Second Quarter Report 2013

For the three and six month periods ended June 30, 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 and six month periods ended June 30, 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 and six month periods ended June 30, 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 July 31, 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 July 31, 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 income (loss)** – represents gross profit less selling and administrative expenses and other gains.

(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.

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Consolidated financial highlights (unaudited)

	Three month periods ended June 30		Six month periods ended June 30	
	2013	2012	2013	2012
Sales	**$ 22,698**	$ 24,698	**$ 37,905**	$ 41,278
Cost of sales	**(19,057)**	(19,483)	**(32,546)**	(33,256)
Gross profit	**3,641**	5,215	**5,359**	8,022
Selling expenses	**(2,159)**	(2,142)	**(4,150)**	(4,248)
Administrative expenses	**(1,250)**	(1,392)	**(2,446)**	(2,675)
Administrative expenses – one-time, non-operating	**-**	(609)	**(391)**	(774)
Other gains	**431**	209	**785**	43
Operating income (loss)	**663**	1,281	**(843)**	368
Gain on sale of real estate	**-**	-	**7,297**	-
Contingent shares – loss	**-**	(143)	**(80)**	(187)
Investment income	**56**	1	**83**	19
Finance costs	**(360)**	(110)	**(508)**	(214)
Income (loss) before taxes	**359**	1,029	**5,949**	(14)
Income taxes (expense) recovery	**(48)**	(279)	**(510)**	4
Net income (loss) for the period	**$ 311**	$ 750	**$ 5,439**	$ (10)
Earnings per share - $ per share				
Basic	**0.05**	0.12	**0.81**	0.00
Diluted	**0.05**	0.11	**0.81**	0.00
Weighted average number of common shares outstanding				
Basic	**6,739,203**	6,597,536	**6,681,284**	6,597,536
Diluted	**6,739,203**	6,764,203	**6,681,284**	6,597,536
Cash from (used in) operating activities	**$ 790**	$ 1,402	**$ (1,331)**	$ 1,337
Cash used in operating activities per common share - $ per share	**$ 0.12**	$ 0.21	**(0.20)**	$ 0.20

Summary of quarterly financial data

	2013		2012				2011	
	Qtr. 2	Qtr. 1	Qtr. 4	Qtr. 3	Qtr. 2	Qtr. 1	Qtr. 4	Qtr. 3
Sales	**$ 22,698**	$ 15,207	$ 17,502	$ 23,298	$ 24,698	$ 16,580	$ 23,374	$ 28,920
Gross profit	**3,641**	1,718	1,908	4,889	5,215	2,807	4,962	6,803
Operating income (loss)	**663**	(1,506)	(846)	581	1,281	(913)	1,581	3,226
Net income (loss)	**311**	5,128	(182)	316	750	(760)	972	2,870
Earnings (loss) per share								
Basic - $ per share	**0.05**	0.77	(0.03)	0.05	0.12	(0.12)	0.14	0.44
Diluted - $ per share	**0.05**	0.77	(0.03)	0.05	0.11	(0.12)	0.14	0.44

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 six month period ended June 30, 2013

In addition to normal operations in the six month period ended June 30, 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 *Brands*: 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 *Brands*: PlastiSpan EPS Product Solutions; Insulspan SIPS; Riverbend Timber Framing; Precision Craft; M.T.N. Architects; Point Zero; and PC Design/Build

Sales

Consolidated sales in the three month period ended June 30, 2013, were $22,698, a decrease of $2,000 or 8.1% from $24,698 in Q2/12. Both operating segments reported decreases in quarterly sales.

Consolidated sales in the six month period ended June 30, 2013, were $37,905, a decrease of $3,373 or 8.2% from $41,278 in the comparative six month period of 2012. Both operating segments reported decreases in sales.

Gross profit

Consolidated gross profit decreased by 30.2% to $3,641 in the current quarter as compared to gross profit of $5,215 in the second quarter of 2012. Consolidated gross profit decreased by 33.2% to $5,359 in the six month period ended June 30, 2013, as compared to gross profit of $8,022 in the comparative six month period of 2012.

Gross profit margin decreased to 16.0% in the current quarter as compared to a gross profit margin of 21.1% in the second quarter of 2012. Gross profit margin decreased to 14.1% in the first six months of the current year as compared to a gross profit margin of 19.4% in the comparative six month period of 2012.

The decreases in gross profit and gross profit margins in each period of the current year were influenced by the combined effects of lower sales and significantly elevated input costs for the Corporation's major raw material.

Selling and administrative expenses

In the current quarter, selling and administrative expenses combined were $125 lower than in the comparative quarter of 2012. In the comparative quarter, additional one-time administrative costs of $609 were incurred conducting due diligence work for a potential acquisition.

In the three and six month period ended June 30, 2013, selling and administrative expenses combined were $327 lower than in the comparative six month period of 2012. Additional one-time administrative costs in 2013 were $383 lower than in 2012.

Other gains

In the three and six month periods ended June 30, 2013, there was a weakening trend in the value of the Canadian dollar versus the U.S. dollar. This had an adverse effect on translating monetary assets and liabilities denominated in U.S. dollars into Canadian dollars. However, in those periods, the adverse effects were overshadowed by a larger favourable impact that the currency change had on a large related party loan which is denominated in Canadian dollars.

Other gains in the current quarter of $431 consisted mainly of unrealized foreign exchange gains in the amount of $463 whereas, in the comparative quarter of 2012, other gains of $209 included unrealized foreign exchange gains in the amount of $229. Realized currency losses accounted for the balance in both periods.

Other gains in the six month period ended June 30, 2013, consisted mainly of unrealized foreign exchange gains in the amount of $801 whereas, in the comparative period of 2012, other gains of $43 included unrealized foreign exchange gains in the amount of $81. Realized currency losses accounted for the balance in both periods.

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 are being depreciated on a straight-line basis over the twenty year term of the leases.

The proceeds received from the sale transaction were used to repay all bank debt, pay a special dividend, and used for general working capital purposes. The marketable securities received were pledged for ten years as a security deposit under the leases and the cash distributions are available to the Corporation.

