



First Quarter Report 2013

For the three month periods ended March 31, 2013 and 2012

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Management's discussion and analysis (MD&A)

The following discussion and analysis of the consolidated results of operations and financial condition of PFB Corporation ("PFB" or the "Corporation") should be read in conjunction with the Corporation's unaudited interim condensed consolidated financial statements for the three month periods ended March 31, 2013 and 2012 and notes thereto and in conjunction with the Corporation's annual MD&A for the year ended December 31, 2012.

PFB's unaudited condensed consolidated financial statements for the three month periods ended March 31, 2013 and 2012 have been prepared in accordance with International Accounting Standard ("IAS") 34, *Interim Financial Reporting* as issued by the International Accounting Standards Board ("IASB").

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

This MD&A has been prepared as of May 9, 2013. All figures in this MD&A are stated in thousands of Canadian dollars except where stated otherwise.

Advisory regarding forward looking statements

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

All forward-looking statements reflect management's current views as at May 9, 2013, with respect to future events, and they are subject to certain risks, uncertainties and assumptions that may cause the actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements.

Such risks, uncertainties and assumptions include, but are not limited to: general economic conditions; the cost and availability of capital; actions by government authorities; actions by regulatory authorities; availability of raw materials; changes in raw materials prices; currency exchange rates; interest rates; competitor activity; industry pricing pressures; seasonality of the construction industry; and weather related factors. A more detailed assessment of the risks that could cause actual results to materially differ from current expectations can be found in the Risk Management and Assessment section of the Corporation's annual MD&A or in the Risk Factors section of the Annual Information Form for the year ended December 31, 2012.

Supplementary financial measures

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

- (a) **Gross profit** – represents sales less cost of sales.
- (b) **Operating loss** – represents the loss from operations before gain on sale of real estate, revaluation of contingent shares, investment income, and finance costs.
- (c) **Cash used in operating activities** – represents cash flows used in operating activities before changes in non-cash working capital, changes in long-term trade receivables, and unrealized foreign exchange gains/losses relating to non-cash working capital.
- (d) **Cash used in operating activities per common share** – represents cash flows used in operating activities before changes in non-cash working capital, changes in long-term receivables, and unrealized foreign exchange gains/losses relating to non-cash working capital divided by the weighted average number of common shares issued and outstanding for the period.

Consolidated financial highlights (unaudited)

	Three month periods ended March 31	
	2013	2012
Sales	\$ 15,207	\$ 16,580
Cost of sales	(13,489)	(13,773)
Gross profit	1,718	2,807
Selling expenses	(1,991)	(2,106)
Administrative expenses	(1,196)	(1,283)
Administrative expenses – one-time, non-operating	(391)	(165)
Other gains (losses)	354	(166)
Operating loss	(1,506)	(913)
Gain on sale of real estate	7,297	-
Contingent shares – loss	(80)	(44)
Investment income	27	18
Finance costs	(148)	(104)
Income (loss) before taxes	5,590	(1,043)
Income taxes (expense) recovery	(462)	283
Net income (loss) for the period	\$ 5,128	\$ (760)
Earnings (loss) per share - \$ per share		
Basic	0.77	(0.12)
Diluted	0.77	(0.12)
Cash used in operating activities	\$ (2,121)	\$ (65)
Cash used in operating activities per common share - \$ per share	(0.32)	(0.01)

Summary of quarterly financial data

	2013		2012			2011		
	Qtr. 1	Qtr. 4	Qtr. 3	Qtr. 2	Qtr. 1	Qtr. 4	Qtr. 3	Qtr. 2
Sales	\$ 15,207	\$ 17,502	\$ 23,298	\$ 24,698	\$ 16,580	\$ 23,374	\$ 28,920	\$ 21,298
Gross profit	1,718	1,908	4,889	5,215	2,807	4,962	6,803	4,459
Operating income (loss)	(1,506)	(846)	581	1,281	(913)	1,581	3,226	827
Net income (loss)	5,128	(182)	316	750	(760)	972	2,870	581
Earnings (loss) per share								
Basic - \$ per share	0.77	(0.03)	0.05	0.12	(0.12)	0.14	0.44	0.09
Diluted - \$ per share	0.77	(0.03)	0.05	0.11	(0.12)	0.14	0.44	0.08

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

One-time events in the first quarter of 2013

In addition to normal operations in the first quarter of 2013, the following one-time events occurred which are more fully explained in later sections of this interim MD&A:

- Effective January 1, 2013, the Corporation adopted IAS 19 (Amendments) *Post-employment Benefits* which impacted the accounting treatment of defined benefit pension plans. Adopting the amended standard was mandatory and resulted in the restatement of certain balance sheet items impacted by the changes.
- On March 15, 2013, the Corporation completed a sale and leaseback transaction involving four of the Corporation's Canadian properties; and
- On March 15, 2013, the Corporation settled a contingent share agreement.

Consolidated results of operations

The Corporation has two reportable operating segments:

Operating segments	Description of segments
Canada	Manufacturing and sales operations located in Canada for expanded polystyrene (EPS) products and structural insulating panels <i>Brands:</i> PlastiSpan EPS Product Solutions; Advantage ICFS; and Insulspan SIPS
United States of America (USA)	Manufacturing and sales operations located in the USA for EPS products, building systems and structures, design, architectural services and installations <i>Brands:</i> PlastiSpan EPS Product Solutions; Insulspan SIPS; Riverbend Timber Framing; Precision Craft; M.T.N. Architects; Point Zero; and PC Design/Build

Sales

Consolidated sales were \$15,207 in the current quarter, a decrease of \$1,373 or 8.3% from \$16,580 in Q1/12. Both operating segments reported decreases in quarterly sales.

Gross profit

Consolidated gross profit was \$1,718 in the current quarter as compared to \$2,807 in Q1/12. Gross profit margin decreased to 11.3% of sales in the current quarter as compared to a gross profit margin of 16.9% in Q1/12. The margin squeeze in the current quarter was driven by the effects of significantly elevated raw material input costs as compared to a year earlier and lower sales volumes.

Other gains (losses)

Other gains in the current period consisted mainly of unrealized foreign exchange gains in the amount of \$338 whereas in the comparative quarter of 2012 unrealized foreign exchange losses amounted to \$147. Unrealized gains and losses are reflective of the effect that fluctuations in the exchange rate between the Canadian and U.S. dollars have on monetary assets and liabilities which are denominated in U.S. dollars.

Gain on sale of real estate

As at December 31, 2012, the Corporation had signed a letter of intent with a Canadian real estate income trust ("Canadian REIT") to sell and leaseback four of its owned properties and \$3,476 was reclassified on the balance sheet as at December 31, 2012 as assets held for sale.

On March 15, 2013, the Corporation completed the sale and leaseback transaction with gross proceeds from the sale amounted to \$25,326. Proceeds of \$22,793 were received in cash and \$2,533 was received in publicly-traded units of the Canadian REIT. A gain on sale in the amount of \$7,297 before tax was recognized in the consolidated statement of income in the first quarter of 2013. Costs capitalized as assets under finance leases amounted to \$14,598 and those costs will be depreciated on a straight-line basis over the term of the leases.

Proceeds received from the sale transaction were used to repay all bank debt, pay a special dividend, and for general working capital purposes. The marketable securities received were pledged as a security deposit under the leases.

For more information on the accounting treatment of the transaction and lease commitment see Notes 6, 8 and 12 to the condensed consolidated financial statements for the three month period ended March 31, 2013.

A summary of the sale and leaseback transactions is detailed in the following table:

	Total	Operating leases for land	Finance leases for buildings
Gross proceeds of sale - cash	\$ 22,793	\$ 9,995	\$ 12,798
Gross proceeds of sale – marketable securities	2,533	1,111	1,422
Total gross proceeds	25,326	11,106	14,220
Direct costs of transactions	(759)	(333)	(426)
Net proceeds	\$ 24,567	10,773	13,794
Capitalized direct costs attributed to finance leases		-	426
Carrying costs of land and buildings as at March 15, 2013		(3,476)	(14,196)
Gain on sale reported in consolidated statement of income		\$ 7,297	24
Deferred gain on sale in accordance with IAS 17 ¹			(24)
Reported gain on sale			\$ 0
Capitalized cost of assets under finance lease			\$ 14,598
Net cash proceeds reported in consolidated statement of cash flows	\$ 22,034	\$ 9,662	\$ 12,372
Interest rates underlying lease obligations	6.5%	5.0%	9.9%

¹ International Accounting Standard 17 - Leases

Contingent shares - loss

On March 15, 2013, the Corporation concluded a settlement of the 166,667 contingent common shares held in escrow. Under the terms of the settlement, 141,667 of the contingent shares were released from escrow and the remaining 25,000 shares were cancelled. Share capital was increased by \$955 to reflect representing the fair value of the released shares on the date of release. A fair value of \$169 was attributed to the 25,000 cancelled shares which was recorded as a realized gain in the consolidated statement of comprehensive income. Offsetting the gain was an unrealized loss of \$249 reflected the increase in fair value of the escrowed shares for the period from the start of the year up to the settlement date based on an increase in the quoted price of PFB's common shares.

