First Quarter Report 2014

For the three month periods ended March 31, 2014 and 2013

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1. 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, 2014 and 2013 and notes thereto and in conjunction with the Corporation's annual MD&A for the year ended December 31, 2013.

PFB's unaudited condensed consolidated financial statements for the three month periods ended March 31, 2014 and 2013 have been prepared in accordance with International Accounting Standard ("IAS") 34, *Interim Financial Reporting*. Certain comparative figures for the first quarter of 2013 have been reclassified to conform to the presentation adopted in the current period.

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 8, 2014. All figures in this MD&A are stated in thousands of Canadian dollars except where stated otherwise.

2. 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 8, 2014, 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, 2013.

3. Summary of quarterly financial data

	2014	2013				2012		
	Qtr. 1	Qtr. 4	Qtr. 3	Qtr. 2	Qtr. 1	Qtr. 4	Qtr. 3	Qtr. 2
Sales	**$ 14,410**	$ 21,140	$ 25,504	$ 22,698	$ 15,207	$ 17,502	$ 23,298	$ 24,698
Gross profit [1]	**925**	3,512	5,211	3,641	1,718	1,916	4,889	5,215
Gross profit margin %	**6.4**	16.6	20.4	16.0	11.3	11.0	21.0	21.1
Operating (loss) income [1]	**(2,362)**	829	1,494	663	(1,506)	(838)	581	1,281
Net (loss) income	**(1,843)**	460	933	311	5,128	(176)	316	750
(Loss) earnings per share:								
Basic	**(0.27)**	0.07	0.14	0.05	0.77	(0.03)	0.05	0.12
Diluted	**(0.27)**	0.07	0.14	0.05	0.77	(0.03)	0.05	0.11
EBITDA [1]	**(1,447)**	1,783	2,424	1,598	6,647	355	1,405	1,960
EBITDA per share [1]	**(0.22)**	0.26	0.38	0.25	1.00	0.05	0.21	0.30

4. Consolidated statements of (loss) income (unaudited)

	Three month periods ended March 31	
	2014	**2013**
Sales	**$ 14,410**	$ 15,207
Cost of sales	**(13,485)**	(13,489)
Gross profit	**925**	1,718
Selling expenses	**(2,185)**	(1,991)
Administrative expenses	**(1,082)**	(1,196)
Administrative expenses – one-time, non-operating	**-**	(391)
Other (losses) gains	**(20)**	354
Operating loss	**(2,362)**	(1,506)
Gain on sale of real estate	**-**	7,297
Contingent shares – loss	**-**	(80)
Investment income	**60**	27
Finance costs	**(358)**	(148)
(Loss) income before taxes	**(2,660)**	5,590
Income tax recovery (expense)	**817**	(462)
(Loss) net income for the period	**$ (1,843)**	$ 5,128
(Loss) earnings per share - $ per share		
Basic	**(0.27)**	0.77
Diluted	**(0.27)**	0.77
Funds flow from operations [1]	**$ (1,402)**	$ (901)
Funds flow from operations per share [1]	**(0.21)**	(0.14)

[1] Non-GAAP financial measures do not have any standardized meaning prescribed by GAAP and are therefore unlikely to be comparable to similar measures presented by other issuers. Definitions of non-GAAP and additional GAAP measures used in the tables in Section 3 and Section 4 above, along with relevant other notes, are detailed in Section 21 of this MD&A.

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 annual reporting cycle.

5. Consolidated results of operations

Sales

Consolidated sales were $14,410 in the current quarter, a decrease of $797 or 5.2% from sales of $15,207 in Q1/13. Prolonged adverse weather predominantly affecting Canadian operations was a significant factor that constrained sales revenues in the current quarter.

Gross profit

Consolidated gross profit was $925 in the current quarter as compared to $1,718 in Q1/13. Gross profit margin decreased to 6.4% of sales in the current quarter as compared to a gross profit margin of 11.3% in Q1/13. Whilst gross profit margins are typically at their lowest level in the first quarter of our seasonal cycle, reduced sales volumes negatively impacted manufacturing efficiencies. The effect combined with persistently elevated raw material input costs magnified by a weaker Canadian dollar intensified a margin squeeze.

Operating loss

An operating loss of $2,362 resulted in the current quarter as compared to an operating loss of $1,506 reported in Q1/13, an adverse variance of $856. The increased operating loss in the current quarter as compared to the prior year quarter was entirely attributed to the shortfall in gross profit.

Income (loss) before taxes

In the current quarter, a loss before taxes of $2,660 was reported as compared to income before taxes of $5,590 in the comparative quarter of 2013.

In the prior year quarter, the reported results were significantly augmented by the inclusion of a gain on sale of real estate in the amount of $7,297. Excluding the one-time gain, a loss before taxes of $1,707 would have resulted in the prior year quarter.

Income taxes

Income tax recovery in the current quarter was $817 as compared to income tax expense of $462 in Q1/13.

Net income (loss)

A loss of $1,843 resulted in the current quarter as compared to net income of $5,128 reported in the comparative quarter of 2013. Excluding the after-tax effect of the gain on sale of real estate from the results of Q1/13, a loss of $843 would have resulted.

Basic loss per common share in the current quarter was $0.27 as compared to earnings per share of $0.77 in Q1/13. Adjusting the Q1/13 earnings per share by eliminating the after-tax gain on the sale of real estate would have resulted in a loss per share of $0.12.

6. Reportable operating segments

The Corporation has two reportable operating segments:

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

Each operating segment mirrors the Corporation's accounting policies (as described in note 2 to the audited consolidated financial statements for the years ended December 31, 2013 & 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 have been eliminated (see supplemental disclosures in the other segment information table below). There are varying levels of integration between each segment.

Segment operating loss represents the loss reported by each segment excluding any allocations for corporate income or expense, one-time, non-operating expenses, and foreign exchange gains or losses on inter-segment loan.

