Third Quarter Report 2012

For the Three and Nine Month Periods Ended September 30, 2012 and 2011

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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 condensed consolidated financial statements for the three and nine month periods ended September 30, 2012 and 2011 and notes thereto and in conjunction with the Corporation's annual MD&A for the year ended December 31, 2011.

PFB's unaudited condensed consolidated financial statements for the three and nine month periods ended September 30, 2012 and 2011 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 November 6, 2012. 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.

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

All forward-looking statements reflect management's current views as at November 6, 2012, with respect to future events, and they are subject to certain risks, uncertainties and assumptions that may cause the actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements.

Such risks, uncertainties and assumptions include, but are not limited to: general economic conditions; the cost and availability of capital; actions by government authorities; actions by regulatory authorities; availability of raw materials; changes in raw materials prices; currency exchange rates; interest rates; competitor activity; industry pricing pressures; seasonality of the construction industry; and weather related factors.

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 annual MD&A for the year ended December 31, 2011.

Non-GAAP financial measures

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

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

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

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

Consolidated financial highlights (unaudited)

	Three month periods ended September 30		Nine month periods ended September 30	
	2012	**2011**	**2012**	**2011**
Sales	**$ 23,298**	$ 28,920	**$ 64,576**	$ 65,791
Cost of sales	**(18,409)**	(22,117)	**(51,665)**	(52,280)
Gross profit	**4,889**	6,803	**12,911**	13,511
Selling expenses	**(2,175)**	(2,457)	**(6,423)**	(6,954)
Administrative expenses	**(1,601)**	(1,576)	**(5,050)**	(4,133)
Other gains (losses)	**(532)**	436	**(489)**	158
Operating Income	**581**	3,226	**949**	2,582
Revaluation of contingent shares – gain (loss)	**(23)**	150	**(210)**	135
Insurance claim - gain	**-**	726	**-**	726
Investment income	**4**	6	**23**	20
Finance costs	**(129)**	(120)	**(343)**	(377)
Income before taxes	**433**	3,988	**419**	3,086
Income taxes expense	**(117)**	(1,118)	**(113)**	(856)
Income for the period	**$ 316**	$ 2,870	**$ 306**	$ 2,230
Earnings per share - $ per share				
Basic	**0.05**	0.44	**0.05**	0.34
Diluted	**0.05**	0.43	**0.05**	0.33
Weighted average number of common shares outstanding	**6,597,536**	6,603,772	**6,597,536**	6,607,825
Cash provided by operating activities	**$ 1,600**	$ 2,940	**$ 2,937**	$ 3,934
Cash provided by operating activities per common share	**$ 0.24**	$ 0.45	**$ 0.45**	$ 0.60

Summary of quarterly financial data

	2012			2011				2010
	Qtr. 3	**Qtr. 2**	**Qtr. 1**	**Qtr. 4**	**Qtr. 3**	**Qtr. 2**	**Qtr. 1**	**Qtr. 4**
Sales	$ 23,298	$ 24,698	$ 16,580	$ 23,374	$ 28,920	$ 21,298	$ 15,573	$ 17,859
Gross profit	4,889	5,215	2,807	4,962	6,803	4,459	2,249	4,438
Operating income (loss)	581	1,281	(913)	1,581	3,226	827	(1,471)	887
Net income (loss)	316	750	(760)	972	2,870	581	(1,221)	509
Earnings (loss) per share:								
Basic - $ per share	0.05	0.12	(0.12)	0.14	0.44	0.09	(0.18)	0.08
Diluted - $ per share	0.05	0.11	(0.12)	0.14	0.43	0.08	(0.18)	0.08

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

Sales

Consolidated sales in the three month period ended September 30, 2012, decreased by 19.4% to $23,298 as compared to sales of $28,920 in the comparative quarter of 2011. Both operating segments reported decreased sales.

Consolidated sales in the nine month period ended September 30, 2012, decreased by 1.8% to $64,576 as compared to sales of $65,791 in the comparative nine month period of 2011. Both operating segments reported decreased sales.

As described in the operating segment sections which follow, both the Canada and the USA segments reported decreased sales for the periods in 2012 as compared to the comparative periods of 2011.

Gross profit

Consolidated gross profit decreased by 28.1% to $4,889 in the current quarter as compared to gross profit of $6,803 in the third quarter of 2011. Consolidated gross profit decreased by 4.4% to $12,911 in the nine month period ended September 30, 2012 as compared to gross profit of $13,511 in the comparative nine month period of 2011.

Gross profit margin decreased to 21.0% in the current quarter as compared to a gross profit margin of 23.5% in the third quarter of 2011. Gross profit margin decreased slightly to 20.0% in the nine month period of the current year as compared to a gross profit margin of 20.5% in the comparative nine month period of 2011. Margins in the current year periods were adversely influenced by a variety of circumstances including increased raw material costs, variability in customer and product mix, and some minor cost inefficiencies attributed to lower production and sales volumes.

Income before taxes

Income before taxes in the three month period ended September 30, 2012, was $433 as compared to income before taxes of $3,988 in the comparative three month period of 2011, an adverse variance of $3,555. In the nine month period ended September 30, 2012, income before taxes was $419 as compared to income before taxes of $3,806 in the comparative nine month period of 2011, an adverse variance of $2,667.

The main components making up the variances in reported income before tax when comparing the three and nine month periods in 2012 with the comparative periods in 2011 are highlighted in the following table:

Income before taxes - variance analysis 2012 compared to 2011	**Three month period ended September 30**	**Nine month period ended September 30**
Gross profit	**$ (1,914)**	$ (600)
SG&A expense combined	**546**	697
Administrative expense – acquisitions due diligence	**(309)**	(1,083)
Other income (loss)	**(968)**	(647)
Revaluation of contingent shares	**(173)**	(345)
Insurance claim - gain	**(726)**	(726)
Other	**(11)**	37
Income before tax	**$ (3,555)**	$ (2,667)

The decrease in income before taxes in each of the current year reporting periods as compared to prior year periods was influenced by several factors including reduced gross profit margins on decreased sales revenues, significant unrealized foreign exchange losses, unrealized losses arising on the revaluation of contingent shares, and a large insurance claim gain reported in the 2011 periods.

Foreign exchange gains and losses are reported under other income (loss), Unrealized foreign exchange losses arose from the combined impact of out-of-the-money forward foreign exchange contracts, revaluing larger than normal cash balances held in USD, and revaluing a currency sensitive loan between operating segments. The third quarter of 2012 was a period where the Canadian dollar strengthened against the U.S. dollar taking it above parity whereas, in the third quarter of 2011, the reverse trend was experienced which resulted in unrealized foreign exchange gains. There has been volatility in exchange rates during the current year.

SG&A expenses in both the current quarter and nine month periods of the current year included expenses attributed to due diligence work on possible corporate transactions in the amounts of $309 and $1,083, respectively. No such costs were recorded in the prior year periods. These costs overshadowed decreased core SG&A operating costs in the current year.

In the three and nine month periods of the current year, unrealized losses on the periodic revaluation of contingent shares were $23 and $210, respectively, as a result of appreciation in the market price of the Corporation’s common shares since the beginning of the year. In the comparative three and nine month periods of the prior year, unrealized gains of $150 and $135, respectively, were reported.

In both the three and nine month periods of 2011, the closure of an insurance claim resulted in a non-recurring gain of $726 which positively impacted income in each of those periods.