For more information on the accounting treatment of the transaction and lease commitment refer to Notes 6, 8 and 12 to the condensed consolidated financial statements for the three and six month periods ended June 30, 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 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 representing the fair value of the released shares on the date of release. Fair value of $169 was attributed to the 25,000 cancelled shares which resulted in a realized gain in the consolidated statement of comprehensive income. In addition to the gain on the cancelled shares, an unrealized loss of $249 resulted from a fair value increase in the escrowed shares in the period from January 1, 2013 and the settlement date, which was reflective of an increase in the quoted price of PFB's common shares. Combined, a contingent share loss of $80 was reported in the first quarter of 2013.

Investment income

Investment income in the current quarter of $56 consisted of $39 in distributions received on marketable securities with the balance being interest income earned on bank balances.

Finance costs

Finance costs in both the three and six month periods of the current year increased to $360 and $508, respectively, as compared to financing costs of $110 and $214, respectively, in the comparative periods of 2012. The changes are as a result of accounting for the higher financing cost portion of the amortized finance lease obligations with respect to the real estate transaction in the previous quarter as compared to the cash interest costs on long-term debt in the comparative periods of the prior year.

Income (loss) before taxes

Income before taxes in the three month period ended June 30, 2013, was $359 as compared to income before taxes of $1,029 in the comparative three month period of 2012. In the six month period ended June 30, 2013, income before taxes of 5,949 resulted as compared to a loss before taxes of $14 in the comparative six month period of 2012. Income before taxes in the six month period of the current year included a pre-tax gain of $7,297 on the sale of real estate completed in the first quarter. Excluding the one-time gain, a loss before tax of $1,348 resulted for the six month period.

Income taxes

Income tax expense in the current quarter was $48 as compared to income tax expense of $279 in Q2/12. In the six month period ended June 30, 2013, income tax expense was $510 as compared with income tax recovery of $4 in the prior year period. In the current six month period, a pre-tax gain on the sale of real estate resulted in a current tax expense of $1,099 consisting of capital gains tax and recapture of undepreciated capital cost taxed at the Corporation's corporate income tax rate. The tax expense of $1,099 arising on the gain was reduced by a deferred tax recovery of $589 for a net tax expense of $510.

Net income (loss)

Net income in the current quarter was $311 as compared to net income of $750 reported in Q2/12. Net income in the six month period ended June 30, 2013, was $5,439 as compared to a loss of $10 in the comparative six month period of 2012. Excluding the effects of the one-time, after-tax gain of $6,198 on the sale of real estate, a loss of $759 resulted in the current six month period. The decreases in income were attributed to a combination of lower sales and elevated raw material input costs suppressing gross profit.

Basic earnings per common share in the three month period ended June 30, 2013, were $0.05 as compared to basic earnings per share of $0.12 in Q2/12.

Basic earnings per common share in the six month period ended June 30, 2013 were $0.81 as compared to basic earnings per share of $0.00 in the six month period ended June 30, 2012. The after-tax gain on the sale of real estate equated to earnings per share of $0.94 in the current six month period.

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 sales 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 and six month periods ended June 30, 2013 and 2012 are set out below:

Three month periods ended June 30	**Segment sales revenues**		**Segment operating income (loss)**	
	2013	**2012**	**2013**	**2012**
Canada	**$ 19,972**	$ 21,425	**$ 922**	$ 1,739
USA	**2,726**	3,273	**(190)**	(28)
Total	**$ 22,698**	$ 24,698	**732**	1,711
Central administration – property income, net			**150**	347
Central administration – expenses			**(219)**	(168)
Central administration – one-time, non-operating			**-**	(609)
Contingent shares - loss			**-**	(143)
Investment income			**56**	1
Finance costs			**(360)**	(110)
Income before tax			**$ 359**	$ 1,029

Six month periods ended June 30	**Segment sales revenues**		**Segment operating income (loss)**	
	2013	**2012**	**2013**	**2012**
Canada	**$ 32,825**	$ 35,424	**$ 401**	$ 1,499
USA	**5,080**	5,854	**(922)**	(713)
Total	**$ 37,905**	$ 41,278	**(521)**	786
Central administration – property income, net			**418**	676
Central administration – expenses			**(349)**	(320)
Central administration – one-time, non-operating			**(391)**	(774)
Central administration – gain on sale of real estate			**7,297**	-
Revaluation of contingent shares - loss			**(80)**	(187)
Investment income			**83**	19
Finance costs			**(508)**	(214)
Income (loss) before tax			**$ 5,949**	$ (14)

(a) Canada

Sales

Sales generated by the Canadian segment were $19,972 in the current quarter compared to $21,425 in Q2/12, a decrease of 6.8% or $1,453. Sales demand for EPS foam products strengthened in the current quarter across most regions and were slightly improved over sales in the comparative quarter. However, product sales to a large public works project in Western Canada, which is nearing completion, adversely skewed the overall sales comparisons between the current period and the prior year period.

Sales of building systems products were also lower in the current quarter as compared to in Q2/12.

Sales in the six month period ended June 30, 2013, decreased from $35,424 in the comparative six month period to $32,825 in the current period, a decrease of 7.3% or $2,599. The sales trend comparisons for the six month periods virtually mirrored those of the three month periods. EPS sales were generally improved in the current year.

Operating income

Operating income decreased by $817 or 47.0% to $922 in the current quarter as compared to operating income of $1,739 reported in the comparative quarter of 2012. The decrease was driven by the effects of lower sales and weaker gross profit margins. Selling prices were increased at the beginning of the current quarter in an effort to mitigate the effects of the ongoing margin squeeze caused by elevated materials input costs. This pricing strategy achieved partial success as competitive forces tempered the full effect. A weakening Canadian dollar was also not helpful for margins.

Operating income in the six month period ended June 30, 2013, was $401 as compared to operating income of $1,499 in the comparative six month period of 2012.