Information regarding each reportable operating segment for the three month periods ended March 31, 2014 and 2013, is set out below:

	Segment sales revenues		Segment operating loss	
	2014	**2013**	**2014**	**2013**
Canada	**$ 11,917**	$ 12,853	**$ (1,582)**	$ (521)
USA	**2,493**	2,354	**(771)**	(1,007)
Total	**$ 14,410**	$ 15,207	**(2,353)**	(1,528)
Corporate – income (expense)			**(12)**	138
Corporate - one-time, non-operating expenses			**-**	(391)
Foreign exchange gain on inter-segment loan			**3**	275
Consolidated operating loss			**(2,362)**	(1,506)
Gain on sale of real estate			**-**	7,297
Contingent shares - loss			**-**	(80)
Investment income			**60**	27
Finance costs			**(358)**	(148)
(Loss) income before taxes			**$ (2,660)**	$ 5,590

(a) Canada

Sales

Sales generated by the Canadian segment decreased from $12,853 in Q1/13 to $11,917 in the current quarter, a decrease of 7.3% or $936. Sales of EPS foam and building systems products were adversely affected by extended bad weather periods in major regions of the country. Notwithstanding, order backlog remained robust overall but with some regional variations.

Operating loss

The Canadian segment reported an operating loss of $1,582 in the current quarter, an increase in loss of $1,061 over an operating loss of $521 reported in Q1/13. The increase in operating loss was mainly reflective of the effect that decreased sales volumes had on manufacturing costs in the quarter together with concurrently elevated raw material costs further heightened by a weaker Canadian dollar.

(b) USA

Sales

Sales in the USA segment increased from $2,354 in Q1/13 to $2,493 in the current quarter, an increase of $139 or 5.9%. Although actual sales reported in US dollars were marginally lower in the current quarter than in the comparative quarter, a weaker Canadian dollar causes USD sales to be amplified when translated into Canadian dollars upon consolidation.

Various internal and external indicators continue to support sales trend improvement over the balance of the year. The Lebanon, Ohio, facility continues to add new regional customers for its EPS products.

Operating loss

The USA segment reported an operating loss of $771 in the current quarter as compared to an operating loss of $1,007 in the comparative quarter of 2013. Enhanced margins overall were largely responsible for the improvement. The segment operating loss in the comparative quarter of 2013 has been represented to exclude a foreign exchange gain of $275 arising on an inter-segment loan, thereby providing a more effective year-over-year comparison of operating performance. The operating loss in the current quarter was also magnified by the translation effects of a weaker Canadian dollar.

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, 2014	As at Dec 31, 2013
Assets		
Segmented assets	**$ 54,327**	$ 51,107
Assets not allocated to segments:		
Cash and cash equivalents	**1,908**	8,938
Freehold land and buildings	**6,634**	6,458
Restricted marketable securities	**2,402**	2,392
Corporate – taxes recoverable	**137**	-
Total assets	**$ 65,408**	$ 68,895
Liabilities		
Segmented liabilities	**$ 10,351**	$ 11,007
Liabilities not allocated to segments:		
Finance lease obligations	**14,440**	14,417
Corporate – taxes payable	**-**	1,094
Total liabilities	**$ 24,791**	$ 26,518
Net segmented assets		
Canada	**$ 36,373**	$ 32,658
USA	**7,603**	7,442

Other segment information

	Three month periods ended March 31	
	2014	2013
Additions to non-current assets:		
Canada	**$ 100**	$ 145
USA	**-**	7
Total	**$ 100**	$ 152
Depreciation and amortization:		
Canada	**$ 636**	$ 505
USA	**165**	164
Total	**$ 801**	$ 669
Inter-segment sales	**$ 142**	$ 218

7. 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, 2014 and December 31, 2013 were as follows:

	March 31, 2014	**December 31, 2013**
Cash held with banks	**$ 1,747**	$ 4,362
Short-term investments	**-**	4,515
Restricted cash	**161**	61
	$ 1,908	$ 8,938

PFB's cash balances typically fluctuate throughout the year in line with the seasonality of its business. The reduction in cash balances in the current quarter was primarily attributed to funds used in operations, an increase in non-cash working capital, and the scheduled payment of corporate taxes arising on the gain on the sale of real estate in 2013.

Bank credit facilities

As at March 31, 2014, a revolving credit facility with a large Canadian bank had an unused limit of $8,000 (the limit is subject to eligible trade receivables and inventories) and a non-revolving facility had an unused limit of $4,300. The credit limits were unchanged since December 31, 2013, and the facilities contain certain covenants with which the Corporation was in compliance as at March 31, 2014.

Summary of cash flows

A summary of cash flows for the three month periods ended March 31, 2014 and 2013 are shown in the following table.

	2014	**2013**
Net cash flows generated by (used in):		
Cash used in operating activities after changes in non-cash working capital	**$ (4,776)**	$ (6,000)
Income taxes paid	**(1,341)**	(178)
Net cash used in operating activities	**(6,117)**	(6,178)
Investing activities	**22**	9,544
Financing activities	**(862)**	5,271
Effect of foreign exchange on cash held in foreign currency – (loss) gain	**(73)**	49
Net (decrease) increase in cash and cash equivalents	**$ (7,030)**	$ 8,686

(a) Operating activities

Cash used in operating activities after changes in non-cash working capital was $4,776 in the current quarter as compared to cash used in operating activities of $6,000 in the comparative quarter of 2013, a decrease of $1,224. Funds used in operations was $501 higher in the current quarter than in the comparative period that was offset by smaller increase in non-cash working capital balances than in the prior year period.

(b) Investing activities

Cash flows generated by investing activities were $22 in the current quarter as compared to cash flows generated by investing activities of $9,544 in the comparative quarter of 2013. Cash flows in 2013 included proceeds of $9,662 from the disposal of land.

(c) Financing activities

Cash flows used in financing activities in the current quarter were $862 as compared to cash flows generated by financing activities of $5,271 in the comparative quarter of 2013. Cash flows in 2013 included proceeds from leaseback financing of $12,372 offset by repayment of long-term bank debt in the amount of $6,421.