Income (loss) before taxes

Inclusive of the gain on the sale of real estate, income before tax in the current quarter was \$5,590 as compared to a loss before taxes of \$1,043 in Q1/13. Excluding the one-time gain, a loss before tax of \$1,707 resulted in the current quarter with most of the adverse variance attributed to the shortfall in gross profit.

Income taxes

Income tax expense in the current quarter was \$462 as compared to income tax recovery of \$283 in Q1/12. The gain on the sale of real estate resulted in a current tax expense of \$1,099 comprising capital gains tax and recapture of undepreciated capital cost taxed at the Corporation's income tax rate. The tax expense in the quarter was partially offset by a deferred tax recovery of \$637 mainly attributed to losses reported in the period.

Net income (loss)

Net income in the current period, inclusive of the one-time, after tax gain of \$6,198 on the real estate transaction, was \$5,128 as compared to a loss of \$760 reported in Q1/12. Excluding the one-time gain, the loss from operations in the quarter was \$1,070, an adverse variance of \$310 as compared to the loss reported in Q1/12.

Basic earnings per common share in the current quarter were \$0.77 as compared to a loss per share of \$0.12 in Q1/12. Excluding the one-time gain which equated to earnings per share of \$0.94, a loss per share of \$0.17 resulted for the first quarter of 2013.

Reportable operating segments

The Corporation has two reportable operating segments, Canada and the USA, and each mirror the Corporation's accounting policies (as described in note 2 to the audited consolidated financial statements for 2012) and its internal controls and reporting systems. Segment performance predominantly focuses on the types of goods and services offered and their geographical locations of manufacturing and distribution.

The chief operating decision maker of each operating segment 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.

Segment revenues and income

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

Segment operating income or loss is determined without any allocation of central administration income or costs, revaluation of contingent shares, interest income, or finance costs.

Information regarding each reportable operating segment for the three month periods ended March 31, 2013 and 2012, is set out below:

	Segment sales revenues		Segment operating loss	
	2013	2012	2013	2012
Canada	\$ 12,853	\$ 13,999	\$ (521)	\$ (240)
USA	2,354	2,581	(732)	(685)
Total	\$ 15,207	\$ 16,580	(1,253)	(925)
Central administration – property income			268	329
Central administration – expenses			(130)	(152)
Central administration – one-time, non-operating			(391)	(165)
Central administration – gain on sale of real estate			7,297	-
Revaluation of contingent shares - loss			(80)	(44)
Interest income			27	18
Finance costs			(148)	(104)
Income (loss) before tax			\$ 5,590	\$ (1,043)

(a) Canada

Sales

Sales generated by the Canadian segment decreased from \$13,999 in Q1/12 to \$12,853 in the current quarter, a decrease of 8.2% or \$1,146. Sales demand for EPS foam products was sluggish in the current quarter, affected by both weather and ongoing economic uncertainty.

Sales of building systems products were also lower in the current quarter as compared to in Q1/12. Government action over mortgage rules, introduced last year, appears to have had a slowing effect on the residential construction sector which combined with unfavourable weather impacted sales.

Operating loss

The Canadian segment reported an operating loss of \$912 in the current quarter, an increase of \$672 over the operating loss of \$240 reported in Q1/12. The loss was reflective of decreased sales and a significant margin squeeze attributed to elevated raw material costs. Commodity prices continued on an upwards trend which resulted in all time pricing highs for styrene monomer, and similar trends were experienced with other raw materials. The Canadian dollar weakened slightly against the U.S. dollar, which is not helpful for margins. Various selling price increases were implemented at the beginning of Q2.

(b) USA

Sales

Sales in the USA segment decreased from \$2,581 in Q1/12 to \$2,354 in the current quarter, a decrease of \$227 or 8.8%. Notwithstanding, various internal and external indicators suggest a positive climate for improved sales over the balance of the year. The Lebanon, Ohio, facility continues to work at building a customer base for its EPS products.

Operating loss

An operating loss of \$732 in the current quarter was marginally higher than a loss of \$685 reported in Q1/12. Recent cost reduction programs which lowered overhead expenses have helped stabilize the effects that declining sales have had on earnings and the true benefits of those programs will emerge as sales recover. An immediate key objective is to improve margins across all products and services. The Lebanon facility will remain a drag on USA segment earnings until it successfully builds a critical mass of sustainable sales.

(c) Central administration

The most significant feature impacting central administration was a gain on the sale of real estate in the amount of \$7,297 described earlier in this MD&A.

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 Mar 31, 2013	As at Dec 31, 2012
Assets		
Segmented assets	\$ 55,355	\$ 36,593
Assets not allocated to segments:		
Cash and cash equivalents	10,384	1,698
Freehold land and buildings	6,525	20,827
Marketable securities – restricted	2,618	-
Assets held for sale	-	3,476
Total assets	<u>\$ 74,882</u>	<u>\$ 62,594</u>
Liabilities		
Segmented liabilities	\$ 10,516	\$ 11,651
Liabilities not allocated to segments:		
Contingent consideration	-	875
Long-term debt	-	6,408
Finance lease obligations	14,481	401
Central services taxes	1,111	209
Total liabilities	<u>\$ 26,108</u>	<u>\$ 19,544</u>
Net segmented assets		
Canada	\$ 38,361	\$ 19,176
USA	6,478	5,821

Other segment information

	Three month periods ended March 31	
	2013	2012
Additions to non-current assets:		
Canada	\$ 145	\$ 211
USA	7	19
Total	<u>\$ 152</u>	<u>\$ 230</u>
Depreciation and amortization:		
Canada	\$ 505	\$ 460
USA	164	85
Total	<u>\$ 669</u>	<u>\$ 545</u>
Inter-segment sales	<u>\$ 345</u>	<u>\$ 413</u>

Information about major customers

The Canadian operating segment includes sales revenues of \$1,989 (2012 - \$2,375) to the Corporation's only customer representing 10% or more of consolidated sales in the three month periods ended March 31, 2013 and 2012.

Liquidity

Sources of liquidity

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

Cash

Cash and cash equivalent balances as at March 31, 2013 and December 31, 2012 were as follows:

	March 31, 2013	December 31, 2012
Cash	\$ 10,384	\$ 1,698
Cash equivalents	-	-
	<u>\$ 10,384</u>	<u>\$ 1,698</u>

Cash balances significantly increased in the current quarter as a result of the net proceeds of sale received from the real estate transaction. Normally, in the first quarter of the Corporation's annual reporting cycle, cash and cash equivalent balances decrease and non-cash working capital balances increase (see table below). This trend was apparent in the current quarter before the inclusion of the sale proceeds

Summary of cash flows

A summary of cash flows for the three months ended March 31, 2013 and 2012 are shown in the following table.

	Three month periods ended March 31	
	2013	2012
Cash from (used in):		
Operating activities	\$ (6,299)	\$ (5,408)
Investing activities	9,517	(230)
Financing activities	5,419	(644)
Effects of foreign exchange on cash balances	49	(15)
Increase (decrease) in cash and cash equivalents	8,686	(6,297)
Cash and cash equivalents – beginning of period	1,698	9,504
Cash and cash equivalents – end of period	\$ 10,384	\$ 3,207

(a) Operating activities

Cash used in operating activities was \$6,299 in the current quarter, slightly higher than \$5,408 in Q1/12. The major factors affecting operating cash outflows in the current quarter included an increased loss from operations (excluding the non-cash gain on the sale of real estate) and increases in non-cash working capital described more fully below.

(b) Investing activities

Cash flows from investing activities were \$9,517 in the current quarter which comprised cash proceeds from the disposal of land in the net amount after costs of \$9,662 offset by relatively minor purchases of property, plant and equipment (PP&E) which amounted to \$145. In Q1/12, purchases of PP&E were \$230.

(c) Financing activities

Cash flows from financing activities in the first quarter of 2013 were \$5,419, as compared to \$644 of cash used in financing activities in Q1/12. From the net proceeds of sale of real estate, the Corporation repaid all bank debt which amounted to \$6,421. Dividends paid in the current quarter were \$392 as compared to \$406 in Q1/12. The difference represented a return of dividends paid on the cancelled escrowed shares.