(b) USA

Sales

Sales in the USA segment decreased from $3,273 in Q2/12 to $2,726 in the current quarter, a decrease of $547 or 16.7%. In the current six month period, sales decreased to $5,080 from sales of $5,854 in the comparative six month period of 2012, a decrease of $774 or 13.2%. The number of qualified leads and confirmed orders in the USA custom homes operations continue to build which is evidenced by a jump in the amount of reported deferred revenue which represents advance deposits collected from customers. The Lebanon, Ohio, facility continues to expand its customer base for its EPS product offerings.

Operating loss

In the current quarter, the USA segment reported an operating loss of $190 as compared to an operating loss of $28 reported in Q2/12. In the six month period ended June 30, 2013, an operating loss of $922 was reported as compared to an operating loss of $713 in the comparative six month period of 2012. The losses in the current and prior year periods included unrealized foreign exchange gains arising on a loan payable to the Canadian segment. The sales mix of products and services in the current year periods resulted in weaker gross profit margins than in the comparative periods but improvements in sales mix.

Central administration

Net property income reduced in the current quarter as a result of divesting four properties in the sale leaseback transaction completed in the previous quarter. One-time operating costs of $609 in the second quarter of 2012 were for due diligence work performed on a potential acquisition. Investment income includes monthly distributions received on marketable securities (restricted) acquired in the sale leaseback transaction. In the six month period ended June 30, 2013, a $7,297 gain on the sale of real estate reported in the first quarter of 2013 was a significant one-time feature.

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 Jun 30, 2013	As at Dec 31, 2012
Assets		
Segmented assets	**$ 57,142**	$ 36,593
Assets not allocated to segments:		
Cash and cash equivalents	**4,427**	1,698
Freehold land and buildings	**6,582**	20,827
Marketable securities – restricted	**2,307**	-
Assets held for sale	**-**	3,476
Total assets	**$ 70,458**	$ 62,594
Liabilities		
Segmented liabilities	**$ 13,302**	$ 11,651
Liabilities not allocated to segments:		
Contingent consideration	**-**	875
Long-term debt	**-**	6,408
Finance lease obligations	**14,474**	401
Central services taxes	**1,048**	209
Total liabilities	**$ 28,824**	$ 19,544
Net segmented assets		
Canada	**$ 37,606**	$ 19,176
USA	**6,234**	5,821

Other segment information

	Three month periods ended June 30		Six month periods ended June 30	
	2013	**2012**	**2013**	**2012**
Additions to non-current assets:				
Canada	**$ 240**	$ 50	**$ 383**	$ 261
USA	**67**	1,689	**74**	1,714
Total	**$ 307**	$ 1,745	**$ 457**	$ 1,975
Depreciation and amortization:				
Canada	**$ 650**	$ 452	**$ 1,155**	$ 913
USA	**178**	144	**342**	228
Total	**$ 828**	$ 596	**$ 1,497**	$ 1,141
Inter-segment sales	**$ 826**	$ 646	**$ 1,058**	$ 1,059

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 June 30, 2013 and December 31, 2012 were as follows:

	June 30, 2013	**December 31, 2012**
Cash	**$ 4,427**	$ 1,698
Cash equivalents	**-**	-
	$ 4,427	$ 1,698

Cash balances were increased by the net proceeds from the sale of real estate completed in March 2013.

Summary of cash flows

A summary of cash flows for the three and six month periods ended June 30, 2013 and 2012 are shown in the following table.

	Three month periods ended June 30		**Six month periods ended June 30**	
	2013	**2012**	**2013**	**2012**
Cash from (used in):				
Operating activities	**$ 1,465**	$ 1,301	**$ (4,834)**	$ (4,107)
Investing activities	**(245)**	(4,308)	**9,272**	(4,538)
Financing activities	**(7,177)**	(646)	**(1,758)**	(1,290)
Effects of foreign exchange on cash balances - gain	**-**	24	**49**	9
Increase (decrease) in cash and cash equivalents	**(5,957)**	(3,629)	**2,729**	(9,926)
Cash and cash equivalents – beginning of period	**10,384**	3,207	**1,698**	9,504
Cash and cash equivalents (bank indebtedness) – end of period	**$ 4,427**	$ (422)	**$ 4,427**	$ (422)

(a) Operating activities

Cash provided by operating activities, including changes in non-cash working capital, was $1,465 in the current quarter compared to cash provided by operating activities of $1,301 in the comparative quarter of 2012. Non-cash working capital reduced in the current quarter by $737. In the six month period ended June 30, 2013, cash used in operations was $4,834 as compared to cash used in operations of $4,107 in the comparative six month period.

(b) Investing activities

Cash flows used in investing activities were $245 in the current quarter for relatively minor purchases of property, plant and equipment (PP&E). This contrasted with purchases of PP&E of $4,067 in Q2/12 which included the acquisition of moulding plants assets in Lebanon, Ohio, in addition to the purchase of intangible assets in the amount of $266.

In the six month period ended June 30, 2013, cash proceeds from the disposal of land, net of costs, amounted to $9,662 which was realized in the first quarter of 2013.

(c) Financing activities

Cash flows from financing activities in the second quarter of 2013 were $7,177, as compared to $646 in in Q2/12. The most significant change between the two periods was the payment to shareholders of a special dividend of $1.00 per common share paid in May 2013 in the aggregate amount of $6,739. Regular dividends of $0.06 per common share were paid in both periods for aggregate amounts of $404 and $407, respectively.

In the six month period ended June 30, 2013, leaseback financing, net of costs, amounted to $12,372 which was offset by repayment of bank debt in the amount of $6,421 paid from proceeds of the sale of real estate.,

Change in non-cash working capital

The changes in non-cash working capital amounts which occurred in the six month period ended June 30, 2013 are shown in the following table.

	Jun 30, 2013	Dec 31, 2012	Increase (Decrease)
Trade receivables	**$ 13,404**	$ 8,321	$ 5,083
Inventories	**8,617**	7,754	863
Prepaid expenses	**871**	555	316
Income tax recoverable (payable)	**(763)**	14	(777)
Trade and other payables	**(7,879)**	(7,595)	(284)
Deferred revenue	**(3,154)**	(1,435)	(1,719)
	$ 11,096	$ 7,614	$ 3,482

Non-cash working capital increased in the six month period ended June 30, 2013 by $3,482.

