were \$18,440 (2018 - \$17,077). The Corporation estimates it will recognize approximately \$14,579 of revenue from the unsatisfied performance obligations upon completion of those performance obligations over the next twelve months and \$3,861 after twelve months.

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## 14. Property, plant and equipment

Cost	Freehold land	Buildings	Plant and equipment	Assets under construction	Total
<b>Balance at January 1, 2018</b>	<b>\$ 8,457</b>	<b>\$ 25,702</b>	<b>\$ 42,197</b>	<b>\$ 698</b>	<b>\$ 77,054</b>
Additions	-	-	8	1,761	1,769
Disposal of PP&E assets	-	-	(350)	-	(350)
Transfer of leased assets	-	-	217	-	217
Transfers between asset classes	-	213	1,819	(2,032)	-
Effect of foreign currency changes	155	576	656	21	1,408
<b>Balance at December 31, 2018</b>	<b>8,612</b>	<b>26,491</b>	<b>44,547</b>	<b>448</b>	<b>80,098</b>
Additions	-	-	107	1,778	1,885
Disposal of PP&E assets	-	-	(1,269)	-	(1,269)
Transfers between asset classes	-	153	1,053	(1,206)	-
Effect of foreign currency changes	(92)	(347)	(425)	(11)	(875)
<b>Balance at December 31, 2019</b>	<b>\$ 8,520</b>	<b>\$ 26,297</b>	<b>\$ 44,013</b>	<b>\$ 1,009</b>	<b>\$ 79,839</b>
<b>Accumulated Depreciation</b>					
<b>Balance at January 1, 2018</b>	<b>\$ -</b>	<b>\$ 9,837</b>	<b>\$ 29,790</b>	<b>\$ -</b>	<b>\$ 39,627</b>
Depreciation expense	-	1,201	2,006	-	3,207
Disposal of PP&E assets	-	-	(350)	-	(350)
Transfer of leased assets	-	-	201	-	201
Effect of foreign currency changes	-	313	406	-	719
<b>Balance at December 31, 2018</b>	<b>-</b>	<b>11,351</b>	<b>32,053</b>	<b>-</b>	<b>43,404</b>
Depreciation expense	-	1,191	1,883	-	3,074
Disposal of PP&E assets	-	-	(1,211)	-	(1,211)
Effect of foreign currency changes	-	(198)	(260)	-	(458)
<b>Balance at December 31, 2019</b>	<b>\$ -</b>	<b>\$ 12,344</b>	<b>\$ 32,465</b>	<b>\$ -</b>	<b>\$ 44,809</b>
<b>Net book values</b>					
2018	\$ 8,612	\$ 15,140	\$ 12,494	\$ 448	\$ 36,694
<b>2019</b>	<b>8,520</b>	<b>13,953</b>	<b>11,548</b>	<b>1,009</b>	<b>35,030</b>

Depreciation commences when assets are available for use. Depreciation expense for the year ended December 31, 2019 in the amount of \$2,818 (2018 - \$2,907) is included in cost of sales, with an amount of \$123 (2018 - \$147) included in selling expenses, and an amount of \$133 (2018 - \$153) included in administrative expenses.

Assets under construction as at December 31, 2019 are expected to be available for use in 2020.

# Notes to the Consolidated Financial Statements

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## 15. Right-of-use assets

Cost	Property	Vehicles	Truck and trailers	Office equipment	Machinery and equipment	Total
<b>Balance at January 1, 2018</b>	<b>\$ 13,750</b>	<b>\$ 819</b>	<b>\$ 220</b>	<b>\$ 372</b>	<b>\$ 268</b>	<b>\$ 15,429</b>
Additions	-	168	129	-	-	297
Disposal of right-of-use assets	(1,713)	(209)	(109)	(34)	(39)	(2,104)
Transfers of PP&E assets	-	-	-	-	(217)	(217)
Effect of foreign currency changes	229	20	9	24	13	295
<b>Balance at December 31, 2018</b>	<b>12,266</b>	<b>798</b>	<b>249</b>	<b>362</b>	<b>25</b>	<b>13,700</b>
Additions	212	229	-	36	-	477
Disposal of right-of-use assets	-	(125)	-	(14)	-	(139)
Effect of foreign currency changes	(139)	(14)	(6)	(13)	(1)	(173)
<b>Balance at December 31, 2019</b>	<b>\$ 12,339</b>	<b>\$ 888</b>	<b>\$ 243</b>	<b>\$ 371</b>	<b>\$ 24</b>	<b>\$ 13,865</b>

### Accumulated Depreciation

<b>Balance at January 1, 2018</b>	<b>\$ 5,185</b>	<b>\$ 457</b>	<b>\$ 137</b>	<b>\$ 101</b>	<b>\$ 221</b>	<b>\$ 6,101</b>
Depreciation expense	1,007	231	28	105	34	1,405
Disposal of right-of-use assets	(1,716)	(185)	(109)	(31)	(39)	(2,080)
Transfers of PP&E assets	-	-	-	-	(201)	(201)
Effect of foreign currency changes	140	9	5	10	6	170
<b>Balance at December 31, 2018</b>	<b>4,616</b>	<b>512</b>	<b>61</b>	<b>185</b>	<b>21</b>	<b>5,395</b>
Depreciation expense	1,002	182	43	96	3	1,326
Disposal of right-of-use assets	-	(127)	-	(12)	-	(139)
Effect of foreign currency changes	(91)	(7)	(3)	(7)	-	(108)
<b>Balance at December 31, 2019</b>	<b>\$ 5,527</b>	<b>\$ 560</b>	<b>\$ 101</b>	<b>\$ 262</b>	<b>\$ 24</b>	<b>\$ 6,474</b>

### Net book values

2018	\$ 7,650	\$ 286	\$ 188	\$ 177	\$ 4	\$ 8,305
<b>2019</b>	<b>6,812</b>	<b>328</b>	<b>142</b>	<b>109</b>	<b>-</b>	<b>7,391</b>

Depreciation expense for December 31, 2019 in the amounts of \$889 (2018 - \$893) is included in cost of sales, with amounts of \$279 (2018 - \$341) included in selling expenses, and amounts of \$158 (2018 - \$171) included in administrative expenses, respectively.