Income taxes

Income tax expense in the current quarter was $117 as compared to income tax expense of $1,118 in the third quarter of 2011. In the nine month periods ended September 30, 2012 and 2011, income tax expense was $113 and $856, respectively. The annual consolidated effective tax rate for 2012 is estimated to be 27.0% as compared with 28.1% for the full year in 2011. The actual effective tax rate may be slightly higher or lower than the estimate as it is dependent on the geographical mix of income generated over the balance of the year.

Net income

Net income in the current quarter decreased by an amount of $2,554 to $316 as compared to net income of $2,870 reported in the comparative quarter of 2011. Basic earnings per common share in the current quarter were $0.05 as compared to basic earnings per common share of $0.44 in the comparative quarter of 2011.

Net income for the nine month period ended September 30, 2012 was $306 as compared to net income of $2,230 reported in the nine month period of 2011. Basic earnings per common share for the current nine month period were $0.05 as compared to a basic earnings per share of $0.34 in the comparative nine month period in the prior year.

Reportable operating segments

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

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

Segment revenues and income

Segment sales in the table below represent sales revenues 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 represents income earned by each segment without allocation of central administration costs, revaluation of contingent shares, insurance claim gain, interest income, and finance costs.

Information regarding each reportable operating segment for the three and nine month periods ended September 30, 2012 and 2011 are set out below:

Three month periods ended September 30, 2012	**Segment sales revenues**		**Segment operating income (loss)**	
	2012	**2011**	**2012**	**2011**
Canada	**$ 20,388**	$ 24,126	**$ 1,367**	$ 2,692
USA	**2,910**	4,794	**(590)**	408
Total	**$ 23,298**	$ 28,920	**777**	3,100
Central administration – property income			**653**	621
Central administration – expenses			**(849)**	(495)
Revaluation of contingent shares – gain (loss)			**(23)**	150
Insurance claim - gain			**-**	726
Interest income			**4**	6
Finance costs			**(129)**	(120)
Income before tax			**$ 433**	$ 3,988

Nine month periods ended September 30, 2012	**Segment sales revenues**		**Segment operating income (loss)**	
	2012	**2011**	**2012**	**2011**
Canada	**$ 55,812**	$ 56,437	**$ 2,866**	$ 3,107
USA	**8,764**	9,354	**(1,303)**	(1,004)
Total	**$ 64,576**	$ 65,791	**1,563**	2,103
Central administration – property income			**1,808**	1,732
Central administration – expenses			**(2,422)**	(1,253)
Revaluation of contingent shares - loss			**(210)**	135
Insurance claim - gain			**-**	726
Interest income			**23**	20
Finance costs			**(343)**	(377)
Loss before tax			**$ 419**	$ 3,086

(a) Canada

Sales

Sales by Canadian operations in the current quarter decreased by $3,738 or 15.5% to $20,388 from sales of $24,126 reported in the third quarter of 2011. The decrease in sales reversed gains reported in the first half of 2012. The timing of sales revenues recognized on a large public works project in the West have had a distorting effect when comparing periods of the current year with comparative periods in 2011. Sales to the project were $893 in the current quarter versus $4,991 in the prior year quarter. The timing of shipments to the project is governed by the contractor and the project is scheduled to be completed by the end of this year. Excluding the effects of that project, sales by Canadian operations were consistent with those in the prior year quarter.

Sales in the nine month period ended September 30, 2012, decreased by $625 or 1.1% to $55,812 from sales of $56,437 reported in the nine month period of 2011. Sales to the public works project were $6,284 in the current nine month period versus sales of $11,156 in the comparative period of 2011. Excluding the adverse variance in sales to the major public works project, the underlying trend on all other EPS sales by the Canadian operations was positive.

Sales of building systems' products in both the current quarter and the nine month periods were similar to sales in the comparative periods of 2011. Sales of building systems are influenced by general construction levels, mostly in the residential sector. Recent changes to mortgage rules may result in decreased demand in this sector which has struggled to exhibit signs of a sustained recovery.

Operating income

Operating income decreased by $1,325 or 49.2% to $1,367 in the current quarter as compared to operating income of $2,692 reported in the comparative quarter of 2011. The lessor operating income was driven by the combined effects of the lower sales revenues coupled with a margin squeeze from increased input costs for raw materials.

The weaker results of the current quarter displaced increased profitability reported in the first half of the year thereby resulting in operating profits for the nine month period being $241 lower than in the comparative nine month period of 2011.

(b) USA

Sales

Third quarter sales in the Corporation's USA operations were disappointing. Sales decreased by $1,884 from $4,794 in the prior year quarter to $2,910 in the current quarter. As in the Canadian segment, weaker sales in the current quarter offset gains reported in the first half of the year. On a cumulative basis, sales in the current year were $8,764 as compared to sales of $9,354 in the prior year period. Lower sales in the current quarter were attributed more to aberrations in the timing of when revenues were recognized on projects rather than a systemic reduction in the order book.

Operating income (loss)

An operating loss in the current three month period ended September 30, 2012, in the amount of $590 contrasted with operating income of $408 reported in the comparative quarter of 2011. The operating loss in the current quarter pushed the cumulative operating loss for the nine month period to $1,303 as compared to a loss of $1,004 in the comparative nine month period of 2011. The level of gross profit in the current quarter was adversely impacted by both decreased sales and unusually weaker margins linked to the actual mix of sales recorded in the period.

A prominent characteristic when comparing year-over-year results of the USA segment is how currency volatility impacted a currency sensitive loan from the Canadian segment. Unrealized foreign exchange losses included in the operating losses for the three and nine month periods of the current year were $17 and $225, respectively, which contrasted with unrealized foreign exchange gains of $436 and $533, respectively, included in the comparative periods of 2011.

Excluding the effects of currency changes, the USA operating segment is benefiting from having a significantly lower cost base in the current year as a result of the cost reduction and rationalization program implemented in 2011, which remains a positive attribute for the operations on a go-forward basis.

(c) Central administration expenses

Central administration expenses in the three and nine month periods ended September 30, 2012 were $849 and $2,422, respectively as compared to expenses of $495 and $1,253, respectively, in the comparative periods of 2011. Costs attributed to acquisition due diligence work have been a major feature in the current year. Acquisition-related costs in the current quarter were $309 and $1,083 for the nine month period.

(d) Revaluation of contingent shares

Contingent shares issued by the Corporation in the first quarter of 2011 are marked-to-market on a periodic basis until the shares are either released from escrow or cancelled. In the current year, the market price of PFB's common shares has appreciated which has resulted in revaluation losses of $23 and $210, respectively, in the current reporting periods. By contrast, revaluation gains in the three and nine month periods of 2011 were $150 and $135, respectively.

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 Sep 30, 2012	As at Dec 31, 2011
Assets		
Segmented assets	**$ 41,373**	$ 35,493
Assets not allocated to segments:		
Cash and cash equivalents	**1,185**	9,504
Property	**24,013**	22,532
Total assets	**$ 66,571**	$ 67,529
Liabilities		
Segmented liabilities	**$ 14,060**	$ 13,610
Liabilities not allocated to segments:		
Contingent consideration	**1,167**	956
Borrowings	**6,946**	7,587
Central services deferred taxes	**263**	344
Total liabilities	**$ 22,436**	$ 22,497
Net segmented assets		
Canada	**$ 21,988**	$ 19,257
USA	**5,325**	2,626

Other segment information

	Three month periods ended September 30		Nine month periods ended September 30	
	2012	**2011**	**2012**	**2011**
Additions to non-current assets:				
Canada	**$ 1,150**	$ 379	**$ 1,411**	$ 1,133
USA	**333**	567	**2,047**	2,732
Total	**$ 1,483**	$ 946	**$ 3,458**	$ 3,865
Depreciation and amortization:				
Canada	**$ 474**	$ 467	**$ 1,387**	$ 1,393
USA	**49**	192	**277**	355
Total	**$ 523**	$ 659	**$ 1,664**	$ 1,748
Inter-segment sales	**$ 801**	$ 1,221	**$ 1,860**	$ 2,528

Information about major customers

Included in the Canadian operating segment for the three and nine month periods ended September 30, 2012 are sales revenues of $893 and $6,284, respectively (2011 - $4,991 and $11,156, respectively) to the Corporation’s largest single customer when measured on an annualized basis. No other single customer represented 10% or more of the Corporation’s consolidated sales measured an annualized basis.