The changes in non-cash working capital amounts which occurred in the first quarter of 2014 are as follows:

	Mar 31, 2014	Dec 31, 2013	Increase (Decrease)
Trade receivables	**$ 9,718**	$ 8,785	$ 933
Inventories	**10,455**	8,321	2,134
Prepaid expenses	**690**	672	18
Trade and other payables	**(5,897)**	(7,012)	1,115
Deferred revenue	**(2,670)**	(1,852)	(818)
	$ 12,296	$ 8,914	$ 3,382

Non-cash working capital increased in the current quarter by $3,382.

The trade receivables balance as at March 31, 2014 includes contractual holdbacks in the amount of $1,458 (December 31, 2013 - $1,340) which are expected to be collected in full during 2014. Overall, the trade receivables balance is reflective of increased sales in the last month of the current quarter as compared to sales in the last month of the prior year.

Inventory values increased as a result of a seasonal build of work-in-process and finished goods inventories but inventories ended the quarter higher than anticipated due to bad weather delaying product shipments. Inventory values are also reflective of elevated raw material costs.

The decrease in trade and other payables of $1,115 since the beginning of the year was largely influenced by the settlement of trade and other payables balances carried over from 2013 and the timing of payments made for raw materials.

Deferred revenue increased by $818, reflective of an increase in new contract activity in the USA segment.

8. Capital resources

Capital structure

The Corporation's capital structure as at March 31, 2014 and December 31, 2013, is outlined in the following table:

	March 31, 2014	December 31, 2013
Shareholders' equity	**$ 40,617**	$ 42,377
Long-term debt	**-**	-
	$ 40,617	$ 42,377

Share capital

A summary of the Corporation's share capital position as at March 31, 2014 and December 31, 2013, is set forth in the following table:

	March 31, 2014 (Three Months)		December 31, 2013 (Twelve Months)	
	No. of Shares	Amount	No. of Shares	Amount
Balance, beginning of period	**6,724,403**	**$ 20,973**	6,764,203	$ 20,064
Repurchased pursuant to normal course issuer bid	**(4,700)**	**(14)**	(14,800)	(46)
Settlement of contingent shares released from escrow	**-**	**-**	-	955
Cancellation of contingent shares	**-**	**-**	(25,000)	-
Balance, end of period	**6,719,703**	**$ 20,959**	6,724,403	$ 20,973

Subject to the settlement of a contingent share agreement in March 2013, 141,667 shares out of 166,667 issued and outstanding contingent shares held in an escrow account were released. The fair value of the released shares on the date of settlement was $955 which was booked to share capital. Additionally, the remaining 25,000 contingent shares were returned to treasury and cancelled.

Share-based options

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

Dividends

During the first quarter of 2014, the Corporation's board of directors declared a regular quarterly dividend of $0.06 (2013 - $0.06) per common share which was paid on February 28, 2014.

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 period ended March 31, 2014, the Corporation purchased for cancellation 4,700 (2013 – Nil) of its common shares under a normal course issuer bid for an aggregate price of $23 (2013 - $nil), of which $9 (2013 - $Nil) was charged to retained earnings as a premium on redemption of the common shares.

Long-term debt

In March 2013, the Corporation repaid all of its bank term debt. The Corporation had no long-term debt as at March 31, 2014.

9. Commitments and contractual obligations

(a) Leases and commitments for PP&E and intangible assets

In the first quarter of 2013, a significant change in the Corporation's commitments and contractual obligations resulted from completing a number of leasing transaction involving real estate. The transactions resulted in new operating and finance lease commitments. Each lease had a term of twenty years and required monthly payments are made at the beginning of each month.

Operating lease payments with respect to land are expensed in cost of sales the period that payments are made. Monthly payments under finance leases for buildings are partly applied against the finance obligation on the balance sheet and partly expensed as finance costs in the statement of comprehensive income. In the early years of the finance leases, a large proportion of the monthly payments represent finance costs.

Under the leases described above, and in the normal course of business, PFB is obligated to make future contractual payments. PFB's contractual obligations and commitments as at March 31, 2014 and December 31, 2013, are as outlined in the following table:

Contractual obligations (Payment due periods)	**Total**	**Within 1 year**	**2–3 years**	**4–5 years**	**Over 5 years**
As at March 31, 2014					
Finance lease obligations	33,736	1,687	3,214	3,166	25,669
Operating lease obligations	15,000	1,454	2,310	1,763	9,473
Commitments for PP&E and intangible assets	506	506	-	-	-
Total contractual obligations	$ 49,242	$ 3,647	$ 5,524	$ 4,929	$ 35,142
As at December 31, 2013					
Finance lease obligations	$ 34,066	$ 1,672	$ 3,184	$ 3,196	$ 26,014
Operating lease obligations	15,299	1,431	2,405	1,820	9,643
Commitments for PP&E and intangible assets	385	385	-	-	-
Total contractual obligations	$ 49,750	$ 3,488	$ 5,589	$ 5,016	$ 35,657

Under the terms of triple net leases, and in addition to the required minimum lease payments, the Corporation's Canadian subsidiary, which is the tenant of the leases, is responsible for the operating costs of each leased property.

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

	Mar 31, 2014	Dec 31, 2013
Current	**$ 271**	$ 253
Long-term	**14,169**	14,164
Total	**$ 14,440**	$ 14,417

(b) Performance bonds

As at March 31, 2014, the estimated aggregate value of outstanding shipments under Canadian contracts secured with performance bonds was $2,900 (December 31, 2013 - $2,900). In the USA, performance bonds in the amount of $340 were pledged to various government agencies as at March 31, 2014 (December 31, 2013 - $340).

10. Financial instruments

The Corporation holds marketable securities in the form of units of a Canadian REIT which is the landlord of certain buildings being leased. The units are restricted as they have been pledged as security for minimum rent obligations for a period of ten years during which time they will be held in an escrow account. The units have been classified as long-term restricted marketable securities on the condensed consolidated balance sheet as at March 31, 2014. The units are marked-to-market based on the quoted price of the units at the end of each accounting period with unrealized gains or losses recorded in other comprehensive income.

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

11. 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 applied retrospectively. Changes in valuation as at January 1, 2012, were booked directly to retained earnings. Subsequent changes in valuation that occurred in 2013 were reflected in other comprehensive income ("OCI").