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## 16. Intangible assets

Cost	Patents	Product development costs	Software	Registered trade names	Order backlog	Non-compete agreement	Total
<b>Balance at January 1, 2018</b>	<b>\$ 70</b>	<b>\$ 951</b>	<b>\$ 2,714</b>	<b>\$ 1,258</b>	<b>\$ 186</b>	<b>\$ 36</b>	<b>\$ 5,215</b>
Additions	-	-	64	-	-	-	64
Effect of foreign currency changes	-	25	39	110	16	3	193
<b>Balance at December 31, 2018</b>	<b>70</b>	<b>976</b>	<b>2,817</b>	<b>1,368</b>	<b>202</b>	<b>39</b>	<b>5,472</b>
Additions	-	-	317	-	-	-	317
Disposal of intangible assets	-	-	(433)	-	-	-	(433)
Effect of foreign currency changes	-	(15)	(23)	(66)	(10)	(2)	(116)
<b>Balance at December 31, 2019</b>	<b>\$ 70</b>	<b>\$ 961</b>	<b>\$ 2,678</b>	<b>\$ 1,302</b>	<b>\$ 192</b>	<b>\$ 37</b>	<b>\$ 5,240</b>
<b>Accumulated Amortization</b>							
<b>Balance at January 1, 2018</b>	<b>\$ 58</b>	<b>\$ 951</b>	<b>\$ 2,579</b>	<b>\$ -</b>	<b>\$ 186</b>	<b>\$ 36</b>	<b>\$ 3,810</b>
Amortization expense	5	-	127	-	-	-	132
Effect of foreign currency changes	-	25	39	-	16	3	83
<b>Balance at December 31, 2018</b>	<b>63</b>	<b>976</b>	<b>2,745</b>	<b>-</b>	<b>202</b>	<b>39</b>	<b>4,025</b>
Amortization expense	5	-	153	-	-	-	158
Disposal of intangible assets	-	-	(433)	-	-	-	(433)
Effect of foreign currency changes	-	(15)	(23)	-	(10)	(2)	(50)
<b>Balance at December 31, 2019</b>	<b>\$ 68</b>	<b>\$ 961</b>	<b>\$ 2,442</b>	<b>\$ -</b>	<b>\$ 192</b>	<b>\$ 37</b>	<b>\$ 3,700</b>
<b>Net book values</b>							
2018	\$ 7	\$ -	\$ 72	\$ 1,368	\$ -	\$ -	\$ 1,447
<b>2019</b>	<b>2</b>	<b>-</b>	<b>236</b>	<b>1,302</b>	<b>-</b>	<b>-</b>	<b>1,540</b>

Amortization expense for the year ended December 31, 2019 in the amount of \$8 (2018 - \$10) is included in cost of goods sold, an amount of \$7 (2018 - \$10) is included in selling expenses, and an amount of \$143 (2018 - \$112) is included in administrative expenses.

## 17. Goodwill

### 17.1 Cost

	2019	2018
<b>Balance at beginning of year</b>	<b>\$ 2,360</b>	<b>\$ 2,217</b>
Effect of foreign currency exchange differences	(85)	143
<b>Balance at end of year</b>	<b>\$ 2,275</b>	<b>\$ 2,360</b>

For the purpose of impairment testing, goodwill is allocated to CGUs (Note 17.2). As at the testing date selected, the Corporation determined that the value in use of each cash-generating unit exceeded their carrying amounts and therefore no provision for impairment was provided. In order to determine whether impairment is incurred, the



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Corporation estimates the recoverable amount of each CGU. Recoverable amounts are determined on the basis of value in use calculations. Classification of CGUs and value in use in 2019 was determined the same way as in 2018.

## 17.2 Allocation of goodwill to cash-generating units

The carrying amount of goodwill has been allocated for impairment testing purposes to the following cash-generating units:

	As at Dec 31, 2019	As at Dec 31, 2018
Canada	\$ 580	\$ 580
USA	1,695	1,780
	<b>\$ 2,275</b>	<b>\$ 2,360</b>

The recoverable amounts of the cash-generating units are determined by performing value in use calculations which use cash flow projections based on a one-year financial budget approved by the directors plus future financial projections covering an additional four-year period. The cash flow projections for the four year period following the budget year are prepared in a manner consistent with past experience and reflect management's expectation of the medium term operating performance of the CGUs and the markets in which they operate. The valuation model also takes into account working capital requirements and capital investments required to support the sales revenue projections, and terminal values.

The Corporation used a discount rate of 12.0% (12.0% in 2018). The discount rate was determined based on an estimate of the Corporation's weighted average cost of capital. The discount rate is pre-tax.