The trade receivables balance includes a contractual holdback in the amount of $1,063 relating to a large public works contract which is expected to be completed and the holdback paid in 2013. Excluding the holdback amount, the increase in trade receivables is reflective of the seasonal increases in sales. Inventory values reduced in the second quarter as work-in-process and finished goods inventories produced in the first quarter were utilized, but inventory values remained higher than at the start of the year which is normal at this point in the seasonal cycle.

An income tax payable balance of $763 as at June 30, 2013, was inclusive of current taxes in the amount of $1,099 arising on the gain on the sale of real estate recorded in the previous quarter which is not required to be paid until February 2014.

Deferred revenue balances have more than doubled in the first six months of the year from $1,453 to $3,154, which is reflective of a significant increase in confirmed contracts, mainly in the USA segment operations.

Capital resources

Capital structure

The Corporation's capital structure as at June 30, 2013 and December 31, 2012, is outlined in the following table:

	June 30, 2013	December 31, 2012
Long-term debt	**$ -**	$ 6,409
Shareholders' equity	**41,634**	43,050
	$ 41,634	$ 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. There were no changes in share capital in the current quarter.

A summary of the Corporation's share capital position as at June 30, 2013 and December 31, 2012, is set forth in the following table:

	June 30, 2013 (Six 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

In 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.

In the second quarter of 2013, the Corporation's board of directors declared a regular quarterly dividend of $0.06 (2012 - $0.06) per common share plus a one-time, special dividend of $1.00 (2012 - $nil) per common share for a combined dividend payment of $1.06 per common share which was paid on May 31, 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 and six month periods ended June 30, 2013 and 2012, the Corporation did not purchase any of its common shares under normal course issuer bids.

Long-term debt

The Corporation repaid all outstanding bank debt from proceeds of the sale of the real estate transaction. 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 June 30, 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 June 30, 2013.

Finance lease obligations

Historically, finance lease obligations consisted of leases for automobiles and materials handling equipment. In the first quarter of 2013, 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 the Corporation in the form of both operating and finance leases. The leasing commitments are for terms of twenty years with a renewal option available 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 that payments are made. Monthly payments required under finance leases are also paid at the beginning of each month and actual payments are applied to reducing the finance obligation on the balance sheet and to finance costs which are expensed in the statement of comprehensive income. A significant 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 June 30, 2013, and December 31, 2012:

(a) Operating leases

	Jun 30, 2013	**Dec 31, 2012**
Not later than one year	**$ 1,344**	$ 839
Later than one year and not later than five years	**3,592**	1,508
Later than five years	**10,049**	30
	$ 14,985	$ 2,377

(b) **Finance leases**

	Minimum lease payments	
	Jun 30, 2013	**Dec 31, 2012**
No later and one year	**$ 1,665**	$ 198
Later than one year and not later than five years	**6,246**	226
Later than five years	**26,842**	-
Total minimum lease payments	**34,753**	424
Less: amounts representing finance costs	**20,279**	24
Present value of minimum lease payments	**$ 14,474**	$ 400

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

	Jun 30, 2013	**Dec 31, 2012**
Current	**$ 253**	$ 187
Long-term	**14,221**	213
Total	**$ 14,474**	$400

Under the terms of the carefree triple net leases, and in addition to the required minimum lease payments, the Corporation 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.

(c) **Performance bonds**

The aggregate value of performance bonds issued to contractors as at June 30, 2013, was $28,408 as compared to $25,719 as at December 31, 2012, an increase of $2,689, of which $189 was issued in the current quarter.

(d) **Expenditures for property, plant and equipment**

Under the terms of the carefree triple net property leases, the Corporation 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 under the lease agreements 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 June 30, 2013.

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 and the resulting tax effect recorded in other comprehensive income. The Canadian REIT currently pays monthly distributions on its units and distributions paid on the escrowed units flow to the Corporation as they are paid and they are included in investment income in the consolidated statement of income. The Corporation received $39 in the current quarter.

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, June 30, 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**	**$ -**
June 30, 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 differences occasioned by local conditions. Elevated raw material costs have persisted throughout the first six months and resulted in a squeeze in profit margins. It remains unclear whether there will be any cost relief in the second half year. Selling price increases were implemented but they are subject to competitive pressures. Pricing discipline remains a key area of focus for the Corporation.

A robust order book for Canadian manufactured products has been maintained and we remain cautiously optimistic regarding the outlook for sales over the remainder of the year. During the past six months, projects have suffered delays not in our control and actual shipments were lower than originally anticipated. We are expecting that shipments will be stronger in the second half year.

Operations in the United States continue to exhibit positive signs of recovery. Design activities and deposits collected from customers for customized products have increase substantially in the first six months of this year and the USA operation is focused on expediently converting signed contracts into revenues. The cycle time for these projects tends to be long but 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 expanding its customer base.

The sale and leaseback transaction completed in the previous quarter strengthened the Corporation's balance sheet and liquidity.

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 June 30, 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 June 30, 2013, the CEO and CFO assessed the effectiveness of the Corporation's internal control over financial reporting and concluded that they were 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 July 31, 2013, the Corporation's board of directors declared a regular quarterly dividend of $0.06 per common share. The quarterly dividend will be paid on August 30, 2013, to shareholders of record at the close of business on August 14, 2013.