Change in non-cash working capital

The changes in non-cash working capital amounts which occurred in the first quarter of 2013 are shown in the following table.

	Mar 31, 2013	Dec 31, 2012	Increase (Decrease)
Trade receivables	\$ 10,600	\$ 8,321	\$ 2,279
Inventories	9,607	7,754	1,853
Prepaid expenses	734	555	179
Income tax recoverable (payable)	(907)	14	(921)
Trade and other payables	(6,359)	(7,595)	1,236
Deferred revenue	(1,842)	(1,435)	(407)
	\$ 11,833	\$ 7,614	\$ 4,219

Non-cash working capital increased in the current quarter by \$4,219.

The trade receivables balance includes a contractual holdback in the amount of \$1,019 relating to a large public works contract which is expected to be completed, and the holdback amount paid, during 2013. Excluding the holdback amount, the trade receivables balance is reflective of increased sales in the last month of the quarter. Inventory values have increased due to the combined effects of elevated raw material input costs and seasonal builds of work-in-process and finished goods inventories. In addition to the usual seasonal build, inventories were manufactured for a project originally scheduled to ship in the current quarter but were subsequently re-scheduled for shipment in the second quarter by the customer.

An income tax payable balance of \$907 as at March 31, 2013, was inclusive of tax in the amount of \$1,099 arising on the gain on the sale of real estate. The tax is not required to be paid until February 2014.

The decrease in trade and other payables of \$1,236 was largely influenced by the timing of when raw materials payments were made. Deferred revenue increased by \$407, reflective of improving levels of confirmed contracts in the USA segment.

Capital resources

Capital structure

The Corporation's capital structure as at March 31, 2013 and December 31, 2012, is outlined in the following table:

	March 31, 2013	December 31, 2012
Long-term debt	\$ -	\$ 6,409
Shareholders' equity	48,774	43,050
	\$ 48,774	\$ 49,459

Share capital

Subject to a settlement agreement concluded in March 2013, 141,667 of the original 166,667 issued and outstanding contingent shares were released from escrow. The fair value of the released shares on the day of settlement was \$955 which was booked to share capital. Additionally, the remaining 25,000 contingent shares were cancelled, thereby reducing the number of issued and outstanding shares to 6,739,203.

A summary of the Corporation's share capital position as at March 31, 2013 and December 31, 2012, is set forth in the following table:

	March 31, 2013 (Three Months)		December 31, 2012 (Twelve Months)	
	No. of Shares	Amount	No. of Shares	Amount
Balance, beginning of period	6,764,203	\$ 20,064	6,764,203	\$ 20,064
Settlement of contingent shares released from escrow	-	955	-	-
Cancellation of contingent shares	(25,000)	-	-	-
Balance, end of period	6,739,203	\$ 21,019	6,764,203	\$ 20,064

Share-based options

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

Dividends

During the first quarter of 2013, the Corporation's board of directors declared a regular quarterly dividend of \$0.06 (2012 - \$0.06) per common share which was paid on February 28, 2013. Dividends paid by the Corporation qualify as eligible dividends and satisfy the enhanced gross-up and dividend tax credit change enacted under Canadian tax law.

Normal course issuer bid

In the three month periods ended March 31, 2013 and 2012, the Corporation did not purchase any of its common shares under normal course issuer bids.

Long-term debt

As at March 31, 2013, the Corporation had repaid all of its bank debt from the proceeds of sale of the real estate. Long-term debt at the beginning of the year was \$6,409. Plasti-Fab maintains revolving and non-revolving credit facilities with a Canadian bank. As at March 31, 2013, the revolving credit facility had an unused limit of \$8,000 (limit is subject to eligible trade receivables and inventories) and the non-revolving facility had an unused limit of \$4,300. The credit facilities contain certain covenants with which the Corporation was in compliance as at March 31, 2013.

Finance lease obligations

Historically, finance lease obligations consisted of leases for automobiles and materials handling equipment. In the current quarter, as part of a sale and leaseback of real estate transaction, new finance lease obligations of \$14,220 attributed to buildings leases were recorded (see the commitments and contractual obligations section below).

Commitments and contractual obligations

In the first quarter of 2013, a significant change in the Corporation's commitments and contractual obligations resulted from the real estate leaseback transaction.

The leaseback transactions resulted in new commitments for Plasti-Fab (the tenant of the leases) in the form of both operating and finance leases. The leasing commitments are for a term of twenty years with a renewal option for a further term of ten years. Monthly payments required under operating leases are paid at the beginning of each month and expensed in the period payments are made. Monthly payments required under finance leases are also paid at the beginning of each month and actual payments are applied to paying down the finance obligation on the balance sheet and to finance costs which are expensed in the statement of comprehensive income. Consequently, a larger proportion of the monthly payments are allocated to finance costs in the early years of the leases.

The tables below set out the Corporation's minimum lease commitments under both types of leases as at March 31, 2013, and December 31, 2012:

(a) Operating leases

	Mar 31, 2013	Dec 31, 2012
Not later than one year	\$ 1,395	\$ 839
Later than one year and not later than five years	3,632	1,508
Later than five years	10,203	30
	\$ 15,230	\$ 2,377

Under the terms of the new triple net leases, and in addition to the required minimum lease payments, Plasti-Fab is responsible for the operating costs of each of the leased properties including major repairs necessary to maintain the properties in a state of good order and condition.

(b) Finance leases

	Minimum lease payments	
	Mar 31, 2013	Dec 31, 2012
No later and one year	\$ 1,662	\$ 198
Later than one year and not later than five years	6,198	226
Later than five years	27,339	-
Total minimum lease payments	35,199	424
Less: amounts representing finance costs	20,718	24
Present value of minimum lease payments	\$ 14,481	\$ 400

Finance lease obligations are classified on the condensed consolidated balance sheets as stated in the table below:

	Mar 31, 2013	Dec 31, 2012
Current	\$ 247	\$ 187
Long-term	14,234	213
Total	\$ 14,481	\$400

(c) Performance bonds

The aggregate value of performance bonds issued to contractors by Plasti-Fab as at March 31, 2013, was \$28,219 as compared to \$25,719 as at December 31, 2012, an increase of \$2,500.

(d) Expenditures for property, plant and equipment

Under the terms of the carefree triple net property leases, Plasti-Fab 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. No definitive schedule of major repairs has been determined at this time.

Financial instruments

The Corporation received the equivalent of \$2,533 of the proceeds of sale from the real estate transaction in the form of units of the Canadian REIT. The units have been pledged as security for the minimum rent obligations for a period of ten years during which time they will be held in an escrow account. The units have been classified as long-term marketable securities (restricted) on the condensed consolidated balance sheet as at March 31, 2013. The units will be marked-to-market based on the quoted price for the units at the end of each accounting period with unrealized gains or losses recorded in other comprehensive income. The Canadian REIT currently pays monthly distributions on its units and distributions paid on the escrowed units will flow to the Corporation as they are paid and will be reported as income in the consolidated statement of income.

Defined benefit pension plan

Effective January 1, 2013, the Corporation adopted IAS 19 (Amendments) *Post-employment Benefits* which impacted the accounting treatment for defined benefit pension plans. The transition to the revised standard was required to be applied retrospectively with any changes in valuation at the beginning of the comparative period booked directly to retained earnings. Subsequent changes in valuation of the defined benefit pension liability were reflected in other comprehensive income (“OCI”).

The amendments to the standard make important improvements by: (1) eliminating the option to defer the recognition of gains and losses known as the “corridor” method; (2) streamlining the presentation of changes in assets and liabilities arising from defined benefit plans, including requiring re-measurements to be presented in OCI, thereby separating those changes from changes that many perceive to be the result of an entity’s day-to-day operations; and (3) enhancing the disclosure requirements for defined benefit plans, providing better information about the characteristics of defined benefit plans and the risks that entities are exposed to through participating in those plans.

Key considerations at the transition date include the following:

- The Corporation’s defined benefit plan has no non-vested past service cost
- The Corporation had previously elected to recognize gains and losses in future years using the corridor approach so the valuation results must be restated in order to obtain a zero balance.

The below table outlines the impact of restated amounts on the relevant balance sheet accounts as at January 1, 2012, March 31, 2012, and December 31, 2012:

	Defined benefit pension plan asset (liability)	Deferred tax effect asset (liability)	Net adjustment to retained earnings	Net adjustment to accumulated OCI
January 1, 2012				
Previously reported	\$ 213	\$ (54)		
Restated	(359)	91		
Net change	(572)	145	\$ 427	\$ -
March 31, 2012				
Previously reported	213	(54)		
Restated	(359)	91		
Net change	(572)	145	427	-
December 31, 2012				
Previously reported	271	(68)		
Restated	(379)	96		
Net change	\$ (650)	\$ 164	\$ 427	\$ 59

Current Outlook

Operating parameters within the industry continue to exhibit regional pockets of market uncertainty. Elevated raw material costs have persisted and resulted in a squeeze in profit margins. Selling price increases have been implemented but are subject to competitive pressures. Pricing discipline remains a key area of focus.

