Third Quarter Report 2014

For the three and nine month periods ended September 30, 2014 and 2013

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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 nine month periods ended September 30, 2014 and 2013 and notes thereto and in conjunction with the Corporation's annual MD&A for the year ended December 31, 2013.

PFB's unaudited condensed consolidated financial statements for the three and nine month periods ended September 30, 2014 and 2013 have been prepared in accordance with International Accounting Standard ("IAS") 34, *Interim Financial Reporting*. Certain figures for the comparative periods in 2013 have been reclassified to conform to the presentation adopted in the current period.

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

This MD&A has been prepared as of October 30, 2014. All figures in this MD&A are stated in thousands of Canadian dollars except where stated otherwise.

1. Advisory regarding forward looking statements

Securities laws encourage public issuers to disclose forward-looking information in their management's discussion and analysis (MD&A) so that investors can get a better understanding of 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 October 30, 2014, with respect to future events, and they are subject to certain risks, uncertainties and assumptions that may cause the actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements.

Such risks, uncertainties and assumptions include, but are not limited to: general economic conditions; the cost and availability of capital; actions by government authorities; actions by regulatory authorities; availability of raw materials; changes in raw materials prices; currency exchange rates; interest rates; competitor activity; industry pricing pressures; seasonality of the construction industry; and weather related factors. A more detailed assessment of the risks that could cause actual results to materially differ from current expectations can be found in the Risk Management and Assessment section of the Corporation's annual MD&A or in the Risk Factors section of the Annual Information Form for the year ended December 31, 2013.

2. Summary of quarterly financial data

	2014			2013				2012
	Qtr. 3	**Qtr. 2**	**Qtr. 1**	**Qtr. 4**	**Qtr. 3**	**Qtr. 2**	**Qtr. 1**	**Qtr. 4**
Sales	**$ 27,414**	$ 23,068	$ 14,410	$ 21,140	$ 25,504	$ 22,698	$ 15,207	$ 17,502
Gross profit	**6,069**	3,943	925	3,512	5,211	3,641	1,718	1,916
Gross profit margin %	**22.1**	17.1	6.4	16.6	20.4	16.0	11.3	11.0
Operating income (loss)	**2,440**	554	(2,362)	829	1,494	663	(1,506)	(838)
Net income (loss)	**1,549**	95	(1,843)	460	933	311	5,128	(176)
Earnings (loss) per share:								
Basic	**0.23**	0.01	(0.27)	0.07	0.14	0.05	0.77	(0.03)
Diluted	**0.23**	0.01	(0.27)	0.07	0.14	0.05	0.77	(0.03)
EBITDA	**3,371**	1,470	(1,447)	1,783	2,424	1,598	6,647	355
EBITDA per share	**0.50**	0.22	(0.22)	0.26	0.38	0.25	1.00	0.05

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

	Three month periods ended September 30		Nine month periods ended September 30	
	2014	**2013**	**2014**	**2013**
Sales	**$ 27,414**	$ 25,504	**$ 64,892**	$ 63,409
Cost of sales	**(21,345)**	(20,293)	**(53,955)**	(52,839)
Gross profit	**6,069**	5,211	**10,937**	10,570
Selling expenses	**(2,349)**	(2,166)	**(6,734)**	(6,316)
Administrative expenses	**(1,230)**	(1,243)	**(3,514)**	(3,689)
Administrative expenses – one-time, non-operating	**-**	-	**-**	(391)
Other (losses) gains	**(50)**	(308)	**(57)**	477
Operating income	**2,440**	1,494	**632**	651
Gain on sale of real estate	**-**	-	**-**	7,297
Contingent shares – loss	**-**	-	**-**	(80)
Investment income	**44**	51	**148**	134
Finance costs	**(359)**	(342)	**(1,079)**	(850)
Income (loss) before taxes	**2,125**	1,203	**(299)**	7,152
Income tax (expense) recovery	**(576)**	(270)	**100**	(780)
Net income (loss) for the period	**$ 1,549**	$ 933	**$ (199)**	$ 6,372
Earnings (loss) per share - $ per share				
Basic	**$ 0.23**	$ 0.14	**$ (0.03)**	$ 0.95
Diluted	**0.23**	0.14	**(0.03)**	0.95
Funds flow from operations	**$ 3,329**	$ 2,721	**$ 3,410**	$ 2,944
Funds flow from operations per share	**0.50**	0.40	**0.51**	0.44

Non-GAAP financial measures do not have any standardized meaning prescribed by GAAP and are therefore unlikely to be comparable to similar measures presented by other issuers. Definitions of non-GAAP and additional GAAP measures used in the tables in Section 2 and Section 3 above, along with relevant other notes, are detailed in Section 20 of this MD&A.

The Corporation's operations follow seasonal patterns in the construction industry which influences the timing of sales and earnings in the annual reporting cycle.

4. Consolidated results of operations

Sales

Consolidated sales were $27,414 in the three month period ended September 30, 2014, an increase of $1,910 or 7.5% from sales of $25,504 in the comparative three month period of 2013. The improvement in quarterly sales was led by the USA segment which helped offset weaker sales reported by the Canadian segment (see Section 5).

In the nine month period ended September 30, 2014, consolidated sales were $64,892, an increase of $1,483 or 2.3% from sales of $63,409 in the comparative nine month period of 2013. Sales were ahead of last year in the USA segment but lower in the Canadian segment (see Section 5).

Gross profit

Consolidated gross profit was $6,069 in the three month period ended September 30, 2014, as compared to $5,211 in the comparative three month period of 2013. Gross profit margin improved to 22.1% of sales in the current quarter as compared to a gross profit margin of 20.4% in Q3/13.

Consolidated gross profit was $10,937 in the nine month period ended September 30, 2014, as compared to $10,570 in comparative nine month period of 2013. Gross profit margin was 16.9% of sales, a modest improvement over a gross profit margin of 16.7% reported in the comparative nine month period of 2013.

Elevated raw material input costs attributed to both price and foreign currency effect has persisted through much of the current year causing a gross profit margin squeeze. Margins improved in the current quarter as the positive effects of increased selling prices filtered through.

Selling and administrative expenses

In the current quarter, combined selling and administrative expenses amounted to $3,579, $170 or 5.0% higher than $3,409 reported in the comparative quarter of 2013. In the nine month period ended September 30, 2014, selling and administrative expenses amounted to $10,248, $243 or 2.4% higher than in the comparative nine month period of 2013. The increase in expenses in both reporting periods was mainly in the USA segment which also reported significantly growth in sales.

In 2013, one-time non-operating administrative expenses amounted to $391.

Other (losses) gains

In the three and nine month periods of 2013, other losses and gains consisted mainly of unrealized foreign exchange gains and losses resulting from the effects of foreign currency movements on an inter-segment loan. In December 2013, PFB re-capitalized its USA operations, converting the inter-segment loan into equity of its USA subsidiary. That change has eliminated foreign exchange volatility in 2104 previously ascribed to the inter-segment loan.

Operating income

Operating income of $2,440 resulted in the current quarter as compared to operating income of $1,494 reported in Q3/13, a favourable variance of $946. Operating income in Q3/13 was reduced by an unrealized foreign exchange loss of $299 (included in other losses) arising on the inter-segment loan. Notwithstanding, operating income for the current quarter was much improved over operating income reported in the comparative quarter of 2013.

In the nine month period ended September 30, 2014, operating income was $632 as compared to operating income of $651 reported in comparative nine month period of 2013, a small adverse variance of $19. However, operating income in the comparative nine month period of 2013 benefited from the inclusion of an unrealized foreign exchange gain of $473 (included in other gains) arising on the inter-segment loan and offset by one-time administration expenses of $391. Excluding those two items provides a more representative comparison whereby operating income in the current year was $632 versus $569 in the prior year, an improvement of $63 or 11.1%.

Income (loss) before taxes

In the current quarter, income before taxes of $2,125 was substantially improved over income before taxes of $1,203 in the comparative quarter of 2013.

In the nine month period ended September 30, 2014, a loss before taxes of $299 resulted as compared to income before taxes of $7,152 in the comparative period of 2013. In the comparative period, actual income before taxes was augmented by a substantial gain of $7,297 arising on the sale of real estate. Excluding that one-time gain, a loss before taxes of $145 would have resulted which was closely comparable to the current period loss. The cumulative loss in the current period was heavily influenced by a poor first quarter result.

Income taxes

Income tax expense in the current period was $576 as compared to income tax expense of $270 in Q3/13. An income tax recovery of $100 resulted in the nine month period ended September 30, 2014, as compared to income tax expense of $780 in the comparative nine month period of 2013.

Net income (loss)

In the current quarter, net income was $1,549 as compared to net income of $933 reported in the comparative quarter of 2013, an improvement of $616. In the nine month period ended September 30, 2014, a loss of $199 resulted as compared to net income of $6,372 in the comparative nine month period of 2013. Cumulative net income in 2013 included a significant after-tax gain of $6,198 on the sale of real estate. Excluding that gain from the 2013 comparative results would have resulted in net income of $174 for that period.