The key assumptions used for value in use calculations in 2019 and 2018 were as follows:

Year	Cash generating unit	Compound annual growth rate (5 Years)	Long-term growth rate	Discount rate
2019	Canada	3.0 %	2.0 %	12.0 %
	USA	6.0 %	2.0 %	12.0 %
2018	Canada	2.9 %	2.0 %	12.0 %
	USA	6.9 %	2.0 %	12.0 %

## 18. Retirement benefits plans

### 18.1 Group registered retirement savings plan

The Corporation operates a group registered retirement savings plan 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 insurer. 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.

### 18.2 Group 401K plan

The Corporation operates group 401K plans for all qualifying employees located in Nevada, Michigan, Minnesota, Ohio 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 assets of the plans are held separately from those of the Corporation by a trust company and governed by a custodial agreement under the Employee Retirement Income Security Act ("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.

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## 18.3 Defined benefit pension plan

The Corporation operates a funded defined benefit 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 a minimal amount of life insurance coverage.

The most recent actuarial valuation of plan assets and the present value of defined benefit obligation were determined as at December 31, 2019 and the accounting valuations were subsequently updated to December 31, 2019, by the independent actuary. The next valuation report is required as at December 31, 2022.

The table below outlines the amounts included in the consolidated balance sheets arising from the Corporation's obligation in respect of its defined benefit plan:

	As at Dec 31, 2019	As at Dec 31, 2018
Present value of the funded defined benefit obligation	\$ (1,945)	\$ (1,898)
Fair value of plan assets	2,249	1,908
<b>Net asset arising from defined benefit obligation</b>	<b>\$ 304</b>	<b>\$ 10</b>

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

	2019	2018
Discount rate (end of fiscal year)	3.25 %	3.75 %
Expected return on plan assets	3.25 %	3.75 %

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

	2019	2018
Current service costs	\$ 46	\$ 46
Administration costs	12	10
Interest costs	72	69
Interest income	(72)	(74)
	<b>\$ 58</b>	<b>\$ 51</b>

The expense for the years is included in cost of sales in the consolidated statements of income.

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

	2019	2018
Opening defined benefit obligation	\$ 1,898	\$ 1,837
Current service costs	46	46
Interest cost on obligation	72	69
Benefit payments	(61)	(54)
Actuarial gain	(10)	-
<b>Closing defined benefit obligation</b>	<b>\$ 1,945</b>	<b>\$ 1,898</b>

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

	2019	2018
Opening fair value of plan assets	\$ 1,908	\$ 1,928
Actual return (loss) on plan assets	306	(87)
Employer contributions	108	131
Administration costs	(12)	(10)
Benefit payments	(61)	(54)
<b>Closing fair value of plan assets</b>	<b>\$ 2,249</b>	<b>\$ 1,908</b>

The major categories of plan assets are as follows:

	Distribution of plan assets	
	As at Dec 31, 2019	As at Dec 31, 2018
Equity instruments	73 %	71 %
Fixed income securities	27 %	29 %
<b>Total</b>	<b>100 %</b>	<b>100 %</b>

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 \$nil to the defined benefit plan in the 2020 financial year.

## 19. Contract liabilities

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

2019	Contract liabilities		Revenue related to				Balance, end of period
	Balance, beginning of period <sup>1</sup>	Current period <sup>2</sup>	Current period deposits <sup>3</sup>	Beginning of period deposits <sup>4</sup>	Rebates, net <sup>5</sup>	Foreign exchange	
Jan 1- Mar 31	\$ 6,464	\$ 5,540	\$ (2,502)	\$ (2,503)	\$ (1,166)	\$ (23)	\$ 5,810
Apr 1- Jun 30	5,810	8,657	(3,226)	(3,075)	569	(81)	8,654
Jul 1- Sep 30	8,654	9,495	(4,115)	(4,522)	412	148	10,072
Oct 1- Dec 31	10,072	8,670	(5,899)	(6,909)	169	(160)	5,943
<b>2018</b>							
Jan 1- Mar 31	\$ 5,158	\$ 4,070	\$ (736)	\$ (1,857)	\$ (772)	\$ 39	\$ 5,902
Apr 1- Jun 30	5,902	6,402	(1,607)	(3,357)	452	102	7,894
Jul 1- Sep 30	7,894	8,486	(4,107)	(4,699)	598	(144)	8,028
Oct 1- Dec 31	8,028	8,830	(5,581)	(5,041)	(34)	262	6,464

<sup>1</sup> Contract liabilities for customer deposits the Corporation has received for outstanding performance obligations and unpaid customer rebates earned and payable by the Corporation.

<sup>2</sup> Customer deposits that the Corporation has received during the period from new contracts with customers or additional customer deposits on existing contracts with customers, in advance of the Corporation's performance.

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<sup>3</sup> Revenue recognized through the completion of performance obligations related only to the extent new customer deposits are received in the same period, excluding any amounts recognized as revenue from beginning balances. The decrease in contract liabilities is constrained to revenue recognized from customer deposits applied to performance obligations achieved in the current period.

<sup>4</sup> Revenue recognized through the completion of performance obligations related to either new or existing contracts, for customer deposits on hand from prior periods, that was included in the beginning balance and excludes amounts recognized during the period in the note above.

<sup>5</sup> Customer rebates payable by the Corporation or amounts paid to customers.

## 20. Borrowings

### 20.1 Operating credit facilities

#### Canada

The Canadian segment has a revolving facility that is secured by a first ranking security interest in trade receivables and inventories of the Canadian subsidiary, without any additional financial covenants.