In the three month period ended March 31, 2014, no change in valuation was recorded in the financial statements.

12. Current Outlook

The first quarter of 2014 exhibited many of the same challenges experienced in the latter part of 2013. The purchase costs of our key raw material remained at elevated levels and, combined with a weaker Canadian dollar against the U.S. dollar, served to depress sales margins. No significant abatement in our key raw material cost is anticipated in the near term. We anticipate some lift in the quality of sales margins arising from product price increases.

Adding to the operating difficulties was a first quarter dominated by bad weather across most of Canada. The resulting backlog in sales is expected to be recovered in subsequent quarters as the delayed orders remain on the books. As sales volumes increase, manufacturing efficiencies will return to more normal levels and occasion improved margins.

Order intake in our Canadian operations has generally remained stable with some regional variations. Our operations in the United States continue to improve.

PFB's balance sheet remains strong with good liquidity.

13. Off-balance sheet arrangements

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

14. 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, 2014, 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.

15. 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, 2014, 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.

16. 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, 2013 and its 2013 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.

17. Subsequent event

On May 8, 2014, the Corporation's board of directors declared a regular quarterly dividend of $0.06 per common share. The dividend will be paid on May 30, 2014, to shareholders of record at the close of business on May 19, 2014.

18. Related party transactions

There have been no material changes in related party transactions in the first quarter of 2014.

19. 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 2013. There have been no material changes in the uncertainties and material risk factors facing the Corporation since December 31, 2013.

20. Accounting standards changes

The following amendments to accounting standards are effective for annual periods starting on January 1, 2014 and were adopted by the Corporation, as applicable:

Amendments to IAS 32 *Offsetting Financial Assets and Financial Liabilities*

Amendments to IAS 32 clarify the requirements relating to the offset of financial assets and financial liabilities. Specifically, the amendments clarify the meaning of 'currently has a legally enforceable right to set-off' and 'simultaneous realization and settlement'.

PFB does not currently have any financial assets or financial liabilities that qualify for offset so the amendments will not have any effect on its consolidated financial statements in 2014.

Amendments to IAS 36 *Recoverable Amount Disclosures for Non-Financial Assets*

The overall effect of the amendments is to reduce the circumstances in which the recoverable amount of assets or cash-generating units is required to be disclosed, clarify the disclosures required, and to introduce an explicit requirement to disclose the discount rate used in determining impairment (or reversals) where the recoverable amount (based on fair value less costs of disposal) is determined using a present value technique.

The amendments to IAS 36 will not have any effect on PFB's consolidated financial statements in 2014.

Amendments to IAS 39 *Financial Instruments: Recognition and Measurement*

All recognized financial assets that are within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* are required to be subsequently measured at amortized cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognized in profit or loss.

The amendments to IAS 39 will not have any effect on PFB's consolidated financial statements in 2014.

Amendments to IFRS 10, IFRS 12, and IAS 27 *Investment Entities*

Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27) apply to a particular class of business that qualify as investment entities. The IASB uses the term 'investment entity' to refer to an entity whose business purpose is to invest funds solely for returns from capital appreciation, investment income or both. An investment entity must also evaluate the performance of its investments on a fair value basis. Such entities could include private equity organizations, venture capital organizations, pension funds, sovereign wealth funds and other investment funds. Under IFRS 10, *Consolidated Financial Statements*, reporting entities were required to consolidate all investees that they control (i.e. all subsidiaries). Now, the *Investment Entities* amendments provide an exception to the consolidation requirements in IFRS 10 and require investment entities to measure particular subsidiaries at fair value through profit or loss, rather than consolidate them. The amendments also set out disclosure requirements for investment entities.

The amendments to IFRS 10, IFRS 12, and IAS 27 will not have any effect on PFB's consolidated financial statements in 2014.

IFRIC 21 *Levies*

Provides guidance on when to recognize a liability for a levy imposed by a government, both for levies that are accounted for in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and those where the timing and amount of the levy is certain.

IFRIC 21 will not have any effect on PFB's consolidated financial statements in 2014.

21. Non-GAAP and additional GAAP measures

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

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

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

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

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

	2014 Q1	2013 Q4	2013 Q3	2013 Q2	2013 Q1	2012 Q4	2012 Q3	2012 Q2
Net income (loss)	**$ (1,843)**	$ 460	$ 933	$ 311	$ 5,128	$ (176)	$ 316	$ 750
Add back (deduct):								
Income taxes	**(817)**	77	270	48	462	(520)	117	279
Finance costs	**358**	359	342	360	148	152	129	110
Investment income	**(60)**	(67)	(51)	(56)	(27)	(2)	(4)	(1)
Depreciation	**863**	869	869	878	879	857	796	767
Amortization	**52**	85	61	57	57	44	51	55
EBITDA [1]	**(1,447)**	1,783	2,424	1,598	6,647	355	1,405	1,960
EBITDA per share [1]	**(0.22)**	0.26	0.38	0.25	1.00	0.05	0.21	0.30

Condensed Consolidated Financial Statements

Notice of non-auditor review of condensed consolidated financial statements for the three month periods ended March 31, 2014 and 2013

The accompanying unaudited condensed consolidated financial statements of PFB Corporation for the three month periods ended March 31, 2014 and 2013 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 8, 2014

Consolidated Statements of (Loss) Income

For the three month periods ended March 31, 2014 and 2013
Thousands of Canadian dollars, except per share amounts

	Note	2014	2013
Sales		**$ 14,410**	$ 15,207
Cost of sales	6	**(13,485)**	(13,489)
Gross profit		**925**	1,718
Selling expenses		**(2,185)**	(1,991)
Administrative expenses		**(1,082)**	(1,196)
Administrative expenses – one-time, non-operating		**-**	(391)
Other (losses) gains		**(20)**	354
Operating loss		**(2,362)**	(1,506)
Gain on sale of real estate		**-**	7,297
Contingent shares – loss		**-**	(80)
Investment income		**60**	27
Finance costs		**(358)**	(148)
(Loss) income before tax		**(2,660)**	5,590
Income tax recovery (expense)		**817**	(462)
(Loss) net income for the period		**$ (1,843)**	$ 5,128
(Loss) earnings per share - $ per share			
Basic		**$ (0.27)**	$ 0.77
Diluted		**$ (0.27)**	$ 0.77
Weighted average number of common shares outstanding			
Basic		**6,720,396**	6,622,721
Diluted		**6,720,396**	6,622,721