Earnings (loss) per share

Basic earnings per share in the current quarter were $0.23 as compared to earnings per share of $0.14 reported in Q3/13. In the nine month period ended September 30, 2014, a loss per share of $0.03 resulted as compared to earnings per share of $0.95 reported in the comparative period of 2013, which included earnings per share of $0.92 attributed to the real estate gain. Excluding the effect of the one-time gain, earnings per share of $0.03 would have resulted in the prior year period.

5. Reportable operating segments

The Corporation has two reportable operating segments:

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

Each operating segment mirrors the Corporation's accounting policies (as described in note 2 to the audited consolidated financial statements for the years ended December 31, 2013 & 2012) and its internal controls and reporting systems.

Segment performance predominantly focuses on the types of goods and services offered and their geographical locations of manufacturing and distribution.

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

5.1 Segment revenues and operating income (loss)

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

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

Information regarding each reportable operating segment for the three and nine month periods ended September 30, 2014 and 2013, is set out in the tables below:

Three month periods ended September 30	Sales revenues		Operating income (loss)	
	2014	**2013**	**2014**	**2013**
Canada	**$ 20,744**	$ 21,374	**$ 2,156**	$ 1,768
USA	**6,670**	4,130	**352**	67
Totals for segments	**$ 27,414**	$ 25,504	**2,508**	1,835
Corporate – expense, net			**(67)**	(42)
Foreign exchange loss on inter-segment loan			**(1)**	(299)
Consolidated operating income			**$ 2,440**	$ 1,494

Nine month periods ended September 30	Sales revenues		Operating income (loss)	
	2014	**2013**	**2014**	**2013**
Canada	**$ 51,108**	$ 54,199	**$ 1,333**	$ 2,169
USA	**13,784**	9,210	**(610)**	(1,627)
Totals for segments	**$ 64,892**	$ 63,409	**723**	542
Corporate - (expense) income, net			**(91)**	27
Corporate - one-time, non-operating expenses			**-**	(391)
Foreign exchange gain on inter-segment loan			**-**	473
Consolidated operating income			**$ 632**	$ 651

(a) Canada

Sales

Sales generated by the Canadian segment decreased from $21,374 in Q3/13 to $20,744 in the current quarter, a decrease of 3.0% or $630 which contributed to year-to-date sales being 5.7% or $3,091 lower than in the corresponding nine month period of 2013.

Harsh winter weather earlier in the current year across most of Canada delayed customers' construction schedules which led to lower than expected EPS foam sales in the first quarter. In each of the subsequent quarters and cumulatively, sales into traditional market channels have exceeded sales in 2013. The main exception was a fairly significant year-over-year shortfall in sales to large public works projects which were a more prominent feature in 2013 than in the current year. Such projects are not regular and the timing of when they occur is unpredictable. The overall order backlog at September 30 remained solid for the time of year with some regional aberrations.

Operating income (loss)

The Canadian segment reported operating income of $2,156 in the current quarter, an increase of $388 over operating income of $1,768 reported in Q3/13.

In the nine month period ended September 30, 2014, the Canadian segment reported operating income of $1,333 as compared to operating income of $2,169 in the comparative nine month period of 2013. Most of the year-over-year shortfall occurred in the first quarter as a result of weaker margins caused by elevated raw material costs and a weaker Canadian dollar that negatively impacted raw materials costs, and decreased sales. Selling price increases contributed to improved margin performance in subsequent quarters.

(b) USA

Sales

Sales in the USA segment increased from $4,130 in Q3/13 to $6,670 in the current quarter, an increase of $2,540 or 61.5%. In the nine month period ended September 30, 2014, USA segment sales were $13,784 versus $9,210 in the comparative nine month period of 2013, an increase of 49.7%.

All of the Corporation's operations in the United States contributed to the year-over-year improvement in sales.

Operating income (loss)

The USA segment reported operating income of $352 in the current quarter as compared to operating income of $67 in the comparative quarter of 2013, representing an improvement of $285. In the nine month period ended September 30, 2014, the USA segment reported a significantly reduced operating loss of $610 as compared to an operating loss of $1,627 for the comparative nine month period of 2013, an improvement of $1,017. The drivers of the improvement were increased sales and enhanced margins.

The USA segment's operating results for each of the comparative periods in 2013 have been re-presented to exclude an unrealized foreign exchange loss of $299 from Q3/13 results and an unrealized foreign exchange gain of $473 from the results of the nine month period of 2013 arising on an inter-segment loan extinguished in December 2013. The re-presentation provides a more representative year-over-year comparison of the operating performance improvement by the USA segment.

5.2 Segment assets and liabilities

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

	As at Sep 30, 2014	As at Dec 31, 2013
Assets		
Segmented assets	**$ 56,350**	$ 51,107
Assets not allocated to segments:		
Cash and cash equivalents	**5,091**	8,938
Freehold land and buildings	**6,472**	6,458
Restricted marketable securities	**2,222**	2,392
Other	**28**	-
Total assets	**$ 70,163**	$ 68,895
Liabilities		
Segmented liabilities	**$ 14,211**	$ 11,007
Liabilities not allocated to segments:		
Finance lease obligations	**14,465**	14,417
Corporate – taxes payable	**-**	1,094
Total liabilities	**$ 28,676**	$ 26,518
Net segmented assets		
Canada	**$ 35,691**	$ 32,658
USA	**6,448**	7,442

5.3 Other segment information

	Three month periods ended September 30		Nine month periods ended September 30	
	2014	**2013**	**2014**	**2013**
Additions to non-current assets:				
Canada	**$ 641**	$ 177	**$ 1,676**	$ 561
USA	**50**	45	**50**	119
Total	**$ 691**	$ 222	**$ 1,726**	$ 680
Depreciation and amortization:				
Canada	**$ 641**	$ 639	**$ 1,918**	$ 1,793
USA	**165**	185	**490**	527
Total	**$ 806**	$ 824	**$ 2,408**	$ 2,320
Inter-segment sales	**$ 574**	$ 222	**$ 1,046**	$ 581

6. Liquidity

6.1 Sources of liquidity

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

6.2 Cash

Cash and cash equivalent balances as at September 30, 2014 and December 31, 2013 were as follows:

	September 30, 2014	December 31, 2013
Cash held with banks	**$ 4,344**	$ 4,362
Short-term investments	**-**	4,515
Restricted cash	**747**	61
	$ 5,091	$ 8,938

PFB's cash balances typically fluctuate throughout the year in line with the seasonality of its businesses. The reduction in cash balances in the nine month period ended September 30, 2014, was primarily attributed to a net increase in non-cash working capital, the scheduled payment of corporate taxes arising on the gain on the sale of real estate completed in 2013, capital expenditures, scheduled payments under finance lease obligations, and regular quarterly dividend payments.

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

6.3 Bank credit facilities

In May 2014, the Corporation's Canadian subsidiary changed its credit facility arrangements with a Canadian bank from a revolving facility of $8,000 and a non-revolving facility of $4,300 to a single revolving facility of $10,000.

The new revolving facility is secured by a first ranking security interest in trade receivables and inventories of the Canadian subsidiary. Under the facility, the Canadian subsidiary is subject to certain covenants, one of which is a financial covenant to maintain a Fixed Charge Coverage ratio of not less than 1.25:1. The Corporation has provided a guarantee and postponement of claim to the bank in the amount of $10,000. The financial covenant and parent guarantee are unchanged from the previous facility agreement. The interest rate applicable on draws made against the facility is the Canadian bank's prime rate plus 0.5% and the facility carries a minimum monthly standby fee when not being utilized.

6.4 Summary of cash flows

A summary of cash flows for the three and nine month periods ended September 30, 2014 and 2013 are shown in the following table:

	Three month periods ended September 30		Nine month periods ended September 30	
	2014	**2013**	**2014**	**2013**
Net cash flows from (used in):				
Operating activities	**$ 3,843**	$ 2,842	**$ 255**	$ (1,567)
Investing activities	**(615)**	(160)	**(1,523)**	9,195
Financing activities	**(845)**	(817)	**(2,542)**	(3,083)
Effect of foreign exchange on cash held in foreign currency - gain (loss)	**28**	(12)	**(37)**	37
Net increase (decrease) in cash and cash equivalents	**$ 2,411**	$ 1,853	**$ (3,847)**	$ 4,582
Cash and cash equivalents – beginning of period	**2,680**	4,427	**8,938**	1,698
Cash and cash equivalents – end of period	**$ 5,091**	$ 6,280	**$ 5,091**	$ 6,280

(a) Operating activities

Net cash flows from operating activities were $3,843 in the current quarter as compared to $2,842 in the comparative quarter of 2013, an increase of $1,001. In the nine month period ended September 30, 2014, net cash flows from operating activities was $255 versus cash used in operating activities of $1,567 in the comparative nine month period of 2013, an improvement of $1,822.

Generally, non-cash working capital values have been lower in the current year periods as compared to in the comparative periods of 2013.