Related party transactions

There has been no material changes in related party transactions in the six month period ended June 30, 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 and six month periods ended June 30, 2013 and 2012

The accompanying unaudited condensed consolidated financial statements of PFB Corporation for the three and six month periods ended June 30, 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: July 31, 2013

Consolidated Statements of Income (Loss)

For the three and six month periods ended June 30, 2013 and 2012
Thousands of Canadian dollars, except per share amounts

	Note	Three month periods ended June 30		Six month periods ended June 30	
		2013	**2012**	**2013**	**2012**
Sales		**$ 22,698**	$ 24,698	**$ 37,905**	$ 41,278
Cost of sales		**(19,057)**	(19,483)	**(32,546)**	(33,256)
Gross profit		**3,641**	5,215	**5,359**	8,022
Selling expenses		**(2,159)**	(2,142)	**(4,150)**	(4,248)
Administrative expenses		**(1,250)**	(1,392)	**(2,446)**	(2,675)
Administrative expenses – one-time, non-operating		**-**	(609)	**(391)**	(774)
Other gains		**431**	209	**785**	43
Operating income (loss)		**663**	1,281	**(843)**	368
Gain on sale of real estate	6	**-**	-	**7,297**	-
Contingent shares – loss	10	**-**	(143)	**(80)**	(187)
Investment income		**56**	1	**83**	19
Finance costs		**(360)**	(110)	**(508)**	(214)
Income (loss) before tax		**359**	1,029	**5,949**	(14)
Income tax (expense) recovery		**(48)**	(279)	**(510)**	4
Net income (loss) for the period		**$ 311**	$ 750	**$ 5,439**	$ (10)
Earnings per share - $ per share					
Basic	4	**$ 0.05**	$ 0.12	**$ 0.81**	$ 0.00
Diluted	4	**$ 0.05**	$ 0.11	**$ 0.81**	$ 0.00
Weighted average number of common shares outstanding					
Basic	4	**6,739,203**	6,597,536	**6,681,284**	6,597,536
Diluted	4	**6,739,203**	6,764,203	**6,681,284**	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 and six month periods ended June 30, 2013 and 2012
Thousands of Canadian dollars

	Note	Three month periods ended June 30		Six month periods ended June 30	
		2013	**2012**	**2013**	**2012**
Net income (loss) for the period		**$ 311**	$ 750	**$ 5,439**	$ (10)
Other comprehensive loss:					
Foreign currency translation adjustments					
Exchange differences on translating foreign operations (net of tax $nil)		**(74)**	(5)	**(105)**	(5)
Available for sale financial assets – (restricted)	11				
Unrealized loss on available for sale financial assets		**(311)**	-	**(226)**	-
Deferred income tax recovery on unrealized gains		**77**	-	**56**	-
		(234)		**(170)**	
Other comprehensive loss for the period		**(308)**	(5)	**(275)**	(5)
Comprehensive income (loss) for the period		**$ 3**	$ 745	**$ 5,164**	$ (15)

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

Consolidated Balance Sheets

As at June 30, 2013 and 2012, December 31, 2012, and January 1, 2012
Thousands of Canadian dollars

	Note	June 30, 2013	June 30, 2012 Restated	December 31, 2012 Restated	January 1, 2012 Restated
ASSETS					
Current assets					
Cash and cash equivalents		**$ 4,427**	$ -	$ 1,698	$ 9,504
Trade receivables		**13,404**	13,939	8,321	8,348
Inventories	5	**8,617**	9,341	7,754	7,766
Income taxes recoverable		**-**	-	14	-
Prepaid expenses		**871**	879	555	556
Assets held for sale		**-**	-	3,476	-
Total current assets		**27,319**	24,159	21,818	26,174
Non-current assets					
Marketable securities - restricted	6, 11	**2,307**	-	-	-
Long-term trade receivables		**-**	-	-	621
Property, plant and equipment	6	**35,980**	40,060	36,442	37,127
Intangible assets		**1,477**	1,638	1,513	1,459
Goodwill		**1,952**	1,732	1,878	1,731
Deferred income tax assets		**1,423**	500	943	204
Total non-current assets		**43,139**	46,930	40,776	41,142
Total assets		**$ 70,458**	$ 68,089	$ 62,594	$ 67,316
LIABILITIES					
Current liabilities					
Bank indebtedness		**$ -**	$ 422	$ -	$ -
Trade and other payables		**7,879**	10,298	7,595	8,309
Deferred revenue		**3,154**	2,351	1,435	2,349
Income taxes payable		**763**	84	-	601
Finance lease obligations	8	**253**	185	187	209
Long-term debt	7	**-**	1,254	5,490	733
Total current liabilities		**12,049**	14,594	14,707	12,201
Non-current liabilities					
Finance lease obligations	8	**14,221**	188	213	225
Long-term debt	7	**-**	5,534	919	6,420
Contingent consideration	10	**-**	1,143	875	956
Accrued defined benefit pension plan	2, 9	**379**	359	379	359
Deferred income tax liabilities		**2,175**	2,494	2,451	2,550
Total non-current liabilities		**16,775**	9,718	4,837	10,510
Total liabilities		**28,824**	24,312	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		**(276)**	49	(1)	54
Retained earnings		**20,891**	23,280	22,987	24,103
Shareholders' equity		**41,634**	43,777	43,050	44,605
Total liabilities and shareholders' equity		**$ 70,458**	$ 68,089	$ 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 June 30, 2013 and 2012, December 31, 2012, and January 1, 2012
Thousands of Canadian dollars

		Common shares			Accumulated other comprehensive income				
	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	Retained earnings	Total
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		-	-	-	-	-	-	(10)	(10)
Other comprehensive loss for the period, net of tax		-	-	-	(5)	-	-	-	(5)
Total comprehensive loss for the period		-	-	-	(5)	-	-	(10)	(15)
Payment of dividends	10	-	-	-	-	-	-	(813)	(813)
Restated balance at June 30, 2012		**6,764,203**	**20,064**	**384**	**49**	**-**	**-**	**23,280**	**43,777**
Net income for the period		-	-	-	-	-	-	134	134
Other comprehensive income for the period, net of tax		-	-	-	9	-	-	-	9
Total comprehensive income for the period		-	-	-	9	-	-	134	143
Payment of dividends	10	-	-	-	-	-	-	(811)	(811)
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		-	-	-	-	-	-	5,439	5,439
Other comprehensive loss for the period, net of tax		-	-	-	(105)	(170)	-	-	(275)
Total comprehensive income (loss) for the period		**-**	**-**	**-**	**(105)**	**(170)**	**-**	**5,439**	**5,164**
Payment of dividends	10	-	-	-	-	-	-	(7,535)	(7,535)
Settlement of contingent shares held in escrow	10	-	955	-	-	-	-	-	955
Cancellation of contingent shares held in escrow	10	(25,000)	-	-	-	-	-	-	-
Balance at June 30, 2013		**6,739,203**	**$ 21,019**	**$ -**	**$ (47)**	**$ (170)**	**$ (59)**	**$ 20,891**	**$ 41,634**