The order book for products in Canada remains positive and we remain cautiously optimistic regarding the remainder of the year. During the first quarter a large scheduled job was slow to start and pushed out into the second quarter.

Operations in the United States are exhibiting positive signs. The recovery in the residential construction market in the United States is expected to steadily improve in 2013. The EPS facility located in Lebanon, Ohio, is focused on building a solid customer base.

The sale and leaseback transaction completed in the first quarter strengthened the Corporation's balance sheet and funded repayment of all bank debt.

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 the Corporation's financial condition, results of operations, or liquidity.

Disclosure controls and procedures

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

An evaluation of the effectiveness of the design and operation of the Corporation's disclosure controls and procedures was conducted as of March 31, 2013, under the supervision of the CEO and CFO. Based on this evaluation, the CEO and CFO have concluded that the Corporation's disclosure controls and procedures, as defined in National Instrument 52-109, *Certification of Disclosure in Issuers' Annual and Interim Filings*, have been designed to provide reasonable assurance that material information relating to the Corporation, including its consolidated subsidiaries, is made known to them by others in those entities, and to provide reasonable assurance that accurate and complete disclosures in annual and interim filings is completed within the time periods specified.

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

Internal controls over financial reporting

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

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

As at March 31, 2013, the CEO and CFO assessed the effectiveness of the Corporation's internal control over financial reporting and concluded that it was effective and that no material weaknesses in the Corporation's internal control over financial reporting had been identified.

Critical accounting policies and estimates

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

The Corporation's annual audited consolidated financial statements for the year ended December 31, 2012 and its 2012 annual MD&A outlined the accounting policies and estimates that are critical to the understanding of the Corporation's results of operations and its businesses.

Subsequent event

On May 9, 2013, the Corporation's board of directors declared a regular quarterly dividend of \$0.06 per common share plus a one-time special dividend of \$1.00 per common share, for a total combined dividend of \$1.06 per common share. The combined dividend will be paid on May 31, 2013, to shareholders of record at the close of business on May 15, 2013.

Related party transactions

There have been no material changes in related party transactions in the first quarter of 2013.

Risk management and assessment

Detailed descriptions of the Corporation's risk management and assessment can be found in the Corporation's annual MD&A for 2012. There have been no material changes in the uncertainties and material risk factors facing the Corporation since December 31, 2012.

Accounting standards changes

The Corporation adopted the following new and amended accounting standards effective January 1, 2013:

IAS 19 (Amended) – Employee benefits

The Corporation adopted IAS 19 (Amended) - *Employee benefits* effective January 1, 2013. Adoption of this standard required retrospective application so the balance sheets as at January 1, 2012, March 31, 2012, and December 31, 2012, were restated in the condensed consolidated financial statements. The restated changes in defined benefit obligations and plan assets were adjusted through retained earnings. The effects of the change upon adoption are highlighted in the defined benefit pension plan section earlier in this MD&A.

Effective January 1, 2013, the Corporation now recognizes changes in defined benefit obligations and plan assets when they occur rather than utilizing the corridor approach. Actuarial gains and losses are recognized immediately through other comprehensive income.

IFRS 7 (Amendments) – Financial Instruments: Disclosures

The amendments effect reporting where there are offsetting financial assets and financial liabilities. The amendment is intended to help investors and other users to better assess the effect or potential effect of offsetting arrangements on a company's financial position. Adopting the amended standard did not have a material impact on PFB's financial statements.

IFRS 13 – Fair Value Measurement

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The application of IFRS 13 did not materially impact the fair value measurements performed by the Corporation.

Condensed Consolidated Financial Statements

Notice of non-auditor review of condensed consolidated financial statements for the three month periods ended March 31, 2013 and 2012

The accompanying unaudited condensed consolidated financial statements of PFB Corporation for the three month periods ended March 31, 2013 and 2012 are the responsibility of the Corporation's management.

The Corporation's independent auditor, Deloitte LLP, has not performed a review of these condensed consolidated financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of condensed consolidated financial statements by an entity's auditor.

Dated: May 9, 2013

Consolidated Statements of Income (Loss)

For the three month periods ended March 31, 2013 and 2012

Thousands of Canadian dollars, except per share amounts



	Note	Three month periods ended March 31	
		2013	2012
Sales		\$ 15,207	\$ 16,580
Cost of sales		(13,489)	(13,773)
Gross profit		1,718	2,807
Selling expenses		(1,991)	(2,106)
Administrative expenses		(1,196)	(1,283)
Administrative expenses – one-time, non-operating		(391)	(165)
Other gains (losses)		354	(166)
Operating loss		(1,506)	(913)
Gain on sale of real estate	6	7,297	-
Contingent shares – loss	10	(80)	(44)
Interest income		27	18
Finance costs		(148)	(104)
Income (loss) before tax		5,590	(1,043)
Income tax (expense) recovery		(462)	283
Net income (loss) for the period		\$ 5,128	\$ (760)
Earnings (loss) per share - \$ per share			
Basic	4	\$ 0.77	\$ (0.12)
Diluted	4	\$ 0.77	\$ (0.12)
Weighted average number of common shares outstanding			
Basic	4	6,622,721	6,597,536
Diluted	4	6,622,721	6,597,536

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

Consolidated Statements of Comprehensive Income (Loss)

For the three month periods ended March 31, 2013 and 2012

Thousands of Canadian dollars



	Note	Three months periods ended March 31	
		2013	2012
Net income (loss) for the period		\$ 5,128	\$ (760)
Other comprehensive income (loss):			
Foreign currency translation adjustments			
Exchange differences on translating foreign operations (net of tax \$nil)		(31)	-
Available for sale financial assets	11		
Unrealized gains on available for sale financial assets		85	-
Deferred income tax expense on unrealized gains		(21)	-
		64	-
Other comprehensive income for the period		33	-
Comprehensive income (loss) for the period		\$ 5,161	\$ (760)

All comprehensive income (loss) for the period is attributable to the shareholders of the Corporation

Consolidated Balance Sheet

As at March 31, 2013 and 2012, December 31, 2012, and January 1, 2012
Thousands of Canadian dollars



	Note	March 31, 2013	March 31, 2012 Restated	December 31, 2012 Restated	January 1, 2012 Restated
ASSETS					
Current assets					
Cash and cash equivalents		\$ 10,384	\$ 3,207	\$ 1,698	\$ 9,504
Trade receivables		10,600	10,112	8,321	8,348
Inventories	5	9,607	8,986	7,754	7,766
Income taxes recoverable		-	53	14	-
Prepaid expenses		734	795	555	556
Assets held for sale		-	-	3,476	-
Total current assets		31,325	23,153	21,818	26,174
Non-current assets					
Marketable securities - restricted	6, 11	2,618	-	-	-
Long-term trade receivables		-	704	-	621
Property, plant and equipment	6	36,275	36,549	36,442	37,127
Intangible assets		1,489	1,398	1,513	1,459
Goodwill		1,906	1,709	1,878	1,731
Deferred income tax assets		1,269	461	943	204
Total non-current assets		43,557	40,821	40,776	41,142
Total assets		\$ 74,882	\$ 63,974	\$ 62,594	\$ 67,316
LIABILITIES					
Current Liabilities					
Trade and other payables		\$ 6,359	\$ 6,844	\$ 7,595	\$ 8,309
Deferred revenue		1,842	2,435	1,435	2,349
Income taxes payable		907	-	-	601
Finance lease obligations	8	247	206	187	209
Long-term debt	7	-	716	5,490	733
Total current liabilities		9,355	10,201	14,707	12,201
Non-current liabilities					
Finance lease obligations	8	14,234	200	213	225
Long-term debt	7	-	6,243	919	6,420
Contingent consideration	10	-	1,000	875	956
Accrued defined benefit pension plan	2, 9	379	359	379	359
Deferred income tax liabilities		2,140	2,532	2,451	2,550
Total non-current liabilities		16,753	10,334	4,837	10,510
Total liabilities		26,108	20,535	19,544	22,711
SHAREHOLDERS' EQUITY					
Common shares		21,019	20,064	20,064	20,064
Equity-settled employee benefits reserve		-	384	-	384
Accumulated other comprehensive income		32	54	(1)	54
Retained earnings		27,723	22,937	22,987	24,103
Shareholders' equity		48,774	43,439	43,050	44,605
Total liabilities and shareholders' equity		\$ 74,882	\$ 63,974	\$ 62,594	\$ 67,316