(b) Investing activities

Net cash used in investing activities was $615 in the current quarter as compared to net cash used in investing activities of $160 in Q3/13. In the nine month period ended September 30, 2014, net cash used in investing activities was $1,523 versus net cash from operating activities of $9,195 in the comparative nine month period of 2013. In the 2013 period, cash proceeds of $9,662 were realized from the disposal of land. Capital expenditures in the current year of $1,685 for property, plant and equipment were $1,084 higher than expenditures in 2013.

(c) Financing activities

Net cash used in financing activities in the current quarter was $845, similar to net cash used in financing activities of $817 in the comparative quarter of 2013.

In the nine month period ended September 30, 2014, net cash flows used in financing activities were $2,542 versus $3,083 in the comparative nine month period of 2013. In addition to the payment to shareholders of a one-time, special dividend of $6,739 in Q2/13, proceeds of leaseback financing, net of costs, in the amount of $12,372 was also realized in that period of which $6,421 was used to repay all outstanding long-term debt.

The changes in non-cash working capital amounts for the nine month period ended September 30, 2014 are shown in the following table:

	Sep 30, 2014	**Dec 31, 2013**	**Change**
Trade receivables	**$ 12,022**	$ 8,785	$ 3,237
Inventories	**10,391**	8,321	2,070
Prepaid expenses	**620**	672	(52)
Trade and other payables	**(8,078)**	(7,012)	(1,066)
Deferred revenue	**(4,056)**	(1,852)	(2,204)
	$ 10,899	$ 8,914	$ 1,985

Non-cash working capital increased in the nine month period ended September 30, 2014 by $1,985.

The trade receivables balance as at September 30, 2014, included contractual holdbacks in the amount of $245 (December 31, 2013 - $1,340). Holdbacks in the amount of $1,095, which were outstanding at the beginning of the current year, have since been collected and the remaining balance of $245 is expected to be collected before year end. Overall, the trade receivables balance is reflective of the seasonality in the sales cycle.

Inventories have increased since the beginning of the year, which is normal, although raw materials and work in process inventories ended the current quarter at slightly higher levels than usual and included the adverse impact of elevated input costs.

The increase in trade and other payables of $1,066 since the beginning of the year is reflective of seasonal increases in operating activities and the balance is influenced by the timing of when receipts and payments for raw materials actually occur.

Deferred revenue has steadily increased through the first nine months of the current year for an aggregate increase of $2,204, which is reflective of expanding sales contract activity in the USA segment.

7. Capital resources

Capital structure

The Corporation’s capital structure as at September 30, 2014 and December 31, 2013, is outlined in the following table:

	September 30, 2014	**December 31, 2013**
Shareholders’ equity	**$ 41,487**	$ 42,377
Long-term debt	**-**	-
	$ 41,487	$ 42,377

Share capital

A summary of the Corporation's share capital position as at September 30, 2014 and December 31, 2013, is set forth in the following table:

	September 30, 2014 (Nine Months)		December 31, 2013 (Twelve Months)	
	No. of Shares	**Amount**	**No. of Shares**	**Amount**
Balance, beginning of period	**6,724,403**	**$ 20,973**	6,764,203	$ 20,064
Repurchased pursuant to normal course issuer bid	**(4,700)**	**(14)**	(14,800)	(46)
Settlement of contingent shares released from escrow	**-**	**-**	-	955
Cancellation of contingent shares	**-**	**-**	(25,000)	-
Balance, end of period	**6,719,703**	**$ 20,959**	6,724,403	$ 20,973

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

Share-based options

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

Dividends

In the first quarter of 2014, the Corporation's board of directors declared a regular quarterly dividend of $0.06 (2013 - $0.06) per common share which was paid in the month of February and amounted to $403 (2013 - $392).

In the second quarter of 2014, the Corporation's board of directors declared a regular quarterly dividend of $0.06 (2013 - $0.06 plus a one-time, special dividend of $1.00) per common share which was paid in the month of May and amounted to $403 (2013 - $7,143).

In the third quarter of 2014, the Corporation's board of directors declared a regular quarterly dividend of $0.06 (2013 - $0.06) per common share which was paid in the month of August and amounted to $402 (2013 - $405).

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 2014, 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, 2014, and ends no later than September 10, 2015. The renewal allows the Corporation to purchase, up to a maximum of 50,000 of its common shares representing 0.74% of the Corporation's 6,719,703 issued and outstanding common shares as at September 9, 2014, 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.

In the three month periods ended September 30, 2014 and 2013, the Corporation did not purchase any of its common shares for cancellation under the normal course issuer bid.

In the nine month period ended September 30, 2014, the Corporation purchased for cancellation 4,700 (2013 – Nil) of its common shares for an aggregate price of $23 (2013 - $nil), of which $9 (2013 - $Nil) was charged to retained earnings as a premium on redemption of the shares.

Long-term debt

In March of 2013, the Corporation repaid all bank term debt. The Corporation had no long-term debt as at September 30, 2014.

8. Commitments and contractual obligations

8.1 Leases and commitments for PP&E and intangible assets

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

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

Under the leases described above, and in the normal course of business, PFB is obligated to make future contractual payments. PFB's contractual obligations and commitments as at September 30, 2014 and December 31, 2013, are as outlined in the following table:

Contractual obligations (Payment due periods)	**Total**	**Within 1 year**	**Within 2–3 years**	**Within 4–5 years**	**Over 5 years**
As at September 30, 2014					
Finance lease obligations	**$ 33,075**	**$ 1,731**	**$ 3,246**	**$ 3,256**	**$ 24,842**
Operating lease obligations	**14,485**	**1,553**	**2,180**	**1,585**	**9,167**
Commitments for PP&E and intangible assets	**407**	**407**	**-**	**-**	**-**
Total contractual obligations	**$ 47,967**	**$ 3,691**	**$ 5,426**	**$ 4,841**	**$ 34,009**
As at December 31, 2013					
Finance lease obligations	$ 34,066	$ 1,672	$ 3,184	$ 3,196	$ 26,014
Operating lease obligations	15,299	1,431	2,405	1,820	9,643
Commitments for PP&E and intangible assets	385	385	-	-	-
Total contractual obligations	$ 49,750	$ 3,488	$ 5,589	$ 5,016	$ 35,657

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

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

	September 30, 2014	**December 31, 2013**
Current	**$ 312**	$ 253
Long-term	**14,153**	14,164
Total	**$ 14,485**	$ 14,417

8.2 Performance bonds

As at September 30, 2014, the estimated aggregate value of shipments yet to be made under a Canadian contract secured by a performance bond was $1,800 (December 31, 2013 - $2,900). In the USA, performance bonds in the amount of $593 were pledged to various government agencies as at September 30, 2014 (December 31, 2013 - $340).

9. Financial instruments

The Corporation holds marketable securities in the form of units of a Canadian REIT which is the landlord of certain buildings being leased. The units are restricted as they have been pledged as security for minimum rent obligations for a period of ten years during which time they will be held in an escrow account. The units have been classified as long-term restricted marketable securities on the condensed consolidated balance sheet as at September 30, 2014. The units are

marked-to-market based on the quoted price of the units at the end of each accounting period with unrealized gains or losses recorded in other comprehensive income.

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

10. Defined benefit pension plan

Effective January 1, 2013, the Corporation adopted IAS 19 (Amendments) *Post-employment Benefits* which impacted the accounting treatment for defined benefit pension plans. The transition to the revised standard was applied retrospectively. Changes in valuation as at January 1, 2012, were booked directly to retained earnings. Subsequent changes in valuation that occurred in 2013 were reflected in other comprehensive income ("OCI").

In the three and nine month periods ended September 30, 2014, no change in valuation was recorded in the financial statements.

11. Current Outlook

Canadian markets served by the Corporation have continued to exhibit some regional disparities occasioned by local conditions in the current year. In the first quarter of the current year, lower sales revenues attributed to a harsh winter have mostly been recovered in established markets. Sales to larger, specialized public works projects have been significantly lower in the current year compared to in 2013 and preceding years and this is trend is not forecasted to change in the near future. Elevated raw material costs have generally persisted throughout the first nine months of the year with a resulting squeeze on margins.

The recent and significant softening in crude oil prices provides cautious optimism that raw material input costs may also decrease in the near future. Product price increases implemented over the summer helped strengthen margin performance but, overall, margins have remained weaker than in prior years. Pricing discipline remains a key area of focus for the Corporation. The established Canadian market channels for EPS foam products have generally remained robust.

The Corporation's operations in the USA continue to report improving results. Deposits collected from customers for custom products which are reported as deferred revenues have increased substantially in the current year. The cycle times for custom projects tends to be long, sometimes lengthier than twelve months, so the growth in customer deposits is a positive indicator of contract load for the balance of 2014 and into 2015. The EPS facility located in Lebanon, Ohio, continues to concentrate on expanding its regional customer base and building a critical mass of sales.

PFB's balance sheet remains strong with no debt and good liquidity.