Liquidity and capital resources

Sources of liquidity

The Corporation expects that future operating cash flows and amounts available to be drawn against approved credit facilities will be sufficient to fund its ongoing business requirements including: working capital; contractual obligations; and payment of regular dividends over the next twelve months.

Borrowings

In the current quarter, draws were made against the Canadian dollar revolving line of credit to purchase U.S. currency. As at September 30, 2012, the full $8,000 limit on the line was drawn and held in U.S. dollars bringing the total cash balance of U.S. dollars held to $9,679. The net position of cash and bank indebtedness is reported on the consolidated balance sheet.

As a result of an internal corporate reorganization in the USA, and a change in ownership of the Corporation's bank in the USA, a USD $1,500 revolving credit facility (which was subject to eligible marginable accounts receivables and inventory) was cancelled by the bank in the second quarter of 2012. The cancellation of the revolving facility is not expected to have any detrimental effects on the Corporation's USA operations. The Corporation's credit facilities in Canada contain certain covenants with which the Corporation was in compliance as at September 30, 2012 and 2011.

Borrowings, excluding bank indebtedness, comprise long-term debt and obligations under finance leases. In the nine month period ended September 30, 2012, total borrowings reduced from $7,587 at the start of the year to $6,946, a reduction of $641, mainly as a result of regular scheduled repayments of principal. In the nine month period to September 30, 2012, there were no increases in long-term debt financing and additional finance lease obligations in the amount of $111 were entered into for the routine replacement of automobiles.

A term loan financed through a U.S. bank has a repayment date of April 2013. As at September 30, 2012, the outstanding amount of the loan was USD $560 which is classified as part of current borrowings on the balance sheet.

Capital structure

The Corporation's capital structure as at September 30, 2012 and December 31, 2011, is outlined in the following table:

	September 30, 2012	**December 31, 2011**
Borrowings	**$ 6,946**	$ 7,587
Shareholders' equity	**44,135**	45,032
	$ 51,081	$ 52,619

Cash and bank indebtedness

Net cash, cash equivalents and bank indebtedness balances as at September 30, 2012 and December 31, 2011 were as follows:

	September 30, 2012	**December 31, 2011**
Cash	**$ 1,185**	$ 4,995
Cash equivalents	**-**	4,509
	$ 1,185	$ 9,504

As is normal in the Corporation's annual reporting cycle, cash and cash equivalent balances typically decrease during the first half year as non-cash working capital balances increase (see changes in non-cash working capital table below) and capital expenditures are incurred. In the second quarter ended June 30, 2012, property, plant and equipment assets acquired in the USA were paid for out of working capital.

Summary of cash flows

A summary of cash flows for the three and nine month periods ended September 30, 2012 and 2011 are shown in the following table.

	Three month periods ended September 30		Nine month periods ended September 30	
	2012	**2011**	**2012**	**2011**
Cash provided by (used in):				
Operating activities	**$ 3,647**	$ 6,647	**$ (460)**	$ 555
Investing activities	**(1,141)**	(138)	**(5,679)**	(3,065)
Financing activities	**(650)**	(712)	**(1,940)**	(2,042)
Effects of foreign exchange on cash balances	**(249)**	(59)	**(240)**	(108)
Increase (decrease) in cash and cash equivalents	**1,607**	5,558	**(8,319)**	(4,660)
Cash and cash equivalents (bank indebtedness) – beginning of period	**(422)**	(517)	**9,504**	9,701
Cash and cash equivalents – end of period	**$ 1,185**	$ 5,041	**$ 1,185**	$ 5,041

Operating activities

Cash provided by operating activities, after changes in non-cash working capital, was $3,647 in the current quarter as compared to cash provided by operating activities of $6,647 in the comparative quarter of 2011. In the nine month period ended September 30, 2012, $460 of cash was used in operations as compared to $555 of cash provided by operations in the comparative nine month period of 2011, a net adverse change of $1,015. The two main areas of variance when comparing 2012 periods with 2011 periods is the decrease in cash-driven, net income results in the current year and less amounts of non-cash working capital converted into cash at this point in the seasonal cycle.

Investing activities

Cash flows used in investing activities in the current quarter were $1,141 as compared to $138 in the comparative quarter of 2011. Purchases of property, plant and equipment (PP&E) in the current quarter amounted to $1,152 which was offset by proceeds from disposals of assets of $11. A portion of the PP&E expenditures were invested in the newly-acquired Lebanon, Ohio facility as it is brought to production readiness, expected to be in the fourth quarter.

In the nine month period ended September 30, 2012, cash flows used in investing activities were $5,679 as compared to $3,065 in the comparative nine month period of 2011. The acquisition of PP&E in Lebanon, Ohio was the main driver of expenditures in the current year. In the prior year, the majority of investing activities was attributed to the Corporation acquired the Precision Craft group of companies based in Idaho, USA. Cash paid net of cash acquired was $2,063.

Financing activities

Cash flows used in financing activities in the current quarter were $650, similar to cash flows of $712 in the comparative quarter of 2011. In the nine month period ended September 30, 2012, cash flows used in financing activities were $1,940, also similar to cash flows of $2,042 in the comparative period of 2011. Financing activities primarily consist of scheduled repayments of borrowings and the payment of regular quarterly dividends. In the comparative periods in 2011, shares were repurchased under a Normal Course Issuer Bid. No shares have been repurchased under the Issuer Bid in the current year.

Change in non-cash working capital

The changes in non-cash working capital in the nine month period ended September 30, 2012 are shown in the following table:

	September 30, 2012	December 31, 2011	Increase (Decrease)
Trade receivables	**$ 12,009**	$ 8,348	$ 3,661
Inventories	**8,583**	7,766	817
Prepaid expenses	**431**	556	(125)
Income taxes payable	**(268)**	(601)	333
Trade and other payables	**(9,725)**	(8,309)	(1,416)
Deferred revenue	**(1,673)**	(2,349)	676
	$ 9,357	$ 5,411	$ 3,946

Non-cash working capital increased in the nine month period ended September 30, 2012 by $3,946. Increases in both trade receivables and inventories are representative of the seasonal trends. Trade receivables balances expand commensurate with increases in sales and inventories are built or depleted based on sales expectations for the subsequent period. Inventories continue to include higher than normal levels of feedstock held to support a large public works contract.

Trade and other payable balances are typically representative of the level of business activity at a point in time in the fiscal cycle and ending balances can also be influenced by the timing of receipts of goods and services and the payments thereof.

Change in long-term trade receivables

The Corporation is a material supplier to a contract which is subject to a holdback clause. The hold back has been classified as current trade receivables as it is expected to be collected in full within the next twelve months.