The Corporation continues to provide a guarantee and postponement of claim to the bank in the amount of \$17,000. The interest rate applicable on draws made against the facility is the Canadian bank's prime rate and the facility carries a nominal maintenance fee. The credit facility was not used as at December 31, 2019.

#### USA

The USA segment has a credit facility arrangement with a US bank for a variable rate revolving facility in the amount of \$1,250. The revolving facility is secured by all inventory and equipment of the USA subsidiary. The interest rate applicable on draws made against the facility is a variable rate based on an index plus 0.25%.

Under the facility, the USA subsidiary is subject to certain covenants, one of which is a financial covenant to maintain an Operating Cash Flow to Fixed Charge Coverage ratio of not less than 1.20:1. The second covenant is to maintain a Total Debt to Tangible Net Worth Ratio of less than 3.00 to 1.00. The credit facility was not used as at December 31, 2019.

The Corporation continues to follow a policy of carrying US dollar balances and borrowing in Canadian dollars, when required, rather than executing multiple cross-border foreign exchange transactions.

### 20.2 Long-term debt

The Corporation's long-term debt position is stated in the following table:

	Dec 31, 2019	Dec 31, 2018
<b>Balance at beginning of period</b>	<b>\$ 8,568</b>	<b>\$ 8,906</b>
Borrowings	-	-
Repayments	(351)	(338)
<b>Balance at end of period</b>	<b>\$ 8,217</b>	<b>\$ 8,568</b>

As at February 28, 2017, the Corporation obtained long-term debt from a Canadian bank to fund the purchase of a real estate transaction completed at a fixed interest rate of 3.25%. The long-term debt is being amortized over a 20 year amortization period and subject to renewal within 5 years. The long-term debt is eligible for prepayment privilege, subject to certain prepayment penalties and is supported by the Corporation's property. Borrowing and closing costs were expensed as incurred, as amounts are not material.

The Corporation is subject to certain covenants on its long-term debt, one of which is a financial covenant to maintain a Debt Service Coverage Ratio of not less than 1.25:1. The financial covenant ratio is tested on an annual, year-end basis. The financial covenant ratio was tested and the Corporation was compliant with the ratio as at December 31, 2019.

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

	Dec 31, 2019
Current within 12 months	\$ 361
Due within 12 to 24 months	373
Due within 25 to 36 months	385
Due within 37 to 48 months	398
Due within 49 to 60 months	411
Due after 60 months	6,289
<b>Total</b>	<b>\$ 8,217</b>

## 21. Lease obligations

The Corporation has lease obligations for contracts related to property (land, office space, manufacturing and storage facilities), vehicles, truck and trailers, office equipment and machinery and equipment. Lease obligations for automobiles and equipment are secured by the lessors' title to the automobiles and equipment.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. Discount rates during the year ended December 31, 2019 were between 1.2% and 18.1%, depending on the duration of the lease.

In March 2013, the Corporation entered into carefree triple net lease agreements as part of a sale leaseback arrangement with a Canadian REIT for four Canadian properties, each having a lease term of twenty years. Monthly rent expenses are fixed over the first five years of each term with predetermined rent increases after years five, ten and fifteen of the twenty-year terms. A renewal option exists for a second term of ten years with market rates for rent to be determined at the time of renewal. Under the terms of the lease agreements, the Corporation is responsible for the operating costs of the leased premises including all major repairs necessary to maintain the properties in a state of good order and condition.

As part of the sale leaseback transaction, a proportion of the consideration received was in units of the Canadian REIT which were pledged as security for the minimum rent obligations for the building leases over the first ten years of the lease term. The Canadian REIT units are held in an escrow account until the earlier of ten years from the initial lease date or the plan of arrangement is completed. The units had a fair value of \$1,483 (2018 - \$1,483) (Note 24). The Canadian REIT paid a final monthly distribution on the units on May 15, 2018. The distributions have been included in investment income in the consolidated statements of income.

**21.1** The Corporation's lease obligations as at December 31, 2019 and 2018 are stated in the following table:

	Minimum lease payments	
	Dec 31, 2019	Dec 31, 2018
Not later than one year	\$ 2,024	\$ 2,013
Later than one year and not later than five years	6,683	6,910
Later than five years	7,965	9,371
Total minimum lease payments	16,672	18,294
Less: amounts representing finance costs	6,826	7,685
<b>Present value of minimum lease payments</b>	<b>\$ 9,846</b>	<b>\$ 10,609</b>

Lease obligations are included in the consolidated balance sheets as follows:

	Dec 31, 2019	Dec 31, 2018
Current	\$ 1,167	\$ 1,122
Long-term	8,679	9,487
<b>Total</b>	<b>\$ 9,846</b>	<b>\$ 10,609</b>