12. Off-balance sheet arrangements

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

13. Disclosure controls and procedures (DC&P)

Subject to the limitation described in the next paragraph, the Corporation's DC&P 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 the Corporation's DC&P was conducted as of September 30, 2014, under the supervision of the CEO and CFO. Based on this evaluation, the CEO and CFO have concluded that the Corporation's DC&P, 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.

14. 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, 2014, the CEO and CFO assessed the effectiveness of the Corporation's internal control over financial reporting and concluded that it was effective and that no material weaknesses in the Corporation's internal control over financial reporting had been identified.

15. Critical accounting policies and estimates

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

The Corporation's annual audited consolidated financial statements for the year ended December 31, 2013 and its 2013 annual MD&A outlined the accounting policies and estimates that are critical to the understanding of the Corporation's results of operations and its businesses.

16. Subsequent event

On October 30, 2014, the Corporation's board of directors declared a regular quarterly dividend of $0.06 per common share. The dividend will be paid on November 28, 2014, to shareholders of record at the close of business on November 14, 2014.

17. Related party transactions

There have been no material changes in related party transactions in the three and nine month periods ended September 30, 2014.

18. Risk management and assessment

Detailed descriptions of the Corporation's risk management and assessment can be found in the Corporation's annual MD&A for 2013. There have been no material changes in the uncertainties and material risk factors facing the Corporation since December 31, 2013.

19. Accounting standards changes

19.1 New and revised IFRSs effective for annual periods starting on January 1, 2014:

The following new and revised accounting standards were effective for annual periods starting on January 1, 2014 and have been adopted by the Corporation, as applicable:

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

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

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

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

  The overall effect of the amendments is to reduce the circumstances in which the recoverable amount of assets or cash-generating units is required to be disclosed, clarify the disclosures required, and to introduce an explicit

requirement to disclose the discount rate used in determining impairment (or reversals) where the recoverable amount (based on fair value less costs of disposal) is determined using a present value technique.

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

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

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

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

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

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

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

- **IFRIC 21 *Levies***

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

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

19.2 New and revised IFRSs issued in 2014 but not yet effective:

The following new and revised accounting standards issued in 2014 are effective for future periods unless early adopted, when early adoption is permitted:

- **IFRS 15 *Revenue from Contracts with Customers***

  The new standard outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. It supersedes the IASB's current revenue recognition guidance including IAS 18 *Revenue,* IAS 11 *Construction Contracts,* and related interpretations.

  The core principle of the new standard is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services.

  IFRS 15 was issued in May 2014 and applies to reporting periods on or after January 1, 2017 with earlier adoption permitted. The Corporation has not determined at this time what impact, if any, adopting the new standard will have on its consolidated financial statements.

- **Amendments to IFRS 11 *Joint Arrangements: Accounting for Acquisition of Interests in Joint Operations***

  The objective of the amendment is to add new guidance to IFRS 11 on accounting for the acquisition of an interest in a joint operation in which the activity of the joint operation constitutes a business, as defined in IFRS 3 Business Combinations. Acquirers of such interest are to apply the relevant principles on business combination accounting in IFRS 3 and other standards, as well as disclosing the relevant information specified in these standards for

business combinations. The most significant impact will be on the recognition of goodwill, if applicable, and the recognition of deferred tax assets and liabilities.

The amendments were issued in May 2014 and apply to reporting periods on or after January 1, 2016 with earlier adoption permitted. The Corporation has not determined at this time what impact, if any, adopting the new amendments will have on its consolidated financial statements.

- **Amendments to IAS 16 *Property, Plant and Equipment,* and IAS 18 *Intangible* Assets: Clarification of Acceptable Methods of Depreciation and Amortization**

  In issuing the amendments, the IASB has clarified that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. The IASB also clarified that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefit embodied in an intangible asset. This presumption can only be rebutted in two limited circumstances: (a) the intangible asset is expressed as a measure of revenue and (b) the revenue and consumption of the intangible asset are highly correlated.

  The amendments were issued in May 2014 and are to be applied prospectively and effective for annual reporting periods beginning on or after January 1, 2016 with earlier adoption permitted. The Corporation has determined that, based on its current depreciation and amortization policies, the amendments will not have any effect on its consolidated financial statements.

- **IFRS 9 *Financial Instruments***

  The new standard outlines a comprehensive response for entities to use in accounting for financial instruments. It replaces the IASB's current IAS 39 *Financial Instruments: Recognition and Measurement*. The core principles of the new standard incorporate a single principle-based approach to classification and measurement, the introduction of a new, expected-loss impairment model for the recognition of expected credit losses, a reformed model for hedge accounting, and changes to the so-called 'own credit' issue.

  IFRS 9 was issued in July 2014 and applies to reporting periods on or after January 1, 2018 with earlier adoption permitted. The Corporation has not determined at this time what impact, if any, adopting the new standard will have on its consolidated financial statements.

- **Amendments to IAS 16 *Property, Plant and Equipment,* and IAS 41 *Agriculture***

  IAS 16 now includes bearer plants within its scope rather than IAS 41, allowing such assets to be accounted for as property, plant and equipment and measured after initial recognition on a cost or revaluation basis in accordance with IAS 16.

  The amendments were issued in June 2014 and are effective for annual reporting periods beginning on or after January 1, 2016, with earlier adoption permitted. The Corporation has determined that, the amendments will not have any effect on its consolidated financial statements.

- **Amendments to IAS 27 *Equity Method in Separate Financial Statements***

  In issuing the amendments, the IASB has reinstated the equity method as an accounting option for investment in subsidiaries, joint ventures and associates in an entity's separate financial statements. Separate financial statements are not required by IFRSs, but may be required by local regulation or other financial statement users to measure investments in subsidiaries, joint ventures and associates. The amendments allow an entity to account for investments in subsidiaries, joint ventures and associates in its separate financial statements:

  i) at cost,

  ii) in accordance with IFRS 9 *Financial Instruments*, or

  iii) in accordance with IFRS 28 *Investment in Associates and Joint Ventures*.

  The amendments were issued in August 2014 and are to be applied retrospectively and effective for annual reporting periods beginning on or after January 1, 2016 with earlier adoption permitted. The Corporation has determined that, at the present time, the amendments will not have any effect on its consolidated financial statements.

- **Amendments to IFRS 10 *Consolidated Financial Statements,* and IAS 28 *Investments in Associates and Joint Ventures***

  Amendments to IFRS 10 and IAS 28 are based on the IASB's publication of '*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*' to address a conflict between the requirements of IAS 28

and IFRS 10 and clarify that in a transaction involving an associate or joint venture the extent of gain or loss recognition depends on whether the assets sold or contributed constitute a business.

The amendments were issued in September 2014, are to be applied prospectively, and are effective for annual reporting periods beginning on or after January 1, 2016, with earlier adoption permitted. The Corporation has determined that, at this time, the amendments will not have any effect on its consolidated financial statements.

- **Annual Improvements to IFRSs 2012-2014 Cycle**

  The IASB's Annual Improvements Cycle 2012-2014 was issued in September 2014 and makes amendments to the following four standards:

Standard	Amendment
IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*	**Changes in methods of disposal** Adds specific guidance in IFRS 5 for cases in which an entity reclassifies an asset from 'held for sale' to 'held for distribution', or vice versa, in which cases held for distribution accounting is discontinued.
IFRS 7 *Financial Instruments: Disclosures*	**Servicing contracts** Adds additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset for the purpose of determining the disclosures required.
	Applicability of amendments to IFRS 7 to condensed interim financial statements Clarifies the applicability of the amendments to IFRS 7 on offsetting disclosures to condensed interim financial statements.
IAS 19 *Employee Benefits*	**Discount rate – regional market issue** Clarifies that the high quality corporate bonds used in estimating the discount rate for post-employment benefits should be denominated in the same currency as the benefits to be paid.
IFRS 34 *Interim Financial Reporting*	**Disclosure of information 'elsewhere in the interim financial report'** Clarifies the meaning of 'elsewhere in the interim financial report' and requires a cross-reference.

The amendments are effective for annual reporting periods beginning on or after January 1, 2016, with earlier adoption permitted. Entities are permitted to early adopt any individual amendment without early adopting all other amendments.

The Corporation has determined that, at this time, the amendments will not have any effect on its consolidated financial statements.

20. Non-GAAP and additional GAAP measures

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

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

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

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

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

	2014 Q3	2014 Q2	2014 Q1	2013 Q4	2013 Q3	2013 Q2	2013 Q1	2012 Q4
Net income (loss)	**$ 1,549**	$ 95	$ (1,843)	$ 460	$ 933	$ 311	$ 5,128	$ (176)
Add back (deduct):								
Income taxes	**576**	141	(817)	77	270	48	462	(520)
Finance costs	**359**	362	358	359	342	360	148	152
Investment income	**(44)**	(44)	(60)	(67)	(51)	(56)	(27)	(2)
Depreciation	**882**	868	863	869	869	878	879	857
Amortization	**49**	48	52	85	61	57	57	44
EBITDA	**3,371**	1,470	(1,447)	1,783	2,424	1,598	6,647	355
EBITDA per share	**0.50**	0.22	(0.22)	0.26	0.38	0.25	1.00	0.05

Condensed Consolidated Financial Statements

Notice of non-auditor review of condensed consolidated financial statements for the three and nine month periods ended September 30, 2014 and 2013

The accompanying unaudited condensed consolidated financial statements of PFB Corporation for the three and nine month periods ended September 30, 2014 and 2013 are the responsibility of the Corporation's management.