Share capital

A summary of the Corporation's share capital as at September 30, 2012 and December 31, 2011, is set forth in the following table:

	September 30, 2012 (Three Months)		December 31, 2011 (Twelve Months)	
	No. of Shares	Amount	No. of Shares	Amount
Balance, beginning of period	**6,764,203**	**$ 20,064**	6,612,836	$ 20,110
Issued as contingent consideration for acquisition [1]	**-**	**-**	166,667	-
Repurchased pursuant to a normal course issuer bid	**-**	**-**	(15,300)	(46)
Balance, end of period	**6,764,203**	**$ 20,064**	6,764,203	$ 20,064

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

Share-based options

The Corporation did not grant any share options in the three and nine month periods ended September 30, 2012 and 2011, and no share options were exercised in those periods. On July 31, 2012, 110,000 share options originally granted in July 2007 expired unexercised.

Dividends

During the first nine months of 2012, the Corporation's Board of Directors declared a regular quarterly dividend of $0.06 (2011 - $0.06) per common share which were paid on February 29, May 31, and August 31, 2012. Dividends paid by the Corporation qualify as eligible dividends and satisfy the enhanced gross-up and dividend tax credit change enacted under Canadian tax law.

Normal course issuer bid

In September 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 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.

Purchases of common shares under the Bid in the three and nine month periods ended September 30, 2012 and 2011 are indicated in the following table:

	Three month periods ended September 30		Nine month periods ended September 30	
	2012	**2011**	**2012**	**2011**
Number of common shares purchased	**-**	5,550	**-**	7,250
Aggregate price of shares purchased	**$ -**	$ 34	**$ -**	$ 44
Premium on redemption charged to retained earnings	**$ -**	$ 16	**$ -**	$ 22

Under the Bid, the Corporation is considered to be an insider and a blackout restriction is currently in force under its insider trading policy.

Commitments and contractual obligations

The Corporation's obligations under contractual arrangements including repayments under borrowing arrangements, capital expenditure commitments, performance bonds, and operating lease arrangements are summarized in the Corporation's 2011 annual audited Consolidated Financial Statements and the annual Management's Discussion and Analysis (MD&A) for 2011.

There have been no material changes in the level of commitments and contractual obligations occurring in the first nine months of 2012.

Financial instruments

The Corporation's purchases of key raw materials are denominated in USD and it acquired EPS moulding assets in April 2012 denominated in USD. At various times during the current year, the Corporation entered into a series of forward foreign exchange contracts to purchase United States dollars. As at September 30, 2012, the value of open contracts was USD $5,000 (2011 - $Nil) at a blended exchange rate of CAD $1.0000 = USD $1.0045. The open contracts were marked-to-market at the end of the current quarter and resulted in an unrealized foreign exchange loss of $70.

Outlook for remainder of 2012

The Corporation's operations in Canada remain stable overall with some regional disparities. The large public works project in the West which began in 2010 is nearing completion. Order books for products in Canada are generally expanding although the residential construction sector has suffered from the dampening effect of the recent change in mortgage rules. Despite some overall cautious optimism for steady future growth in core sales, the timing of when orders are required for shipping can be unpredictable as numerous factors outside the Corporation's control influence job-site readiness.

Operations in the United States have a lower overhead cost base in the current year as compared to in 2011. However, the uncertain nature of a recovery in residential construction in the United States continues to make demand forecasting unpredictable and this is being reflected in lower sales revenues in the current year. General consensus appears to point to the start of a growth trajectory for the sector in 2013.

The pricing of the Corporation's major raw material continues to be volatile. The Canadian dollar has entered a weakening trend against the U.S. dollar. The Corporation remains focused on maintaining pricing disciplines in the markets it serves despite competitive pressures.

The USA-located EPS moulding plant assets acquired in April of this year are expected to be production ready during the fourth quarter. The asset acquisition forms part of a strategy to expand the operations of the Corporation in the United States. EPS insulation products will be available from the facility for the regional building materials markets.

Cash flows provided by operations together with existing credit facilities are considered adequate to meet all anticipated liquidity requirements.

Off-balance sheet arrangements

As a regular part of its business, the Corporation's subsidiaries enter into operating lease agreements to use facilities. In the current quarter of 2012, there was no material changes in the operating lease agreements and commitments to those disclosed in the Corporation's 2011 annual MD&A.

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. Off balance sheet arrangements include: a defined benefit pension plan; performance bonds; and fixed forward foreign exchange contracts.

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 September 30, 2012, 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 September 30, 2012, the CEO and CFO assessed the effectiveness of the Corporation's internal control over financial reporting and concluded that it was effective and that no material weaknesses in the Corporation's internal control over financial reporting had been identified.

Critical accounting policies and estimates

The Corporation's annual audited consolidated financial statements for the year ended December 31, 2011 and its 2011 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 events

Declaration of regular quarterly dividend

On November 6, 2012, the Board of Directors declared a quarterly dividend of $0.06 per common share payable on November 30, 2012, to all shareholders of record at the close of business on November 15, 2012.

Update on signing of letter of intent

On May 9, 2012, PFB Corporation and NOVA Chemicals Corporation ("NOVA Chemicals") announced that they had signed a letter of intent for PFB Corporation to acquire NOVA Chemicals' Performance Styrenics business. Under the proposal, NOVA Chemicals will acquire an equity stake in the Corporation and hold two seats on the Corporation's Board of Directors following closing. As of the date of this MD&A, a definitive agreement has not been executed. Both parties continue to work diligently on finalizing a definitive agreement. The acquisition is also subject to regulatory approval, and other customary conditions, including approval of the Boards of Directors of both companies, and PFB Corporation's shareholder approval.

Related party transactions

There have been no material changes in related party transactions in 2012. The Board of Directors approved an increase in the fees paid to Aeonian Capital Corporation for management services that was effective January 1, 2012.

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 2011. There have been no material changes in the uncertainties and material risk factors facing the Corporation since December 31, 2011 except as noted below.

Earlier in the current year, fears of an imminent global shortage of an ingredient used to make flame retardant compound used by EPS manufacturers stemmed from an unexpected outage at a chemicals plant in Germany. The Corporation was able secure its requirements for the balance of this year albeit at increased pricing. Access to alternative sources of supply has become available which has diminished the risk of potential supply shortfalls in North America. Flame retardant EPS is used extensively in the construction industry.

Future accounting standards changes

Certain new or amended accounting standards changes have been issued by the IASB that are required to be adopted in the current year or future years. The changes and amendments are substantially unchanged from those discussed in the Corporation's 2011 annual MD&A. The Corporation has not early adopted any of the new or amended standards. The changes required to be adopted in fiscal 2012 have no material impact on the Corporation's reporting.

Condensed Consolidated Financial Statements

Notice of non-auditor review of interim condensed consolidated financial statements for the three and nine month periods ended September 30, 2012 and 2011

The accompanying unaudited condensed consolidated financial statements of PFB Corporation for the three and nine month periods ended September 30, 2012 and 2011 are the responsibility of the Corporation's management.

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

Dated: November 6, 2012.