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

Consolidated Statements of Changes in Equity

As at March 31, 2013 and 2012, December 31, 2012, and January 1, 2012

Thousands of Canadian dollars, except number of shares



	Common shares			Accumulated other comprehensive income					Retained earnings	Total
	Note	No. of Shares	Share capital	Equity-settled employee benefits reserve	Foreign currency translation adjustments	Unrealized gain on available for sale assets net of taxes	Defined benefit pension plan valuation change net of taxes			
Balance at January 1, 2012		6,764,203	\$ 20,064	\$ 384	\$ 54	\$ -	\$ -	\$ 24,530	\$ 45,032	
Adoption of IAS 19, net of tax	9	-	-	-	-	-	-	(427)	(427)	
Restated balance at January 1, 2012		6,764,203	20,064	384	54	-	-	24,103	44,605	
Loss for the period		-	-	-	-	-	-	(760)	(760)	
Other comprehensive income for the period, net of tax		-	-	-	-	-	-	-	-	
Total comprehensive loss for the period		-	-	-	-	-	-	(760)	(760)	
Payment of dividends	10	-	-	-	-	-	-	(406)	(406)	
Restated balance at March 31, 2012		6,764,203	20,064	384	54	-	-	22,937	43,439	
Net income for the period		-	-	-	-	-	-	885	885	
Other comprehensive income for the period, net of tax		-	-	-	4	-	-	-	4	
Total comprehensive income for the period		-	-	-	4	-	-	885	889	
Payment of dividends	10	-	-	-	-	-	-	(1,219)	(1,219)	
Reclassification of the fair value of expired share options		-	-	(384)	-	-	-	384	-	
Adoption of IAS 19, net of tax	9	-	-	-	-	-	(59)	-	(59)	
Restated balance at December 31, 2012		6,764,203	\$ 20,064	\$ -	\$ 58	\$ -	\$ (59)	\$ 22,987	\$ 43,050	
Net income for the period		-	-	-	-	-	-	5,128	5,128	
Other comprehensive income for the period, net of tax		-	-	-	(31)	64	-	-	33	
Total comprehensive income (loss) for the period		-	-	-	(31)	64	-	5,128	5,161	
Payment of dividends	10	-	-	-	-	-	-	(392)	(392)	
Settlement of contingent shares held in escrow	10	-	955	-	-	-	-	-	955	
Cancellation of contingent shares held in escrow	10	(25,000)	-	-	-	-	-	-	-	
Balance at March 31, 2013		6,739,203	\$ 21,019	\$ -	\$ 27	\$ 64	\$ (59)	\$ 27,723	\$ 48,774	

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

Consolidated Statement of Cash Flows

For the three month periods ended March 31, 2013 and 2012

Thousands of Canadian dollars



	Note	Three month periods ended March 31	
		2013	2012
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES			
Net income (loss) for the period		\$ 5,128	\$ (760)
Adjustments for items not affecting cash and cash equivalents:			
Depreciation and amortization expense:			
Cost of sales	6	790	661
Selling expenses	6	82	85
Administrative expenses	6	64	38
Loss on disposal of property, plant and equipment	6	7	3
Gain on sale of real estate	6	(7,297)	-
Revaluation of contingent consideration – loss	10	80	44
Deferred income tax		(637)	(283)
Unrealized foreign exchange (gain) loss		(338)	147
		(2,121)	(65)
Changes in non-cash working capital	15	(4,219)	(5,256)
Changes in long-term trade receivables		-	(83)
Unrealized foreign exchange (gain) loss relating to non-cash working capital		41	(4)
Net cash used in operating activities		(6,299)	(5,408)
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES			
Purchase of property, plant and equipment	6	(145)	(230)
Cash proceeds from disposal of land, net of costs	6	9,662	-
Net cash from (used in) investing activities		9,517	(230)
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES			
Repayment of long-term debt	7	(6,421)	(182)
Leaseback financing, net of costs	6	12,372	-
Repayment of finance lease obligations	8	(140)	(56)
Dividends paid	10	(392)	(406)
Net cash used in financing activities		5,419	(644)
Effects of exchange rate changes on the balance of cash held in foreign currencies – gain (loss)		49	(15)
Net increase (decrease) in cash and cash equivalents		8,686	(6,297)
Cash and cash equivalents at the beginning of the period		1,698	9,504
Cash and cash equivalents at the end of the period		\$ 10,384	\$ 3,207
Supplementary cash flow information - cash flows for interest and taxes			
Cash interest paid		\$ (148)	\$ (104)
Cash interest received		26	18
Income tax paid		(178)	(649)

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

Notes to the Condensed Consolidated Financial Statements

For the three month periods ended March 31, 2013 and 2012

Thousands of Canadian dollars, except per share amounts



1. General information

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

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

2. Presentation, accounting policies and accounting standards

2.1 Basis of presentation

The condensed consolidated financial statements for the three month periods ended March 31, 2013 and 2012, have been prepared in accordance with International Accounting Standard (IAS) 34 Interim Financial Reporting using the accounting policies adopted by the Corporation in its consolidated financial statements for the years ended December 31, 2012 and 2011.

The condensed consolidated financial statements should be read in conjunction with the Corporation’s audited consolidated financial statements for the years ended December 31, 2012 and 2011, which were prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board.

Financial information is presented in Canadian dollars which is the functional currency of the Corporation.

The results of operations for the period are not necessarily indicative of the results of operations for the full year. The Corporation’s business is subject to seasonal variations and uncertainties.

The condensed consolidated financial statements were approved by the board of directors of the Corporation at a meeting held on May 9, 2013.

2.2 Accounting policies and standards adopted by the Corporation

The accounting policies adopted in the preparation of the condensed consolidated financial statements are consistent with those followed in the preparation of the Corporation’s annual consolidated financial statements for the year ended December 31, 2012, except for the adoption of new or amended standards which had an effective date of January 1, 2013 as detailed below.

IFRS 7 (Amendments) – Financial Instruments: Disclosures

The amendments effect reporting where there are offsetting financial assets and financial liabilities. The amendment is intended to help investors and other users to better assess the effect or potential effect of offsetting arrangements on a company’s financial position. Adopting the amended standard did not have a material impact on PFB’s consolidated financial statements.

IFRS 13 – Fair Value Measurement

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The application of IFRS 13 did not materially impact the fair value measurements performed by the Corporation.

IAS 19 (Amended) – Employee benefits

The Corporation adopted IAS 19 (Amended) - *Employee benefits* effective January 1, 2013. Adoption of this standard required retrospective application so the balance sheets as at January 1, 2012, March 31, 2012, and December 31, 2012, have been restated in these condensed consolidated financial statements. The restated changes in defined benefit obligations and plan assets have been adjusted through retained earnings. The effects of adoption are included in Note 9.

Effective January 1, 2013, the Corporation now recognizes changes in defined benefit obligations and plan assets when they occur rather than utilizing the corridor approach. Actuarial gains and losses are recognized immediately through other comprehensive income.

Notes to the Condensed Consolidated Financial Statements

For the three month periods ended March 31, 2013 and 2012

Thousands of Canadian dollars, except per share amounts



3. Segment information

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

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

In April 2012, the Corporation acquired expanded polystyrene moulding assets, consisting of property, plant and equipment located in Lebanon, Ohio, USA. The newly-acquired assets complement the vertically-integrated products strategy in the United States and, accordingly, the assets are included as part of the USA operating segment.