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

Dated: October 30, 2014

Consolidated Statements of Income (Loss)

For the three and nine month periods ended September 30, 2014 and 2013
Thousands of Canadian dollars, except per share amounts

	Note	Three month periods ended September 30		Nine month periods ended September 30	
		2014	2013	2014	2013
Sales		**$ 27,414**	$ 25,504	**$ 64,892**	$ 63,409
Cost of sales	7, 8	**(21,345)**	(20,293)	**(53,955)**	(52,839)
Gross profit		**6,069**	5,211	**10,937**	10,570
Selling expenses	8	**(2,349)**	(2,166)	**(6,734)**	(6,316)
Administrative expenses	8	**(1,230)**	(1,243)	**(3,514)**	(3,689)
Administrative expenses – one-time, non-operating		**-**	-	**-**	(391)
Other (losses) gains		**(50)**	(308)	**(57)**	477
Operating income		**2,440**	1,494	**632**	651
Gain on sale of real estate		**-**	-	**-**	7,297
Contingent shares – loss		**-**	-	**-**	(80)
Investment income		**44**	51	**148**	134
Finance costs		**(359)**	(342)	**(1,079)**	(850)
Income (loss) before taxes		**2,125**	1,203	**(299)**	7,152
Income taxes (expense) recovery		**(576)**	(270)	**100**	(780)
Net income (loss) for the period		**$ 1,549**	$ 933	**$ (199)**	$ 6,372
Earnings (loss) per share - $ per share					
Basic		**$ 0.23**	$ 0.14	**$ (0.03)**	$ 0.95
Diluted		**0.23**	0.14	**(0.03)**	0.95
Weighted average number of common shares outstanding					
Basic		**6,719,703**	6,739,203	**6,719,932**	6,700,802
Diluted		**6,719,703**	6,739,203	**6,719,932**	6,700,802

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

Consolidated Statements of Comprehensive Income

For the three and nine month periods ended September 30, 2014 and 2013
Thousands of Canadian dollars

	Note	Three month periods ended September 30		Nine month periods ended September 30	
		2014	**2013**	**2014**	**2013**
Net income (loss) for the period		**$ 1,549**	$ 933	**$ (199)**	$ 6,372
Other comprehensive income (loss):					
Items that may subsequently be reclassified to income:					
Foreign currency translation adjustments					
Exchange differences on translating foreign operations		**610**	46	**668**	(59)
Restricted available for sale financial assets	11				
Unrealized losses on available for sale financial assets, net of tax		**(57)**	(63)	**(128)**	(233)
Other comprehensive income (loss) for the period		**553**	(17)	**540**	(292)
Comprehensive income for the period		**$ 2,102**	$ 916	**$ 341**	$ 6,080

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

Consolidated Balance Sheets

As at September 30, 2014 and 2013, and December 31, 2013
Thousands of Canadian dollars

	Note	September 30, 2014	September 30, 2013	December 31, 2013
ASSETS				
Current assets				
Cash and cash equivalents		**$ 5,091**	$ 6,280	$ 8,938
Trade receivables	11	**12,022**	13,204	8,785
Inventories	7	**10,391**	8,422	8,321
Prepaid expenses		**620**	566	672
Total current assets		**28,124**	28,472	26,716
Non-current assets				
Marketable securities - restricted	11	**2,222**	2,222	2,392
Property, plant and equipment	8	**34,613**	35,141	34,882
Intangible assets		**1,324**	1,416	1,369
Goodwill		**2,041**	1,924	1,968
Deferred income tax assets		**1,839**	1,514	1,568
Total non-current assets		**42,039**	42,217	42,179
Total assets		**$ 70,163**	$ 70,689	$ 68,895
LIABILITIES				
Current Liabilities				
Trade and other payables		**$ 8,078**	$ 7,661	$ 7,012
Deferred revenue		**4,056**	2,953	1,852
Income taxes payable		**264**	1,027	965
Finance lease obligations	9,11	**312**	250	253
Total current liabilities		**12,710**	11,891	10,082
Non-current liabilities				
Finance lease obligations	9, 11	**14,153**	14,180	14,164
Accrued defined benefit pension plan		**76**	379	76
Deferred income tax liabilities		**1,737**	2,094	2,196
Total non-current liabilities		**15,966**	16,653	16,436
Total liabilities		**28,676**	28,544	26,518
SHAREHOLDERS' EQUITY				
Common shares		**20,959**	21,019	20,973
Accumulated other comprehensive income (loss)		**490**	(299)	(50)
Retained earnings		**20,038**	21,425	21,454
Shareholders' equity		**41,487**	42,145	42,377
Total liabilities and shareholders' equity		**$ 70,163**	$ 70,689	$ 68,895

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

Consolidated Statements of Changes in Equity

As at September 30, 2014 and 2013, and December 31, 2013

Thousands of Canadian dollars, except number of shares

		Common shares		Accumulated other comprehensive income				
	Note	No. of Shares	Share capital	Foreign currency translation adjustments	Unrealized gain on available for sale assets net of taxes	Defined benefit pension plan valuation change net of taxes	Retained earnings	Total
Balances at January 1, 2013		**6,764,203**	**$ 20,064**	**$ 58**	**$ -**	**$ (65)**	**$ 22,993**	**$ 43,050**
Net income for the period		-	-	-	-	-	6,372	6,372
Other comprehensive income (loss) for the period, net of tax		-	-	(59)	(233)	-	-	(292)
Total comprehensive income (loss) for the period		-	-	(1)	(233)	-	6,372	6,080
Payment of dividends	10	-	-	-	-	-	(7,940)	(7,940)
Settlement of contingent shares held in escrow		-	955	-	-	-	-	955
Cancellation of contingent shares held in escrow		(25,000)	-	-	-	-	-	-
Balances at September 30, 2013		**6,739,203**	**$ 21,019**	**$ (1)**	**$ (233)**	**$ (65)**	**$ 21,425**	**$ 42,145**
Net income for the period		-	-	-	-	-	460	460
Other comprehensive income (loss) for the period, net of tax		-	-	(63)	128	184	-	249
Total comprehensive income (loss) for the period		-	-	(63)	128	184	460	709
Payment of dividends		-	-	-	-	-	(405)	(405)
Repurchased pursuant to normal course issuer bid		(14,800)	(46)	-	-	-	(26)	(72)
Balances at December 31, 2013		**6,724,403**	**$ 20,973**	**$ (64)**	**$ (105)**	**$ 119**	**$ 21,454**	**$ 42,377**
Loss for the period		-	-	-	-	-	(199)	(199)
Other comprehensive income (loss) for the period, net of tax		-	-	668	(128)	-	-	540
Total comprehensive income (loss) for the period		-	-	668	(128)	-	(199)	341
Payment of dividends	10	-	-	-	-	-	(1,208)	(1,208)
Repurchased pursuant to normal course issuer bid	10	(4,700)	(14)	-	-	-	(9)	(23)
Balances at September 30, 2014		**6,719,703**	**$ 20,959**	**$ 604**	**$ (233)**	**$ 119**	**$ 20,038**	**$ 41,487**

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

Consolidated Statement of Cash Flows

For the three and nine month periods ended September 30, 2014 and 2013
Thousands of Canadian dollars

	Note	Three month periods ended September 30		Nine month periods ended September 30	
		2014	2013	**2014**	2013
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES					
Net income (loss) for the period		**$ 1,549**	$ 933	**$ (199)**	$ 6,372
Adjustments for:					
Depreciation expense	8	**882**	869	**2,613**	2,626
Amortization expense		**49**	61	**149**	175
(Gain) loss on disposal of property, plant and equipment		**(20)**	-	**(31)**	7
(Gain) on sale of real estate		**-**	-	**-**	(7,297)
Contingent shares – loss		**-**	-	**-**	80
Finance costs		**359**	342	**1,079**	850
Investment income		**(44)**	(51)	**(148)**	(134)
Income tax expense (recovery)		**576**	270	**(100)**	769
Unrealized foreign exchange (gain) loss		**(22)**	297	**47**	(504)
Funds flow from operations		**3,329**	2,721	**3,410**	2,944
Changes in non-cash working capital	15	**542**	281	**(1,985)**	(3,978)
Unrealized foreign exchange loss relating to non-cash working capital		**29**	25	**34**	4
Cash from (used in) operating activities		**3,900**	3,027	**1,459**	(1,030)
Income taxes paid		**(57)**	(185)	**(1,204)**	(537)
Net cash from (used in) operating activities		**3,843**	2,842	**255**	(1,567)
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES					
Purchase of property, plant and equipment	8,15	**(676)**	(211)	**(1,685)**	(601)
Purchase of intangible assets		**(17)**	-	**(43)**	-
Proceeds from disposal of property, plant and equipment		**34**	-	**57**	-
Interest (received) paid		**5**	12	**31**	56
Distributions received from marketable securities		**39**	39	**117**	78
Cash proceeds from disposal of land, net of costs		**-**	**-**	**-**	9,662
Net cash (used in) from investing activities		**(615)**	(160)	**(1,523)**	9,195
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES					
Proceeds from leaseback financing, net of costs		**-**	**-**	**-**	12,372
Repayment of long-term debt		**-**	**-**	**-**	(6,421)
Repayment of finance lease obligations		**(84)**	(70)	**(232)**	(244)
Finance costs paid		**(359)**	(342)	**(1,079)**	(850)
Dividends paid to shareholders	10	**(402)**	(405)	**(1,208)**	(7,940)
Payment for buy-back of common shares	10	**-**	**-**	**(23)**	**-**
Net cash used in financing activities		**(845)**	(817)	**(2,542)**	(3,083)
Effects of exchange rate changes on the balance of cash held in foreign currencies – gain (loss)		**28**	(12)	**(37)**	37
Net increase (decrease) in cash and cash equivalents		**2,411**	1,853	**(3,847)**	4,582
Cash and cash equivalents at the beginning of the period		**2,680**	4,427	**8,938**	1,698
Cash and cash equivalents at the end of the period		**$ 5,091**	$ 6,280	**$ 5,091**	$ 6,280