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

Consolidated Statements of Comprehensive (Loss) Income

For the three month periods ended March 31, 2014 and 2013

Thousands of Canadian dollars

	Note	2014	2013
(Loss) net income for the period		**(1,843)**	**5,128**
Other comprehensive income (loss):			
Items that may subsequently be reclassified to income:			
Foreign currency translation adjustments			
Exchange differences on translating foreign operations		**501**	(31)
Restricted available for sale financial assets	10		
Unrealized gain on available for sale financial assets, net of tax		**8**	64
Other comprehensive income for the period		**509**	33
Comprehensive (loss) income for the period		**$ (1,334)**	$ 5,161

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

Consolidated Balance Sheets

As at March 31, 2014 and 2013, and December 31, 2013
Thousands of Canadian dollars

	Note	March 31, 2014	March 31, 2013	December 31, 2013
ASSETS				
Current assets				
Cash and cash equivalents		**$ 1,908**	$ 10,384	$ 8,938
Trade receivables	10	**9,718**	10,600	8,785
Inventories	6	**10,455**	9,607	8,321
Income taxes recoverable		**457**	-	-
Prepaid expenses		**690**	734	672
Total current assets		**23,228**	31,325	26,716
Non-current assets				
Marketable securities - restricted	10	**2,402**	2,618	2,392
Property, plant and equipment	7	**34,514**	36,275	34,882
Intangible assets		**1,367**	1,489	1,369
Goodwill		**2,022**	1,906	1,968
Deferred income tax assets		**1,875**	1,269	1,568
Total non-current assets		**42,180**	43,557	42,179
Total assets		**65,408**	$ 74,882	$ 68,895
LIABILITIES				
Current Liabilities				
Trade and other payables		**$ 5,897**	$ 6,359	$ 7,012
Deferred revenue		**2,670**	1,842	1,852
Income taxes payable		**-**	907	965
Finance lease obligations	8	**271**	247	253
Total current liabilities		**8,838**	9,355	10,082
Non-current liabilities				
Finance lease obligations	8	**14,169**	14,234	14,164
Accrued defined benefit pension plan		**76**	379	76
Deferred income tax liabilities		**1,708**	2,140	2,196
Total non-current liabilities		**15,953**	16,753	16,436
Total liabilities		**24,791**	26,108	26,518
SHAREHOLDERS' EQUITY				
Common shares		**20,959**	21,019	20,973
Accumulated other comprehensive income (loss)		**459**	26	(50)
Retained earnings		**19,199**	27,729	21,454
Shareholders' equity		**40,617**	48,774	42,377
Total liabilities and shareholders' equity		**$ 65,408**	$ 74,882	$ 68,895

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

Consolidated Statements of Changes in Equity

As at March 31, 2014 and 2013, and December 31, 2013

Thousands of Canadian dollars, except number of shares

		Common shares		Accumulated other comprehensive income				
	Note	No. of Shares	Share capital	Foreign currency translation adjustments	Unrealized gain on available for sale assets net of taxes	Defined benefit pension plan valuation change net of taxes	Retained earnings	Total
Balances at January 1, 2013		**6,764,203**	**$ 20,064**	**$ 58**	**$ -**	**$ (65)**	**$ 22,993**	**$ 43,050**
Net income for the period		-	-	-	-	-	5,128	5,128
Other comprehensive income (loss) 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	9	-	-	-	-	-	(392)	(392)
Settlement of contingent shares held in escrow		-	955	-	-	-	-	955
Cancellation of contingent shares held in escrow		(25,000)	-	-	-	-	-	-
Balances at March 31, 2013		**6,739,203**	**21,019**	**27**	**64**	**(65)**	**27,729**	**48,774**
Net income for the period		-	-	-	-	-	1,704	1,704
Other comprehensive income (loss) for the period, net of tax		-	-	(91)	(169)	184	-	(76)
Total comprehensive income (loss) for the period		-	-	(91)	(169)	184	1,704	1,628
Payment of dividends	9	-	-	-	-	-	(7,953)	(7,953)
Repurchased pursuant to normal course issuer bid		(14,800)	(46)	-	-	-	(26)	(72)
Balances at December 31, 2013		**6,724,403**	**$ 20,973**	**$ (64)**	**$ (105)**	**$ 119**	**$ 21,454**	**$ 42,377**
Loss for the period		-	-	-	-	-	(1,843)	(1,843)
Other comprehensive income for the period, net of tax		-	-	501	8	-	-	509
Total comprehensive income (loss) for the period		**-**	**-**	501	**8**	**-**	**(1,843)**	**(1,334)**
Payment of dividends	9	-	-	-	-	-	(403)	(403)
Repurchased pursuant to normal course issuer bid	9	(4,700)	(14)	-	-	-	(9)	(23)
Balances at March 31, 2014		**6,719,703**	**$ 20,959**	**$ 437**	**$ (97)**	**$ 119**	**$ 19,199**	**$ 40,617**

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, 2014 and 2013
Thousands of Canadian dollars