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

Thousands of Canadian dollars



### 21.2 Lease obligations

	Property	Vehicles	Truck and trailers	Office equipment	Machinery and equipment	Total
<b>Balance at January 1, 2018</b>	<b>\$ 10,454</b>	<b>\$ 372</b>	<b>\$ 84</b>	<b>\$ 272</b>	<b>\$ 9</b>	<b>\$ 11,191</b>
Additions	-	168	129	-	-	297
Repayments	(652)	(235)	(29)	(103)	(6)	(1,025)
Disposal	-	(18)	-	(2)	-	(20)
Effect of foreign currency changes	127	17	7	15	-	166
<b>Balance at December 31, 2018</b>	<b>9,929</b>	<b>304</b>	<b>191</b>	<b>182</b>	<b>3</b>	<b>10,609</b>
Additions	211	230	-	36	-	477
Repayments	(825)	(190)	(41)	(98)	(3)	(1,157)
Disposal	-	-	-	(2)	-	(2)
Effect of foreign currency changes	(64)	(8)	(3)	(6)	-	(81)
<b>Balance at December 31, 2019</b>	<b>\$ 9,251</b>	<b>\$ 336</b>	<b>\$ 147</b>	<b>\$ 112</b>	<b>\$ -</b>	<b>\$ 9,846</b>
Current	\$ 885	\$ 179	\$ 42	\$ 61	\$ -	\$ 1,167
Long-term	8,366	157	105	51	-	8,679
<b>Total</b>	<b>\$ 9,251</b>	<b>\$ 336</b>	<b>\$ 147</b>	<b>\$ 112</b>	<b>\$ -</b>	<b>\$ 9,846</b>

Expense related to short-term leases during the year ended December 31, 2019 was \$37 (2018 - \$33). Expense related to low value leases during the year ended December 31, 2019 was \$2 (2018 - \$1).

Total cash outflows for lease payments during the year ended December 31, 2019 was \$2,046 (2018 - \$1,944).

Finance costs paid relating to lease obligations during the year ended December 31, 2019 was \$889 (2018 - \$919).

### 22. Reconciliation of liabilities arising from financing activities

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

	Cash changes			Non-cash changes			Dec 31, 2019
	Dec 31, 2018	Borrowings	Repayments	Additions	Disposal	Foreign exchange	
Long-term debt	\$ 8,568	\$ -	\$ (351)	\$ -	\$ -	\$ -	\$ 8,217
Lease obligations	10,609	-	(1,157)	477	(2)	(81)	9,846
<b>Total</b>	<b>\$ 19,177</b>	<b>\$ -</b>	<b>\$ (1,508)</b>	<b>\$ 477</b>	<b>\$ (2)</b>	<b>\$ (81)</b>	<b>\$ 18,063</b>

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## 23. Issued capital

### 23.1 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.

### 23.2 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. The strike price of each stock option is determined with reference to the market price of the Corporation's common shares. Each share option converts into one ordinary common share of the Corporation 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.

Under PFB's stock option plan, 500,000 stock options were granted to certain directors and senior management with an exercise price ranging from \$8.05 to \$11.75 per share. Options granted to directors vest immediately and expire on May 10, 2023. Options granted to senior management commence to vest on a graduated schedule and expire ten years subsequent to the grant date. The exercise price of the options was determined with reference to the price of PFB's stock on the Toronto Stock Exchange on the respective grant date.

The following table sets forth information concerning the inputs used in this model, share options granted and vested under the stock option plan as at December 31, 2019:

Number of options outstanding	Number of options exercised	Weighted average exercise price	Weighted average remaining life (years)	Grant date				
				Weighted average risk-free interest rate (%)	Weighted average expected life (years)	Estimated volatility (%)	Expected annual dividend yield (%)	Weighted average fair value per option
375,000	-	\$ 8.50	8.25	2.11	9.69	18.04	3.98	\$ 0.76
100,000	-	\$ 11.75	9.25	1.76	10.00	16.91	2.72	\$ 1.56
-	25,000	\$ 8.05	-	2.11	4.92	18.04	3.98	\$ 0.81
<b>475,000</b>	<b>25,000</b>	<b>\$ 9.13</b>	<b>8.46</b>					

At the grant date, each option is measured at the fair value determined using the Black-Scholes option pricing model. The risk-free interest rate is based on Government of Canada bonds with similar duration, at the grant date. The weighted average expected life is based from the grant date to the date on which the option is expected to be exercised. Expected volatility is estimated by considering historic share price volatility over the most recently completed annual reporting period.

The fair value of options granted with immediate vesting have an aggregate fair value of \$20 or \$0.81 per option, and are reported as a compensation expense on the grant date, with a corresponding increase in contributed surplus on the balance sheet. Options with vesting requirements have an aggregate fair value of \$442 or \$0.93 per option and are amortized on a straight-line basis over the ten year vesting period with the quarterly amortization amounts reported as compensation expense included as other losses on the income statement with the off-set to equity-settled employee benefits reserves on the balance sheet.

### 23.3 Restricted Share Units

On January 1, 2019, 100,000 Restricted Share Units ("RSU") were awarded to the Corporation's former Chief Operating Officer and current Director. Each restricted share unit gives the holder the right to receive one common



# Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

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share of the Corporation. The rights to acquire 100,000 common shares of the Corporation, at the election of the Director, vested immediately on the date of grant and will be payable, at the holder's option, in common shares. The share-based remuneration expense of the RSU is based on the fair value of the common shares on the date of grant using the closing market share price on the date prior to the grant, and the expected vesting conditions. The Corporation recorded a share-based remuneration expense for an amount of \$950 as a compensation expense in other losses in the income statement, with an offset to equity-settled employee benefits reserves, until the award becomes exercised, and will subsequently be reclassified as an increase in common shares. The RSU award is not remeasured subsequent to the initial grant date. The RSUs expire at the end of a three-year period, or on December 31, 2021. During the year ended December 31, 2019, there were no units exercised.