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

1. General information

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

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

2. Statement of compliance

These interim condensed consolidated financial statements for the three and nine month periods ended September 30, 2014 and 2013, have been prepared in accordance with International Accounting Standard (IAS) 34, *Interim Financial Reporting*. Accordingly, certain information and footnote disclosure normally included in annual financial statements prepared in accordance with International Financial Reporting Standards (IFRS) have been omitted. These interim condensed consolidated financial statements should be read in conjunction with the Corporation's audited consolidated financial statements for the years ended December 31, 2013 and 2012.

These interim condensed consolidated financial statements were approved and authorized for issue by the board of directors of the Corporation at a meeting held on October 30, 2014.

3. Significant accounting policies

3.1 Presentation

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

Certain comparative figures for the three and nine month periods ended September 30, 2013 have been reclassified to conform to the presentation adopted in the current period.

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

The Corporation's business is subject to seasonal variations and uncertainties. Sales of the Corporation's products are driven by consumer and industrial demand for insulation and building products. The timing of our customers' construction projects can be influenced by a number of factors including the prevailing economic climate and weather. Seasonality of construction results in demand for the Corporation's products to be typically stronger in the second and third quarters and less strong in the first and fourth quarters of its fiscal cycle. Accordingly, the results of operations for these reporting periods are not necessarily indicative of the results of operations over a full year cycle.

3.2 Consolidation

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

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

3.3 New and revised IFRSs effective for annual periods starting on January 1, 2014

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

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

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

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

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

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

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

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

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

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

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

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

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

IFRIC 21 *Levies*

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

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

3.4 New and revised IFRSs issued in 2014 but not yet effective

IFRS 15 *Revenue from Contracts with Customers*

The new standard outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. It supersedes the IASB's current revenue recognition guidance including IAS 18 *Revenue,* IAS 11 *Construction Contracts,* and related interpretations.

The core principle of the new standard is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services.

IFRS 15 was issued in May 2014 and applies to reporting periods on or after January 1, 2017 with earlier adoption permitted. The Corporation has not determined at this time what impact, if any, adopting the new standard will have on its consolidated financial statements.

Amendments to IFRS 11 *Joint Arrangements: Accounting for Acquisition of Interests in Joint Operations*

The objective of the amendment is to add new guidance to IFRS 11 on accounting for the acquisition of an interest in a joint operation in which the activity of the joint operation constitutes a business, as defined in IFRS 3 *Business*

Combinations. Acquirers of such interest are to apply the relevant principles on business combination accounting in IFRS 3 and other standards, as well as disclosing the relevant information specified in these standards for business combinations. The most significant impact will be on the recognition of goodwill, if applicable, and the recognition of deferred tax assets and liabilities.

The amendments were issued in May 2014 and apply to reporting periods on or after January 1, 2016 with earlier adoption permitted. The Corporation has not determined at this time what impact, if any, adopting the new amendments will have on its consolidated financial statements.

Amendments to IAS 16 *Property, Plant and Equipment,* and IAS 18 *Intangible* Assets: Clarification of Acceptable Methods of Depreciation and Amortization

In issuing the amendments, the IASB has clarified that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. The IASB also clarified that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefit embodied in an intangible asset. This presumption can only be rebutted in two limited circumstances: (a) the intangible asset is expressed as a measure of revenue and (b) the revenue and consumption of the intangible asset are highly correlated.

The amendments were issued in May 2014 and are to be applied prospectively and effective for annual reporting periods beginning on or after January 1, 2016 with earlier adoption permitted. The Corporation has determined that, based on its current depreciation and amortization policies, the amendments will not have any effect on its consolidated financial statements.

IFRS 9 *Financial Instruments*

The new standard outlines a comprehensive response for entities to use in accounting for financial instruments. It replaces the IASB's current IAS 39 *Financial Instruments: Recognition and Measurement*. The core principles of the new standard incorporate a single principle-based approach to classification and measurement, the introduction of a new, expected-loss impairment model for the recognition of expected credit losses, a reformed model for hedge accounting, and changes to the so-called 'own credit' issue.

IFRS 9 was issued in July 2014 and applies to reporting periods on or after January 1, 2016 with earlier adoption permitted. The Corporation has not determined at this time what impact, if any, adopting the new standard will have on its consolidated financial statements.

Amendments to IAS 16 *Property, Plant and Equipment,* and IAS 41 *Agriculture*

IAS 16 now includes bearer plants within its scope rather than IAS 41, allowing such assets to be accounted for as property, plant and equipment and measured after initial recognition on a cost or revaluation basis in accordance with IAS 16.

The amendments were issued in June 2014 and are effective for annual reporting periods beginning on or after January 1, 2016, with earlier adoption permitted. The Corporation has determined that, the amendments will not have any effect on its consolidated financial statements.

Amendments to IAS 27 *Equity Method in Separate Financial Statements*

In issuing the amendments, the IASB has reinstated the equity method as an accounting option for investment in subsidiaries, joint ventures and associates in an entity's separate financial statements. Separate financial statements are not required by IFRSs, but may be required by local regulation or other financial statement users to measure investments in subsidiaries, joint ventures and associates. The amendments allow an entity to account for investments in subsidiaries, joint ventures and associates in its separate financial statements:

i) at cost,

ii) in accordance with IFRS 9 *Financial Instruments*, or

iii) in accordance with IFRS 28 *Investment in Associates and Joint Ventures*.

The amendments were issued in August 2014 and are to be applied retrospectively and effective for annual reporting periods beginning on or after January 1, 2016 with earlier adoption permitted. The Corporation has determined that, at the present time, the amendments will not have any effect on its consolidated financial statements.

Amendments to IFRS 10 *Consolidated Financial Statements,* and IAS 28 *Investments in Associates and Joint Ventures*

Amendments to IFRS 10 and IAS 28 are based on the IASB's publication of '*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*' to address a conflict between the requirements of IAS 28 and IFRS 10 and clarify that in a transaction involving an associate or joint venture the extent of gain or loss recognition depends on whether the assets sold or contributed constitute a business.

The amendments were issued in September 2014, are to be applied prospectively, and are effective for annual reporting periods beginning on or after January 1, 2016, with earlier adoption permitted. The Corporation has determined that, at this time, the amendments will not have any effect on its consolidated financial statements.

Annual Improvements to IFRSs 2012-2014 Cycle

The IASB's Annual Improvements Cycle 2012-2014 was issued in September 2014 and makes amendments to the following four standards:

Standard	Amendment
IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*	**Changes in methods of disposal** Adds specific guidance in IFRS 5 for cases in which an entity reclassifies an asset from 'held for sale' to 'held for distribution', or vice versa, in which cases held for distribution accounting is discontinued.
IFRS 7 *Financial Instruments: Disclosures*	**Servicing contracts** Adds additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset for the purpose of determining the disclosures required.
	Applicability of amendments to IFRS 7 to condensed interim financial statements Clarifies the applicability of the amendments to IFRS 7 on offsetting disclosures to condensed interim financial statements.
IAS 19 *Employee Benefits*	**Discount rate – regional market issue** Clarifies that the high quality corporate bonds used in estimating the discount rate for post-employment benefits should be denominated in the same currency as the benefits to be paid.
IFRS 34 *Interim Financial Reporting*	**Disclosure of information 'elsewhere in the interim financial report'** Clarifies the meaning of 'elsewhere in the interim financial report' and requires a cross-reference.

The amendments are effective for annual reporting periods beginning on or after January 1, 2016, with earlier adoption permitted. Entities are permitted to early adopt any individual amendment without early adopting all other amendments.