Consolidated Statement of Comprehensive Income

For the three and nine month periods ended September 30, 2012 and 2011
Thousands of Canadian dollars, except share and per share amounts

	Note	Three month period ended September 30		Nine month period ended September 30	
		2012	**2011**	**2012**	**2011**
Sales		**$ 23,298**	$ 28,920	**$ 64,576**	$ 65,791
Cost of sales		**(18,409)**	(22,117)	**(51,665)**	(52,280)
Gross profit		**4,889**	6,803	**12,911**	13,511
Selling expenses		**(2,175)**	(2,437)	**(6,423)**	(6,954)
Administrative expenses		**(1,601)**	(1,576)	**(5,050)**	(4,133)
Other income (loss)		**(532)**	436	**(489)**	158
Operating income		**581**	3,226	**949**	2,582
Revaluation of contingent shares – gain (loss)		**(23)**	150	**(210)**	135
Insurance claim – gain		**-**	726	**-**	726
Interest income		**4**	6	**23**	20
Finance costs		**(129)**	(120)	**(343)**	(377)
Income before tax		**433**	3,988	**419**	3,086
Income tax expense		**(117)**	(1,118)	**(113)**	(856)
Income for the period		**316**	2,870	**306**	2,230
Other comprehensive income (loss), net of income tax					
Exchange differences on translating foreign operations (net of tax $nil)		**20**	(6)	**15**	7
Total comprehensive income for the period		**$ 336**	$ 2,864	**$ 321**	$ 2,237
Earnings per share - $ per share					
Basic	4	**$ 0.05**	$ 0.44	**$ 0.05**	$ 0.34
Diluted	4	**$ 0.05**	$ 0.43	**$ 0.05**	$ 0.33
Weighted average number of common shares outstanding		**6,597,536**	6,603,772	**6,597,536**	6,607,825

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

Consolidated Balance Sheets

As at September 30, 2012 and 2011, and December 31, 2011

Thousands of Canadian dollars

	Note	September 30, 2012	September 30, 2011	December 31, 2011
ASSETS				
Current assets				
Cash and cash equivalents		**$ 1,185**	$ 5,041	$ 9,504
Trade receivables		**12,009**	15,838	8,348
Inventories	5	**8,583**	8,071	7,766
Prepaid expenses		**431**	607	556
Total current assets		**22,208**	29,557	26,174
Non-current assets				
Long-term trade receivables		**-**	537	621
Property, plant and equipment	6	**40,184**	37,621	37,127
Intangible assets	7	**1,544**	1,524	1,459
Goodwill		**1,693**	1,766	1,731
Accrued benefit asset		**213**	130	213
Deferred income tax assets		**729**	353	204
Total non-current assets		**44,363**	41,931	41,355
Total assets		**$ 66,571**	$ 71,488	$ 67,529
LIABILITIES				
Current Liabilities				
Trade and other payables		**$ 9,725**	$ 10,811	$ 8,309
Deferred revenue		**1,673**	3,963	2,349
Income taxes payable		**268**	378	601
Borrowings		**1,400**	942	942
Total current liabilities		**13,066**	16,094	12,201
Non-current liabilities				
Borrowings		**5,546**	7,423	6,645
Contingent consideration		**1,167**	833	956
Deferred income tax liabilities		**2,657**	2,666	2,695
Total non-current liabilities		**9,370**	10,922	10,296
Total liabilities		**22,436**	27,016	22,497
SHAREHOLDERS' EQUITY				
Common shares	8	**20,064**	20,069	20,064
Equity-settled employee benefits reserve		**384**	384	384
Foreign currency translation reserve		**69**	52	54
Retained earnings		**23,618**	23,967	24,530
Shareholders' equity		**44,135**	44,472	45,032
Total liabilities and shareholders' equity		**$ 66,571**	$ 71,488	$ 67,529

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

Consolidated Statement of Changes in Equity

As at September 30, 2012 and 2011, December 31 2011, and January 1, 2011
Thousands of Canadian dollars, except number of shares

	Note	Common shares: No. of Shares	Common shares: Share capital	Equity-settled employee benefits reserve	Foreign currency translation reserve	Retained earnings	Total
Balance at January 1, 2011		6,612,836	$ 20,110	$ 384	$ 45	$ 22,992	$ 43,531
Income for the period		-	-	-	-	2,230	2,230
Other comprehensive income for the period, net of tax		-	-	-	7	-	7
Total comprehensive income for the period		-	-	-	7	2,230	2,237
Payment of dividends	8	-	-	-	-	(1,220)	(1,220)
Issued as contingent consideration for acquisition [1]		166,667	-	-	-	-	-
Repurchased pursuant to normal course issuer bid	8	(13,100)	(41)	-	-	(35)	(76)
Balance at September 30, 2011		**6,766,403**	**20,069**	**384**	**52**	**23,967**	**44,472**
Income for the period		-	-	-	-	972	972
Other comprehensive income for the period, net of tax		-	-	-	2	-	2
Total comprehensive income for the period		-	-	-	2	972	974
Payment of dividends	8	-	-	-	-	(405)	(405)
Repurchased pursuant to normal course issuer bid	8	(2,200)	(5)	-	-	(4)	(9)
Balance at December 31, 2011		**6,764,203**	**$ 20,064**	**$ 384**	**$ 54**	**$ 24,530**	**$ 45,032**
Income for the period		-	-	-	-	306	306
Other comprehensive income for the period, net of tax		-	-	-	15	-	15
Total comprehensive income for the period		-	-	-	15	306	321
Payment of dividends	8	-	-	-	-	(1,218)	(1,218)
Balance at September 30, 2012		**6,764,203**	**$ 20,064**	**$ 384**	**$ 69**	**$ 23,618**	**$ 44,135**

[1] 166,667 common shares were issued in February 2011 as contingent consideration for an acquisition. The issued common shares are held in an escrow account and will be released upon achievement of an earn-out formula. As at September 30, 2012 the contingent shares had a value of $1,167 (December 31, 2011 - $956) based on the market price of PFB's shares, and none of the shares were released from the escrow account (December 31, 2011 – no shares released).

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

Consolidated Statement of Cash Flows

For the three and nine month periods ended September 30, 2012 and 2011
Thousands of Canadian dollars

	Note	Three month periods ended September 30 2012	2011	Nine month periods ended September 30 2012	2011
CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES					
Income for the period		**316**	2,870	**306**	2,230
Adjustments for items not affecting cash and cash equivalents:					
Depreciation and amortization expense:					
Cost of sales	6,7	**692**	709	**2,044**	2,040
Selling expenses	6,7	**87**	89	**258**	262
Administrative expenses	6,7	**68**	42	**151**	119
(Gain) loss on disposal of property, plant and equipment		**(5)**	(10)	**(13)**	24
Revaluation of contingent consideration – (gain) loss		**23**	(150)	**210**	(135)
Insurance claim - gain		**-**	(726)	**-**	(726)
Deferred income tax – expense (recovery)		**(230)**	576	**(582)**	321
Unrealized foreign exchange (gain) loss		**649**	(460)	**563**	(201)
		1,600	2,940	**2,937**	3,934
Changes in non-cash working capital	11	**2,069**	3,692	**(3,946)**	(2,860)
Changes in long-term trade receivables		**-**	(152)	**621**	(460)
Unrealized foreign exchange gain (loss) loss relating to non-cash working capital		**(22)**	(13)	**(72)**	(59)
Net cash provided by (used in) operating activities		**3,647**	6,647	**(460)**	555
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES					
Purchase of property, plant and equipment	6	**(1,152)**	(151)	**(5,449)**	(1,008)
Purchase of intangible assets	7	**-**	-	**(266)**	(61)
Cash paid on acquisition (net of cash acquired)		**-**	-	**-**	(2,063)
Proceeds from disposal of property, plant and equipment		**11**	13	**36**	67
Net cash used in investing activities		**(1,141)**	(138)	**(5,679)**	(3,065)
CASH FLOWS USED IN FINANCING ACTIVITIES					
Repayment of borrowings		**(245)**	(263)	**(722)**	(746)
Dividends paid	8	**(405)**	(417)	**(1,218)**	(1,220)
Repurchase of common shares	8	**-**	(32)	**-**	(76)
Net cash used in financing activities		**(650)**	(712)	**(1,940)**	(2,042)
Effects of exchange rate changes on the balance of cash held in foreign currencies – loss		**(249)**	(59)	**(240)**	(108)
Net increase (decrease) in cash and cash equivalents		**1,607**	5,558	**(8,319)**	(4,660)
Cash and cash equivalents (bank indebtedness) at the beginning of period		**(422)**	(517)	**9,504**	9,701
Cash and cash equivalents at the end of the period		**$ 1,185**	$ 5,041	**$ 1,185**	$ 5,041

Supplementary cash flow information - interest and taxes				
Cash interest paid	**(129)**	(120)	**(343)**	(377)
Cash interest received	**4**	6	**23**	20
Income tax refunded (paid)	**(178)**	183	**(1,028)**	4

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

1. General information

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

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

2. Significant accounting policies

2.1 Statement of compliance

The condensed unaudited consolidated financial statements for the three and nine month periods ended September 30, 2012 and 2011, have been prepared in accordance with International Accounting Standard (IAS) 34 Interim Financial Reporting using the accounting policies that the Corporation adopted in its consolidated financial statements for the year ended December 31, 2011.