	Note	2014	2013
CASH FLOWS GENERATED BY OPERATING ACTIVITIES			
(Loss) net income for the period		**$ (1,843)**	$ 5,128
Adjustments for:			
Depreciation expense	7	**863**	880
Amortization expense		**52**	56
(Gain) loss on disposal of plant and equipment		**(11)**	7
Gain on sale of real estate		**-**	(7,297)
Contingent shares – loss		**-**	80
Finance costs		**359**	148
Investment income		**(60)**	(27)
Income tax (recovery) expense		**(817)**	462
Unrealized foreign exchange loss (gain)		**55**	(338)
Funds flow from operations		**(1,402)**	(901)
Changes in non-cash working capital	14	**(3,382)**	(5,140)
Unrealized foreign exchange gain relating to non-cash working capital		**8**	41
Cash used in operating activities		**(4,776)**	(6,000)
Income taxes paid		**(1,341)**	(178)
Net cash used in operating activities		**(6,117)**	(6,178)
CASH FLOWS GENERATED BY (USED IN) INVESTING ACTIVITIES			
Purchase of property, plant and equipment	7	**(96)**	(145)
Purchase of intangible assets		**(4)**	-
Proceeds from disposal of property, plant and equipment		**23**	-
Interest received		**60**	27
Distributions received from marketable securities		**39**	-
Cash proceeds from disposal of land, net of costs		**-**	9,662
Net cash generated by investing activities		**22**	9,544
CASH FLOWS GENERATED BY (USED IN) FINANCING ACTIVITIES			
Proceeds from leaseback financing, net of costs		**-**	12,372
Repayment of long-term debt		**-**	(6,421)
Repayment of finance lease obligations	8	**(77)**	(140)
Finance costs paid		**(359)**	(148)
Dividends paid to shareholders	9	**(403)**	(392)
Payment for buy-back of common shares	9	**(23)**	-
Net cash (used in) generated by financing activities		**(862)**	5,271
Effects of exchange rate changes on cash and cash equivalents held in foreign currencies – (loss) gain		**(73)**	49
Net (decrease) increase in cash and cash equivalents		**(7,030)**	8,686
Cash and cash equivalents at the beginning of the period		**8,938**	1,698
Cash and cash equivalents at the end of the period	9	**$ 1,908**	$ 10,384

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

1. General information

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

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

2. Statement of compliance

These interim condensed consolidated financial statements for the three month periods ended March 31, 2014 and 2013, have been prepared in accordance with International Accounting Standard (IAS) 34, Interim Financial Reporting. Accordingly, certain information and footnote disclosure normally included in annual financial statements prepared in accordance with International Financial Reporting Standards (IFRS) have been omitted. These interim condensed consolidated financial statements should be read in conjunction with the Corporation's audited consolidated financial statements for the years ended December 31, 2013 and 2012.

These interim condensed consolidated financial statements were approved and authorized for issue by the board of directors of the Corporation at a meeting held on May 8, 2014.

3. Significant accounting policies

3.1 Presentation

These interim condensed consolidated financial statements have been prepared in accordance with the significant accounting policies set out in the Corporation's audited consolidated financial statements for the years ended December 31, 2013 and 2012.

Certain comparative figures for the first quarter of 2013 have been reclassified to conform to the presentation adopted in the current period.

These interim condensed consolidated financial statements are presented in Canadian dollars.

The Corporation's business is subject to seasonal variations and uncertainties. Sales of the Corporation's products are driven by consumer and industrial demand for insulation and building products. The timing of our customers' construction projects can be influenced by a number of factors including the prevailing economic climate and weather. Seasonality 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. Accordingly, the results of operations for this reporting period are not necessarily indicative of the results of operations over a fully year cycle.

3.2 Consolidation

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

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

3.3 New accounting standards

The following amendments to accounting standards are effective for annual periods starting on January 1, 2014 and were adopted by the Corporation, where applicable:

Amendments to IAS 32 *Offsetting Financial Assets and Financial Liabilities*

Amendments to IAS 32 clarify the requirements relating to the offset of financial assets and financial liabilities. Specifically, the amendments clarify the meaning of 'currently has a legally enforceable right to set-off' and 'simultaneous realization and settlement'.

PFB does not currently have any financial assets or financial liabilities that qualify for offset so the amendments will not have any effect on its consolidated financial statements in 2014.

Amendments to IAS 36 *Recoverable Amount Disclosures for Non-Financial Assets*

The overall effect of the amendments is to reduce the circumstances in which the recoverable amount of assets or cash-generating units is required to be disclosed, clarify the disclosures required, and to introduce an explicit requirement to disclose the discount rate used in determining impairment (or reversals) where the recoverable amount (based on fair value less costs of disposal) is determined using a present value technique.

The amendments to IAS 36 will not have any effect on PFB's consolidated financial statements in 2014.

Amendments to IAS 39 *Financial Instruments: Recognition and Measurement*

All recognized financial assets that are within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* are required to be subsequently measured at amortized cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognized in profit or loss.

The amendments to IAS 39 will not have any effect on PFB's consolidated financial statements in 2014.

Amendments to IFRS 10, IFRS 12, and IAS 27 *Investment Entities*

Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27) apply to a particular class of business that qualify as investment entities. The IASB uses the term 'investment entity' to refer to an entity whose business purpose is to invest funds solely for returns from capital appreciation, investment income or both. An investment entity must also evaluate the performance of its investments on a fair value basis. Such entities could include private equity organizations, venture capital organizations, pension funds, sovereign wealth funds and other investment funds. Under IFRS 10, *Consolidated Financial Statements*, reporting entities were required to consolidate all investees that they control (i.e. all subsidiaries). Now, the *Investment Entities* amendments provide an exception to the consolidation requirements in IFRS 10 and require investment entities to measure particular subsidiaries at fair value through profit or loss, rather than consolidate them. The amendments also set out disclosure requirements for investment entities.

The amendments to IFRS 10, IFRS 12, and IAS 27 will not have any effect on PFB's consolidated financial statements in 2014.

IFRIC 21 *Levies*

Provides guidance on when to recognize a liability for a levy imposed by a government, both for levies that are accounted for in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and those where the timing and amount of the levy is certain.

IFRIC 21 will not have any effect on PFB's consolidated financial statements in 2014.

4. Critical accounting estimate and judgments

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

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

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

5. 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 of 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.

5.1 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 loss represents the loss reported by each segment excluding any allocations for corporate income or expense, one-time, non-operating expenses, and foreign exchange gains or losses on inter-segment loan.