## 23.4 Normal Course Issuer Bid

In August 2019, 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 3, 2019 and ends no later than September 2, 2020. The renewal allows the Corporation to purchase up to a maximum of 50,000 of its common shares, representing 0.74% of the Corporation's 6,741,003 issued and outstanding common shares as at August 29, 2019, subject to daily maximum purchases of 1,000 common shares and other listed-issuer regulations. 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, 2019, the Corporation purchased for cancellation 50,000 of its common shares, under the current Bid, for an aggregate price of \$525, of which \$368 was charged to retained earnings as a premium on redemption of the common shares. For the year ended December 31, 2018, the Corporation did not purchase any of its common shares.

## 23.5 Dividends

In the first quarter of 2019, the Corporation's board of directors declared a regular quarterly dividend of \$0.08 (2018 - \$0.08) per common share which was paid in February of each year, respectively. The dividend payment in February 2019 amounted to \$538 (2018 - \$538).

In the second quarter of 2019, the Corporation's board of directors declared a regular quarterly dividend of \$0.09 (2018 - \$0.08) per common share which was paid in May of each year, respectively. The dividend payment in May 2019 amounted to \$607 (2018 - \$537).

In the third quarter of 2019, the Corporation's board of directors declared a regular quarterly dividend of \$0.09 (2018 - \$0.08) per common share which was paid in August of each year, respectively. The dividend payment in August 2019 amounted to \$606 (2018 - \$538).

In the fourth quarter of 2019, the Corporation's board of directors declared a regular quarterly dividend of \$0.09 (2018 - \$0.08) per common share which was paid in November of each year, respectively. The dividend payment in November 2019 amounted to \$607 (2018 - \$537).

In the year ended December 31, 2019, the Corporation's Board of Directors declared a one-time, special dividend of \$1.00 per common share which was paid on November 29, 2019 (2018 - \$nil).

Aggregate dividends paid in the year ended December 31, 2019, amounted to \$9,044 (2018 - \$2,150).

Dividends paid by PFB, in 2019, qualify as eligible dividends and satisfy the enhanced gross-up and dividend tax credit change enacted under Canadian tax law.

## 24. Financial instruments

### 24.1 Capital management

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

# Notes to the Consolidated Financial Statements

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The capital structure of the Corporation consists of net debt (long-term debt as detailed in Note 20 offset by cash and cash equivalents) and equity of the Corporation (comprising issued share 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, 2019 and 2018, is as outlined in the following table:

	As at December 31, 2019	As at December 31, 2018
Borrowings	\$ 8,217	\$ 8,568
Less: cash and cash equivalents	20,129	16,944
Surplus cash	\$ (11,912)	\$ (8,376)
Shareholders' equity	\$ 55,656	\$ 56,009
Net borrowings 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 (under Normal Course Issuer Bids); issuing new shares; and increasing or repaying any debt financing.

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.

## 24.2 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.

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

- Level 1: Fair value based on unadjusted quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities.
- Level 2: Fair value based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full term of the asset or liability.
- Level 3: Fair value based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement.

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

- The carrying amount of cash and cash equivalents, restricted cash, trade receivables, and trade and other payables approximate fair value due to the short-term maturity of those instruments.
- Marketable securities – restricted, consist of units of a Canadian REIT which are priced at \$8.10 per unit based on a plan of arrangement and remain in escrow.
- Long-term debt is carried at amortized cost. The estimated fair value of long-term borrowings has been estimated to approximate the amortized cost.

# Notes to the Consolidated Financial Statements

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A summary of the categories, measurement basis, hierarchy, carrying values and fair values of financial instruments held by the Corporation are stated in the following table:

Financial instrument	Category	Measurement	Hierarchy	December 31, 2019		December 31, 2018	
				Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	Assets at amortized cost	Amortized cost	Level 1	\$ 20,129	\$ 20,129	\$ 16,944	\$ 16,944
Cash - restricted	Assets at amortized cost	Amortized cost	Level 1	924	924	1,347	1,347
Restricted marketable securities	FVOCI	Fair value	Level 2	1,483	1,483	1,483	1,483
Trade receivables	Assets at amortized cost	Amortized cost	N/A	10,746	10,746	13,082	13,082
Trade and other payables	Financial liabilities at amortized cost	Amortized cost	N/A	(10,324)	(10,324)	(10,894)	(10,894)
Long-term debt	Financial liabilities at amortized cost	Amortized cost	Level 2	(8,217)	(8,217)	(8,568)	(8,568)

During the year ending December 31, 2019, there were no transfers between Level 1 and Level 2 fair value measurements.

During the year ending December 31, 2018, restricted marketable securities were transferred from Level 1 to Level 2 fair value measurements.

## 24.3 Credit risk

Credit risk is defined as the risk that the Corporation's counterparty in a transaction fails to meet or discharge their obligation to the Corporation.

The Corporation's exposure to credit risk is associated with trade receivables and the potential risk that any customer is unable to pay amounts due. Allowances for doubtful accounts and bad debts are estimated as at the balance sheet date. The amounts reported for trade receivables on the balance sheet are net of allowances for doubtful accounts 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 are required to make advance payments at various predefined stages of a sales contract. All payments received in advance of invoicing are reported as contract liabilities in 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 trade receivables 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 trade receivables reserve are expensed or credited, as applicable, to selling expenses in the consolidated statement of income.

PFB believes that credit risk associated with its trade receivables is limited for the following reasons:

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- Trade receivables balances are spread amongst a broad customer base which is dispersed across a wide geographic range;
- The aging profile of trade receivables balances is systematically monitored by management;
- Larger customers are offered a discount off invoice for prompt payment which is strictly enforced; and
- Payments for highly-customized orders are received in advance of products being shipped.