The condensed unaudited consolidated financial statements should be read in conjunction with the Corporation's audited financial statements for the year ended December 31, 2011, which were prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

3. Segment information

The Corporation has two reportable operating segments, Canada and the USA, and each segment mirrors the Corporation's accounting policies (as described in Note 2 of the audited consolidated financial statements for the year ended December 31, 2011) and its internal controls and reporting systems. Segment performance predominantly focuses on the types of goods and services provided and their geographical locations.

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

3.1 Segment revenues and income

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

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

Information regarding each reportable operating segment for the three month periods ended September 30, 2012 and 2011 are set out below:

Three month periods ended September 30	**Segment sales revenues**		**Segment operating income (loss)**	
	2012	**2011**	**2012**	**2011**
Canada	**$ 20,388**	$ 24,126	**$ 1,367**	$ 2,692
USA	**2,910**	4,794	**(590)**	408
Total	**$ 23,298**	$ 28,920	**777**	3,100
Central administration – property income			**653**	621
Central administration – expenses			**(849)**	(495)
Revaluation of contingent shares – gain (loss)			**(23)**	150
Insurance claim – gain			**-**	726
Interest income			**4**	6
Finance costs			**(129)**	(120)
Income before tax			**$ 433**	$ 3,988

Information regarding each reportable operating segment for the nine month periods ended September 30, 2012 and 2011 are set out below:

Nine month periods ended September 30	Segment sales revenues		Segment operating income (loss)	
	2012	**2011**	**2012**	**2011**
Canada	**$ 55,812**	$ 56,437	**$ 2,866**	$ 3,107
USA	**8,764**	9,354	**(1,303)**	(1,004)
Total	**$ 64,576**	$ 65,791	**1,563**	2,103
Central administration – property income			**1,808**	1,732
Central administration – expenses			**(2,422)**	(1,253)
Revaluation of contingent shares – gain (loss)			**(210)**	135
Insurance claim – gain			**-**	726
Interest income			**23**	20
Finance costs			**(343)**	(377)
Income before tax			**$ 419**	$ 3,086

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 September 30, 2012	As at December 31, 2011
Assets		
Segmented assets	**$ 41,373**	$ 35,493
Assets not allocated to segments:		
Cash and cash equivalents	**1,185**	9,504
Property	**24,013**	22,532
Total assets	**66,571**	$ 67,529
Liabilities		
Segmented liabilities	**$ 14,060**	$ 13,610
Liabilities not allocated to segments:		
Contingent consideration	**1,167**	956
Borrowings	**6,946**	7,587
Central services deferred taxes	**263**	344
Total liabilities	**$ 22,436**	$ 22,497
Net segmented assets		
Canada	**$ 21,988**	$ 19,257
USA	**5,325**	2,626

3.3 Other segment information

	Three month periods ended September 30		Nine month periods ended September 30	
	2012	**2011**	**2012**	**2011**
Additions to non-current assets:				
Canada	**$ 1,150**	$ 379	**$ 1,411**	$ 1,133
USA	**333**	567	**2,047**	2,732
Total	**$ 1,483**	$ 946	**$ 3,458**	$ 3,865
Depreciation and amortization:				
Canada	**$ 474**	$ 467	**$ 1,387**	$ 1,393
USA	**49**	192	**277**	355
Total	**$ 523**	$ 659	**$ 1,664**	$ 1,748
Inter-segment sales	**$ 801**	$ 1,221	**$ 1,860**	$ 2,528

3.4 Information about major customers

Included in the Canadian operating segment for the three and nine month periods ended September 30, 2012 are sales revenues of $893 and $6,284, respectively (2011 - $4,991 and $11,156, respectively) to the Corporation's largest single customer when measured on an annualized basis. No other single customer represented 10% or more of the Corporation's consolidated sales measured an annualized basis.

4. Earnings per share

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

	Three month periods ended September 30		Nine month periods ended September 30	
	2012	**2011**	**2012**	**2011**
Income for the period	**$ 316**	$ 2,870	**$ 306**	$ 2,230
Weighted average number of common shares outstanding – basic	**6,597,536**	6,603,772	**6,597,536**	6,607,825
Effect of:				
Contingent consideration [1]	**166,667**	166,667	**166,667**	166,667
Weighted average number of common shares outstanding - diluted	**6,764,203**	6,770,439	**6,764,203**	6,774,492
Earnings per share:				
Basic	**$ 0.05**	$ 0.44	**$ 0.05**	$ 0.34
Diluted	**$ 0.05**	$ 0.43	**$ 0.05**	$ 0.33

[1] In February 2011, 166,667 common shares were issued as contingent consideration as part of the acquisition of the Precision Craft companies and the contingent shares are held in an escrow account and subject to an earn-out agreement. In the three and nine month periods ended September 30, 2012 and 2011, the contingent shares are deemed to be dilutive and have been included in the calculation of diluted shares in the above table.

5. Inventories

	As at September 30, 2012	As at December 31, 2011
Raw materials	**$ 4,078**	$ 3,974
Work in progress	**1,645**	1,304
Finished goods	**2,860**	2,488
	$ 8,583	$ 7,766

The cost of inventories recognized as an expense in cost of sales during the three and nine month periods ended September 30, 2012, was $15,977, and $46,155 (2011 - $19,983 and $46,819), respectively.

The cost of inventories recognized as an expense during the three and nine month periods ended September 30, 2012, includes $10 and $30 (2011 - $9 and $67), respectively, in respect of write-downs of inventory to net realizable value. There were no reversals of any cost to net realizable write-downs in either of the three month and nine month periods ended September 30, 2012 or 2011.

Eligible inventories held by the Corporation's Canadian subsidiary have been pledged as security with a Canadian bank in support of revolving credit facilities.