Information regarding each reportable operating segment for three month periods ended March 31, 2014 and 2013 is set out below:

	Segment sales revenues		Segment operating loss	
	2014	**2013**	**2014**	2013
Canada	**$ 11,917**	$ 12,853	**$ (1,582)**	$ (521)
USA	**2,493**	2,354	**(771)**	(1,007)
Total	**$ 14,410**	$ 15,207	**(2,353)**	(1,528)
Corporate – (expense) income			**(12)**	138
Corporate – one-time, non-operating expenses			**-**	(391)
Foreign exchange gain on inter-segment loan			**3**	275
Consolidated operating loss			**(2,362)**	(1,506)
Gain on sale of real estate			**-**	7,297
Contingent shares - loss			**-**	(80)
Investment income			**60**	27
Finance costs			**(358)**	(148)
(Loss) income before taxes			**$ (2,660)**	$ 5,590

5.2 Segment assets and liabilities

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

	As at Mar 31, 2014	**As at Dec 31, 2013**
Assets		
Segmented assets	**$ 54,327**	$ 51,107
Assets not allocated to segments:		
Cash and cash equivalents	**1,908**	8,938
Freehold land and buildings	**6,634**	6,458
Restricted marketable securities	**2,402**	2,392
Corporate - taxes recoverable	**137**	-
Total assets	**$ 65,408**	$ 68,895
Liabilities		
Segmented liabilities	**$ 10,351**	$ 11,007
Liabilities not allocated to segments:		
Finance lease obligations	**14,440**	14,417
Corporate - taxes payable	**-**	1,094
Total liabilities	**$ 24,791**	$ 26,518
Net segmented assets		
Canada	**$ 36,373**	$ 32,658
USA	**7,603**	7,442

5.3 Other segment information

	Three month periods ended March 31	
	2014	**2013**
Additions to non-current assets:		
Canada	**$ 100**	$ 145
USA	**-**	7
Total	**$ 100**	$ 152
Depreciation and amortization:		
Canada	**$ 636**	$ 505
USA	**165**	164
Total	**801**	669
Inter-segment sales	**$ 142**	$ 218

6. Inventories

	As at Mar 31, 2014	As at Dec 31, 2013
Raw materials	**$ 4,950**	$ 4,169
Work in progress	**2,648**	1,958
Finished goods	**2,857**	2,194
	$ 10,455	$ 8,321

The cost of inventories recognized as an expense in cost of sales during the three month period ended March 31, 2014 was $13,244 (2013 - $12,380), respectively.

The cost of inventories recognized as an expense during the three month period ended March 31, 2014, includes $112 (2013 - $24) in respect of write-downs of inventory to net realizable value. There were no reversals of any cost to net realizable write-downs in the three month periods ended March 31, 2014 or 2013.

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, 2014 and 2013.

7. Property, plant and equipment

Cost	Freehold land	Buildings	Plant and equipment	Assets under finance lease	Assets under construction	Total
Balance at January 1, 2013	**$ 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	-	(21,608)	-	14,622	-	(6,986)
Transfers between asset classes	-	64	1,441	(110)	(1,395)	-
Effect of foreign currency exchange differences	18	107	70	1	27	223
Balance at March 31, 2013	**2,080**	**8,671**	**34,926**	**15,421**	**184**	**61,282**
Additions	-	-	16	189	706	911
Disposal of PP&E assets	-	-	(35)	(122)	-	(157)
Transfers between asset classes	-	43	667	5	(715)	-
Effect of foreign currency exchange differences	38	243	220	(1)	(1)	499
Balance at December 31, 2013	**$ 2,118**	**$ 8,957**	**$ 35,794**	**$ 15,492**	**$ 174**	**$ 62,535**
Additions	-	-	-	104	96	200
Disposal of PP&E assets	-	-	(9)	(78)	-	(87)
Transfers between asset classes	-	193	7	(27)	(173)	-
Effect of foreign currency exchange differences	35	211	195	-	-	441
Balance at March 31, 2014	**$ 2,153**	**$ 9,361**	**$ 35,987**	**$ 15,491**	**$ 97**	**$ 63,089**

Accumulated Depreciation	Freehold land	Buildings	Plant and equipment	Assets under finance lease	Assets under construction	Total
Balance at January 1, 2013	**$ -**	**$ 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)
Transfers between asset classes	-	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 expense	-	414	1,515	687	-	2,616
Disposal of PP&E assets	-	-	(30)	(73)	-	(103)
Transfers between asset classes	-	(79)	54	25	-	-
Effect of foreign currency exchange differences	-	51	81	1	-	133
Balance at December 31, 2013	**$ -**	**4,144**	**22,402**	**1,107**	**-**	**27,653**
Depreciation expense	-	138	499	226	-	863
Disposal of PP&E assets	-	-	(8)	(67)	-	(75)
Transfers between asset classes	-	79	72	(151)	-	-
Effect of foreign currency exchange differences	-	51	83	0	-	134
Balance at March 31, 2014	**$ -**	**$ 4,412**	**$ 23,048**	**$ 1,115**	**$ -**	**$ 28,575**

Net book values						
March 31, 2013	$ 2,080	$ 4,913	$ 14,144	$ 14,954	$ 184	$ 36,275
December 31, 2013	2,118	4,813	13,392	14,385	174	34,882
March 31, 2014	**2,153**	**4,949**	**12,939**	**14,376**	**97**	**34,514**

Assets under construction as at March 31, 2014 were expected to be available for use during the second quarter of 2014.

Depreciation expense for the three month period ended March 31, 2014, in the amount of $764 (2013 - $789) is included in cost of sales, with an amount of $65 (2013 - $61) included in selling expenses, and an amount of $34 (2013 - $30) included in administrative expenses.

8. Finance lease obligations

The Corporation's finance lease obligations as at March 31, 2014, and December 31, 2013, are as stated in the following table:

	Minimum lease payments	
	Mar 31, 2014	**Dec 31, 2013**
No later than one year	**$ 1,687**	$ 1,672
Later than one year and not later than five years	**6,380**	6,313
Later than five years	**25,669**	26,081
Total minimum lease payments	**33,736**	34,066
Less: amounts representing finance costs	**19,296**	19,649
Present value of minimum lease payments	**$ 14,440**	$ 14,417

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

	Mar 31, 2014	**Dec 31, 2013**
Current	**$ 271**	$ 253
Long-term	**14,169**	14,164
Total	**$ 14,440**	$14,417

9. Issued capital

9.1 Normal Course Issuer Bid

In the three month period ended March 31, 2014, the Corporation purchased for cancellation 4,700 (2013 – Nil) of its common shares under a normal course issuer bid for an aggregate price of $23 (2013 - $nil), of which $9 (2013 - $Nil) was charged to retained earnings as a premium on redemption of the common shares.