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

Consolidated Statement of Cash Flows

For the three and six month periods ended June 30, 2013 and 2012
Thousands of Canadian dollars

	Note	Three month periods ended June 30 2013	Three month periods ended June 30 2012	Six month periods ended June 30 2013	Six month periods ended June 30 2012
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES					
Net income (loss) for the period		**$ 311**	$ 750	**$ 5,439**	$ (10)
Adjustments for items not affecting cash and cash equivalents:					
Depreciation and amortization expense:					
Cost of sales	6	**789**	691	**1,579**	1,352
Selling expenses	6	**81**	86	**163**	171
Administrative expenses	6	**65**	45	**129**	83
Loss on disposal of property, plant and equipment	6	**-**	(11)	**7**	(8)
Gain on sale of real estate	6	**-**	-	**(7,297)**	-
Contingent shares – loss	10	**-**	143	**80**	187
Deferred income tax		**7**	(69)	**(630)**	(352)
Unrealized foreign exchange gain		**(463)**	(233)	**(801)**	(86)
		790	1,402	**(1,331)**	1,337
Changes in non-cash working capital	15	**737**	(759)	**(3,482)**	(6,015)
Changes in long-term trade receivables		**-**	704	**-**	621
Unrealized foreign exchange gain relating to non-cash working capital		**(62)**	(46)	**(21)**	(50)
Net cash from (used in) operating activities		**1,465**	1,301	**(4,834)**	(4,107)
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES					
Purchase of property, plant and equipment	6	**(245)**	(4,067)	**(390)**	(4,297)
Purchase of intangible assets		**-**	(266)	**-**	(266)
Proceeds from disposal of property, plant and equipment		**-**	25	**-**	25
Cash proceeds from disposal of land, net of costs	6	**-**	-	**9,662**	-
Net cash from (used in) investing activities		**(245)**	(4,308)	**9,272**	(4,538)
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES					
Leaseback financing, net of costs	6	**-**	-	**12,372**	-
Repayment of long-term debt	7	**-**	(183)	**(6,421)**	(365)
Repayment of finance lease obligations	8	**(34)**	(56)	**(174)**	(112)
Dividends paid	10	**(7,143)**	(407)	**(7,535)**	(813)
Net cash used in financing activities		**(7,177)**	(646)	**(1,758)**	(1,290)
Effects of exchange rate changes on the balance of cash held in foreign currencies – gain		**-**	24	**49**	9
Net increase (decrease) in cash and cash equivalents		**(5,957)**	(3,629)	**2,729**	(9,926)
Cash and cash equivalents at the beginning of the period		**10,384**	3,207	**1,698**	9,504
Cash and cash equivalents (bank indebtedness) at the end of the period		**$ 4,427**	$ (422)	**$ 4,427**	$ (422)

Supplementary cash flow information - cash flows for interest and taxes

Cash interest paid	**(360)**	(110)	**(508)**	(214)
Cash interest received	**57**	1	**83**	19
Income tax paid	**(174)**	(201)	**(352)**	(850)

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

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 and six month periods ended June 30, 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 July 31, 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, June 30, 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.

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 sales 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 the three month periods ended June 30, 2013 and 2012 is set out below:

	Segment sales revenues		Segment operating income (loss)	
	2013	**2012**	**2013**	**2012**
Canada	**$ 19,972**	$ 21,425	**$ 922**	$ 1,739
USA	**2,726**	3,273	**(190)**	(28)
Total	**$ 22,698**	$ 24,698	**732**	1,711
Central administration – property income, net			**150**	347
Central administration – expenses			**(219)**	(168)
Central administration – one-time, non-operating			**-**	(609)
Contingent shares – loss			**-**	(143)
Investment income			**56**	1
Finance costs			**(360)**	(110)
Income before tax			**$ 359**	$ 1,029

Information regarding each reportable operating segment for the six month periods ended June 30, 2013 and 2012 is set out below:

	Segment sales revenues		Segment operating income (loss)	
	2013	**2012**	**2013**	**2012**
Canada	**$ 32,825**	$ 35,424	**$ 401**	$ 1,499
USA	**5,080**	5,854	**(922)**	(713)
Total	**$ 37,905**	$ 41,278	**(521)**	786
Central administration – property income, net			**418**	676
Central administration – expenses			**(349)**	(320)
Central administration – one-time, non-operating			**(391)**	(774)
Central administration – gain on sale of real estate			**7,297**	-
Contingent shares – loss			**(80)**	(187)
Investment income			**83**	19
Finance costs			**(508)**	(214)
Income (loss) before tax			**$ 5,949**	$ (14)

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 Jun 30, 2013	**As at Dec 31, 2012**
Assets		
Segmented assets	**$ 57,142**	$ 36,593
Assets not allocated to segments:		
Cash and cash equivalents	**4,427**	1,698
Freehold land and buildings	**6,582**	20,827
Marketable securities - restricted	**2,307**	-
Assets held for sale	**-**	3,476
Total assets	**$ 70,458**	$ 62,594
Liabilities		
Segmented liabilities	**$ 13,302**	$ 11,651
Liabilities not allocated to segments:		
Contingent consideration	**-**	875
Long-term debt	**-**	6,408
Finance lease obligations	**14,474**	401
Central services taxes	**1,048**	209
Total liabilities	**$ 28,824**	$ 19,544
Net segmented assets		
Canada	**$ 37,606**	$ 19,176
USA	**6,234**	5,821

3.3 Other segment information

	Three month periods ended June 30		Six month periods ended June 30	
	2013	**2012**	**2013**	**2012**
Additions to non-current assets:				
Canada	**$ 240**	$ 50	**$ 383**	$ 261
USA	**67**	1,689	**74**	1,714
Total	**$ 307**	$ 1,739	**$ 457**	$ 1,975
Depreciation and amortization:				
Canada	**$ 650**	$ 452	**$ 1,155**	$ 913
USA	**178**	144	**342**	228
Total	**$ 828**	$ 596	**$ 1,497**	$ 1,141
Inter-segment sales	**$ 826**	$ 646	**$ 1,058**	$ 1,059