3.1 Segment revenues and income

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

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

Information regarding each reportable operating segment for three month periods ended March 31, 2013 and 2012 is set out below:

	Segment sales revenues		Segment operating loss	
	2013	2012	2013	2012
Canada	\$ 12,853	\$ 13,999	\$ (521)	\$ (240)
USA	2,354	2,581	(732)	(685)
Total	\$ 15,207	\$ 16,580	(1,253)	(925)
Central administration – property income, net			268	329
Central administration – expenses			(130)	(152)
Central administration – one-time, non-operating			(391)	(165)
Central administration – gain on sale of real estate			7,297	-
Revaluation of contingent shares –loss			(80)	(44)
Interest income			27	18
Finance costs			(148)	(104)
Income (loss) before tax			\$ 5,590	\$ (1,043)

Notes to the Condensed Consolidated Financial Statements

For the three month periods ended March 31, 2013 and 2012

Thousands of Canadian dollars, except per share amounts



3.2 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 Mar 31, 2013	As at Dec 31, 2012
Assets		
Segmented assets	\$ 55,355	\$ 36,593
Assets not allocated to segments:		
Cash and cash equivalents	10,384	1,698
Freehold land and buildings	6,525	20,827
Marketable securities - restricted	2,618	-
Assets held for sale	-	3,476
Total assets	<u>\$ 74,882</u>	<u>\$ 62,594</u>
Liabilities		
Segmented liabilities	\$ 10,516	\$ 11,651
Liabilities not allocated to segments:		
Contingent consideration	-	875
Long-term debt	-	6,408
Finance lease obligations	14,481	401
Central services taxes	1,111	209
Total liabilities	<u>\$ 26,108</u>	<u>\$ 19,544</u>
Net segmented assets		
Canada	\$ 38,361	\$ 19,176
USA	6,478	5,821

3.3 Other segment information

	Three month period ended March 31	
	2013	2012
Additions to non-current assets:		
Canada	\$ 145	\$ 211
USA	7	19
Total	<u>\$ 152</u>	<u>\$ 230</u>
Depreciation and amortization:		
Canada	\$ 505	\$ 460
USA	164	85
Total	<u>669</u>	<u>\$ 545</u>
Inter-segment sales	<u>\$ 345</u>	<u>\$ 413</u>

3.4 Information about major customers

The Canadian operating segment includes sales revenues of \$1,989 (2012 - \$2,375) with the Corporation's only customer representing 10% or more of consolidated sales in the three month periods ended March 31, 2013 and 2012.

Notes to the Condensed Consolidated Financial Statements

For the three month periods ended March 31, 2013 and 2012

Thousands of Canadian dollars, except per share amounts



4. Earnings (loss) per share

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

	Three month period ended March 31	
	2013	2012
Net income (loss) for the period	\$ 5,128	\$ (760)
Weighted average number of common shares outstanding - basic	6,622,721	6,597,536
Effect of:		
Contingent consideration ¹	-	-
Weighted average number of common shares outstanding - diluted	6,622,721	6,597,536
Earnings (loss) per share:		
Basic	\$ 0.77	\$ (0.12)
Diluted	\$ 0.77	\$ (0.12)

¹ In February 2011, 166,667 common shares were issued as contingent consideration as part of the acquisition of the Precision Craft group of companies and the shares were held in an escrow account subject to an earn-out agreement. On March 15, 2013, 141,667 of the contingent shares were released from escrow under a settlement agreement and the remaining 25,000 shares were cancelled. The released shares are proportionately included in the basic weighted average number of common shares outstanding in the above table since the date of settlement. In the prior year period, the contingent shares were excluded from the diluted number of common shares outstanding as they were anti-dilutive.

5. Inventories

	As at Mar 31, 2013	As at Dec 31, 2012
Raw materials	\$ 4,274	\$ 3,959
Work in progress	1,917	1,476
Finished goods	3,416	2,319
	\$ 9,607	\$ 7,754

The cost of inventories recognized as an expense in cost of sales during the three month period ended March 31, 2013 was \$12,380 (2012 - \$11,535), respectively.

Included in the cost of inventories recognized as an expense during the three month period ended March 31, 2013, includes \$24 (2012 - \$13) in respect of write-downs of inventory to net realizable value. There were no reversals of any cost to net realizable write-downs in either of the three month periods ended March 31, 2013 or 2012.

Eligible inventories held by the Corporation's Canadian subsidiary have been pledged as security with a bank in support of revolving credit facilities. The revolving credit facilities were unused as at March 31, 2013 and 2012.

6. Property, plant and equipment

As at December 31, 2012, the Corporation had signed a letter of intent with a Canadian real estate income trust ("Canadian REIT") to sell and leaseback four of its owned properties. Based on the signing of the letter of intent, freehold land with a carrying amount of \$3,476 was reclassified to assets held for sale on the balance sheet as at December 31, 2012.

Notes to the Condensed Consolidated Financial Statements

For the three month periods ended March 31, 2013 and 2012

Thousands of Canadian dollars, except per share amounts



On March 15, 2013, the Corporation completed the sale and leaseback transaction with the Canadian REIT involving four of its unencumbered Canadian properties. Gross proceeds from the sale amounted to \$25,326, of which \$22,793 was received in cash and \$2,533 was received in publicly-traded units of the Canadian REIT. The Corporation incurred direct costs related to the transaction in the amount of \$759 which were allocated between land and buildings based on fair value. A gain on sale in the amount of \$7,297 before tax was recognized in the consolidated statement of income in the first quarter of 2013. Costs capitalized as assets under finance leases amounted to \$14,598 and those costs will be depreciated on a straight-line basis over the term of the leases. The Corporation used part of the cash proceeds received from the sale transaction to repay all bank debt and the remaining cash proceeds will be used for working capital purposes.

The Corporation's Canadian subsidiary, Plasti-Fab Ltd. ("Plasti-Fab") entered into carefree triple net lease agreements with the Canadian REIT to leaseback the four Canadian properties, each for a lease term of twenty years. Rent expense is fixed over the first five years of the term with predetermined increases after years five, ten and fifteen of the twenty-year term. 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, Plasti-Fab 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.

For accounting purposes, the land components of the four properties were treated as operating leases and the minimum lease payments attributed to land will be recognized as an expense on a straight-line basis over the term of the leases (see Note 12). The operating leases have been allocated to the Canadian reportable segment. The building components of the four properties were treated as finance leases as substantially all of the risks and rewards of ownership have remained with Plasti-Fab. Buildings have been capitalized as assets under finance lease within property, plant and equipment ("PP&E") on the balance sheet. The present value of minimum lease payments relating to buildings in the amount of \$14,220 was reported as finance lease obligations in the liability section of the balance sheet (see Note 8). The assets and lease obligations for buildings have been allocated to the Canadian reportable segment.

A summary of the sale and leaseback transactions is detailed in the following table:

	Total	Operating leases for land	Finance leases for buildings
Gross proceeds of sale - cash	\$ 22,793	\$ 9,995	\$ 12,798
Gross proceeds of sale – marketable securities	2,533	1,111	1,422
Total gross proceeds	25,326	11,106	14,220
Direct costs of transactions	(759)	(333)	(426)
Net proceeds	\$ 24,567	10,773	13,794
Capitalized direct costs attributed to finance leases		-	426
Carrying costs of land and buildings as at March 15, 2013		(3,476)	(14,196)
Gain on sale reported in consolidated statement of income		\$ 7,297	24
Deferred gain on sale in accordance with IAS 17 ¹			(24)
Reported gain on sale			\$ 0
Capitalized cost of assets under finance lease			\$ 14,598
Net cash proceeds reported in consolidated statement of cash flows	\$ 22,034	\$ 9,662	\$ 12,372
Interest rates underlying lease obligations	6.5%	5.0%	9.9%

¹ International Accounting Standard 17 - Leases

In the tables below, assets under finance leases include automobiles and buildings. As at March 31, 2013, automobiles had a carrying amount of \$365 (2012 - \$442) and buildings had a carrying value of \$14,589 (2012 - \$Nil) for a total amount of assets under finance lease of \$14,954.

Notes to the Condensed Consolidated Financial Statements

For the three month periods ended March 31, 2013 and 2012

Thousands of Canadian dollars, except per share amounts



Asset class	Useful life	As at Mar 31, 2013	As at Dec 31, 2012
Carrying amounts of:			
Freehold land	Unlimited useful life, not depreciated	\$ 2,080	\$ 2,062
Buildings	15 to 40 years	4,913	19,329
Plant and equipment	3 to 20 years	14,144	13,117
Assets under finance leases	Lesser of the expected useful life and the term of the lease	14,954	527
Assets under construction	Depreciation commences when the asset is available for use as intended by management	184	1,407
		\$ 36,275	\$ 36,442

Assets under construction as at March 31, 2013 were expected to be available for use during the second quarter of 2013.