9.2 Dividends

In the three month periods ended March 31, 2014 and 2013, the Corporation's Board of Directors declared a regular quarterly dividend of $0.06 per common share paid in the month of February in each year, respectively.

The dividend payment in February 2014 amounted to $403 (2013 - $392).

10. Financial instruments

10.1 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 Corporation repaid all bank term debt in March 2013.

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 a 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, 2014 and 2013, the Corporation was in compliance with the financial covenant.

10.2 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.

A summary of the classifications and carrying values of financial instruments held by the Corporation as at March 31, 2014 and December 31, 2013, are stated in the following table:

				March 31, 2014		December 31, 2013	
Financial instrument	**Category**	**Measurement**	**Hierarchy**	**Carrying Amount**	**Fair Value**	**Carrying Amount**	**Fair Value**
Cash and cash equivalents	FVTPL	Fair value	Level 1	**$ 1,908**	**$ 1,908**	$ 8,938	$ 8,938
Restricted marketable securities	Available for sale	Fair value	Level 1	**2,402**	**2,402**	2,392	2,392
Trade receivables	Loans and receivables	Amortized cost	N/A	**9,718**	**9,718**	8,785	8,785
Trade and other payables	Loans and receivables	Amortized cost	N/A	**(5,897)**	**(5,897)**	(7,012)	(7,012)
Finance lease obligations	Loans and receivables	Amortized cost	N/A	**(14,440)**	**(14,440)**	(14,417)	(14,417)

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 Toronto Stock Exchange at the end of each reporting period.

10.3 Credit risk management

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 deferred revenue 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:

- 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.

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 statement of income.

10.4 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 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, 2014.

The following tables detail the Corporation's exposure to foreign currency risk as at March 31, 2014 and December 31, 2013, including a sensitivity analysis to changes in foreign exchange rates.

	As at March 31, 2014			As at December 31, 2013		
	USD	**Change in currency**	**Effect on after tax income (loss)**	**USD**	**Change in currency**	**Effect on after tax income (loss)**
Net monetary assets	**$ 1,375**	**5.0%**	**$ 58**	$ 2,812	5.0%	$ 96
Net monetary liabilities	**(1,760)**	**5.0%**	**(74)**	(1,286)	5.0%	(44)

10.5 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.

As at March 31, 2014, the Corporation had no long-term debt.

As at March 31, 2014, 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, based on marginable accounts receivables and inventories. The revolving credit facility was unused (December 31, 2013 - $8,000 unused) and the non-revolving credit facility which had a limit of $4,300 was also unused (December 31, 2013 - $4,300).

10.6 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.

The Corporation had financial liabilities with the following maturities as at March 31, 2014 and December 31, 2013:

As at March 31, 2014	**Total**	**Current less than 12 months**	**Due within 12 to 24 months**	**Due within 25 to 36 months**	**Due within 37 to 48 months**	**Due after 48 months**
Trade and other payables	**$ 5,897**	**$ 5,897**	**$ -**	**$ -**	**$ -**	**$ -**
Finance lease obligations	**33,736**	**1,687**	**1,668**	**1,546**	**1,511**	**27,324**
Total	**$ 39,633**	**$ 7,584**	**$ 1,668**	**$ 1,546**	**$ 1,511**	**$ 27,324**
As at December 31, 2013						
Trade and other payables	$ 7,012	$ 7,012	$ -	$ -	$ -	$ -
Finance lease obligations	34,066	1,672	1,632	1,552	1,505	27,705
Total	$ 41,078	$ 8,684	$ 1,632	$ 1,552	$ 1,505	$ 27,705

11. Operating lease arrangements

The Corporation's minimum obligations under operating lease arrangements as at March 31, 2014 and December 31, 2013 were as stated in the table below:

	Mar 31, 2014	Dec 31, 2013
Not later than one year	**$ 1,454**	$ 1,431
Later than one year and not later than five years	**4,073**	4,225
Later than five years	**9,473**	9,643
	$ 15,000	$ 15,299

12. Commitments and contingencies

12.1 Performance bonds

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

As at March 31, 2014, the estimated aggregate value of shipments remaining under Canadian contracts secured with performance bond was $2,900 (December 31, 2013 - $2,900). In the USA, performance bonds in the amount of $340 (December 31, 2013 - $340) were pledged to various government agencies as at March 31, 2014.

12.2 Expenditures for property, plant and equipment

As at March 31, 2014, the Corporation had commitments of $506 for purchasing property, plant and equipment.

13. 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 as follows:

13.1 Trading transactions

In the periods ended March 31, 2014 and 2013, the Corporation had the following trading transactions with related parties:

		Three month periods ended March 31	
	Nature of transaction	**2014**	**2013**
Aeonian Capital Corporation	Management services	**$ 88**	$ 88
		$ 88	$ 88

There was no related party balances were outstanding at the end of the reporting periods.

14. Supplementary cash flow information

14.1 Changes in non-cash working capital

	Three month periods ended March 31	
Increase (decrease):	**2014**	**2013**
Trade receivables	**$ 933**	$ 2,279
Inventories	**2,134**	1,853
Prepaid expenses	**18**	179
Trade and other payables	**1,115**	1,236
Deferred revenue	**(818)**	(407)
	$ 3,382	$ 5,140

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

	Three month periods ended March 31	
	2014	**2013**
Property, plant and equipment acquired with finance lease obligations	**$ 104**	$ 14,622

15. Subsequent events

On May 8, 2014, the Corporation's board of directors declared a regular quarterly dividend of $0.06 per common share. The regular quarterly dividend will be paid on May 30, 2014, to shareholders of record at the close of business on May 19, 2014.