4. Earnings per share

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

	Three month periods ended June 30		Six month periods ended June 30	
	2013	**2012**	**2013**	**2012**
Net income (loss) for the period	**$ 311**	$ 750	**$ 5,439**	$ (10)
Weighted average number of common shares outstanding - basic	**6,739,203**	6,597,536	**6,681,284**	6,597,536
Effect of:				
Contingent consideration [1]	**-**	166,667	**-**	-
Weighted average number of common shares outstanding - diluted	**6,739,203**	6,764,203	**6,681,284**	6,597,536
Earnings per share:				
Basic	**$ 0.05**	$ 0.12	**$ 0.81**	$ 0.00
Diluted	**$ 0.05**	$ 0.11	**$ 0.81**	$ 0.00

[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 six month period ended June 30, 2012, as a result of a reported loss, the contingent shares were excluded from the diluted number of common shares outstanding as they were anti-dilutive.*

5. Inventories

	As at Jun 30, 2013	As at Dec 31, 2012
Raw materials	**$ 3,756**	$ 3,959
Work in progress	**2,132**	1,476
Finished goods	**2,729**	2,319
	$ 8,617	$ 7,754

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 June 30, 2013.

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.

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 are being 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 were used for working capital purposes.

The Corporation entered into carefree triple net lease agreements with the Canadian REIT to leaseback the four Canadian properties, each with a lease term of twenty years. Monthly 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, The Corporation is responsible for the operating costs of the leased premises including all major repairs necessary to maintain the properties in a state of good order and condition.

For accounting purposes, the land components of the four properties were treated as operating leases and the minimum lease payments attributed to land are being 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 were 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 June 30, 2013, automobiles had a carrying amount of $379 (2012 - $477) and buildings had a carrying value of $14,407 (2012 - $Nil) for a total amount of assets under finance lease of $14,786.

Asset class	Useful life	As at Jun 30, 2013	As at Dec 31, 2012
Carrying amounts of:			
Freehold land	Unlimited useful life, not depreciated	**$ 2,109**	$ 2,062
Buildings	15 to 40 years	**4,898**	19,329
Plant and equipment	3 to 20 years	**13,988**	13,117
Assets under finance leases	Lesser of the expected useful life and the term of the lease	**14,786**	527
Assets under construction	Depreciation commences when the asset is available for use as intended by management	**199**	1,407
		$ 35,980	$ 36,442

Assets under construction as at June 30, 2013, are expected to be available for use during the third 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	-	-	9	58	381	448
Disposal of PP&E assets	-	-	(14)	(43)	-	(57)
Sale leaseback transaction	-	(21,633)	-	14,622	-	(7,011)
Transfer between asset groups	-	64	1,664	(109)	(1,619)	-
Effect of foreign currency exchange differences	47	287	233	2	30	599
Balance at June 30, 2013	**$ 2,109**	**$ 8,826**	**$ 35,314**	**$ 15,481**	**$ 199**	**$ 61,929**

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	-	392	1,019	346	-	1,757
Disposal of PP&E assets	-	-	(35)	(11)	-	(46)
Sale leaseback transaction	-	(7,412)	-	-	-	(7,412)
Transfer between asset groups	-	119	(52)	(67)	-	-
Effect of foreign currency exchange differences	-	50	89	3	-	142
Balance at June 30, 2013	**$ -**	**$ 3,928**	**$ 21,326**	**$ 695**	**$ -**	**$ 25,949**

Depreciation commences when assets are available for use. Depreciation expense for the three and six month periods ended June 30, 2013, in the amounts of $788 and $1,577 (2012 - $668 and $1,321) is included in cost of sales, with amounts of $59 and $120 (2012 - $65 and $129) included in selling expenses, and amounts of $30 and $60 (2012 - $34 and $66) included in administrative expenses, respectively.

7. Long-term debt

The Corporation's long-term debt position as at June 30, 2013, and December 31, 2012, is stated in the following table:

	Jun 30, 2013	Dec 31, 2012
Balance at beginning of period	**$ 6,409**	$ 7,153
Repayments	**(6,421)**	(731)
Effect of foreign currency exchange differences	**12**	(13)
Balance at end of period	**$ -**	$ 6,409

Canada

As at June 30, 2013, the Corporation had no long-term debt in Canada. All bank debt was repaid from proceeds received from a sale of real estate completed in March 2013. The Corporation's Canadian subsidiary maintains a non-revolving credit facility which had an unused limit of $4,300 as at June 30, 2013 (2012 - $4,286).

USA

As at June 30, 2013, the Corporation had no long-term debt in the USA. All outstanding bank debt was repaid in the first quarter of 2013.

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 $2,307 as at June 30, 2013 (see Note 11). The Canadian REIT currently pays monthly distributions on the units and distributions flow to the Corporation when paid and reported as investment income in the consolidated statement of income.

The Corporation's finance lease obligations as at June 30, 2013, and December 31, 2012, are stated in the following table:

	Minimum lease payments	
	Jun 30, 2013	Dec 31, 2012
No later and one year	**$ 1,665**	$ 198
Later than one year and not later than five years	**6,246**	226
Later than five years	**26,842**	-
Total minimum lease payments	**34,753**	424
Less: amounts representing finance costs	**20,279**	24
Present value of minimum lease payments	**$ 14,474**	$ 400

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

	Jun 30, 2013	Dec 31, 2012
Current	**$ 253**	$ 187
Long-term	**14,221**	213
Total	**$ 14,474**	$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 changes in valuation in the comparative periods booked directly to retained earnings. Subsequent to the adoption dated, 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, June 30, 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**	**$ -**
June 30, 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**

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 and six month period ended June 30, 2013, or in the comparative three and six month periods 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 first quarter of 2013, 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 contingent shares – loss in the consolidated statement of income (loss) for the three month period ended March 31, 2013.