Cost	Freehold land	Buildings	Plant and equipment	Assets under finance lease	Assets under construction	Total
Balance at January 1, 2012	\$ 5,170	\$ 27,588	\$ 31,780	\$ 883	\$ 533	\$ 65,954
Additions	375	1,959	1,453	219	2,067	6,073
Disposal of PP&E assets	-	-	(339)	(150)	-	(489)
Transfer between asset groups	-	700	635	-	(1,335)	-
Transfer to assets held for sale	(3,476)	-	-	-	-	(3,476)
Effect of foreign currency exchange differences	(7)	(139)	(107)	(1)	142	(112)
Balance at December 31, 2012	2,062	30,108	33,422	951	1,407	67,950
Additions	-	-	-	-	145	145
Disposal of PP&E assets	-	-	(7)	(43)	-	(50)
Sale leaseback transaction	-	(21,633)	-	14,622	-	(7,011)
Transfer between asset groups	-	69	1,441	(113)	(1,397)	-
Effect of foreign currency exchange differences	18	127	70	4	29	248
Balance at March 31, 2013	\$ 2,080	\$ 8,671	\$ 34,926	\$ 15,421	\$ 184	\$ 61,282

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Accumulated Depreciation	Freehold land	Buildings	Plant and equipment	Assets under finance lease	Assets under construction	Total
Balance at January 1, 2012	\$ -	\$ 9,641	\$ 18,844	\$ 342	\$ -	\$ 28,827
Depreciation expense	-	1,150	1,814	205	-	3,169
Disposal of PP&E assets	-	-	(327)	(123)	-	(450)
Effect of foreign currency exchange differences	-	(12)	(26)	-	-	(38)
Balance at December 31, 2012	-	10,779	20,305	424	-	31,508
Depreciation expense	-	296	505	78	-	879
Disposal of PP&E assets	-	-	(7)	(11)	-	(18)
Sale leaseback transaction	-	(7,412)	-	-	-	(7,412)
Transfer between asset groups	-	79	(54)	(25)	-	-
Effect of foreign currency exchange differences	-	16	33	1	-	50
Balance at March 31, 2013	\$ -	\$ 3,758	\$ 20,782	\$ 467	\$ -	\$ 25,007

Depreciation commences when assets are available for use. Depreciation expense for the three month period ended March 31, 2013, in the amount of \$789 (2012 - \$653) is included in cost of sales, with an amount of \$61 (2012 - \$64) included in selling expenses, and an amount of \$30 (2012 - \$32) included in administrative expenses.

7. Long-term debt

The Corporation's long-term debt position as at March 31, 2013, and December 31, 2012, is stated in the following table:

	Mar 31, 2013	Dec 31, 2012
Balance at beginning of period	\$ 6,409	\$ 7,153
Repayments	(6,420)	(731)
Effect of foreign currency exchange differences	11	(13)
Balance at end of period	\$ -	\$ 6,409

Canada

As at March 31, 2013, the Corporation repaid all outstanding bank debt from proceeds received from the sale of real estate. The Corporation's Canadian subsidiary maintains a non-revolving credit facility which had an unused limit of \$4,300 as at March 31, 2013 (2012 - \$4,275).

USA

As at March 31, 2013, the Corporation repaid all outstanding bank debt from proceeds received from the sale of real estate.

8. Finance lease obligations

Finance lease obligations comprise automobiles and buildings. The lease obligations for automobiles are secured by the lessors' title to the automobiles. The Canadian REIT units have been pledged over the first ten years of the lease term by the Corporation as security for the minimum rent obligations for the buildings leases. The units are held in an escrow account and marked-to-market at the end of each reporting period. The units had a fair value of \$2,618 as at March 31, 2013 (see Note 11). The Canadian REIT currently pays monthly distributions on the units and distributions will flow to the Corporation when paid at which time they will be reported as income in the consolidated statement of income.

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The Corporation's finance lease obligations as at March 31, 2013, and December 31, 2012, are stated in the following table:

	Minimum lease payments	
	Mar 31, 2013	Dec 31, 2012
No later and one year	\$ 1,662	\$ 198
Later than one year and not later than five years	6,198	226
Later than five years	27,339	-
Total minimum lease payments	35,199	424
Less: amounts representing finance costs	20,718	24
Present value of minimum lease payments	\$ 14,481	\$ 400

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

	Mar 31, 2013	Dec 31, 2012
Current	\$ 247	\$ 187
Long-term	14,234	213
Total	\$ 14,481	\$400

9. Retirement benefit plans

Effective January 1, 2013, the Corporation adopted IAS 19 (Amendments) *Post-employment Benefits* which impacted the accounting treatment for defined benefit pension plans. The transition to the revised standard was required to be applied retrospectively with any change in valuation at the beginning of the comparative period booked directly to retained earnings. Subsequent changes in valuation of the defined benefit pension liability were required to be reflected in other comprehensive income ("OCI").

The below table outlines the impact of restated amounts on the relevant balance sheet accounts as at January 1, 2012, March 31, 2012 and December 31, 2012:

	Defined benefit pension plan asset (liability)	Deferred tax effect asset (liability)	Net adjustment to retained earnings	Net adjustment to accumulated OCI
January 1, 2012				
Previously reported	\$ 213	\$ (54)		
Restated	(359)	91		
Net change	(572)	145	\$ 427	\$ -
March 31, 2012				
Previously reported	213	(54)		
Restated	(359)	91		
Net change	(572)	145	\$ 427	-
December 31, 2012				
Previously reported	271	(68)		
Restated	(379)	96		
Net change	\$ (650)	\$ 164	\$ 427	\$ 59

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The amendments to the standard make important improvements by: (1) eliminating the option to defer the recognition of gains and losses known as the “corridor” method; (2) streamlining the presentation of changes in assets and liabilities arising from defined benefit plans, including requiring re-measurements to be presented in OCI, thereby separating those changes from changes that many perceive to be the result of an entity’s day-to-day operations; and (3) enhancing the disclosure requirements for defined benefit plans, providing better information about the characteristics of defined benefit plans and the risks that entities are exposed to through participating in those plans.

Key considerations at the transition date include the following:

- The Corporation’s defined benefit plan has no non-vested past service cost
- The Corporation had previously elected to recognize gains and losses in future years using the corridor approach so the valuation results must be restated in order to obtain a zero balance.

10. Issued capital

10.1 Normal Course Issuer Bid

In September 2012, 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 11, 2012, and ends no later than September 10, 2013. The renewal allows the Corporation to purchase, no later than September 10, 2013, up to a maximum of 100,000 of its common shares representing 1.5% of the Corporation’s 6,764,203 issued and outstanding common shares as at September 11, 2012, subject to daily maximum purchases of 1,000 common shares. The Corporation will purchase from time-to-time its common shares at market prices by means of open market transactions on the Toronto Stock Exchange.

The Corporation did not purchase any of its common shares under the Bid in the three month period ended March 31, 2013, or in the comparative three month period of 2012.

10.2 Contingent shares

On March 15, 2013, the Corporation concluded a settlement involving 166,667 contingent shares held in escrow. Under the terms of the settlement, 141,667 of the contingent shares were released from escrow and the remaining 25,000 shares were cancelled. In the current quarter, share capital was increased by \$955 representing the fair value of the 141,667 shares on the date of release. Fair value of \$169 attributed to the 25,000 shares cancelled was included in revaluation of contingent shares in the consolidated statement of income (loss).

10.3 Dividends

In the three month periods ended March 31, 2013 and 2012, the Corporation’s Board of Directors declared regular quarterly dividends of \$0.06 per common share which were paid in the month of February in each year.

Aggregate quarterly dividends paid over the previous eight quarters on the 25,000 contingent shares cancelled in the current quarter, was returned to the Corporation.

11. Financial instruments

11.1 Capital management

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

The capital structure of the Corporation over recent years consisted of net debt (long-term debt as detailed in Note 8 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). In the current quarter, the Corporation repaid all of its bank debt.

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The Corporation's capital structure, net of cash and any cash equivalents, as at March 31, 2013 and December 31, 2012, is as outlined in the following table:

	As at Mar 31, 2013	As at Dec 31, 2012
Long-term debt	\$ -	\$ 6,409
Less: cash and cash equivalents	(10,384)	(1,698)
Net debt (surplus cash)	(10,384)	4,711
Shareholders' equity	\$ 48,774	\$ 43,050
Net debt to equity ratio	N/A %	11.2 %

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

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

The Corporation's Canadian subsidiary is subject to certain covenants on its credit facilities, one of which is a financial covenant to maintain a Fixed Charge Coverage of not less than 1.25:1. Fixed Charge Coverage is defined as the ratio of EBITDA (profit from continuing operations, excluding extraordinary gains or losses, plus interest expense and income taxes accrued during the period, plus depreciation and amortization expenses deducted in the period) plus payments under operating leases less cash income taxes and unfunded capital expenditures in relation to fixed charges. Fixed charges are defined as the total of interest expense, scheduled principal payments in respect of funded debt, payments under operating leases, and corporate distributions. The Corporation has also provided a guarantee and postponement of claim to support certain facilities of subsidiaries. The Corporation monitors compliance with its covenant ratio on a quarterly basis and reports any exceptions to its Board of Directors. As at March 31, 2013 and 2012, the Corporation was in compliance with the financial covenant.