Potential credit risk associated with contractual holdback amounts pertaining to certain large projects is considered to be low as the customers involved are required to provide bonding to the owners of the projects. The credit risk on cash balances is limited because the counterparties are large commercial banks in Canada and the United States.

Payment of interest by customers arising on past due trade receivables balances is included in investment income in the consolidated statements of income.

## 24.4 Foreign currency risk

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

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

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 judgments 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 did not hold any foreign exchange contracts as at December 31, 2019.

The following tables detail the Corporation's exposure to foreign currency risk as at December 31, 2019 and 2018, including a sensitivity analysis to changes in foreign exchange rates:

	December 31, 2019			December 31, 2018		
	USD	Change in currency	Effect on after tax income (loss)	USD	Change in currency	Effect on after tax income (loss)
Net monetary assets	\$ 15,978	5.0 %	\$ 607	\$ 12,567	5.0 %	\$ 478
Net monetary liabilities	(4,286)	5.0 %	\$ (163)	(3,981)	5.0 %	\$ (152)

## 24.5 Interest rate risk

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

The Corporation's Canadian subsidiary had access to a revolving credit facility with a Canadian bank. The revolving credit facility had a limit of \$17,000, based on marginable trade receivables and inventories. The revolving credit facility was repaid and unused at December 31, 2019 (December 31, 2018 - \$10,000 unused). The Corporation's USA subsidiary had access to a revolving credit facility with a US bank. The revolving credit facility had a limit of \$1,250, based on all inventory and equipment. The revolving credit facility was unused as at December 31, 2019 (December 31, 2018 - \$1,250, unused).

## 24.6 Liquidity risk

Liquidity risk is defined as the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. Financial liabilities include principal and interest payments.

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The Corporation's liquidity risk is that it is not able to settle 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 by 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.

The Corporation has financial liabilities with the following maturities:

<b>As at December 31, 2019</b>	<b>Total</b>	<b>Current less than 12 months</b>	<b>Due within 12 to 24 months</b>	<b>Due within 25 to 36 months</b>	<b>Due within 37 to 48 months</b>	<b>Due after 48 months</b>
Trade and other payables	\$ 10,324	\$ 10,324	\$ -	\$ -	\$ -	\$ -
Long-term debt	10,746	623	623	623	623	8,254
Lease obligations	16,672	2,024	1,894	1,705	1,679	9,370
<b>Total</b>	<b>\$ 37,742</b>	<b>\$ 12,971</b>	<b>\$ 2,517</b>	<b>\$ 2,328</b>	<b>\$ 2,302</b>	<b>\$ 17,624</b>
<b>As at December 31, 2018</b>						
Trade and other payables	\$ 10,894	\$ 10,894	\$ -	\$ -	\$ -	\$ -
Long-term debt	11,369	623	623	623	623	8,877
Lease obligations	18,294	2,013	1,837	1,728	1,650	11,066
<b>Total</b>	<b>\$ 40,557</b>	<b>\$ 13,530</b>	<b>\$ 2,460</b>	<b>\$ 2,351</b>	<b>\$ 2,273</b>	<b>\$ 19,943</b>

## 25. 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 (Note 5.3). Details of transactions between the Corporation and other related parties are disclosed below.

### 25.1 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, 2019 and 2018, the Corporation had the following trading transactions with related parties:

<b>Related party</b>	<b>Nature of transactions</b>	<b>2019</b>	<b>2018</b>
E. Carruthers Trucking	Transportation services	\$ 2,168	\$ 2,163
Aeonian Capital Corporation	Management services	350	350
		<b>\$ 2,518</b>	<b>\$ 2,513</b>

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

<b>Related party</b>	<b>Nature of transactions</b>	<b>2019</b>	<b>2018</b>
E. Carruthers Trucking	Transportation services	\$ 75	\$ 81

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Aeonian Capital Corporation (“Aeonian”), and its affiliates, owned 2,972,168 (2018 - 2,991,168) common shares of the Corporation representing 44.4% (2018 – 44.5%) of the 6,691,003 issued and outstanding shares as at December 31, 2019. Aeonian is controlled by C. Alan Smith, Executive Chairman of PFB. The Corporation is charged fees by Aeonian for management services including those provided by Mr. Smith. The fees are reported under administrative expenses in the consolidated statement of income.

E. Carruthers Trucking is owned by a sibling of a member of the Board of PFB. The transactions have occurred in the normal course of operations at arm’s length and are based on standard commercial terms.

## 25.2 Compensation of key management personnel

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

	2019	2018
Short-term benefits <sup>1</sup>	\$ 2,017	\$ 1,477
Post-employments benefits	-	-
Other long-term benefits	-	-
Share-based payments	990	44
Termination benefits	-	-
	<b>\$ 3,007</b>	<b>\$ 1,521</b>

<sup>1</sup> Short-term benefits includes 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 and having regard to the performance of individuals and market trends.

## 26. Commitments and contingencies

### 26.1 Performance bonds

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

As at December 31, 2019, the Canadian segment did not have any performance bonds outstanding (December 31, 2018 - \$nil). In the USA, performance bonds in the amount of \$620 (December 31, 2018 - \$651) were pledged to various government agencies as at December 31, 2019.

### 26.2 Expenditures for property, plant and equipment and intangible assets

Under the terms of the carefree triple net property leases with a Canadian REIT, the Corporation’s subsidiary, Plasti-Fab Ltd., is responsible for all major repairs necessary to maintain the leased properties in a state of good order and condition over the duration of the leases (Note 21). As at December 31, 2019, no definitive schedule of major repairs has been determined.