10.3 Dividends

In 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.

In the second quarter of 2013, the Corporation's board of directors declared a regular quarterly dividend of $0.06 (2012 - $0.06) per common share plus a one-time, special dividend of $1.00 (2012 - $nil) per common share for a combined dividend payment of $1.06 per common share which was paid on May 31, 2013.

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.

The Corporation's capital structure, net of cash and any cash equivalents, as at June 30, 2013 and December 31, 2012, is as outlined in the following table:

	As at Jun 30, 2013	**As at Dec 31, 2012**
Long-term debt	**$ -**	$ 6,409
Less: cash and cash equivalents	**(4,427)**	(1,698)
Net debt (surplus cash)	**(4,427)**	4,711
Shareholders' equity	**$ 41,634**	$ 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 June 30, 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 June 30, 2013 and December 31, 2012, are stated in the following table:

		As at June 30, 2013		**As at December 31, 2012**	
	Measurement	**Carrying Amount**	**Fair Value**	**Carrying Amount**	**Fair Value**
Cash and cash equivalents	Fair value	**$ 4,427**	**$ 4,427**	$ 1,698	$ 1,698
Trade receivables	Amortized cost	**13,404**	**13,404**	8,321	$ 8,321
Marketable securities – restricted	Fair value	**2,307**	**2,307**	-	-
Trade and other payables	Amortized cost	**(7,879)**	**(7,879)**	(7,595)	(7,595)
Loans payable	Amortized cost	**-**	**-**	(6,409)	(6,409)
Contingent consideration	Fair value	**-**	**-**	(875)	(875)
		$ 12,259	**$ 12,259**	$ (4,860)	$ (4,860)

As at June 30, 2013, net cash and cash equivalent balances of $4,427 included cash of $101 which is controlled separately from regular cash used in operations. The $101 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 June 30, 2013, and December 31, 2012:

	As at Jun 30, 2013	As at Dec 31, 2012
FVTPL		
Financial assets:		
Cash and cash equivalents		
Level 1	**$ 4,427**	$ 1,698
Financial liabilities:		
Contingent consideration		
Level 1	**$ -**	$ 875
Available for Sale		
Financial assets:		
Security deposit		
Level 1	**$ 2,307**	$ -

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.

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.

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 June 30, 2013 and December 31, 2012, including a sensitivity analysis to changes in foreign exchange rates.

	As at June 30, 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	**$ 2,461**	**5.0%**	**$ 92**	$ 6,725	5.0%	$ 255
Net monetary liabilities	**(2,219)**	**5.0%**	**(83)**	(2,310)	5.0%	(88)

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 June 30, 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 using proceeds from the sale of real estate (see Note 7).

As at June 30, 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 June 30, 2013 and December 31, 2012:

As at June 30, 2013	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	**$ 7,879**	**$ 7,879**	**$ -**	**$ -**	**$ -**	**$ -**
Long-term debt	**-**	**-**	**-**	**-**	**-**	**-**
Finance lease obligations	**14,474**	**253**	**232**	**156**	**120**	**13,713**
Total	**$ 22,353**	**$ 8,132**	**$ 232**	**$ 156**	**$ 120**	**$ 13,713**
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	$ -

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:

	Jun 30, 2013	Dec 31, 2012
Not later than one year	**$ 1,344**	**$ 839**
Later than one year and not later than five years	**3,592**	**1,508**
Later than five years	**10,049**	**30**
	$ 14,985	**$ 2,377**

13. Commitments and contingencies

13.1 Performance bonds

From time to time, under the terms of certain sales contracts, the Corporation is required to provide performance bonds to contractors which are held as security should, in the unlikely event, the Corporation 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 June 30, 2013, was $28,408 (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 June 30, 2013 and 2012, the Corporation had the following trading transactions with related parties:

		Three month periods ended June 30		Six month periods ended June 30	
	Nature of transactions	**2013**	**2012**	**2013**	**2012**
Aeonian Capital Corporation	Management services	**$ 87**	$ 87	**$ 175**	$ 175
William H. Smith Professional Corporation	Legal services	**-**	42	**-**	71
James B. Young	Real property lease	**39**	38	**77**	76
Baker Investments LLC	Stipend and travel expenses	**18**	29	**46**	51
		$ 144	$ 196	**$ 298**	$ 373

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

	Amounts owed by related parties		Amounts owed to related parties	
	As at Jun 30, 2013	**As at Dec 31, 2012**	**As at Jun 30, 2013**	**As at Dec 31, 2012**
Aeonian Capital Corporation	**$ -**	$ -	**$ -**	$ -
William H. Smith Professional Corporation	**-**	-	**-**	-
James B. Young	**-**	-	**-**	-
Baker Investments, LLC	**-**	-	**16**	26
	$ -	$ -	**$ 16**	$ 26

15. Supplementary cash flow information

15.1 Changes in non-cash working capital

	Three month periods ended June 30		Six month periods ended June 30	
Decrease (increase) in:	**2013**	**2012**	**2013**	**2012**
Trade receivables	**$ 10,112**	$ (3,827)	**$ (5,083)**	$ (5,591)
Inventories	**8,986**	(355)	**(863)**	(1,575)
Income taxes receivable	**53**	53	**14**	-
Prepaid expenses	**795**	(84)	**(316)**	(323)
Trade and other payables	**(6,844)**	3,454	**284**	1,989
Income taxes payable	**-**	84	**763**	(517)
Deferred revenue	**(2,435)**	(84)	**1,719**	2
	$ 10,667	$ (759)	**$ (3,482)**	$ (6,015)

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

	Three month period ended June 30		Six month period ended June 30	
	2013	**2012**	**2013**	**2012**
Property, plant and equipment acquired with finance lease obligations	**$ 58**	$ 28	**$ 14,680**	$ 56

16. Subsequent event

On July 31, 2013, the Corporation's board of directors declared a regular quarterly dividend of $0.06 per common share. The dividend will be paid on August 30, 2013, to shareholders of record at the close of business on August 14, 2013.