The Corporation has determined that, at this time, the amendments will not have any effect on its consolidated financial statements.

4. Critical accounting estimate and judgments

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

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

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

5. Segment information

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

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

5.1 Segment revenues and income (loss)

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

Information regarding each reportable operating segment for three and nine month periods ended September 30, 2014 and 2013 is set out in the tables below:

Three month periods ended September 30	**Sales revenues**		**Operating income (loss)**	
	2014	**2013**	**2014**	2013
Canada	**$ 20,744**	$ 21,374	**$ 2,156**	$ 1,768
USA	**6,670**	4,130	**352**	67
Totals for segments	**$ 27,414**	$ 25,504	**2,508**	1,835
Corporate – expense, net			**(67)**	(42)
Foreign exchange loss on inter-segment loan			**(1)**	(299)
Consolidated operating income			**$ 2,440**	$ 1,494

Nine month periods ended September 30	**Sales revenues**		**Operating income (loss)**	
	2014	**2013**	**2014**	2013
Canada	**$ 51,108**	$ 54,199	**$ 1,333**	$ 2,169
USA	**13,784**	9,210	**(610)**	(1,627)
Totals for segments	**$ 64,892**	$ 63,409	**723**	542
Corporate – income, net			**(91)**	27
Corporate – one-time, non-operating expenses			**-**	(391)
Foreign exchange gain on inter-segment loan			**-**	473
Consolidated operating income			**$ 632**	$ 651

5.2 Segment assets and liabilities

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

	As at Sept 30, 2014	As at Dec 31, 2013
Assets		
Segmented assets	**$ 56,350**	$ 51,107
Assets not allocated to segments:		
Cash and cash equivalents	**5,091**	8,938
Freehold land and buildings	**6,472**	6,458
Restricted marketable securities	**2,222**	2,392
Other	**28**	-
Total assets	**$ 70,163**	$ 68,895
Liabilities		
Segmented liabilities	**$ 14,211**	$ 11,007
Liabilities not allocated to segments:		
Finance lease obligations	**14,465**	14,417
Central services taxes	**-**	1,094
Total liabilities	**$ 28,676**	$ 26,518
Net segmented assets		
Canada	**$ 35,691**	$ 32,658
USA	**6,448**	7,442

5.3 Other segment information

	Three month periods ended September 30		Nine month periods ended September 30	
	2014	**2013**	**2014**	**2013**
Additions to non-current assets:				
Canada	**$ 641**	$ 177	**$ 1,676**	$ 561
USA	**50**	45	**50**	119
Total	**$ 691**	$ 222	**$ 1,726**	$ 680
Depreciation and amortization:				
Canada	**$ 641**	$ 639	**$ 1,918**	$ 1,793
USA	**165**	185	**490**	527
Total	**$ 806**	$ 824	**$ 2,408**	$ 2,320
Inter-segment sales	**$ 574**	$ 222	**$ 1,046**	$ 581

6. Credit Facility

In May 2014, the Corporation’s Canadian subsidiary changed its credit facility arrangements with a Canadian bank from a revolving facility of $8,000 and a non-revolving facility of $4,300 to a single revolving facility of $10,000.

The new revolving facility is secured by a first ranking security interest in trade receivables and inventories of the Canadian subsidiary. Under the facility, the Canadian subsidiary is subject to certain covenants, one of which is a financial covenant to maintain a Fixed Charge Coverage ratio of not less than 1.25:1. The Corporation has provided a guarantee and

postponement of claim to the bank in the amount of $10,000. The financial covenant and parent guarantee are unchanged from the previous facility agreement. The interest rate applicable on draws made against the facility is the Canadian bank's prime rate plus 0.5% and the facility carries a minimum monthly standby fee when not being utilized.

7. Inventories

	As at Sept 30, 2014	As at Dec 31, 2013
Raw materials	**$ 5,368**	$ 4,169
Work in progress	**2,881**	1,958
Finished goods	**2,142**	2,194
	$ 10,391	$ 8,321

The cost of inventories recognized as an expense in cost of sales during the three and nine month periods ended September 30, 2014 was $19,076 and $48,288 (2013 - $22,400 and $51,879), respectively.

The cost of inventories recognized as an expense during the three and nine month periods ended September 30, 2014, includes $257 and $535 (2013 - $87 and $134) in respect to write-downs of inventory to net realizable value.

There were no reversals of any cost to net realizable value write-downs in the three and nine month periods ended September 30, 2014 or 2013.

Eligible inventories held by the Corporation's Canadian subsidiary have been pledged as security with a bank in support of revolving credit facilities. The revolving credit facilities were unused as at September 30, 2014 and 2013.

8. Property, plant and equipment

Cost	Freehold land	Buildings	Plant and equipment	Assets under finance lease	Assets under construction	Total
Balance at January 1, 2013	**$ 2,062**	**$ 30,108**	**$ 33,422**	**$ 951**	**$ 1,407**	**$ 67,950**
Additions	-	-	52	87	549	688
Disposal of PP&E assets	-	-	(22)	(77)	-	(99)
Sale leaseback transaction	-	(21,633)	-	14,622	-	(7,011)
Transfers between asset classes	-	142	1,599	55	(1,796)	-
Effect of foreign currency exchange differences	29	177	136	1	29	372
Balance at September 30, 2013	**2,091**	**8,794**	**35,187**	**15,639**	**189**	**61,900**
Additions	-	-	(36)	102	302	368
Disposal of PP&E assets	-	-	(20)	(88)	-	(108)
Sale leaseback transaction	-	25	-	-	-	25
Transfers between asset classes	-	(30)	509	(163)	(316)	-
Effect of foreign currency exchange differences	27	168	154	2	(1)	350
Balance at December 31, 2013	**2,118**	**8,957**	**35,794**	**15,492**	**174**	**62,535**
Additions	-	128	3	285	1,554	1,970
Disposal of PP&E assets	-	(28)	(379)	(168)	-	(575)
Transfers between asset classes	-	719	699	-	(1,418)	-
Effect of foreign currency exchange differences	46	284	262	8	-	600
Balance at September 30, 2014	**$ 2,164**	**$ 10,060**	**$ 36,379**	**$ 15,617**	**$ 310**	**$ 64,530**
Accumulated Depreciation						
Balance at January 1, 2013	**$ -**	**$ 10,779**	**$ 20,305**	**$ 424**	**$ -**	**$ 31,508**
Depreciation expense	-	569	1,521	536	-	2,626
Disposal of PP&E assets	-	-	(35)	(11)	-	(46)
Sale leaseback transaction	-	(7,412)	-	-	-	(7,412)
Transfers between asset classes	-	77	(116)	39	-	-
Effect of foreign currency exchange differences	-	29	53	1	-	83
Balance at September 30, 2013	**-**	**4,042**	**21,728**	**989**	**-**	**26,759**
Depreciation expense	-	141	499	229	-	869
Disposal of PP&E assets	-	-	(2)	(73)	-	(75)
Transfers between asset classes	-	(77)	116	(39)	-	-
Effect of foreign currency exchange differences	-	38	61	1	-	100
Balance at December 31, 2013	**-**	**4,144**	**22,402**	**1,107**	**-**	**27,653**
Depreciation expense	-	423	1,496	694	-	2,613
Disposal of PP&E assets	-	(27)	(371)	(151)	-	(549)
Effect of foreign currency exchange differences	-	79	118	3	-	200
Balance at September 30, 2014	**$ -**	**$ 4,619**	**$ 23,645**	**$ 1,653**	**$ -**	**$ 29,917**
Net book values						
September 30, 2013	$ 2,091	$ 4,752	$ 13,459	$ 14,650	$ 189	$ 35,141
December 31, 2013	$ 2,118	$ 4,813	$ 13,392	$ 14,385	$ 174	$ 34,882
September 30, 2014	**$ 2,164**	**$ 5,441**	**$ 12,734**	**$ 13,964**	**$ 310**	**$ 34,613**

Assets under construction as at September 30, 2014 are expected to be available for use during the fourth quarter of 2014.

Depreciation expense for the three and nine month periods ended September 30, 2014, in the amounts of $780 and $2,321 (2013 - $776 and $2,353) is included in cost of sales, with amounts of $63 and $183 (2013 - $63 and $183) included in selling expenses, and amounts of $39 and $109 (2013 - $30 and $90) included in administrative expenses, respectively.

9. Finance lease obligations

The Corporation's finance lease obligations as at September 30, 2014, and December 31, 2013, are as stated in the following table:

	Minimum lease payments	
	Sept 30, 2014	**Dec 31, 2013**
No later than one year	**$ 1,731**	$ 1,672
Later than one year and not later than five years	**6,502**	6,313
Later than five years	**24,842**	26,081
Total minimum lease payments	**33,075**	34,066
Less: amounts representing finance costs	**18,610**	19,649
Present value of minimum lease payments	**$ 14,465**	$ 14,417

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

	Sept 30, 2014	**Dec 31, 2013**
Current	**$ 312**	$ 253
Long-term	**14,153**	14,164
Total	**$ 14,465**	$ 14,417

10. Issued capital

10.1 Normal Course Issuer Bid

In September 2014, 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, 2014, and ends no later than September 10, 2015. The renewal allows the Corporation to purchase, up to a maximum of 50,000 of its common shares representing 0.74% of the Corporation's 6,719,703 issued and outstanding common shares as at September 9, 2014, 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.