6. Property, plant and equipment

Asset class	Useful life	As at September 30, 2012	As at December 31, 2011
Carrying amounts of:			
Freehold land	Unlimited useful life, not depreciated	$ 5,529	$ 5,170
Buildings	15 to 40 years	19,065	17,947
Plant and equipment	3 to 20 years	13,445	12,936
Equipment under finance lease	The expected useful life or the term of the lease	478	541
Assets under construction	Depreciation commences when the asset is available for use as intended by management	1,667	533
		$ 40,184	$ 37,127

Cost	Freehold land	Buildings	Plant and equipment	Equipment under finance lease	Assets under construction	Total
Balance at January 1, 2011	**$ 5,160**	**$ 26,516**	**$ 30,622**	**$ 767**	**$ 52**	**$ 63,117**
Additions	-	973	53	277	1,228	2,531
Disposal of PP&E assets	-	(297)	(663)	(162)	-	(1,122)
Acquisition through business combination	-	301	959	-	-	1,260
Transfer between asset groups	-	-	748	-	(748)	-
Effect of foreign currency exchange	10	95	61	1	1	168
Balance at December 31, 2011	**5,170**	**27,588**	**31,780**	**883**	**533**	**65,954**
Additions	375	1,946	1,443	111	1,685	5,560
Disposal of PP&E assets	-	-	(294)	(111)	-	(405)
Transfer between asset groups	-	188	504	(6)	(686)	-
Effect of foreign currency exchange	(16)	(198)	(151)	(1)	135	(231)
Balance at September 30, 2012	**$ 5,529**	**$ 29,524**	**$ 33,282**	**$ 876**	**$ 1,667**	**$ 70,878**

Accumulated Depreciation	Freehold land	Buildings	Plant and equipment	Equipment under finance lease	Assets under construction	Total
Balance at January 1, 2011	**$ -**	**$ 8,770**	**$ 17,516**	**$ 288**	**$ -**	**$ 26,574**
Depreciation expense	-	943	1,887	190	-	3,020
Disposal of PP&E assets	-	(80)	(588)	(136)	-	(804)
Effect of foreign currency exchange	-	8	29	-	-	37
Balance at December 31, 2011	**-**	**9,641**	**18,844**	**342**	**-**	**28,827**
Depreciation expense	-	838	1,317	157	-	2,312
Disposal of PP&E assets	-	-	(281)	(101)	-	(382)
Transfer between asset groups	-	-	-	-	-	-
Effect of foreign currency exchange	-	(20)	(43)	-	-	(63)
Balance at September 30, 2012	**$ -**	**$ 10,459**	**$ 19,837**	**$ 398**	**$ -**	**$ 30,694**

Depreciation commences when assets are available for use. Depreciation expense for the three and nine month periods ended September 30, 2012, in the amounts of $691 and $2,012 (2011 - $662 and $1,945) respectively, is included in cost of sales, with amounts of $66 and $195 (2011 - $68 and $210) respectively, included in selling expenses, and amounts of $39 and $105 (2011 - $35 and $98) respectively, included in administrative expenses.

The Corporation's obligations under finance leases are secured by the lessors' title to the leased assets which have a carrying amount of $478 (December 31, 2011 - $526).

7. Intangible assets

	Useful life	As at September 30, 2012	As at December 31, 2011
Carrying amounts of:			
Patents	17 years	$ 37	$ 41
Product development costs	3 years	7	21
Software	3 to 5 years	513	361
Registered trade name	Indefinite life – not amortized	930	961
Order backlog	Over the lives of the contracts (up to 3 years)	29	46
Non-compete agreement	2 years commencing in 2013 when contract commences	28	29
		$ 1,544	$ 1,459

Cost	Patents	Product development costs	Software	Registered trade names	Order backlog	Non-compete agreement	Total
Balance at January 1, 2011	**$ 70**	**$ 902**	**$ 1,872**	**$ -**	**$ -**	**$ -**	**$ 2,844**
Additions	-	-	108	-	-	-	108
Acquisition through business combination	-	-	297	934	147	28	1,406
Disposal of intangible assets	-	-	(201)	-	-	-	(201)
Effect of foreign currency exchange	-	3	9	27	4	1	44
Balance at December 31, 2011	**70**	**905**	**2,085**	**961**	**151**	**29**	**4,201**
Additions	-	-	266	-	-	-	266
Disposal of Intangible assets	-	-	(59)	-	-	-	(59)
Effect of foreign currency exchange	-	(8)	(11)	(31)	(5)	(1)	(56)
Balance at September 30, 2012	**$ 70**	**$ 897**	**$ 2,281**	**$ 930**	**$ 146**	**$ 28**	**$ 4,352**

Accumulated Amortization	Patents	Product development costs	Software	Registered trade names	Order backlog	Non-compete agreement	Total
Balance at January 1, 2011	**$ 24**	**$ 851**	**$ 1,819**	**$ -**	**$ -**	**$ -**	**$ 2,694**
Amortization expense	5	28	103	-	102	-	238
Disposal of intangible assets	-	-	(201)	-	-	-	(201)
Effect of foreign currency exchange	-	5	3	-	3	-	11
Balance at December 31, 2011	**29**	**884**	**1,724**	**-**	**105**	**-**	**2,742**
Amortization expense	4	13	108	-	16	-	141
Disposal of Intangible assets	-	-	(59)	-	-	-	(59)
Effect of foreign currency exchange	-	(7)	(5)	-	(4)	-	(16)
Balance at September 30, 2012	**$ 33**	**$ 890**	**$ 1,768**	**-**	**$ 117**	**-**	**$ 2,808**

Amortization expense for the three and nine month periods ended September 30, 2012, in the amounts of $1 and $32 (2011 - $47 and $95) respectively, is included in cost of sales, amounts of $21 and $63 (2011 - $21 and $52) respectively, is included in selling expenses, and amounts of $29 and $46 (2011 - $7 and $21) respectively, is included in administrative expenses.

8. Issued capital

8.1 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 7, 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.

Purchases of common shares under the Bid in the three and nine month periods ended September 30, 2012 and 2011 are indicated in the following table:

	Three month periods ended September 30		Nine month periods ended September 30	
	2012	**2011**	**2012**	**2011**
Number of common shares purchased	**-**	5,550	**-**	7,250
Aggregate price of shares purchased	**$ -**	$ 34	**$ -**	$ 44
Premium on redemption charged to retained earnings	**$ -**	$ 16	**$ -**	$ 22

Under the Bid, the Corporation is considered to be an insider and a blackout restriction is currently in force under its insider trading policy.

8.2 Dividends

In the three and nine month periods ended September 30, 2012 and 2011, the Corporation's Board of Directors declared regular quarterly dividends of $0.06 (2011 – $0.06) per common share which were paid in the months of February, May and August of each year.

8.3 Expiry of Stock Options

In July 2012, 110,000 common share options expired unexercised. The stock options were originally granted in 2007.

9. Financial instruments

9.1 Capital management

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

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

The Corporation's capital structure, net of cash and cash equivalents, as at September 30, 2012 and December 31, 2011, is as outlined in the following table:

	As at September 30, 2012	**As at December 31, 2011**
Borrowings	**$ 6,946**	$ 7,587
Less: cash and cash equivalents	**(1,185)**	(9,504)
Net debt (surplus cash)	**$ 5,761**	(1,917)
Shareholders' equity	**$ 44,135**	$ 45,032
Net debt to equity ratio	**13.1%**	N/A

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

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

The Corporation's Canadian subsidiary is subject to certain covenants on its credit facilities, one of which is a financial covenant to maintain a Fixed Charge Coverage of not less than 1.25:1. Fixed Charge Coverage is defined as the ratio of EBITDA (profit from continuing operations, excluding extraordinary gains or losses, plus interest expense and income taxes accrued during the year, plus depreciation and amortization expenses deducted in the year) plus payments under operating leases less cash income taxes and unfunded capital expenditures to fixed charges. Fixed charges are defined as the total of interest expense, scheduled principal payments in respect of funded debt, payments under operating leases, and corporate distributions. The Corporation has also provided a guarantee and postponement of claim to support certain facilities of subsidiaries. The Corporation monitors compliance with its covenant ratio on a quarterly basis and reports any exceptions to its Board of Directors. As at September 30, 2012 and December 31, 2011, the Corporation was in compliance with the financial covenant.