The Corporation had the following commitments for property, plant and equipment and intangible assets as at December 31, 2019 and 2018:

	As at Dec 31, 2019	As at Dec 31, 2018
Property, plant and equipment	\$ 1,086	\$ 494
Intangible assets	-	58
	<b>\$ 1,086</b>	<b>\$ 552</b>

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## 26.3 Contingent liabilities

In the normal course of its operations, the Corporation and/or 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, consolidated results of operations or cash flows.

## 26.4 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.

## 26.5 Utility contracts

The Corporation has entered into physical supply, fixed-price utility contracts with a third party supplier for its own usage as follows:

Utility contract	Region	Usage coverage	Cost	Annual minimum purchase	Term
Electricity	Alberta	100 %	\$ 0.06/Kilowatt-hour	3,746,000 Kilowatt-hour	July 1, 2019 - June 30, 2024
Gas	Alberta	100 %	\$ 1.69/Gigajoule	80,100 Gigajoule	July 1, 2019 - June 30, 2022

## 27. Supplementary cash flow information

### 27.1 Changes in non-cash working capital

Increase (decrease)	2019	2018
Trade receivables	\$ 2,336	\$ (3,273)
Inventories	40	(1,640)
Prepaid expenses	(95)	100
Contract cost	(12)	52
Trade and other payables	(570)	2,157
Contract liabilities	(521)	1,306
	\$ 1,178	\$ (1,298)

### 27.2 Non-cash transactions excluded from the consolidated statement of cash flows

	2019	2018
Property, plant and equipment acquired with lease obligations	\$ 477	\$ 297

## 28. Subsequent events

### Declaration of regular quarterly dividend

On February 3, 2020, the Board of Directors declared a regular quarterly dividend of \$0.09 per common share payable on February 28, 2020, to shareholders of record at the close of business on February 14, 2020.



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### 29. Subsidiaries

Subsidiary	Principal activities	Place of incorporation and operation	Proportion of ownership interest and voting power held by the Corporation	
			Dec 31, 2019	Dec 31, 2018
<b>Canada</b>				
Plasti-Fab Ltd.	Manufacturing	Alberta, Canada	100%	100%
<b>USA</b>				
PFB America Corporation	Holding company	Delaware, USA	100%	100%
PFB Custom Homes Group, LLC	Design and construction services	Delaware, USA	100%	100%
PFB Manufacturing, LLC	Manufacturing	Delaware, USA	100%	100%
PFB America Real Estate, LLC	Real estate holdings	Delaware, USA	100%	100%

### 30. Approval of financial statements

The financial statements were approved by the Board of Directors and authorized for issue on March 12, 2020.

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## DIRECTORS

**Bruce M. Carruthers**  
Corporate Director

**Donald J. Douglas**  
Chairman Emeritus  
United Communities Inc.

**John K. Read**  
President  
Picante Capital Corp.

**Leslie A. Lundquist**  
Director  
Lundquist Investment Management Inc.

**C. Alan Smith**  
President  
Aeonian Capital Corporation

**William H. Smith, Q.C.**  
Principal, William H. Smith Professional Corp.

**Vanessa H. Rennie**  
Corporate Director

**Gordon G. Tallman**  
Corporate Director

## OFFICERS

**Robert Graham**  
Chief Executive Officer

**Mirko Papuga**  
Chief Financial Officer

**Red Ortega**  
Chief Information Officer

**William H. Smith, Q.C.**  
Corporate Secretary

## OPERATIONS

**Head Office**  
Calgary, Alberta

**Plasti-Fab Ltd.**  
EPS Moulding Operations:  
Delta, British Columbia  
Crossfield, Alberta  
Edmonton, Alberta  
Saskatoon, Saskatchewan  
Winnipeg, Manitoba  
Kitchener, Ontario  
Ajax, Ontario

Insulspan SIPS Division:  
Delta, British Columbia

**PFB America Corporation**  
PFB Custom Homes Group, LLC  
Carson City, Nevada  
Meridian, Idaho  
Blissfield, Michigan  
PFB Manufacturing, LLC  
Lebanon, Ohio  
Blissfield, Michigan  
Lester Prairie, Minnesota  
PFB America Real Estate, LLC

## WEBSITES

<a href="http://www.pfbcorp.com">www.pfbcorp.com</a>	<a href="http://www.advantageicf.com">www.advantageicf.com</a>
<a href="http://www.plastifab.com">www.plastifab.com</a>	<a href="http://www.insulspan.com">www.insulspan.com</a>
<a href="http://www.riverbendtf.com">www.riverbendtf.com</a>	<a href="http://www.pfbsustainability.com">www.pfbsustainability.com</a>
<a href="http://www.precisioncraft.com">www.precisioncraft.com</a>	<a href="http://www.pfbamerica.com">www.pfbamerica.com</a>
<a href="http://www.mtndesign.com">www.mtndesign.com</a>	<a href="http://www.timberscape.com">www.timberscape.com</a>
<a href="http://www.pointzerohomes.com">www.pointzerohomes.com</a>	

## BANKERS

Royal Bank of Canada

## TRANSFER AGENT AND REGISTRAR

Alliance Trust Company

## AUDITORS

Deloitte LLP

## STOCK EXCHANGE LISTING

The Toronto Stock Exchange

## STOCK SYMBOL

PFB

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