11.2 Categories of financial instruments

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

A summary of the classifications and carrying values of financial instruments held by the Corporation as at March 31, 2013 and December 31, 2012, are stated in the following table:

	Measurement	As at March 31, 2013		As at December 31, 2012	
		Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	Fair value	\$ 10,384	\$ 10,384	\$ 1,698	\$ 1,698
Trade receivables	Amortized cost	10,600	10,600	8,321	\$ 8,321
Marketable securities – restricted	Fair value	2,618	2,618	-	-
Trade and other payables	Amortized cost	(6,359)	(6,359)	(7,595)	(7,595)
Loans payable	Amortized cost	-	-	(6,409)	(6,409)
Contingent consideration	Fair value	-	-	(875)	(875)
		\$ 17,243	\$ 17,243	\$ (4,860)	\$ (4,860)

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As at March 31, 2013, net cash and cash equivalent balances of \$10,384 included cash of \$72 which is controlled separately from regular cash used in operations. The \$72 represents cash collected from certain customers of the USA operations used specifically to pay suppliers and sub-contractors who supply goods and or services to those specific customer contracts.

The Corporation has determined the fair value of its financial instruments as follows:

- The carrying amount of cash and cash equivalents, trade receivables, and trade and other payables approximate fair value due to the short-term maturity of those instruments.
- Marketable securities – restricted, consist of units of a publicly-traded Canadian REIT which are marked-to-market based on the quoted price of the units on the TSX at the end of each reporting period.
- Contingent consideration consisting of the Corporation's shares was settled in March 2013. In prior periods, contingent shares were marked-to-market at the end of each reporting period based on the quoted price of the shares.

The following fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value of financial instruments. 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 Corporation considers that all of its financial instruments which are measured at fair value to be Level 1 under the fair value hierarchy classifications listed above.

The following table presents the Corporation's fair value hierarchy for those financial instruments measured at fair value on a recurring basis as at March 31, 2013, and December 31, 2012:

	As at Mar 31, 2013	As at Dec 31, 2012
FVTPL		
Financial assets:		
Cash and cash equivalents		
Level 1	\$ 10,384	\$ 1,698
Financial liabilities:		
Contingent consideration		
Level 1	\$ -	\$ 875
Available for Sale		
Financial assets:		
Security deposit		
Level 1	\$ 2,618	\$ -

11.3 Credit risk management

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

The Corporation's exposure to credit risk is associated with trade receivables and the potential risk that any customer is unable to pay amounts due. Allowances for doubtful accounts and bad debts are estimated and maintained as at the balance sheet date. The amounts reported for 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.

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

Customers ordering highly-customized manufactured products, usually involving detailed design work, are required to make advance payments at various predefined stages of a sales contract. All payments received in advance of invoicing are reported as deferred revenue 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 sales and marketing expenses in profit and loss.

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 is systematically monitored by management.
- Larger customers are offered a discount of 1% off invoice value if full payment is received by an agreed date in the month following the month of sale.
- Payments for highly-customized orders are received in advance of products being shipped.

In the three month period ended March 31, 2013, sales to a single external customer accounted for 13.1% (2012 – 14.3%) of total consolidated sales for the period.

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

Interest collected from customers on payment of past due trade receivables balances is included in interest income in the consolidated statement of comprehensive income.

11.4 Foreign currency risk management and sensitivity analysis

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

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

The following tables detail the Corporation's exposure to foreign currency risk as at March 31, 2013 and December 31, 2012, including a sensitivity analysis to changes in foreign exchange rates.

	As at March 31, 2013			As at December 31, 2012		
	USD	Change in currency	Effect on after tax income (loss)	USD	Change in currency	Effect on after tax income (loss)
Net monetary assets	\$ 1,663	5.0%	\$ 62	\$ 6,725	5.0%	\$ 255
Net monetary liabilities	(1,543)	5.0%	(58)	(2,310)	5.0%	(88)

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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 did not hold any foreign exchange contracts as at March 31, 2013.

11.5 Interest rate risk management and sensitivity analysis

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

In March 2013, the Corporation repaid all of its Canadian and USA bank debt by using proceeds from the sale of real estate (see Note 7).

As at March 31, 2013, the Corporation's Canadian subsidiary had access to revolving and non-revolving credit facilities with a Canadian bank. The revolving credit facility had a limit of \$8,000 which was unused (December 31, 2012 - \$8,000 unused) and the non-revolving credit facility had a limit of \$4,300 and was also unused (December 31, 2012 - \$4,300).

11.6 Liquidity risk management

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

The Corporation's 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 from operations. The Corporation's future strategies can be financed through a combination of cash flows generated by operations, borrowing under existing credit facilities, and the issuance of equity. Management prepares regular budgets and cash flow forecasts to help predict future changes in liquidity.

The Corporation had financial liabilities with the following maturities as at March 31, 2013 and December 31, 2012:

		Current less than 12 months	Due within 12 to 24 months	Due within 25 to 36 months	Due within 37 to 48 months	Due after 48 months
As at March 31, 2013						
Trade and other payables	\$ 6,359	\$ 6,359	\$ -	\$ -	\$ -	\$ -
Long-term debt	-	-	-	-	-	-
Finance lease obligations	14,481	247	218	163	128	13,725
Total	\$ 20,840	\$ 6,606	\$ 218	\$ 163	\$ 128	\$ 13,725
As at December 31, 2012						
Trade and other payables	\$ 7,595	\$ 7,595	\$ -	\$ -	\$ -	\$ -
Long-term debt	6,409	5,490	167	454	298	-
Finance lease obligations	400	187	139	74	-	-
Total	\$ 14,404	\$ 13,272	\$ 306	\$ 528	\$ 298	\$ -

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12. Operating lease arrangements

In prior periods, operating leases were for certain properties and office equipment having lease terms of between three and five years. In March 2013, following the sale and leaseback transaction with a Canadian REIT (see Notes 6 and 8), the land components of each property lease were treated as operating leases and the minimum lease payments attributed to land will be recognized as an expense on a straight-line basis over the twenty year term of the leases. As a result of closing the transaction in March 2013, annual operating lease commitments increased in the current quarter as indicated in the table below:

	Mar 31, 2013	Dec 31, 2012
Not later than one year	\$ 1,395	\$ 839
Later than one year and not later than five years	3,632	1,508
Later than five years	10,203	30
	\$ 15,230	\$ 2,377

13. Commitments and contingencies

13.1 Performance bonds

From time to time, under the terms of certain sales contracts, Plasti-Fab is required to provide performance bonds to contractors which are held as security should, in the unlikely event, Plasti-Fab not fulfil its contractual obligations. The requirement for providing performance bonds is normal practice for suppliers and contractors participating in larger construction projects. The aggregate value of performance bonds issued to contractors as at March 31, 2013, was \$28,219 (2012 - \$25,719).

13.2 Expenditures for property, plant and equipment

Under the terms of newly-entered carefree triple net property leases with a Canadian REIT, Plasti-Fab 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. However, no definitive schedule of major repairs has been determined at this time.

14. Related party transactions

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

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

14.1 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 periods ended March 31, 2013 and 2012, the Corporation had the following trading transactions with related parties:

		Three month periods ended March 31	
Nature of transactions		2013	2012
Aeonian Capital Corporation	Management services	\$ 88	\$ 88
William H. Smith Professional Corporation	Legal services	-	29
James B. Young	Real property lease	38	38
Baker Investments LLC	Stipend and travel expenses	28	22
		\$ 154	\$ 177

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

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	<u>Amounts owed by related parties</u>		<u>Amounts owed to related parties</u>	
	As at Mar 31, 2013	As at Dec 31, 2012	As at Mar 31, 2013	As at Dec 31, 2012
Aeonian Capital Corporation	\$ -	\$ -	\$ -	\$ -
William H. Smith Professional Corporation	-	-	-	-
James B. Young	-	-	-	-
Baker Investments, LLC	-	-	21	26
	\$ -	\$ -	\$ 21	\$ 26

15. Supplementary cash flow information

15.1 Changes in non-cash working capital

<u>Decrease (increase) in:</u>	<u>Three month periods ended March 31</u>	
	2013	2012
Trade receivables	\$ (2,279)	\$ (1,764)
Inventories	(1,853)	(1,220)
Income taxes receivable	14	(53)
Prepaid expenses	(179)	(239)
Trade and other payables	(1,236)	(1,465)
Income taxes payable	907	(601)
Deferred revenue	407	86
	\$ (4,219)	\$ (5,256)

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

	<u>Three month period ended March 31</u>	
	2013	2012
Property, plant and equipment acquired with finance lease obligations	\$ 14,622	\$ 28

16. Subsequent events

On May 9, 2013, the Corporation's board of directors declared a regular quarterly dividend of \$0.06 per common share plus a one-time special dividend of \$1.00 per common share, for a total combined dividend of \$1.06 per common share. The combined dividend will be paid on May 31, 2013, to shareholders of record at the close of business on May 15, 2013.