9.2 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 September 30, 2012 and December 31, 2011, are stated in the following table:

	As at September 30, 2012		**As at December 31, 2011**	
	Carrying Value	**Fair Value**	**Carrying Value**	**Fair Value**
Financial assets:				
FVTPL:				
Cash	**$ 1,185**	**$ 1,185**	$ 4,995	$ 4,995
Cash equivalents	**-**	**-**	4,509	4,509
Financial liabilities:				
FVTPL:				
Contingent consideration	**$ 1,167**	**$ 1,167**	$ 956	$ 956

As at September 30, 2012, the cash and cash equivalents balance of $1,185 (December 31, 2011 - $9,504) included cash of $54 (December 31, 2011 - $299) which is controlled separately from regular cash balances used in operations. The $54 (December 31, 2011 - $299) represents cash collected from certain customers in the USA which is used to pay suppliers and sub-contractors which supply goods and or services to those specific customer contracts.

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

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

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

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

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

The following table presents the Corporation's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of September 30, 2012, and December 31, 2011:

	Level 1	Level 2	Level 3
FVTPL			
Financial assets:			
Cash and cash equivalents			
September 30, 2012	**$ 1,185**	**$ -**	**$ -**
December 31, 2011	9,504	-	-
Financial liabilities:			
Contingent consideration			
September 30, 2012	**$ 1,167**	**$ -**	**$ -**
December 31, 2011	956	-	-

9.3 Credit risk management

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

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

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

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

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

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

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

In the three and nine month periods ended September 30, 2012, sales to a single external customer accounted for 3.8% and 9.7% (2011 – 17.3% and 17.0%) respectively, of total consolidated sales for the period.

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

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

9.4 Foreign currency risk management and sensitivity analysis

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

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

The following tables detail the Corporation's exposure to foreign currency risk as at September 30, 2012 and December 31, 2011, including a sensitivity analysis to changes in foreign exchange rates.

	As at September 30, 2012			As at December 31, 2011		
	USD values held	**Assumed change in currency**	**Effect on after tax income (loss)**	**USD values held**	**Assumed change in currency**	**Effect on after tax income (loss)**
Net monetary assets	**$ 10,712**	**5.0%**	**$ 536**	$ 2,347	5.0%	$ 117
Net monetary liabilities	**(2,793)**	**5.0%**	**(140)**	(3,518)	5.0%	(176)

Periodically, management may commit to entering into foreign exchange contracts to attempt to protect earnings against relatively short-term fluctuations in exchange rates. In such cases, management attempts to make informed judgements in entering such transactions but there is a possibility that markets may not respond in ways predicted. To the extent that the Corporation does not fully hedge its foreign currency exposure and exchange rate risk, or the Corporation's subsidiaries are not able to or do not raise their selling prices accordingly when exchange rates are moving in an unfavourable direction, the profitability of the business could be adversely affected. The Corporation does not enter into currency driven derivative financial instruments for speculative purposes. In August 2012, the Corporation entered into a series of foreign exchange contracts to purchase USD $11,000 for settlement at various times between September 2012 and February 2013 at a blended exchange rate of CAD $1.0000 – USD $1.0045. As at September 30, 2012, the value of open contracts was USD $5,000 (2011 - $Nil) which were marked-to-market and resulted in an unrealized foreign exchange loss of $70.

9.5 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 changes in market interest rates.

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

As at September 30, 2012, the Corporation had in place a combination of revolving and non-revolving credit facilities with a Canadian bank. As at September 30, 2012, $8,000 of the revolving credit facility, which has a marginable limit of $8,000, was utilized (December 31, 2011 - $8,000 unused). As at September 30, 2012, the unused portion of the non-revolving credit facility was $4,299 (December 31, 2011 - $4,275), which represents an approved limit of $4,300 less amounts outstanding on capital leases which are financed by the Canadian bank.

In the USA, as a result of an internal corporate reorganization in the USA and a change in ownership of the Corporation's U.S. bank, a USD $1,500 revolving credit facility (which was subject to eligible marginable accounts receivables and inventory) was withdrawn by the bank during the second quarter of 2012 (December 31, 2011 – USD $1,500 unused). The withdrawal of the revolving facility is not expected to have any detrimental effects on USA operations.

9.6 Liquidity risk management

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

The Corporation's objective is to maintain sufficient liquidity to meet its liabilities when due. 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 provided by operations, borrowing under existing credit facilities, and the issuance of equity. Management prepares regular budgets and cash flow forecasts to help predict future changes in liquidity. Based on the Corporation's aggregate liquid assets as compared to its liabilities and commitments, management assesses the Corporation's liquidity risk to be low.

The Corporation has financial liabilities with the following maturities:

	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
As at September 30, 2012						
Trade and other payables	**$ 9,725**	**$ 9,725**	**$ -**	**$ -**	**$ -**	**$ -**
Borrowings	**6,946**	**1,400**	**4,693**	**533**	**320**	**-**
Total	**$ 16,671**	**$ 11,125**	**$ 4,693**	**$ 533**	**$ 320**	**$ -**
As at December 31, 2011						
Trade and other payables	$ 8,309	$ 8,309	$ -	$ -	$ -	$ -
Borrowings	7,587	942	881	5,011	174	579
Total	$ 15,896	$ 9,251	$ 881	$ 5,011	$ 174	$ 579

10. 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.

10.1 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 three and nine month periods ended September 30, 2012 and 2011, the Corporation had the following trading transactions with related parties:

		Three month periods ended September 30		Nine month periods ended September 30	
Related party	**Nature of transactions**	**2012**	**2011**	**2012**	**2011**
Aeonian Capital Corporation	Management services	**$ 88**	$ 50	**$ 263**	$ 150
William H. Smith Professional Corporation	Legal services	**29**	-	**100**	18
James B. Young	Real property lease	**37**	37	**113**	101
Baker Investments LLC	Stipend and travel expenses	**29**	24	**80**	83
		$ 183	$ 111	**$ 556**	$ 352

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 September 30, 2012	**As at December 31, 2011**	**As at September 30, 2012**	**As at December 31, 2011**
Aeonian Capital Corporation	**$ -**	$ -	**$ -**	$ -
William H. Smith Professional Corporation	**-**	-	**7**	-
James B. Young	**-**	-	**-**	-
Baker Investments, LLC	**-**	-	**29**	21
	$ -	$ -	**$ 36**	$ 21

11. Supplementary cash flow information

11.1 Changes in non-cash working capital

	Three month periods ended September 30		Nine month periods ended September 30	
Decrease (increase) in:	**2012**	**2011** [1]	**2012**	**2011** [1]
Trade receivables	**$ 1,930**	$ (2,988)	**$ (3,661)**	$ (8,362)
Inventories	**758**	2,366	**(817)**	(856)
Income taxes receivable	**-**	346	**-**	167
Prepaid expenses	**448**	77	**125**	284
Trade and other payables	**(573)**	2,526	**1,416**	4,219
Income taxes payable	**184**	378	**(333)**	378
Deferred revenue	**(678)**	987	**(676)**	1,310
	$ 2,069	$ 3,692	**$ (3,946)**	$ (2,860)

[1] Inclusive of the Precision Craft acquisition.

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

	Three month periods ended September 30		Nine month periods ended September 30	
	2012	**2011**	**2012**	**2011**
Property, plant and equipment acquired under finance leases	**$ 55**	$ 23	**$ 111**	$ 195

12. Approval of financial statements

The financial statements were approved by the Board of Directors and authorized for issue on November 6, 2012.