In the three month periods ended September 30, 2014 and 2013, the Corporation did not purchase any of its common shares.

In the nine month period ended September 30, 2014, the Corporation purchased for cancellation 4,700 of its common shares for an aggregate price of $23, of which $9 was charged to retained earnings as a premium on redemption of the common shares. In the comparative nine month period ended September 30, 2013, the Corporation did not purchase any of its common shares.

10.2 Dividends

In the first quarter of 2014, the Corporation's board of directors declared a regular quarterly dividend of $0.06 (2013 - $0.06) per common share which was paid in February and amounted to $403 (2013 - $392).

In the second quarter of 2014, the Corporation's board of directors declared a regular quarterly dividend of $0.06 (2013 - $0.06 plus a one-time, special dividend of $1.00) per common share which was paid May and amounted to $403 (2013 - $7,143).

In the third quarter of 2014, the Corporation's board of directors declared a regular quarterly dividend of $0.06 (2013 - $0.06) per common share which was paid in August and amounted to $402 (2013 - $405).

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 debt and equity, and to safeguard corporate assets.

The Corporation repaid all bank term debt in March 2013.

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

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

The Corporation's Canadian subsidiary is subject to certain covenants on its credit facilities, one of which is a financial covenant to maintain a Fixed Charge Coverage of not less than 1.25:1. Fixed Charge Coverage is defined as the ratio of EBITDA as defined by the bank (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 made 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 and finance leases, 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.

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.

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

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

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

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

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

- The carrying amount of cash and cash equivalents, trade receivables, and trade and other payables approximate fair value due to the short-term maturity of those instruments.
- Marketable securities – restricted, consist of units of a publicly-traded Canadian REIT which are marked-to-market based on the quoted price of the units on the Toronto Stock Exchange at the end of each reporting period.

A summary of the classifications and carrying values of financial instruments held by the Corporation as at September 30, 2014 and December 31, 2013, are stated in the following table:

				September 30, 2014		December 31, 2013	
Financial instrument	**Category**	**Measurement**	**Hierarchy**	**Carrying Amount**	**Fair Value**	**Carrying Amount**	**Fair Value**
Cash and cash equivalents	FVTPL	Fair value	Level 1	**$ 5,091**	**$ 5,091**	$ 8,938	$ 8,938
Restricted marketable securities	Available for sale	Fair value	Level 1	**2,222**	**2,222**	2,392	2,392
Trade receivables	Loans and receivables	Amortized cost	N/A	**12,022**	**12,022**	8,785	8,785
Trade and other payables	Loans and receivables	Amortized cost	N/A	**(8,078)**	**(8,078)**	(7,012)	(7,012)
Finance lease obligations	Loans and receivables	Amortized cost	N/A	**(14,465)**	**(14,465)**	(14,417)	(14,417)

11.3 Credit risk management

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

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

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

Customers ordering highly-customized manufactured products are required to make advance payments at various predefined stages of a sales contract. All payments received in advance of invoicing are reported as deferred revenue in the current liability section of the balance sheet. Final contract balances are typically required to be paid in full before products are shipped.

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

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

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

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

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

11.4 Foreign currency risk

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

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

Periodically, management may commit to entering into foreign exchange contracts to attempt to protect earnings against relatively short-term fluctuations in exchange rates. In such cases, management attempts to make informed judgements in entering such transactions but there is a possibility that markets may not respond in ways predicted. To the extent that the Corporation does not fully hedge its foreign currency exposure and exchange rate risk, or the Corporation's subsidiaries are not able to or do not raise their selling prices accordingly when exchange rates are moving in an unfavourable direction, the profitability of the business could be adversely affected. The Corporation did not hold any foreign exchange contracts as at September 30, 2014.

The following tables detail the Corporation's exposure to foreign currency risk attributed to monetary assets and liabilities as at September 30, 2014 and December 31, 2013, including a sensitivity analysis to changes in foreign exchange rates.

	As at September 30, 2014			**As at December 31, 2013**		
	USD	**Change in currency**	**Effect on after tax income (loss)**	**USD**	**Change in currency**	**Effect on after tax income (loss)**
Net monetary assets	**$ 3,407**	**5.0%**	**$ 84**	$ 2,812	5.0%	$ 96
Net monetary liabilities	**(2,563)**	**5.0%**	**(63)**	(1,286)	5.0%	(44)

11.5 Interest rate risk

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

As at September 30, 2014, the Corporation had no long-term debt.

As at September 30, 2014, the Corporation's Canadian subsidiary had access to a revolving credit facility with a Canadian bank. The revolving credit facility had a limit of $10,000, based on marginable trade receivables and inventories. The revolving credit facility was unused (December 31, 2013 - $8,000 unused).

11.6 Liquidity risk

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

The Corporation's liquidity risk is that it is not able to settle liabilities when due or that it can do so only at an abnormally high cost. Accordingly, one of management's primary goals is to maintain an optimum level of liquidity by actively managing assets, liabilities and cash flows generated by operations. The Corporation's future strategies can be financed through a combination of cash flows generated by operations, borrowing under existing credit facilities, and the issuance of equity. Management prepares regular budgets and cash flow forecasts to help predict future changes in liquidity.

The Corporation had financial liabilities with the following maturities as at September 30, 2014 and December 31, 2013:

As at September 30, 2014	Total	Current less than 12 months	Due within 12 to 24 months	Due within 25 to 36 months	Due within 37 to 48 months	Due after 48 months
Trade and other payables	**$ 8,078**	**$ 8,078**	**$ -**	**$ -**	**$ -**	**$ -**
Finance lease obligations	**33,075**	**1,731**	**1,683**	**1,563**	**1,591**	**26,507**
Total	**$ 41,153**	**$ 9,809**	**$ 1,683**	**$ 1,563**	**$ 1,591**	**$ 26,507**
As at December 31, 2013						
Trade and other payables	$ 7,012	$ 7,012	$ -	$ -	$ -	$ -
Finance lease obligations	34,066	1,672	1,632	1,552	1,505	27,705
Total	$ 41,078	$ 8,684	$ 1,632	$ 1,552	$ 1,505	$ 27,705

12. Operating lease arrangements

The Corporation's minimum obligations under operating lease arrangements as at September 30, 2014 and December 31, 2013 were as stated in the table below:

	September 30, 2014	December 31, 2013
Not later than one year	**$ 1,553**	$ 1,431
Later than one year and not later than five years	**3,765**	4,225
Later than five years	**9,167**	9,643
	$ 14,485	$ 15,299

13. Commitments and contingencies

13.1 Performance bonds

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

As at September 30, 2014, the estimated aggregate value of shipments required to satisfy Canadian contracts secured by performance bonds was $1,800 (December 31, 2013 - $2,900). In the USA, performance bonds in the amount of $593 (December 31, 2013 - $340) were pledged to various government agencies as at September 30, 2014.

13.2 Expenditures for property, plant and equipment

As at September 30, 2014, the Corporation had commitments of $407 for purchasing property, plant and equipment.

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 as follows:

14.1 Trading transactions

In the periods ended September 30, 2014 and 2013, the Corporation had the following trading transactions with related parties:

		Three month periods ended Sept 30		Nine month periods ended Sept 30	
	Nature of transaction	**2014**	2013	**2014**	2013
Aeonian Capital Corporation	Management services	**$ 88**	$ 88	**$ 263**	$ 263

No related party balances were outstanding at the end of the reporting periods.

15. Supplementary cash flow information

15.1 Changes in non-cash working capital

	Three month periods ended Sept 30		Nine month periods ended Sept 30	
Increase (decrease) in:	**2014**	2013	**2014**	2013
Trade receivables	**$ 805**	$ 200	**$ 3,237**	$ (4,883)
Inventories	**(220)**	195	**2,070**	(668)
Prepaid expenses	**(231)**	305	**(52)**	(11)
Trade and other payables	**(246)**	(218)	**(1,066)**	66
Deferred revenue	**(650)**	(201)	**(2,204)**	1,518
	$ (542)	$ 281	**$ 1,985**	$ (3,978)

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

	Three month period ended Sept 30		Nine month period ended Sept 30	
	2014	**2013**	**2014**	**2013**
Property, plant and equipment acquired with finance lease obligations	**$ 69**	$ 29	**$ 285**	$ 14,709

16. Subsequent event

On October 30, 2014, the Corporation's board of directors declared a regular quarterly dividend of $0.06 per common share. The regular quarterly dividend will be paid on November 14, 2014, to shareholders of record at the close of business on November 28, 2014.

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100, 2886 Sunridge Way N.E.
Calgary, AB T1Y 7H9
Canada

Tel: 403.569.4300
Fax: 403.569.4075
Email: mailbox@pfbcorp.com

www.pfbcorp.com